

DETERMINING a HOME'S IDEAL LIST PRICE

- **Breaking down property valuation**
- **Conducting and using a comparative market analysis**
- **Establishing a pricing philosophy**
- **Pricing problems**

One of an agent's primary jobs is to assess the values of properties for their clients. Agents should follow a structured process as they evaluate properties and render pricing opinions, systematically balancing the features and benefits of the home against the attributes of competing homes, recently closed and homes that have been sold are pending, and currently for sale.

The real estate world relies on three basic approaches to property valuation:

1. **APPRAISALS**
2. **Broker Price Opinion (BPO)**
3. **Competitive Market Analysis (CMA)**

Appraisal: The vast majority of prospective property purchasers seek financing from a lending institution, and these institutions require an appraisal in order to certify the value of the property and to ensure that the funds being lent cover a certain percentage of the real value of the property as assessed by an impartial third party. An appraisal analyses and documents the condition and the attributes of a property, and analyzes its value through a process that usually involves comparing the property with sales of comparable properties in the market area.

Appraisers arrive at a home's value by issuing deductions and credits for features the home either has or doesn't have when compared to similar properties in the market place. Example: The subject property has a fireplace and comparable homes do not, the subject home's value is bumped up to cover the fire place cost.

Appraisers and agents should investigate the values either likely to credit or debit to a property in the subjects area based on the amenities it has or doesn't have. i.e.; judge the worth of a fireplace, an extra bedroom, hardwood floors, an extra-large lot, an extra garage or other covered parking spaces, upgraded finish work, landscaping, a sprinkler system, a deck, a built-in hot tub or spa bathtub, and other amenities or features. Values vary greatly from one market area to another and subdivision to subdivision, and the appraiser or agent should compile a list of the items that affect pricing in the subject properties area/subdivision along with the credits and debits that accompany each entry.

Broker price opinion (BPO): A BPO is property value assessment increasingly required by relocation companies that help employees transfer to new communities. BPO's aim to achieve the objective to understand the value of the employee's currently owned property, the likely sales time frame, and the probability of a sale at a certain price. Based on the BPO, an employer can craft a moving package offer that's based on a sound value opinion. BPO's usually also consider the different financing and terms that will affect the sales transaction.

Competitive market analysis (CMA): Competitive market analyses are fundamental to all professionally listed real estate transactions. Brokers and Agents skilled in conducting CMS's stand head-and-shoulders above their competitors, both in terms of client confidence and sales success.

Most agents approach the CMA process with the mindset that the report's primary purpose is to educate sellers about the value of their property. That's not quite the purpose of a CMA. The primary purpose of the CMA is to educate the Broker and Agent about the prices at which comparable homes are being listed and sold. Only by completing a thorough and detailed comparative market analysis can the Broker and Agent obtain certainty and conviction about the value of the property they are about to list and market.

Ron also completes an absorption rate and determines the true DOM, days on the market. This report has many useful features. (place meaning of Absorption rate and its process)

Staying current

The Key to the CMA, and in fact any valuation, is that it's current. A professional Broker or Agent will conduct several CMA's during a listing period to pick the property priced in the market. Each month a list of sold and new listings should be printed and a CMA completed on the new status'. Why should this be completed? Increased inventory of homes for sale could dramatically affect the seller's ability to compete at the previously established price.

Factors that contribute to a CMA

A competitive market analysis involves a review of all homes similar to the one that'll be placed on the market for selling. It will contain recently sold or have sales pending, active listings, or recently expired listings in the subject properties marketplace. Why should we look at expired listings? Expired listings will give study on what did not sell and what to afford for the current market.

SOLD properties

Sold and closed transactions are the best comparable properties. They provide the most valuable demonstration of market value. They are properties for which sales goals have been accomplished, transactions have been closed, and ownership has transferred. The sellers have their cash in hand, so you can be certain that the prices reflect values that won mutual consent from willing buyer/s and willing seller/s.

Markets undergoing active appreciation or depreciation, Brokers and/or Agents should review only homes that have sold and closed in the last six (6) months or less. Sales before that period are not likely to be an accurate indication of current values.

PENDING properties

Pending properties are homes that have been secured by a buyer, but the sale has not closed and ownership has not transferred. Transactions linger in the pending status for 30 to 60 days and sometimes longer. When studying the pricing of comparable pending sales, realize that the information is less reliable than that of sold homes because:

- ✓ Anything can still happen to derail the transaction. The buyer can walk away from the transaction or financing can be denied if either the owner or the house doesn't meet lending requirements.
- ✓ The price on a pending transaction is the price the seller initially asked, not the final closing price. You won't know the final closing price agreed upon by the seller and buyer until the transaction is completed.

