

## Three Agents: Who's the Bad Guy?



**By Brian Madigan LL.B.**

Here's an ever too common situation: the vendor lists the property with the first agent, it doesn't sell. The vendor lowers the price and lists with the second agent, it doesn't sell. Finally, the vendor lowers the price and lists with the third agent, it sells quickly and close to the asking price.

So, who's the bad agent, or who's the good guy? Sorry, there just isn't enough information in this case to tell.

Here's what probably happened. The vendor wanted the most he could get for his property. He listed high, and it sat on the market. Then, he switched agents and lowered the price somewhat, but not enough. The price was still too high!

Out of desperation, their price was now lowered substantially and the property sold fairly quickly. In part, there was a lack of communication between the vendor and the three agents. Certainly to the vendor, the third agent was a saviour. He sold it quickly and did what he had to do. The vendor believes that the first two agents did nothing and caused the property to be sold at much below its true market value.

In looking at this situation, we should consider **three value concepts**:

- 1) wholesale value,
- 2) retail value,
- 3) listing value.

The **wholesale value** is the rock bottom, ground level price that would encourage many buyers to rush into the fray to create a bidding war. This is the price that an investor or renovator would be able to say "I can make money on this".

The **retail value** is the market value. This is the price that would be paid by a willing buyer to a willing seller, both having full knowledge of market conditions and without either being under any particular pressure to complete the transaction without delay.

The **listing value** is the asking price. It is a marketing tool. It is designed to elicit interest in the property. That's its purpose! Nothing else!

A listing value which is too high, simply says "I'm not in a hurry to sell" and "I'm not really ready to negotiate".

A listing value which is artificially too low can simply say “I want multiple offers” and “I intend to create a bidding war”. And, to some prospective purchasers it might say “I have no problem wasting your time.....I won’t sell at this price anyways”.

So, the right listing price is going to be one that is relatively close to market value.

Let’s look at the following scenario. Bob thinks that he has an absolutely great house. It was “decorated to the nines” by his wife Linda. Her choice of colours was right out of Better Homes and Gardens.

They selected Kathy an experienced realtor in the area with a small brokerage firm. Kathy says that the market value is \$500,000. Bob and Linda want to get the most for the property and constantly tell Kathy about a friend’s house that sold for \$625,000 last year. Yes, they both agree, it was in a slightly better area. So, they decide to list for \$629,000. after all, it’s January and the beginning of a new year, which probably means a new market cycle.. Therefore, let’s just try for a higher price. Besides, they don’t have to close on their new house until June 30th. They sign a three month listing which takes them to April 15th. Nothing happens, relatively few showings, a few open houses, but no offers!

The vendors are getting anxious. They do a little research and identify Greg, an agent with a larger brokerage. They feel that they will have the benefit of more advertising this time around. Again, a three month listing, this time expiring on July 15th. They are advised that the price is too high, and the market value (fortunately for them), is still about \$500,000. So, they re-list at \$549,000. Greg approaches them every three weeks for a reduction. In fact, Greg tells them that he wants them to list at either \$509,000 or \$519,000. However, they do agree to two reductions over the course of the listing, first to \$539,000, and then to \$529,000. These were not that much help. The open houses were well attended. Many visitors marvelled at Linda’s decorating. Still, no offers!

Mid June presented a bit of a problem. Their lawyer asked for the money due on the closing of their new house, and they didn’t have any. They had to sell their house first. A deal was struck with the builder to extend the closing for two months and increase the deposit by another \$50,000. Now, they must sell to close their purchase or they will lose their original deposit of \$80,000 (\$50,000 down and \$30,000 for extras) and their further deposit of \$50,000.

They are now distraught and absolutely desperate. So, they now go to Maureen, their third real estate agent this year. She is new. She just got her license and says that she will devote all her time to selling this one property. Bob and Linda tell her they will list at \$479,000. Within 10 days, they have an offer at \$425,000 which they are able to bump up to \$435,000.

Does this situation seem familiar? Actually, it is repeated time and time again all over the country.

The real problem was the high listing price. Kathy should have been stronger and not made such a pitch to get the listing. Often, vendors will select the agent who offers to list the property at the highest price. Greg did his best, but the vendors were still too stubborn. Maureen really didn't do anything at all. The property simply sold itself at close to its wholesale value.

What should you do, if you are such a vendor:

- Get a good real estate agent
- Don't necessarily go with the high bidder
- Establish both a listing value and a targeted market value for the property
- Establish a time frame for the sale, and because it's the most important point I'm going to say it again "establish a time frame for the sale"
- Have a series of price reductions planned to match the market conditions
- List fairly, pick a value that the agent recommends as a marketing tool
- Monitor advertising
- Monitor showings
- Assess the number of Offers
- Be guided by the recommendations of an experienced agent

Basically, you want to sell your house for the highest price within the shortest time possible. So, don't worry about the commission, and don't go with the high lister. Select an agent who is honest with you about the expected selling price and be guided by their recommendations. If you don't value their advice, pick another agent.

In this case, the better agent was Greg, but the vendors failed to follow his advice. Just think about what the selling price might have been, if Greg had been able to list their property at \$509,000?

By the way, in September Greg got a listing down the street. The house was not as nice as Bob and Linda's. It was listed at \$512,000 and sold for \$510,000 after only 4 days on the market.

So, whatever you do, **don't list too high!**

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