

REAL ESTATE

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THE REAL DEAL

Real Estate News You Can Use

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The Perils of Overpricing

You're putting your house up for sale. Your agent has recommended a listing price range based on current market conditions, how your house stacks up versus others presently on the market and what comparable properties have recently sold for. But your agent's recommendation is not quite what you had in mind. What could it hurt, you reason, to list higher and see what happens?

Unfortunately, it could hurt a lot. Overpricing is not a good strategy, even if you're in no rush to sell or are just "testing the waters." Frequently, the result of overpricing is a home that eventually sells for less than it's worth...less than it would have commanded if it had been priced right from the start. Here's how that happens.

On day one, you list your home higher than you should. Many agents who see it on tour won't even show it because they know their customers will recognize that it's priced too high. Those who do show it may advise their buyers to wait for a price reduction before expressing interest. Either way, you are not achieving your goal of getting your house shown and sold.

Buyers who do visit your property are disappointed because they are shopping in a higher price range in which your home does not rightfully belong. As such, it is likely to fall short of their expectations. Your decision to overprice actually makes competitive properties look better than yours by comparison. It sells someone else's home instead of your own.

At the same time, buyers who would actually be interested in purchasing your home are not being exposed to it because

it is out of their price range. This means that your home is not coming up on their agents' computers when they do property searches for these buyers. Nor is it appearing on Internet shoppers' screens when they search in their price range on realtor.com. As a result, you are missing out on the critical first two weeks of peak interest and activity that well-priced new listings typically enjoy. Without a quick price adjustment, it can sometimes be tough to recover from this.

Sixty days down the road your situation can become even more difficult, even if you adjust the price closer to where it should be. At this point your property is no longer top of mind with anyone. Because it's been on the market for a while, agents and buyers alike may begin to view your home as an opportunity for a bargain. Potential buyers may start to think there must be something wrong with your property since it hasn't sold yet. Or they may assume that, under the circumstances, you'd be willing to accept an even lower price. Shrewd buyer agents will capitalize on this situation. This is the point at which lowball offers may start to surface. In fact, these may be the only type of offers that you ever receive – when you could have gotten fair market value if you had priced right from the start.

Although most good agents caution sellers about this scenario before taking the listing, overpriced properties are still very common. In some cases, that's because the seller has an unrealistic and non-negotiable number that they want or need to achieve when they sell. That number may be the breakeven point reflecting what they paid for the property plus the cost of improvements they have made. It may be what their neighbors netted when they sold last spring, or what the sellers need to come away with to afford their next home. Recently, bank appraisals from mortgage refinancing

have become popular listing price benchmarks for sellers. Unfortunately, none of these things are necessarily reliable indicators of the market value of your home when you decide to put it on the market. Looking at current market conditions and what comparable properties have recently sold for is the most reliable way to estimate market value.

In other cases, agents may contribute to overpricing. This can happen overtly when agents know they are competing with one or more colleagues for your business – and they err on the high side of market valuation hoping you will select them because they are the highest bidder. This is called "buying the listing." Other times, agents may conclude that it's easier to go along with you than to try to convince you that your number is too high and risk losing the listing. After all, in most cases the house will eventually sell and a commission will be paid.

You can protect yourself from the perils of overpricing by selecting an agent whose analysis is thorough and insightful and well rationalized. One who can answer your questions and who has the confidence to tell you the truth about the market and where your property will compete in it. When you do this, you will reap the benefits of pricing right, which include agent enthusiasm...more showings...higher offers...a faster sale...and minimal intrusion on your family's daily life to get your property sold.

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