THE HIGH COST OF OVERPRICING

The most critical step in preparing to market a home is determining the listing price. Every seller wants 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 yields 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 that is. Further, agents will be reluctant to show the property, except to perhaps make a competing property look like a good buy. Good agents are not those who can sell overpriced homes to overzealous buyers; good agents are those who present to buyers homes which are good, fair values.

As sellers we often feel that we want to test the market at a higher price than what we feel our home is really worth. 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 best exposure in the first three to five weeks on the market, this is when the property is in front of the biggest group of active buyers. 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, or their agents, return to a property later even if the price is reduced. Thus the seller who tests the market may never see the best of this potential market.

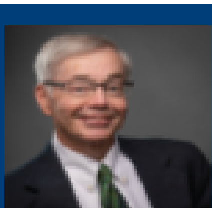
Another danger of "testing the market" is that sellers can come to believe in what started out as an exploratory price. Even when the market provides evidence that the price is too high, you may now be unwilling to reduce the price. Or, what is worse, you may turn down an offer that is low relative to the asking price but which is the best offer that will be received. A local example of this was two new homes, side by side; we brought an offer of 1.4 million for the two homes together. The builder turned down the offer, two years later lost the homes to the bank and we have since sold each home for just over $525,000 each. We have many stories just like this one; it is unfortunately a recurring scenario.

The overpriced house stays on the market, and statistics show that the longer a house is on the market, the lower the selling price in relation to the asking price. The owner of an overpriced home risks receiving less than the 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 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, etc. The cost of deferred personal plans cannot be measured, but they should still be kept in mind when pricing a home and deciding how long you want to be on the market.

Pricing a home is part art, part science. Like science, the pricing process should be based on the evidence of 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 home, the judgment of professional agents who can take a detached view is vital. Like scientists, we at Windermere Anacortes Properties study the market, track the numbers, research the comparables and devote a good deal of our time to understanding and then communicating the meaning of the data.

The right price produces the best return. The cost of overpricing can be very high.



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