The Dangers of Overpricing

If a property is priced competitively, it will sell.

by
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A Washington State Approved Real Estate School for Clock Hour Education under R.C.W. 18.85.

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Curriculum

Session	Topic	Lecture Discussion
1 hour	What happens when you take an overpriced listing Price sells properties Price has to reflect value	
1 hour	The ten dangers to overpricing a property.	
1 hour	Excuses for taking an overpriced listing Pricing consumer products 3 reasons why pricing is critical Choose your listings	

The Dangers of Overpricing

If a property is priced competitively, it will sell.

This class focuses on why taking listings that are overpriced can be a disservice to the home seller. Agents often take listings with inflated prices letting the seller believe that the property is worth more than what the market will bear.

It is important to remember that if you buy the new clothes at Nordstrom's, you never pay more that the day they are hung on the aisles. An overpriced listing always ends up on the clearance rack.

Course Objectives

As a result of taking this class the agent shall be able to:

- Identify the sellers thought process when taking an overpriced listing
- Know that pricing is critical to a sale
- Know 10 dangers of overpricing property
- Identify excuses and reasons for taking an overpriced listing
- Know why it is best to choose listings based on the price

What is this house worth?

One of the most difficult, yet most critical, responsibilities of a real estate agent is to tell a consumer the value of the property that they own. This is often the largest investment the consumers will ever make in their lives!

The prospective seller almost always thinks that their home is worth more than what the market will bear. Sometimes that is a real understatement!

The real estate agent has to give the seller pricing information that is based on the properties that have sold, ones that are pending, and those that are currently on the market. The seller's home is often worth less than what they think. They inflate the value of any amenities or upgrades that they have made. In addition, the sellers don't have the resources to evaluate all the properties that have sold.

Buyers compare properties to determine what is the "best value." The buyers compare properties that are similar. They are looking for an "equally desirable substitute." They will weigh all the features of a property and evaluate how they contribute to the value.

Sellers will counter, "But, our home is unique!" And, yes, almost every home has its unique features, but, as agents, we use market statistics to determine the value of the property. We compare the other properties and how the sellers property stacks up.

"Let's just 'test' the market!" says the seller.

The seller is sure that there is a buyer out there that sees the same value in the property that the seller sees! Or maybe the sellers think that there is a buyer that is willing to pay more than the property is really worth because the buyer falls in love with some particular feature.

Then, of course, the seller wants to list the property for more than what the real estate agent thinks it is worth!

"I have a listing!"

The real estate agent takes the overpriced listing figuring that… over time… the seller will get more reasonable… or maybe desperate. The agent figures that the sign will generate some calls from prospects. The agent might just feel… "I'm back in the business."

The sign goes up, the flyers are created, the listing is turned into the MLS.
The real estate office tours the home, and the ads go online for the
Sunday open house. A website and video tour are created. The marketing is out.

Initially, there are a handful of showings but quickly, the other agents can tell that the property is overpriced. Then all activity seems to wane.

But, the property is *priced too high!* No offers! Few showings!

"Where are the buyers?"

The seller calls the real estate agent and wants to know why the house is not getting any showings.

"Where are the buyers?" asks the seller. "More marketing! You are not doing enough marketing to bring in the buyers!" Sometimes the sellers can get really irritated and abusive.

So the real estate agent schedules another open house, sends out some flyers and writes another ad.

Surprise! The house doesn't sell!

It has been months and there are no offers on the property.

The seller is frustrated and the real estate agent has done all the marketing that is possible.

Products that are overpriced… that are not at a market price… are not competitive… do not sell. Consider a car, can of tomato paste, or computer. Yes, there are products that sell for higher prices than we think they should, but there is perceived value. Buyers evaluate products and the competition. They are smarter than ever and have more access to property information than ever before.

Time for a price reduction?!

The next option….. *Cut the price!*

The real estate agent asks the seller for a price reduction. After evaluating the other properties that are on the market, the properties that have sold and pending, and the amount of interest in this particular listing, the agent suggests a price reduction.

Once the property listing price is reduced, the real estate agents don't just flock to the property with their buyers. In fact, a price reduction can often not generate buzz at all.

