

Price to Sell

By Brian Madigan



The single most important matter to consider when you are about to list your property is the "asking price".

How do you determine what it should be? Naturally, every vendor wants to maximize the selling price. But, just increasing the asking price doesn't accomplish this. In fact, it may work against you.

Let's use an actual example. Bob and Maria purchased their home last year for \$ 279,000. The market has gone up and the home is now worth \$ 300,000.

Here are their choices:

1) List Fairly High

They select a price of \$ 330,000 believing that there is a lot of room to negotiate. The buyers will pay at least \$ 300,000 and perhaps someone will come along and offer them about \$ 325,000. And, that extra \$25,000 would sure come in handy. Besides several agents told them that that was a fair listing price.

Here's a little problem with this approach. The MLS public listings are broken down into \$ 25,000 increments and the only people finding this property will be searching in the \$ 325,000 to \$ 350,000 range. It will pale by comparison to the others and will not generate many showings. The listings for realtors may be searched at any price selected. Few realtors will be looking for a \$ 300,000 house among those listed over \$ 330,000. Realtors and purchasers alike will simply wait for the price reduction.

2) List High

Let's say they select a number just below \$ 325,000, this means that they will still be in the picture for those looking to purchase between \$ 300,000 and \$ 325,000. This is good because they will generate results in the searches, but they are still too high. Again, they may not generate the number of showings that they desire to maximize their target price of \$ 300,000. We are still 8.3 % over the target.

3) List to Negotiate

Let's assume that Bob and Maria have already purchased another home and they really would like to finalize this sale as quickly as possible. Here, the asking price might be set at \$ 309,900. It's just 3.3 % over the target. It leaves a little room to negotiate and this is the usual range that buyers and their agents will expect to find the asking price. In fact, it would be reasonable to list at up to 5 % over the value and still be priced appropriately.

4) List to Sell

Bob and Maria can't firm up their purchase until this property gets sold. So, we can't really have any waiting around. Let's set the asking price at \$ 299,000 and generate some enthusiasm among the prospective purchasers and their agents. This asking price should generate a number of showings fairly quickly.

5) List Low

Here, there is a sign of desperation, Bob and Maria have gone firm on their new house, but they don't have the money to close. This house needs to be sold almost immediately. A listing price of \$ 279,000 telegraphs this message of desperation to the market. Purchasers will wonder, what's wrong with this house, they just bought it a year ago, and the market has probably taken it up to \$ 300,000. Here, they might just scare away some of the potential buyers.

6) List Very Low

This is a little bit of a ploy. Here the property will be listed at some ridiculously low price, for example \$ 229,000 or some \$ 50,000 less than what they paid for it. The intention is to drum up some real enthusiasm about the property. When listing, the agent will probably say that the vendor will not entertain any offers for 10 days, just so that everyone can have a chance to have a look at it.

Here they are marketing to purchasers who are looking for a bargain and probably can't afford the property at its true value of \$ 300,000. The hope is to generate a bidding war and have offers from multiple parties all submitted on the same day. With all the enthusiasm, the hope is that someone will push to price up to well over the \$ 300,000, perhaps as much as \$ 330,000. In a hot market with limited product on the market, this tactic might work. But, what if doesn't? Now, you have a \$ 300,000 house, listed for \$ 229,000 and you are generating offers well below the original purchase price. And, everyone thinks that there is something drastically wrong with the property. Perhaps the owners found mould or asbestos or some other contaminating agent.

So, we need to look at the motivation of the sellers when selecting an asking price. Most of the time, buyers will expect that you have listed your property and selected your price either to sell or to negotiate. The buyers who want to do business will focus their efforts on these listings. Buyers who are still in the "looking stage", very early in their search will come across the higher listed properties. Bob and Maria will have a limited number of showings and no offers. These people can wait for a price reduction.

A property catches most of its attention when it first comes on the market. The first two week period is crucial. Agents and buyers wanting to do business will all be watching the new listings. If it's priced too high, then there's not much to talk about. If it's priced right on the mark, then they will want to see it. In fact, many properties will generate their best offers within the first two weeks.

After the initial two weeks, the property just becomes part of the inventory of homes available for sale. This is still fine and the property will sell eventually.

However, the question is: at what price!

It may come as a surprise to many vendors, but the market values are truly set by the buyers. The vendors who have to sell; will sell. But, the buyers will pay no more than what they think the property is worth. This means, the price that they think they would have to pay for a similar property. And, not one cent more! They are not going to pay more than \$ 300,000 for Bob and Maria's house, no matter what. The original asking price really doesn't matter to them

The asking price is strictly a marketing tool for Bob and Maria to generate some showings and some reasonable offers for their house within a reasonable time frame. If they are retiring and can wait forever, then they can test the market at \$ 330,000. But, if they want to sell, then they should either price it to sell, or price it to negotiate. This means generally with 5 % of the true value of the house.

A good realtor should be helpful in determining the selling price and the asking price.

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