TIP: If a pending home is very comparable to the subject home and its pricing is very important to the CMA, Broker or Agent should contact the listing agent and ask if he/she can tell you whether the seller received close to the asking price. Only expect obtaining general information. The listing agent cannot give the sales price due to fiduciary responsibility owed to the seller.

ACTIVE properties

Sellers should not only look at the Active prices on the report! Without good counsel, sellers look at the prices being asked for other homes and want to place their prices right at the top of the range. This causing unrealistic expectations and the Broker/Agent should explain:

- ✓ Active properties are accompanied by asking arrive (*values*) that **will be affected** by the outcome of **buyer negotiations** and **final price adjustments**.
- ✓ Property Owner (*Seller*) should accept comparable active listings *as a good indication of the level and intensity of current competition for the buyer's dollars rather than as a clear indicator of current house value.*
- ✓ Sellers should understand that while they have **one house to sell**, the **buyer in a neutral market has many homes to choose from**. Sellers should realistically understand that **active listings are used to help competitively position each house within the current available inventory**.

EXPIRED listings

Expired listings are homes in effect lost in the sales game! However, **these listings provide an important bookend against the prices of SOLD properties**. Sellers will readily see the **pricing path to success with SOLD properties versus the failure, as indicated by EXPIRED listings**.

Note: Many times an **expired listing failure** will show up on the sold inventory at a lower value, thus the illustration of the first-time failure which can result from overpricing, and the eventual success that results from on-target pricing of properties. However, pricing is not the only factor for positive marketing and/or negative marketing. One must look at all the facets of the marketing spectrum.

CMA mistakes to avoid

Brokers and agents commonly make three major mistakes in the CMA preparation process: They work to establish a high sales value, include too many comparable homes for comparison, and overemphasize the price per square foot. Let's look at each:

Overpricing

If a Broker or agent approaches a CMS with the desire to establish a highest sales price for the seller, more often than not the home will be listed overpriced. The goal of a CMA is to determine a demonstrated indication of the true current value of the home. The CMA process is not developing an opinion of what a buyer may consider a reasonable value; the Broker/Agent and Seller are working with facts to arrive at an objective, accurate valuation.

TIP: We should work to achieve a meeting of minds not justifying the highest price but rather to reflect market conditions and arrive at an accurate value in order to present and sell the house in a timely manner.

Putting too much emphasis on "price per square foot" findings

When comparing prices, many agents often calculate the price per foot of comparable properties and arrive at a figure a sale or listing price and dividing it by the subject homes square footage.

In my opinion price per square foot values has a limited effect on value. For one thing, it does not account for the "QUALITY" of the home---the quality of the finish work, baseboards, casings, moldings, marble floors, granite counter tops, elegant appliances, top-grade bathroom fixtures, landscaping extras, quality of light fixtures and window trimmings. All these are considered real property and affect the value.

This approach factor in such features as stone exteriors, paved or brick laid patios, extra garages/carports, are architectural design features. Pricing a home by only square foot treats each home like a box on a plain vanilla lot, ignoring anything that really makes a house a home. Buyers and their agents use this type of calculation as if it were gospel----often using it to defend square foot calculation either meaningless or erroneous. A professional and quality Broker/Agent will look at all factors on a home when pricing the property for the current market. However, both Broker/Agent and Seller must be realistic and price a home to SELL, not sit and become an "eXpired listing."

Taking CMA results with a grain of salt.

Both the Broker/Agent and home owner should "Stop and smell the roses" during the CMA process. At some point during the review of real estate records, home photos, and computer analyses, take a break and get out and actually look at comparable properties in order to form a good old-fashioned firsthand opinion.

One should not expect data sheets and digital photo's alone to present the strengths, weaknesses, and permutations of each comparable property. Some homes just plain feel better than others and that is a distinction the Broker/Agent and New Seller should have to experience live and in real time, before placing a value on the subject properties new listing MLS document presentation.

For real time evaluation follow these suggestions:

- ✓ To view an active property, make an appointment with the seller. Let the seller know that you are pre-viewing to gain knowledge of their homes amenities and feel.
- ✓ For pending properties, call the listing agent or the owner to gain entry in order to evaluate the house against the subject properties features and amenities.
- ✓ Call owners for permission to view homes that have recently sold or that have eXpired. This inspection may turn crucial evidences for the pricing of the subject property and profitable selling.
- ✓ If access is not available, at least take a moment to drive by and study the neighborhood as well as the exterior condition, landscaping, and curb appeal. This visual site/inspection could be the difference in the subject properties marketing time.

Avoiding overpricing just to please the buyer

Hope is not a successful pricing strategy, and the please-the-client mindset is a difficult one to abandon! Brokers and Agents who achieve listings with unrealistic prices find it difficult to later counsel their clients honestly!