"What! Lose money?"

The sellers are sure that any price reduction will take money out of their pocket! "If I reduce the price $10,000 then I will lose money!" says the sellers.

But, the property was never worth the price the sellers put on it. They thought that the list property was the value and were really hoping for a sale at the original list price. But, it was an inflated price.

No money was actually "lost." The property is just at a competitive price. It is the same for stocks. One day the value is up. The next day it is down.

If a seller were to sell the car in the driveway online for a price $4000 more than the blue book value, it just wouldn't sell. Houses are no different.

But, sellers have a tendency to blame the agent for the lack of offers on the property even though the price was not competitive and attracting buyers.

Seller re-lists the property with another real estate agent at lower price

The property didn't sell during the listing period. The seller often attributes the failure of finding a buyer to the lack of marketing by the real estate agent.

The seller's solution is to try listing with another real estate agent.

The second listing agent does all the same marketing… enters it in the MLS, makes a flyer and a website. But, the second listing agent suggests a lower price. This is the key to getting the property sold. It is lower and it shows up as a new listing. Buyers agents are aware of the drop in price and can see that the seller is getting more motivated. The property eventually sells.

The second listing agent has the advantage over the first agent because if the property is priced competitively, it will sell regardless of the amount of time or money spent marketing.

Because, a property that is priced competitively will sell. When the market is down, that means that the listing price has to reflect the market.

Price sells Properties!

If a property is priced competitively, it will successfully sell.
If a property is overpriced, then it will not sell.

This is basic marketing of products. We are assuming here that the property is available to be viewed, the seller has the ability to sell, and the largest amount buyers have knowledge of the property like in the MLS.

An overpriced property just won't sell.

The same is true for your car. If you put a sign on a car "FOR SALE." The price is 30-50% higher than it's worth. Everyone who drives buy can quickly Google what the Blue Book states.   They will shake their head and wonder what you were thinking! The car just won't sell.

You might get a few really low-ball offers from someone who thinks you will negotiate… because your car has sat there with no activity. Then, as the owner of the car that has been sitting there, you might think... "Maybe I should take that low-ball offer."

If you priced it competitively, then you most likely would sell it for what the market thinks it is worth!

NOTHING is More Important than Price

You can spend a fortune on advertising and marketing for any product. There are companies that have tried that strategy. But, an overpriced product does not sell.

The consumer must see value in the product. The consumer must look at what the product can do in relation to the price. The consumer has to evaluate the resale value. The consumer will look at the condition of the product.

The Price has to reflect Value

The entire concept of value is difficult to define.

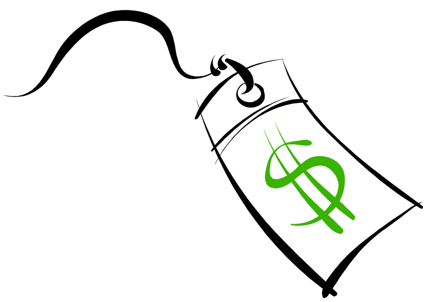
It is the *perception* of value by the consumer that is most important.
Value can be affected by time, location, emotions, previous ownership, perceived market changes, interest rates and the cost of money.

The buyer wants to think that the price paid is what the house is worth… or that the buyer got a "great deal." The buyer may perceive some future event could increase the value… whether it is public transportation or a new industry growing or a remodel of the house.

Value may be different that the price the item sells for. The owner may perceive a higher value than the prospective buyer. The owner selling the house might see the improvements made as having more value than the buyer perceives. The remodeled bathrooms might have been a large investment for the owner, but the buyer doesn't like the pink tile.

Most important, when a property sells, it is the value that the prospective buyer sees that determines the sales price. It is not the value the seller sees.

Value is difficult to define



Think about how you perceive value. What is valuable to you and… why? Is something more valuable to you than what you could sell it for? Do you own something that you see as having no value but someone else would treasure it?
What is value?

