

REAL ESTATE

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The Art and Science of Pricing Your Home

When you put your home up for sale, one of the most important decisions you will need to make is where to set your asking price. Ultimately this is your decision. But it's one you should make based on the expert counsel of your real estate professional after he or she does a comparative market analysis (or CMA) of properties similar to yours that have recently sold in your area, as well as those currently on the market.

Establishing a price for your home is part art and part science. The "science" part is pretty straightforward. All agents have access to the same CMA function in the multiple listing service (MLS) software. Plug in your property's specs and, poof – up come "comparables" as well as high, low and average price statistics. And some listing presentation software automatically spits out a suggested price range for your home.

The only problem is sometimes the properties that the MLS software identifies as comparables aren't actually very comparable at all. The style, square footage and number of rooms in these homes may be similar to yours, but their location, condition or amenities may disqualify them as a valid basis for comparison. Also, the CMA software cannot take factors such as market conditions, inventory level, seasonality and the owner's level of motivation into account in the numbers that it generates.

That's where the "art" part of pricing your home comes into play.

Being artful requires your agent to have a strong knowledge of the current and past inventory of homes in your

market. This enables him/her to select comparables that are the most similar to your home – often retrieving them from memory because the computer did not offer them up – and to make insightful valuation adjustments where there are differences. Being artful also means that your agent understands the effects of factors like market conditions, inventory and seasonality on the value of your home. For example, the same home could be properly priced higher in a low-inventory market but lower when inventory is more plentiful. It could be properly priced higher if listed in the spring – the peak selling season – but lower if listed in the fall or winter months when there are typically fewer deals being made.

The purpose of this month's column is to help you recognize a comparative market analysis for your property that is both scientific and artful. Here's what such a CMA will look like:

1. It will include three groups of properties. "Solds" are the best indicator of the likely market value of your home because they demonstrate what buyers were actually willing to pay for similar properties. When looking at properties that have sold, recency is key. Past six months is better than past year if possible, unless the market has been extremely stable.

"Pendings" are properties that are under contract but have not yet closed. These are as good as solds, but since the closing has not taken place, the sale price is not publicly known. Sometimes your agent will be able to obtain that number from the listing agent. If not, it can be estimated in several ways.

"Actives" are the properties that your home will compete with once on the market. While these represent the top end of what your home could go for, the key here is to recognize that some of these properties may be overpriced. Be careful not to overemphasize the importance of this group versus the others when setting

your price.

2. The properties selected by your agent will seem comparable to you. Though you probably won't be familiar with most of the comps, the photos should look something like your house and the neighborhoods should feel similar to you. If they don't, drive past the solds and pendings, and ask your agent to show you the actives so you can judge for yourself.

3. The analysis will be detailed and well organized. Many potential buyers find that an Excel spreadsheet format with columns that summarize key information such as list versus sale prices, market time, square footage, number of rooms, and number of bedrooms/baths is easier to digest than the same information contained on multiple pages. Ideally there will also be a "comments" column which captures your agent's qualitative assessment of each comparable property in relation to your home.

4. It will include a summary of current market conditions and an explanation of how these factors influenced the recommended pricing for your home.

5. It will establish a price range within which your home should be listed based on all of the preceding. It will then be up to you to select the number in that range that you feel most comfortable with. But given all the scientific and artful input that you will have received by this point, your selection will be an educated one.

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