PRICING IT RIGHT!!!

By Mark Trafton, 2020

--Our price MUST be **"COMPELLING"** not just "competitive". We want to make sure the next buyer looking in our particular market segment is compelled to buy our listing over the other choices. This can be more difficult whenever there is a small pool of qualified buyers, or a lot of inventory.

--A buyer will be COMPELLED to buy our listing if it is the "ABSOLUTE, CLEAR CHOICE" among its competition. This means it must be positioned (priced) lower than all of the competition and it must be in tip-top shape (at or better than the competition). If it's not in tip-top shape, it must be positioned (priced) well enough below the competition to make it "the clear choice" that will compel a buyer to make an offer.

--Positioning (pricing) it "competitively", meaning in the middle or lower middle price range of the CMA results, may not cut it in today's market. When evaluating the probability of a sale, it's a great idea to figure the "months supply" of the particular market segment of the home. Some market segments (neighborhoods, price ranges, types of homes, etc...) may have more than 6 months supply. This means that a competitively priced home will take 6 months or more to sell! Most folks cannot wait that long to sell their home and most agents cannot afford to market a home for that long.

--You can find the supply of homes for a particular market segment by using the MLS. First, find how many homes have sold in that segment the past year (go back exactly 12 months). Divide this number by 12 to find the average number sold per month (this is also referred to as the "absorption rate"). Then divide the average number sold per month (absorption rate) into the total available to get the months supply. For example, let's say you define your market segment as detached, single family homes in Neighborhood ABC. During the past year there've been 72 sales in Neighborhood ABC, an average of 6 per month (72 divided by 12). Let's say we currently have 84 homes on the market in this neighborhood therefore, our Supply of Homes is 14 months (84 divided by 6). In this case, the seller who refuses to set a "compelling" price should be prepared to have the home listed for at least 14 months! Note: The Supply of Homes worksheet is another good reference.

--The Supply of Homes figure is also very important when negotiating the term of the listing agreement with a seller. For example, if there is a 6 month supply for the tier of home you are listing, it makes no sense to sign a 3 month listing agreement......unless the home's price is "COMPELLING", not merely competitive. So, the owner and agent in this scenario should either agree to a "COMPELLING" price, or be willing to sign a listing agreement for a minimum of 9 months (give yourself a buffer). Good verbiage to use here would be, "OK Mr. Seller, since you're setting the price, it's only fair that I set the term of the listing agreement" or vice versa---"OK Mr. Seller, since you only want a xxxx month listing agreement, it's only fair that I set the price, one that will compel a buyer to purchase the home before our listing agreement expires."

--A home that's not in tip top shape must be priced WELL BELOW all competition. The price should be discounted by an amount equal to getting it to the point where it's "competitive" with its market segment, then discounted more to make sure a buyer is COMPELLED to buy it, versus one of the other homes.

--Some other points:

--Use the term, "position" instead of "price" when talking to the seller. Why? It's much better to "re-position" a home vs "lowering the price". When a seller hears they need to lower the price, say from 200k to 190k, they think they've lost 10k----even though they never had that value to start with! Telling them we need to "reposition" their home to make it more compelling sounds much better!

--The first offer is usually the best!

--Perhaps use long term data, for example if prices are the same now as they were in 2007, then a home purchased in 2007 may be worth about the same price now as when it was purchased.

--Don't forget to check Zillow---your sellers will!

--Also check RPR

--The next pages provide additional information you'll find helpful.