

THE HIGH COST OF OVERPRICING

The most critical step in preparing to market a home or property is determining the listing price. All sellers want to realize the highest possible return from their home or property. It is obvious that pricing a home or property too low cannot provide the highest return; it is less obvious, but true, that pricing a home or 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 home or property to miss its market. When a price is too high, those buyers for whom the home or property would be right won't see it because it is out of their price range. Buyers who are in the price range suggested by the asking agents will be reluctant to show the home or property, except perhaps to make a competing home or property look good. Good agents are not those who can sell overpriced homes or properties to gullible buyers; good agents are those who assist buyers to recognize homes or properties which 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 home or property receives its fullest exposure in the first three to five weeks on the market. The best buyers for any home or property are those choice prospects who will see a home or property during those first few 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 home or property later even if the price is reduced. Thus the person who tests the market may turn away the best of the 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 multiple listing services indicate that the longer a house or property is on the market, the lower the selling price in relation to the asking price.

The owner of an overpriced home or property 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, represents financial resources committed to continuing ownership cost and the loss of the potential alternative uses of the funds tied up.

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 is considered.

Pricing a home or property is part art, part science. Like science, the pricing process should be based on evidence—the prices paid for comparable houses or properties in recent sales. Since no two 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 or property, 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 high.