Not always logical…
Not always tied to function....
Not in our control....
Not based on location...
Not always fair...
Not based on improvements...
Not based on depreciation…

A diamond can claim a much higher price than a computer.. but the function of the computer is much greater… a computer can do more than we can list in this class. A diamond, on the other hand… it does nothing! It is a rock in a setting that looks pretty and has some obscure emotional value. But, when it comes to function, the computer has it beat. But, many people would rather spend money on jewelry and buy a computer at a discount.

If you have two identical houses… they may not sell for the same price because of logic, function, control, location, fairness, improvements and depreciation.

What can affect value of Real Estate?

- A house can have function but be next to a gas station, be ugly, or be too small.
- A shack can be worth more than a nice house if a celebrity owned it first.
- An old house can be worth more than a new one just because it is old.
- A house might not sell for as much as the neighbor because financing with lenders got tighter or the market changed which may not be "fair."
- The price of a house may not reflect the cost of improvements like a pool, hot tub, new kitchen, landscaping, etc. if it backs to a freeway,
- A house might not sell as much as an identical one in the neighborhood because there was a tragedy there.
- A mansion might sell for less than it might otherwise because it sat vacant for too long.
- A house in Nebraska on acreage will most likely sell for a different price than the same house overlooking Lake Washington.
- A very small house floating on Lake Union might sell for a million dollars and only fit in the garage of a house only a few miles away with a view of the lake.
- A house with all new carpet and tile might not sell for as much as one down the block because the colors were not contemporary.

The Dangers of Overpricing

There are dangers to asking an inflated price for a property. The most serious danger is that the seller might actually sell for less. Consumers sometimes think that if a product is priced higher, then the potential buyers will think that the property is worth more. But, buyers today, have ways to evaluate price and competition in seconds on the phone in their hand.

Over time the property becomes shopworn. It has been on the market too long so that a consumer will expect that it has something wrong with it.

1. The home may not appraise

The house has to appraise. If a property sells for more than the market value to an unsuspecting buyer, the house may not appraise.
The house is collateral for the loan. When a lender agrees to lend the money to the buyer to purchase the home, the property is collateral should the buyer not repay the loan. The lender would then be able to sell the loan to cover the debt. The appraiser determines if the property is a fair market value for the lender.

2. It will become shopworn.

Just like clothes in the store… they hang on the front racks for a short time and then eventually make it back to the clearance table. Or when you shop for food in a grocery store…. If the can of soup has dust…ugh… it is not the can that you want to buy. Think about it… Would you buy a can of corn if it was covered with dust? It might be just as good as the next one on the shelf. But you would ask yourself, "Why didn't anyone buy this can?" Maybe the expiration date is even current. It could be overpriced sitting next to another brand of soup. When a can has dust on top, it begs the question…. Why?

Properties become shopworn. Real estate agents in the market are aware of the properties that are available. When a property is on the market for a long time, that property will come up in searches over and over. Agents can be heard groaning that it is still for sale at that inflated price. A house on the market for a long time attracts "dust."

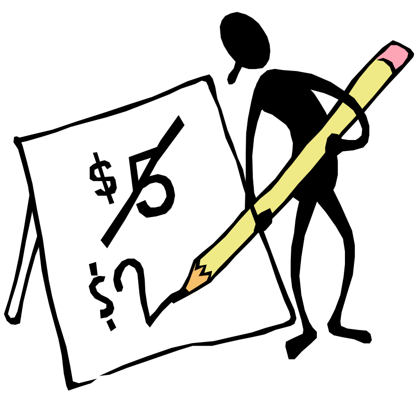
Sellers can watch as prospective buyers drive by the house… slow down to grab a flyer and get a closer look… and then step on the gas to get going because to them, clearly the property is overpriced.

3. There will be fewer showings

Agents don't come back to overpriced listings. Once an agent shows an overpriced listing, it can be like tasting some bad wine. It is usually not worth trying that label again. There are too many other labels out there to try… Agents avoid coming back to an overpriced property.