The pit-falls of a please-the-client approach are many and significant. By overpricing, Brokers/Agents can practically count on a reduction in their productivity, profitability, and salability because;

- ✓ It's non-productive and lost of time speaking with a seller who's home did not sell or lack the attention of buyers during the listing period. This approach also causes the unsuccessful seller to distrust their Broker/Agent and lack motivation to take corrective action.
 - a. The seller's negativity, concerns, and phone calls only increase with each week or month the house remains on the market.
 - b. Lack of persons viewing the home becomes a concern and the seller becomes negative toward the listing Broker/Agent.
- ✓ An unsold, overpriced listing costs everyone time and money, and delivers no revenue and positive results to all parties.
- ✓ Unsold homes that linger on the market seriously diminish the salability.
 - c. Salability is based on such key statistics as average ratio of listing price compared to sale price and the average number of days listings are on the market.
 - d. Overpriced listing usually expire and when the home owner returns their property on the market, they usually have to lower the value --- lesser than it should have been listed on the first listing period. Who loses? The home owner! "Pricing the Home Correctly is crucial and so important to obtaining the "Best Possible Value the market will bear!"

Steering Clear of Starting High and Reducing Later

NO MATTER whether you are selling real estate or any other offering, pricing must reflect what the market will bear, not what the seller needs to net!

PRICING DELIBERATION should focus only on the value as determined by the **CMA** or **Brokers opinion of Value**, and the best solution is a **Professional Appraisal!**

If the Broker/Agent and or Home Owner allows themselves to be swayed to start higher than the property should be priced, everyone is setting themselves up for a COSTLY Error!

Note: **The ONLY Market environment** in which can be afforded to start high and come down later is when prices are rapidly appreciating and inventory is low! Even then . . . Brokers/Agents and Sellers should be sure they're working on terms that the seller "**Really Wants to Sell**"; *other wise*.... you may be wasting time testing the market.

The seller should not be in a stuck mindset of their own "profit motive." The seller should think as if they are out looking for a home and will they be concerned with what the seller needs to net? Sellers should think that other buyers are going to feel the same way . . . they will be looking and assessing the home to other properties on the current market and how does it hold up to them. Positioning is the Key to successfully marketing and selling and the Marketing Broker/Agent and the Seller should place the home on the market at fair market value.

Now, let's look at Coming in on-the-button!

Even though too few Brokers and Agents use it.....I personally believe-- that **on-the-button pricing** – that is, **pricing a home at market value is the single best pricing strategy.**

Most Brokers/Agents pad listing prices by adding 5 to 10 percent to a home's current market value . . . this strategy is detrimental because---even though sellers realize the overpricing is meant to provide a negotiating allowance, they begin to hope to receive at least some of the padding in their own pockets (this is human nature.) It's true and proven, padding prices lead to real downside and less profits for the seller. The **DOWNSIDE** is that padded listings create a real pricing advantage for homes that come on the market priced at their "**Fair Market Value.**"

Many Brokers/Agents will use overpriced listings to sell their own listings or other similar properties in the area. Overpriced listing becomes a walk-through comparison to sell other properties. This is not good marketing or strategy for the home owner.

- ✓ A home that's listed at market value stands out from the competition. Compared to all the overpriced options, it strikes buyers as a rare value and leads to traffic and a high number of showings by other agents.
- ✓ On-The-Button pricing also leads to high increase in new business opportunities, (Sellers will appreciate the work of their Broker/Agent and be willing to use them again and recommend them to the friends, co-workers, and family.)

Price Approach versus Traffic Flow are the keys to selling any home.

The Price Approach, a.k.a. "**The Traditional Approach.**"

- ✓ Here's the basic formula for the "traditional" or "price" approach. To find the 'Reasonable range of value' and then try to list the property on the low end of that range. This is not the best approach for the Seller (Property owner!)

- ✓ **TRAFFIC APPROACH:** Create a desire for the Broker/Agent to present our listing first and stay on their '**Favorites List**' to present to their clients and **Sell the LISTING.**
 - ✓ **Create a desire** for Buyers to view the property and say **WOW!**
- More on these approaches when we come back with the completed CMA.

NOW! Let's go over sellers wanting to price high and negotiate down.

Too often, sellers who want to stretch beyond top dollar value also want to give short listing times. My listing policy is as follows:

1. 30 day listing only if it's backed by a 30-day price – with a 30-day price defined as a price that's 5 to 15 percent below fair market value. With an automatic extension to the 3-day listing with a New CMA, values showing current prices and the “New Listing Value” set at market value and the Broker fees 1.5 % greater than original Broker fees.
2. Six month listing at market value!
3. One year listing term for values over Fair Market Value exceeding 15%. Broker fees shall be set at 8%.

