Dangers of Overpricing

As a seller, focusing on maximizing your profit rather than current market trends could cause you to miss the right buyer for your home. Overpricing your home DOES have consequences. Consider these "famous last words" of pricing pitfalls:

"Buyers who really like my home will make an offer regardless of the listing price."
"I can always come down on price when an offer comes in."
"My home is so much nicer than all of the others. A higher price is justified."
"I don't have to sell right away."
"I want to test the market first to see what I can get."
Overpricing when you list your house can come with clear dangers:

The best time to capture a buyer is in the first weeks when sales professional and buyer interest is the highest. Don't squander this critical marketing period.
Sellers who start high and stay high can be branded as unreasonable.
Sales professional enthusiasm dims on overpriced homes.
Advertising and other marketing efforts are neutralized.
Sales professionals and buyers tend to overlook and discount aged properties. To prevent your house from being overlooked, price it fairly to keep sales professional' and buyers' attention.
Aged properties draw lower offers. Early offers tend to be higher, so price carefully initially to get fair offers.
Pricing your home to its fair market value is important. To guard against overpricing, ask your sales professional to prepare a comparative market analysis (CMA) on your home.

Negotiation Basics

A fairly priced property is the best way to start real estate negotiations. However, other elements can also favorably influence the negotiation.

Focus on needs, not position. Once a party assumes a position, negotiation can become stalemated. An example of a position could be a closing date. Shifting to a needs focus would examine why that date was important and what other dates could work to meet those needs.
Avoid becoming emotional. Emotions get in the way of clear and logical decisions. Anger and irritation have no bearing on the transaction.
Allow the buyers to save face. Provide a way for the buyers to back away from a position. By offering alternatives, you give the buyers an out with grace.
Understand the buyer's priorities. Communication is very important. Tell your sales professional the motivations behind your requests. When shared with the other sales professional, it's more likely to elicit an acceptable counter. Your sales professional can be a powerful advocate on your behalf when armed with knowledge of what you want and why.

Negotiation Tips

Successful negotiations have common threads. Remember these tips to get the most out of your negotiation:

Don't get insulted with a low offer or a low counter. It is natural that the buyers want to pay as little as possible.
The members of each party should feel like winners in the end.
Counter offers need to show movement by each party. This demonstrates a willingness to deal.
Make sure you understand the buyers' priorities. Counters then can focus on the higher priorities. Those that carry less weight can be used to compromise.
Quantify problems. Repairs or concessions should have a dollar value on them and not be left open ended.
Isolate major issues by getting agreement on all other points. This allows the negotiation to be just one item away. Then all energies can focus on the one final obstacle.
Contingencies are major stumbling blocks. If you ask for a contingency, then don't expect major concessions anywhere else. If you must sell a home before you can buy, don't slash the list price.
Buyers show seriousness in your home with earnest money. Work to make the buyer happy.
Avoid the tendency to 'nickel and dime' the buyers. If the buyers feel that you are trying to squeeze every penny out of them, they will be less likely to compromise on major items. Negotiation good will can be used up on petty items.
Make sure what you want is put in writing. Count on nothing that is negotiated verbally.
Depend on your sales professional for negotiation counsel.

Price Reductions

When you sell, you want to net the most out of the sale. If no buyers are making an offer, an aggressive remedy is to reduce your asking price.

You should consider the following:

Time Theory of Value: the higher the price, the longer it will take to sell a property. If you are ready to sell, reduce the price.
Pyramid of Value: the lower the price the more people will be willing to purchase a property. If want more buyers to consider your property, reduce the price.
Reluctance to reduce a price is very costly. Some costs are obvious like double house payments or double utilities. Others are personal and affect the harmony of the household:
Separation of the family when one spouse moves to the new location and one stays behind with the kids
Stress of keeping the home in show-able condition
Uncertainty of not knowing when or where you will move
Inconvenience of leaving during showings
Calculate these costs in real dollar terms in deciding to reduce.

Consider your plans. Is the home you are buying larger or appreciating? The increase in value in your next home could diminish any gain in equity that comes from standing firm on your list price.
A market is dynamic and should regularly be re-evaluated. Look at what has come on the market and sold since you listed. No amount of seller angst or need to maximize equity will change the price that a buyer is willing to pay. Remember that it is the buyer who ultimately sets the selling price.

Right Pricing Your Home

The correct pricing method is a comparison of your home to similar homes which have recently sold and which are currently on the market. If the market is rapidly changing the most valuable sales will be the most recent. Generally, a sale that is aged more than six months is too old to provide a realistic picture of what the current market is doing.

Comparable homes are chosen using a number of criteria:

Proximity to your house
Size – the square footage should not be more or less than 15 percent of the size of your house's size
Age – the age of the comparables should be as close to the age of your house as possible
Basic appeal to a market – number of bedrooms and baths, number of stories, and the garage size should be similar
Amenities – these are costly extras such as a pool, hot tub, and recent major renovations
Normal sales conditions
After the comparable homes are selected, values are adjusted. This is done to make the homes as much like the subject as possible.

Pricing your property is a science and an art. When you price in line with recently sold data, you have clear information that shows what homes sell for. This is valuable because your home must appraise for at least what the buyer will borrow against it.

The art of pricing comes in analyzing your competition, assessing the buyer demand, current market conditions, available financing, and the lure of the new home market. Your sales professional compiles and analyzes all of this input in a competitive market analysis (CMA). The goal is finding the right balance between selling and getting the most money.

Value Theories and Pricing

The right list price is a key to the timely selling of your home. Overpricing discourages buyers from looking or making an offer. Your sales professional will prepare a market analysis to help you set the right list price.

Two general theories affect pricing. The first, the Pyramid of Value, says that the number of buyers willing to purchase your property is indirectly related to the price. In other words, the lower the price, the more buyers will be willing to buy. The second is the Time Theory of Value. This says the length of time it takes to sell is directly related to the price. Thus the higher the price, the longer it will take to find a buyer. Your sales professional will be mindful of these rules in relation to your timetable and goals.

An appraisal sets value based on an expert's opinion. The appraiser considers recent sales of properties that are similar to yours. A market analysis will differ from an appraisal. In addition to recent sold properties, it will compare your home to active properties you will be competing against.

While the ultimate goal is to net as much as possible, the price should be in line with active comparable properties and recently sold properties. Ideally your price should be more attractive to a prospective buyer than the competition. Since a buyer will need an appraisal to secure a loan, the property must appraise for the sales price. The lender will not lend if there is a risk that the true value of the property is less than the loan against it.