



“Pricing or Pandering? Market Realities”

A Real Estate CE Course by

Melanie McLane

Pricing: A real estate professional’s attempt to properly analyze the subject property, the current market situation, including supply and demand, recently sold properties, competitive listings, interest rates, general health of the economy, etc. and arrive at a range to list the property in order to sell it.

Pandering: (from the Dictionary) : “to act as a pander *especially* to provide gratification for others’ desires”

Pandering *because:*

- Listings are SO scarce
- The seller is rich/famous/influential/a bully
- You drank the Kool-Aid with the sellers, and believe they know more about the local real estate market than you do
- You don’t have the competency to price it
- You bought into the concept “my house is unique/special”
- You bought into the cost = value concept
- You are ignoring market data
- You are not factoring in basic valuation principles

Back to Basics of Pricing

- ✓ Tracking a market
 - Supply and demand
 - LP/SP ratio

- DOM
- MLS stats: new listings, reductions, pending, active contingent, back on market, expired withdrawn
- ✓ General economic indicators
 - Interest rates
 - Demographics
 - Employment
 - Local and regional economy
 - Patterns

Basics of Pricing:

Cost, price and value are NOT synonymous.

Realistic Pricing

“You are entitled to your own opinion. You are not entitled to your own facts.” –Daniel Moynihan

Value is fact driven

Some influences on price or value are less tangible than others, but may be quantified, if we have enough data. Example: Views

Some pricing is an educated guess. Pricing may be *aspirational*. It may be ‘testing the market’

The market decides!

Cost is historic, may be irrelevant. *Owners confuse maintenance with improvements!*
Not all ‘improvements’ add value.

Three Approaches to Value: Cost, Market, Income

Before we price a property, we MUST know HBU, relevant characteristics.

In your group, discuss how you would approach these pricing scenarios: what information you can gather from all sources, which approach to value applies, etc.

1. A homeowner calls and wants an appointment ‘right away’ to list his home for sale. He tells you on the phone to come with a ‘good solid price’ and he’ll list it immediately. You are by nature, a two-step listing agent, but you know he doesn’t have patience for that. What information can you gather ahead of time to be prepared to list his home on the spot and be in the right ball park?

2. An investor calls you and says she is ready to sell her five-unit apartment building. She tells you she can email you her spread sheet, showing income and expenses. Where do you go from here, what other data do you gather, and how else do you prepare for this appointment?
3. When you listed the Jackson's house, you thought your price was right on. You did a CMA, you had good comps, but it has just been sitting there, unsold. What information should you review, revisit, or find in preparation for advising the Jacksons on a price adjustment?
4. The Thompsons call you up to list their property. Their house is almost new, having been just completed by the builder four months ago. As you are talking to Mr. Thompson on the phone, he tells you "There's no need for you to come up with a number on this house—it's brand new and I have all my receipts and records". What do you think?
5. An owner calls you and wants to set a listing appointment. You check the property out via courthouse records—it is an extremely unusual house, looking very small and contemporary in style. You go out to inspect the house; when you do, you discover that the home is owner built, of recycled materials, and has several intriguing energy efficient items—part of the home is earth berm in design; it has solar panels on the roof; the rain water is recycled and used for various functions in the house; there are two alternative heating systems; and the plumbing is eco-friendly, low water usage and includes a composting toilet. The owner shows you his bills; it costs him less than \$30 per year in energy costs to maintain the property. He proudly states: "That alone has to be worth something!" You have absolutely no comparable sales—where do you go from here?

Appraisers and Appraisals

Often, even a cash buyer wants an appraisal

Appraisers have more restrictions on what they can do and cannot do

"All comps are sales; all sales are **not comps.**"

Adjustments must be proven by appraisers

Valuation products

AVMs

Hybrids

Property Data Collectors

Oddball properties

What's the strangest house you've ever seen?

What makes an "oddball"?

Who determines what a typical purchaser's expectations are?

Pricing or valuing:

- ✓ Relevant characteristics
- ✓ Highest and best use
- ✓ Scope of work
- ✓ Ranges
- ✓ Elements of Value
- ✓ Approaches to value

Adjustments

Neighborhood knowledge

Niche Markets

High end markets

Market Feedback

Law of Increasing Returns and Decreasing Returns

At some point, improvements to land or the improvements reach a point where no positive effect on value is gained by the improvement. As long as the improvements produce a proportionate or greater increase in income or value, it is increasing returns; when the additional improvements do not bring a corresponding increase in value or income, they are decreasing returns.

Basic Valuation Principles

DUST

PEGS

- ▶ Anticipation
- ▶ Balance
- ▶ Change
- ▶ Competition
- ▶ Conformity
- ▶ Opportunity cost
- ▶ Progression
- ▶ Regression
- ▶ Substitution

► Externalities

Conversations with sellers

At listing

During listing

When to cut them loose!

Bringing it all together: talking to sellers

Questions to ask:

- ✓ What market data leads you to your estimate of a listing price?
- ✓ Let's look at the comps I provided. What kind of a listing range do you think they indicate?
- ✓ What is your "Plan B"?
- ✓ Why would your house sell for more than other, similar homes in your neighborhood?
- ✓ If you were a buyer, and a house had a feature you didn't really need or like, would you be willing to pay more for than feature, or not?

Opportunity Cost

Your time

Chances for Success

Wrap-up and Q & A