

The Anatomy of Pricing

It is a well-known fact that the correct pricing of property is the determining factor when it comes to selling anything. But there are things that can be done to get a premium price versus a low price. The length of time a property sits on the market has a great deal to do with pricing because even an incompetent broker with no marketing skills can underprice a property far enough that the property will sell. Sadly, this happens too often and properties end up selling in spite of the realtor instead of because of the realtor's ability to negotiate a good price!

Pricing of a property is both a simple and yet complex topic. There are two methodologies to consider:

- 1) Historical
- 2) Comparative

This historical methodology is a fairly new concept that can determine the amount of appreciation or depreciation a property has undergone from the day it was purchased to the present day. Determining a price in this way requires more time and effort and is only useful if there is sufficient data to for a valid analysis. 99% of realtors are uninformed of the historical method.

It is not surprising, then, that most realtors use the comparative approach exclusively. Sellers who have a little knowledge of real estate also try to use the comparative approach. Although the comparative method has its merits, it involves so many factors that both realtors and sellers can overlook important pricing points that cause them to undervalue or overvalue a property. Using this method, you have to take into account a variety of different things such as: timing, location, site, floor plan, condition of the property, condition of the local real estate market, quality of marketing plan, seller-financing or financing by third party, accessibility by elderly or physically challenged, accessibility determined by buyer's timetable or seller/realtor's convenience, etc. Let's look at each of these factors in depth:

- I. ACCESSIBILITY. If a house sits up on a hill and requires a long climb up many stairs just to reach the front door, many buyers will be dissuaded from being interested in even taking the time to look at the house. This is not a surprising observation. However, sellers and realtors can limit the number of showings and lose out on selling opportunities by a different kind of accessibility issue – that of requiring advance notice to show because of pets/children/cleanliness, etc., or advance notice to enable the seller's agent to accompany/be present for all showings. Realtors do not normally have just one listing, and if they do, they are not always available at the

drop of a hat to meet a buyer and his/her agent to show a property. In many instances, you will hear agents pushing off showings to a future date because they are busy showing other clients or are running personal errands across town and cannot be in two places at the same time. It goes without saying that an agent will accompany his own buyer-prospect, but requiring an accompanied showing when there is another agent present can mean hindering a showing and losing out on an offer if both the buyer's and the seller's agents' schedules do not coincide. This is where a key safe or lockbox is of benefit to all parties!

- II. FLOOR PLAN. Although price is largely determined by square footage, too much square footage is not always a good thing, especially if the floor plan is not laid out well. Naturally, this is exacerbated if a house or condo with a small footprint is chopped up and made to look even smaller than it is.
- a) The number of bedrooms there are, their location with respect to each other – young families need the little ones close by, whereas older families want the teenagers further away – and, equally important, their proximity to bathrooms. Other factors include the size of the bedrooms and one's ability to place furniture in it, the size of their closets, and whether their flooring is wood or carpet.
 - b) Some buyers insist upon there being a master bathroom, and those who do, hope for a separate tub and shower. Where there are combination tub/showers, those with infants would prefer shower curtains to doors to give more freedom when bathing the children. Sliding doors and their paraphernalia are awkward to work around.
 - c) Formal dining rooms need to be large enough to place hutches, table, and chairs or easily converted into a living area where the kitchen/breakfast room is spacious enough to accommodate the buyer's needs.
 - d) Some people are not fans of lofts overlooking living rooms because there is neither privacy nor soundproofing between the two areas. Lofts are more acceptable when there is a separate family room in the basement so that kids can be sent downstairs to play or watch TV while parents are entertaining upstairs.
 - e) The kitchen and breakfast area size and layout are important. Being updated with attractive cabinetry and stainless steel appliances help to speed the sale and get top dollar. Small things like changing out older or worn brass knobs and pulls with polished nickel ones adds appeal to an otherwise outdated kitchen.
 - f) Split-level foyers appeal to some but not to the majority of buyers. Consequently, you cannot compare a Split-level style to a Colonial or a Cape!
 - g) Finished basements, especially those designed to be separate apartment suites, are a bonus.

