The Fatal Pricing Mistake

Price is the MOST important factor to consider when selling. So when pricing a home, should you list competitively, or should you speculate a bit and see if you will catch the "big fish"? Let's take a look at both options.

What would happen if the real estate market suddenly shifted in favor of sellers, and you priced your home off comparable properties in your area that were now outdated (pricing it too low)? Well… in this case, you would likely have an offer on your home within a couple days and within 98-100% of your list price. You may even get competing offers and receive more than the original asking price. Your sale is now done and you can forget about it. You may have gotten $5,000 - $10,000 more in 30-60 days, but that is only a "may".

What if you decide to speculate a bit and you list for a modest $10,000-$15,000 over the determined market value (assuming an average price of $400,000 for the sake of scale)? Either the stars will align and the perfect person, who is looking for a house like yours, will completely ignore the rest of the homes on the market and decide to pay more for your property out of pure bliss and emotion. Or it will sit for a while. No one knows how long for sure, but you will likely consider a price reduction before 30-45 days. If the market is moving up, then your home may sell in a few months when the market catches it, but what if it doesn't….

When considering a home to purchase, buyers don't look at price alone. They always want to know how long a property has been on the market. If it has been sitting, they want to know why, and automatically assume that something is wrong. Furthermore, when they first view a home and decide it is not for them (could be price, layout, etc) even a price reduction rarely entices them to take a second look if they already feel that they don't like the home. Finally, if you are forced to price reduce, this can be a slippery slope. After waiting for 30 days in a slower market, you will not be the only person who has reduced their price. You will still likely be overpriced, as everyone who was priced ok originally, but is also now the victim of the slow market, is now lower priced than they were before (chasing the market down). You may now actually get less than you would have if it was originally priced lower, due to the stigma of your home and potential market fluctuations. It is now 90 days or more later. If you already bought another home, this can be a very stressful experience (two mortgage payments).

In the example of pricing too low, you sold very quick, got on with your goals and if the market went up, you hopefully bought again to take advantage of the increase. Yes, you may have left a few thousand dollars on the table. If you priced your house too high, you had to price reduce, you may have extra carrying costs (two mortgages), your home now has a stigma and if the market went up, you probably missed out buying again to take advantage of the increase. In fact, if the market went down (in the first example you had already sold), then you will have to keep reducing until it becomes more appealing than the other homes in the community.

The key to pricing a home is to look at your goals and assess how soon you would like it to sell. If you would like to sell quickly, then price your home 1-2% below market value to cushion yourself from fluctuations and to get on with your goals. At market value, you should expect to sell in the average selling time (depends on your market). But when you are overpriced, no one wins. It is like passing up a guaranteed cash pay out in a lottery to go for the big prize. You just might get it…. but at what cost, if you don't?

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