

# *Death by Overpricing*

## **Denver Business Journal**

If you are thinking about selling your house, you must acknowledge that in today's Denver real estate market, price is king. If you are selling in anything less than a "hot" market, hold back on the greed impulse.

Neither unfortunate nor fortunate, the reality is that the real estate market in Denver is tepid for average properties. The trick is defining "average" and getting sellers to accept how and where their property stacks up to the competition.

An average property possesses one or more of the following characteristics: It does not "wow" with extraordinary finishes; It does not evoke an emotional connection with a buyer due to its historic and architectural charm; It is not in a prime or heavily sought after location; It does not scream out to be "the deal of the century." In essence, it all comes back to supply and demand. If your property is not a rare and sought-after breed, it's deemed average. Much like comparing your children to others, sellers like proud parents have a very difficult time acknowledging when their home may be average at best.

What is the cause behind this overpricing phenomenon? A main source is current sellers who bought at the height of the market a few years ago and paid top dollar, and now are deciding out of either necessity or desire to sell. These folks are unable to come to grips with the reality that they may just break-even or, worse yet, have to bring money to the table. No doubt that such a situation would be a tough reality to accept.

Commonplace in today's real estate market is to see a large percentage of the inventory overpriced and sitting on the market. The rules of the metro Denver market are quite simple: Price is king. If a property is on the market and getting an adequate amount of showings yet has not received any offers within three months, the property is overpriced. If a property is on the market and getting hardly any showings, then it is extremely overpriced.

The effect of overpricing is deadly. Like bread, residential real estate has a limited shelf life and if left "out" for too long, it becomes stale.

In Denver's market, because there is so much inventory, overpricing your home can cause it to sit on the market far too long, hence stigmatizing the property.

By pricing your property right, or under-pricing it a bit, you can actually drive the price up by creating a competitive situation. Because there is a surplus of Denver real estate to choose from, buyers are simply not willing to over pay. Having to narrow down this excess, many real estate agents pay particular attention to a property's "listing date," thus using it as a tool for weeding out the undesirables.

If a Realtor has dozens of properties to show a client, all equal in price, quality and location, you can be sure that the ones that have been on the market the longest, without any price drops, will be the last to be shown.

Which brings up another issue -- on the first go-around of showing a buyer properties, many real estate agents don't bother to look up a house's listing history. By examining a property's listing history, agents are able to see if it has undergone any price drops and by doing so deduce whether the property started out overpriced and has since been adjusted due to price drops, or continues to remain overpriced.

In today's market of abundant inventory, a quick weeding-out method agents use is to nix the "stale" properties. The seller's rationale that their home's price can always be lowered loses its effectiveness the longer it is on the market. Loss of negotiating power, which results in lost dollars and lost time, are the deadly results of an overpriced property.

What then is the proposed remedy? Realistic pricing.

There is a statistic out there that states a property needs to be priced no more than 3 percent over its market value for it to generate a written offer. The theory is that most buyers don't want to waste their time writing an offer on an overpriced home where the gap between negotiations is viewed as an abyss. It's one thing to reach an agreement when both buyer and seller are playing on the same field. It's next to impossible to reach an accord when they are separated by the Grand Canyon.

Many sellers are worried about having their homes under priced and losing thousands of dollars. What they don't realize is that by having their property competitively priced, they increase the likelihood of receiving one or more offers. If a property is under priced and on the market, it usually sells to a competitive situation in which multiple offers drive up the price.

Another positive aspect to the situation of competitive pricing is that the seller retains a strong position for negotiations. Again it all falls back to the simple economic model of supply and demand. The seller creates a demand for their property by trimming the fat off the price. The worn-out buyer, having seen so many over priced properties, pounces on the opportunity -- along with others, and the result is a property that sells at or above market value.

So if you are considering putting your home on the market, meet with your real estate agent to discuss a realistic price.

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