Number three is based on the following; Seller asking to list for a 12-month price, so we will need 12 months to accomplish a sale and fees to pay for the time marketing the property. Two percent will be paid in advance to cover extra time and expenses and is non-refundable.

Would you agree, the “Traffic Approach” is the best method to sell real estate, because having volume walking through the home and seeing its benefits and features will cause Action toward a positive sales contract?

Actually this is the ADIA method which has been used for marketing purposes for years! AIDA is an [acronym](#) used in [marketing](#) that describes a common list of events that are very often undergone when a person is selling a product or service:

- A - **Attention** (Awareness): attract the attention of the customer.
- I - **Interest:** raise customer interest by demonstrating features, advantages, and benefits.
- D - **Desire:** convince customers that they want and desire the product or service and that it will satisfy their needs.
- A - **Action:** lead customers towards taking action and/or purchasing.

Nowadays some have added another letter to form AIDA(S):

- S - **Satisfaction** - satisfy the client so they become a repeat customer and give referrals to Ron for the professional services rendered with “Satisfaction and Assurance.

We may also say/use **CAB:**

- **Cognition** (Awareness or learning)
- **Affect** (Feeling, interest or desire)
- **Behavior** (Action).

Ron has placed this theory into his marketing program for years and it continues to work with positive results, please read Ron's description below:

THE FACTS OF REAL ESTATE

RE: *What every home seller should know, and the truths are;*

Your house cannot sell for more than the 'BEST OFFER OBTAINABLE' from the 'BEST BUYER AVAILABLE' in the current market.

The only way to determine the true market value of property is to thoroughly ("TEST THE MARKET") and aggressively "CHALLENGE THE COMPETITION!"

Testing a 'BIGGER MARKET' and a 'BETTER MARKET' with 'GREATER SKILL' yields a better price.

An appropriate listing value will ~ immediately and consistently,

A~ ATTRACT ATENTION

D~ CAUSE DESIRE in the property

I~ CREATE INTEREST

A~ GENERATE ACTION and ACTIVITY

A home that's **PRICED REALISTICALLY** and **MARKETED EFFECTIVELY**

Will always sell!

With this said, Ron and Saunders Realty would appreciate time to speak with you and present our marketing strategies' and property evaluation and condition report. Thank you for your time thus far.

Seller's, IF YOU'VE GOT IT, FLAUNT IT!

Homeowners often launch a round of home improvements in anticipation of putting their houses on the market. If you are **getting ready** or contemplating to re-list your home, *and* tackling a few home upgrades, you'll want to make sure you get the most '**Bang**' for your buck as you add to the overall appearance of your home. Updated lighting fixtures, fresh paint and new flooring are among the most common-- *face-lifts*. If your home is in impeccable condition, "You need to "**FLAUNT**" its features and benefits!"

But, before you decide to purchase equipment or materials, be sure you know what you may already have. For example, many homeowners do not realize they have hardwood floors underneath a worn and outdated carpet. Take a peek under the carpeting, and you might just reveal something spectacular. Refurbishing the original hardwood floors could add real value to your home. Do you know your homes hidden features?

If you have heavy draperies that you've become comfortable with . . . there's really no reason to keep them . . . if they do not appeal to the tastes of current home Buyers. Consider taking down heavy dated draperies to let in more light. Remember, "**Light Sells!**" Simple sheers tend to give prospective buyers the impression of window treatments without taking away from the home's intrinsic beauty.

Spruce things up by polishing up any brass hardware in and around the home. Sparkling doorknobs, keyholes, knockers and kick plates give instant curb appeal. Your entrance door may not have a kit-plate, consider placing one on to bring attention to the front facade. I am sure your home is in good condition, but you need to prepare all features in "Show Case Condition!"

There are many tips and suggestions' Ron has learned from his 20+ years in the real estate profession, and his knowledge in building homes increases his positioning talents. Just remember: "**When you prepare your home for sale, try to disregard your own tastes and style and look at the home as objectively as possible.**" Doing so may reveal valuable opportunities you've never anticipated. Ron offers this suggestion; ask a true and dear friend to view your home as a prospective buyer, that'll be brutally honest to start at the street curb with you as a "**Prospective Buyer**" and critique your home from the curb to the rear property line and each room interiorly. Take digital "**Full Colored high contrasted pictures.**" Ron has an eye for details — helping rooms look bigger and brighter . . . remember, it's all about **PRESENTATION!** **Ron sells features & benefits! Many tips await you on www.RonSellsAlabama.Com for your use!**



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Ron believes, "Professional and Quality Service is not Expensive, It's priceless, Ron's clients deserve nothing less!"

At Saunders REALTY we earn our client's business and work hard to obtain their trust and commit to their success! We work hard, diligently, and tirelessly to help our clients obtain their real estate and mortgage goals.

RPH/rph