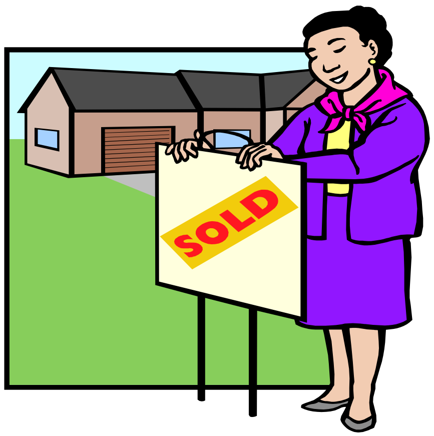
Dropping the price will not bring a crowd to see the property. No one really cares that much about price reductions. It has to be a serious drop that makes someone say, "oh really?!?" before it will make a difference. When agents see price reductions, they immediately look at the time on the market and evaluate whether the reduction is going to be effective.

4. Low offers may be encouraged



If something is on the "clearance rack" the consumer almost always expects to dicker. A blouse on the rack in the back with a missing button is surely going to get the clerk to knock off another 10% at a big department store.

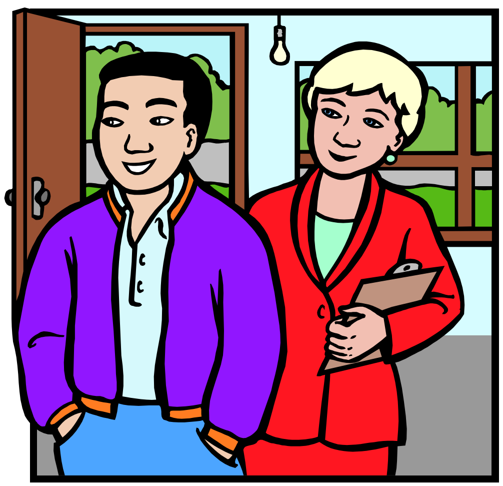
So, a property on the market for a long time that is over-priced might just encourage low offers. The buyer might just see that it has been shopworn and hope that maybe the seller will come down in price.



5. It will help sell the competition

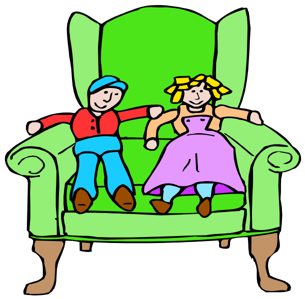
“Look at what you can buy for the same price in this neighborhood,” says a buyer’s agent! There is nothing better than to show two houses in a neighborhood with one being overpriced. It makes the other house look like such a fantastic buy! It is better to be the house that looks like a good buy, than the house that is overpriced helping the other one get sold!

An overpriced listing will make the competition look like a better deal.



6. Agents don’t want to try to sell them

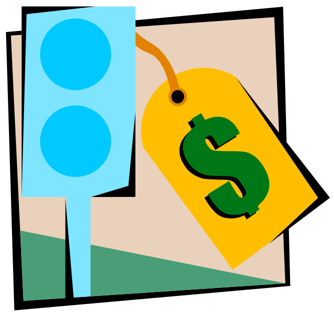
Other real Estate agents don’t like to show overpriced listings. If a buyer likes the property and want to make an offer, the negotiating can be very difficult. The buyers might just see that the house is worth much lower based on the comparables, but the seller might not be realistic. Agents know that the getting a seller to negotiate a lower price is often impossible. The seller may owe too much, have an offer on a property and “need” a higher price, or the seller isn’t really interested in selling.
Then the buyers also get attached to the property and if the deal falls apart, think the agent didn’t try hard enough.



7. It will attract the wrong buyers

The buyers that come to preview will expect the property to compare to others in the same price range. The buyers will think… "A house in this price range should have more square footage," for example. It will attract buyers that are looking at the competition and see what they can buy in that price range.

It will help sell the other properties!



8. The impact from lowering the price is often minimal

Real estate agents do not keep up with the price changes on a daily basis. There is typically no immediate impact from a price drop… no additional showings or previews.

An agent that has already showed the house, may have already sold his/her buyers another property.

It's not to say a price reduction won't work… It is just that the impact is minimal. If the price change is substantial, it can help generate a sale. Sadly, the seller will often relist a property with another agent that will encourage a lower list price.

9. The sellers look greedy

No one likes to look "greedy." The sellers look like they might want to take advantage of an uneducated buyer or be able to convince someone to pay more than what the house is really "worth."