- h) The location, width, and number of stairways and steps are factors also where people have over-size furniture, physical issues, elderly family or infants.
 - i) Where is the laundry located? Main floor or second floor is preferable to the basement.
- III. CONDITION. Buyers consist of owner occupants and investors. Investors are looking for a great deal that they can buy cheap, fix up and flip, or rent. On the other hand, owner occupants are looking for something they can buy and move into with little work on their part. Sometimes, owner occupants are willing to buy a fixer upper if the work is not onerous and the cost not prohibitive. The main reason why a buyer will take on such a project is whether there is something special or unique about the property that the buyer finds irresistible compared to other properties on the market. After living in a home for a dozen years, a homeowner typically makes improvements because many things that are 10+ years old begin to look worn and dated. Sellers can, therefore, choose to update to get the highest price possible, or sell “as is” and accept a lower price. How does your property look?
- a. Is the exterior in need of repair or paint?
 - b. How old is the roof? 15-20 years old is acceptable, but newer is preferable.
 - c. Is there carpet in the house? Is it frayed, worn, or stained and needs to be replaced. If wood, is it scratched and dull or recently refinished? Is there vinyl flooring instead of tile or slate?
 - d. Are the kitchen counter tops laminate or formica? Damaged? Even in low-end priced homes, granite or other similar hard surfaces increase its desirability and therefore its value.
 - e. How old are the appliances? Are they a mishmash of colors/types... white, black, avocado, and stainless. They should all be one color... and preferably stainless steel.
 - f. Are the bathroom vanities old and cracked or updated? Are they all low or adult height? Do the showers/tub enclosures tiles look sharp or are they cheap fiberglass or old white tiles with mildewed caulking?
- IV. LOCATION. Sometimes desirability is based upon schools, price and location. Sometimes buyers go for location, location, location. Is your property located on a busy street with a lot of traffic noise or near an airport? Simply knowing that a highway or airport is too close, even if the noise is not that loud, can be a deterrent and cause lower values. In such a case we fall back upon the adage, “any negative factor can be overcome with price” because buyers will say, “I couldn’t pass it up because it was such a good deal!”
- V. MARKETING. Is not having any realtor showings or any calls from the sign or online advertising bad? Yes and no!

- a. In the age of the internet and virtually everyone first looking online to see what's available and then having their realtor show them what is on their short list, the lack of showings or fewness of showings does not mean that people are not viewing the house and its features. What is happening is that they are evaluating and eliminating properties based upon what they see... versus driving out to the house, tracking through it, and then eliminating it.
 - b. Because the internet plays such an important role, it is crucial for what is presented to be accurate, inviting, and targeted to/for the appropriate buyer audience. You don't want ANYTHING that might discourage a buyer from wanting to look at your house! Neither do you want a lack of information and videos to prevent buyers from finding your property!
 - c. Here is a sample of my marketing of a property - <http://32Meadowbrook.com> - you might ask other realtors for a sample of one of their current listings!
- VI. TIMING. The spring and summer are the best times of the year to buy/sell a home. The weather is great and people are hoping to time their relocation while school is out for the summer. But, the winter is not a bad time to sell because only truly motivated buyers are looking; plus, competing inventory is even lower.
- VII. MARKET CONDITIONS. Thankfully, we are still in a Seller's Market. Inventory continues to be low and buyers are still out in quantity. This can change in the blink of an eye based upon world economic conditions.
- VIII. PRICING. Oftentimes I can get more for my sellers because I am thorough in marketing a property's correct square footage as well as all of the property's features/amenities. In today's seller market, agents can tend to be lazy and hope for a quick sale without having to do all the background work and promotion. In fact, by pricing too low, they create a multiple-offer situation which makes them look good in the eyes of a seller. This can be an excellent strategy if done right. However, most realtors do not have the background in negotiating, are not Certified Negotiation Experts as I, and do not take advantage of multiple-offer scenarios to gain the most for their clients.

