The High Cost of

Overpricing

Windermere

The most critical step in preparing to market a home is determining the listing price.

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All sellers want to realize the highest possible return from their property. It is obvious that pricing a property too low cannot provide the highest return; it is less obvious, but true, that pricing a property too high will also produce less than the best return. The right price produces the best return.

Too high a price is costly because it causes a property to miss its market. When a price is too high, those buyers for whom the home would be right won't see the house because it is out of their price range. Buyers who are in the price range suggested by the asking price will not see the property as a good value and will buy something else. Furthermore, agents will be reluctant to show the property, except perhaps to make a competing property look like a good buy. Good agents are not those who can sell overpriced homes to gullible buyers; good agents are those who present to buyers homes that are good, fair values.

Sellers often feel that they want to test the market at a high price. While there may seem to be no harm in starting high and lowering the price if necessary, testing the market can be risky. A property receives its fullest exposure in the first three to five weeks on the market. The best buyers for any property are those choice prospects who will see a property during those first weeks. If it does not appear to be a good value, they will decide not to buy, and it is rare that such buyers return to a property later even if the price is reduced. Thus, the person who tests the market may turn away the best of his potential market.

Another danger of testing the market is that the seller will come to believe in what started out as an exploratory price. Even when the market provides evidence that the price is too high, the seller will be unwilling to reduce the price. Or, what is worse, a seller may turn down an offer that is low relative to the asking price but which in fact is the best offer that will be received. In an extreme example, a seller whose house was listed at $600,000 turned down an early offer of $450,000; a year and a half later the house sold only after the asking price was reduced to $395,000. The overpriced house stays on the market, and statistics from the Multiple Listing Service indicate that the longer a house is on the market, the lower the selling price in relation to the asking price. *(continued next page)*

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The owner of an overpriced home risks receiving less than value not simply because the price ultimately received is lower than might have been obtained with a more realistic initial price. The high price includes other costs. Some of those costs are financial; a home on the market is a non-productive asset. An unsold house represents financial resources committed to continuing ownership costs: interest, taxes, maintenance and the loss of the potential alternative uses of the funds tied up in the property.

There are also non-monetary costs. An unsold house prevents the owner from proceeding with whatever plans led to the decision to sell: purchase of a different home, moving from the area, consolidating households, liquidating an estate, concluding a divorce. The costs of deferred personal plans cannot be measured, but they should still be kept in mind when pricing a home.

Pricing a home is part art, part science. Like science, the pricing process should be based on evidence: the prices paid for comparable properties in recent sales. Since no two homes are exactly alike, however, the evidence must be evaluated and a judgment reached. Because each of us has a great deal of emotional attachment to our own home, the judgment of professional agents who can take a detached view is vital. The right price produces the best return.

The cost of overpricing can be very high.