Often homeowners in their living room convince themselves that the joy they got from living there will substantiate a higher price. They might confirm that with a quick look on Zillow. They might really think a buyer will just come in the front door and pay more than what they might pay for a similar house down the block.

No one wants to disclose how much was just paid for the shiny new car. No buyer wants to pay too much for just about anything, especially the largest purchases in their life and visible to all. No one wants to pay more than what a property or any other purchase is "worth."

10. The holding costs can be great

Every day the seller lives in the property it costs money. This can include the mortgage payment, taxes, insurance, utilities, maintenance, etc. Sellers, in hopes of getting a few thousand more dollars, pay that much more in "holding costs."

Excuses and reasons to avoid overpriced listings

Overpriced listings can sap your time, energy, money, and marketing ideas.
Agents have a tendency to talk themselves into a logical reason to take an overpriced listing… but often it is just an excuse.
They can include:

I will get sign calls
The seller will lower the price later
It will show I have business in that neighborhood
I will get to have a sign up looking like I am busy
I can use the listing to help get more listings
I always wanted a listing with that view.
The sellers will get more reasonable.
I might sell the property for the price it is listed.
A buyer might make a low offer that the seller will accept.

But, when an agent takes an overpriced listing they often endure grief from the sellers which can cause stress.
They will have to deal with:

Harassment from the seller for not finding a buyer.
Criticism on marketing efforts
Overspending on marketing efforts
Too much time doing unproductive activities trying to please the seller
Anger at follow up appointments
No support from agents in office that have showed the property
Difficult low price failed negotiations
Feeling of failure or problems with spouse because property didn't sell

Pricing consumer products

How much is your car worth?

Ask a seller how much the car in the driveway is worth. Then ask the seller a few more questions…. Do you think I can sell it for $6000 more? What if I run a large ad on Craigslist or Cars.com? What if I detail it? What if I paint it? What if I offer free dinners with the purchase of the car? Does the car become “worth” more?

How much are your stocks worth?

Ask a seller about stocks. If Microsoft is selling for $25 a share today, can I sell it for $40 because I bought it from a stock broker in Redmond where the headquarters of the company is located? What if I know Bill Gates, can I get more money for the stock? What if I *think* it will go up?

How much is that original painting?

What if someone is selling a large expensive painting. Is that painting is unique? It is an original that can be found nowhere else. If the artist died did the value change? The artist has sold a number of paintings. Can I sell that painting for $5000 more than any other painting the artist has sold?

Sellers of real estate often forget that houses are like other products. They have no more control over the market and the buyers than they do when they sell their car, stocks or art.

3 reasons why pricing is critical to a sale

Anything in the world has a buyer. It doesn't matter what the product, there is a buyer out there in the world. The price determines whether the buyer purchases the product. The price is going to be affected by the market, the competition, the availability of money, the emotions, the resale potential, etc.

If something is priced competitively, it will sell

The key word is competitively.
You have to beat the competition and offer the most value for the money.
The buyer must perceive that value.

If something is priced competitively, it will sell faster

There is nothing more powerful than a "NEW" product on the market.
Buyers will go out of their way to be the first to see and determine if it beats the competition.

If something is priced competitively, it will sell for the most money possible

There are only so many buyers in the market at any time.
The buyers will evaluate the market time to determine how many other buyers passed it up.

“Choose” your listings based on price

Make a decision to “choose” and not “take” your listings as they are the inventory of your own “business.”

Your listings cause you to spend marketing dollars and they are the key to your future income. You invest your time and money into that “product” and make sure it is a product that you believe in.

Choose to take listings that are priced competitively, and you will see them sell. That is why you are in the real estate industry…. To sell property!

You are not a victim to sellers. ***Choose*** your business. You are not a victim to any prospective seller that wants to put his/her house on the market. Take listings that will sell. If the seller does not want to choose a price that will be in line with the market, then just say, “no.”

Sellers typically do not get nicer, more understanding, polite, or patient over time while their house is not getting attention on the market.