The first two weeks when a property comes onto the market is an important time frame that deserves attention. In today's market, there are 2 main reasons for this:

- 1) Buyers are looking for and jumping on good deals as soon as they hit the market. Until something comes on the market that they love and want to buy, they sit patiently waiting for something new to come on the market. Whether a property is overpriced or not, as long as it is within their price range, they will either view it online or in person. This is why so much activity takes place in the first couple of weeks of a listing's life even if it is overpriced! So, within the first week, the majority of buyers who have already rejected the current inventory of listings will pounce on the latest and greatest listings now hitting the market and if they find something they like, consider making an offer within that first week. Those who cannot find the time to see it in the first week will see it by the second week. Consequently, if a new listing meets the criteria of the waiting buyers, it will be snatched up within the first two weeks. Obviously, if the house does not appeal to the buying public and it is not priced in a way that overcomes their

objection(s), it will sit on the market until the perfect buyer comes along for what you have to offer or until there are price adjustments made that no one with any sense can turn down. After the second week, activity usually slows down while sellers are waiting for “new” buyers just beginning to look to come into the market and hope that the property will appeal to these new buyers.

- 2) In a seller’s market where there are more buyers than houses, the old saying that the first offer is always the best does not apply. Within the first week some one buyer or several should make an offer. By accepting the first offer that comes in, you deprive other buyers from (a) seeing the property and (b) from making a higher bid than the first buyer made. Therefore, it is better to delay as long as possible within the first week before accepting an offer. On the other hand, it is always better to grab the first deal that comes along when we find ourselves in a buyer’s market.

If, after the first 2 weeks have passed and a sufficient number of buyers have viewed the property without making an offer, one can make several assumptions:

- 1) The price is too high.
- 2) The weather has been too nasty to be out in.
- 3) The buyer who will fall in love with the house is not yet looking and you will have to wait longer for him/her to appear. However, waiting too long for a buyer will decrease the value of one’s property because buyers always think that something is wrong with a property that has been sitting on the market for a long time.
- 4) When you hire me, this fourth assumption does not apply... the property is being so badly marketed that the right buyer doesn’t even know your property exists.

In case you are wondering how important price points are, I sampled the MLS statistics on a given day and area and came up with these figures for a property in a modest price range:

Price	# of Prospective Searches	Price	# of Prospective Searches
\$600,001	607	\$575,000	700
\$600,000	691	\$570,000	701
\$599,999	687	\$565,000	702
\$595,000	686	\$560,000	703
\$590,000	686	\$555,000	703
\$585,000	686	\$550,000	768
\$580,000	687		

Notice the impact \$1 makes when deciding upon a list price! I will be happy to do the same for your property prior to listing it so that you can see exactly where your pricing decision places you vis-à-vis the number of active searches for a property just like yours.

When evaluating a particular property’s value, it should be understood that the real estate market is a dynamic place and subject to change from one minute to the next based upon something as simple as a new listing or price change of an old listing occurring moments after determining a pricing strategy or as broad as changing world conditions.

It also goes without saying that each individual property is unique unto itself unless it is brand new construction built exactly as its neighbor. Each house has its own odors, its own décor, its own landscaping, and so forth. This uniqueness which happens to be a hallmark of New England housing makes determining a property's value more complex than when dealing with cookie-cutter houses that are all basically the same and which sell within a narrow margin of difference.

Books can be written about the various nuances that affect pricing and this article just touches upon some of the highlights. As previously mentioned, price can be adjusted lower to overcome any and all objections; HOWEVER, price should not be adjusted to compensate for an agent's ignorance or incompetence – such is the case where properties end up selling in spite of the realtor instead of because of the realtor. Sadly, most realtors are hired because a seller likes the realtor's personality, even though the realtor may be nothing more than a friendly smile when it comes to knowing how to price, market, and negotiate – and this can be financially devastating for a seller who is fortunate enough to be selling in a seller's market and multiple offers are the rule. Without a certified negotiation expert like Jim, you stand to lose thousands of dollars entrusting your sale to an uncertified "average" agent.

To summarize...

Unlike other commodities like car sales, there are seven main factors involved in getting your property to "sold". They are:

Terms
Timing
Location
Condition
Floor Plan
Availability
Your Realtor**

Where your property needs to be priced in order for it to sell in the briefest amount of time for top dollar depends entirely upon the quality and/or effectiveness of each of the above.

** Is he/she a Certified Residential Specialist and a Certified Negotiation Expert who markets globally??