There are other prospects out there waiting for you to list their properties! Sometimes agents take listings because… there are no other prospective clients on the horizon. But, if you fill your time and energy on listings that won’t sell, then you will not get the listings that do sell.

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Quiz for The Dangers of Overpricing

Complete answers on this form. Mail or scan with evaluation to Professional Direction. It is important to make sure the agent participated in the course material for clockhours.

1. Have you ever taken an overpriced listing that did not sell? ____

2. Did your seller want to “test” the market? ____
____

What are three things you say to a seller when the property has not had very many showings?

3. ____
4. ____
5. ____

6. How soon after a listing do you suggest a price reduction? ________ Has the seller replied that you should do more marketing? ________

7. Has an overpriced listing that you had eventually sold by another agent? ______________   Did it sell for more than you had it listed?
____

8. If a property is priced competitively…. (finish the sentence from the material) _______________________ __________________________

9. You can spend a fortune on marketing but if the consumer does not see value, the product will not ________________

10. It is the _____________ of __________________ by the consumer that is most important.

11. The seller of the house may perceive a ___________ than the prospective buyer does.

Value is difficult to define. According to the class, finish the following. Value is NOT always ….

12. ______________
13. ______ ___________
14. __________________
15. __________________
16. ______________
17. ________________
18. _____ ___________

19. A shack of a house can be worth more than a nice house if a ______________ owned it first.

20. Value is not based solely on the cost of improvements because a house with a pool is affected by _______________ that might be next door.

21. A property that is overpriced, if sold, may not ________________________ for the lender.

22. The property must be ________________________ for the loan for the lender.

23. A property on the market for a long period of time can be compared to a can of corn in the grocery store covered with ______________.

24. Agents just don't come back to overpriced listings because it can be like tasting some _____________ _____________.

25. If a suit is on the _________ rack at the department store the consumer almost always expects to get it at a lower discount.

26. A property on the market for a long time that is overpriced might just encourage ___________offers.

27. Look at what you can buy for the _______ price in this neighborhood! An overpriced listing can help sell the competition.

28. Real Estate Agents don't want to try to ______________ overpriced listings because the seller may not negotiate.

29. An overpriced listing can attract the _____________ buyers who expect more house for the money.

30. The impact from lowering the price can be _______________.

31. The sellers can look ________________ by trying to get more than the house is really "worth."

32. Examples of holding costs that a seller incurs while waiting for the house to sell include ______________.

Name three excuses that agents use for taking an overpriced listing and the reasons why they don't justify it.

33. ____

34. ____

35. ____

What are three examples of how an overpriced listing can cause stress for an agent?

36. ___________________________
37. _________________________
38. ___________________________

39. How can comparing the sale of a car to a house help explain pricing? _______________________________
____

40. What are the 3 reasons why pricing is critical to a sale?

41. ____

42. ____

43. ____

44. It is important to _______________ your listings so that you are not a "victim" to the seller.

45. Your listings are the _____________________________ for your real estate business.

Name ____ Signature ____

Date Completed ____

You must attach to the Evaluation along with tuition to get clockhours.

Thanks, Natalie Danielson, Professional Direction

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Mandatory Evaluation

Did you read the material in the booklet on this date? YES / NO
Did you complete the quiz and attach answer sheet? YES / NO
Did you pay tuition on the website? PayPal processes my credit cards. YES / NO
Did you fill out and sign this form? YES / NO
Why did you choose to take this course? Topic? Time? Cost? Ease? Other?
A “clock hour” is 50 minutes. This 3 hour class should take about 2 hrs 30 min. How long did it take to complete the course? ___________

Will the material you learned improve your performance?	
Were the course materials easy to follow?	
Were the course materials relevant to your profession?	
Were your objectives met by attending the class?	

What are 3 things that you learned from the course?
1. ________________________ 2. ________________________________ 3. ______________________________________

Dangers of Overpricing

Print Name CLEARLY	Signature	Company
Address	City Zip Code	Phone
	Email	
License Renewal Date		Date class taken

Thanks for taking this class! I really appreciate the agents that take clockhours from my school! I am always working on my classes and writing new ones!

Professional Direction, email: clockhours@gmail.com

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