

Right Pricing! Study

Strategies for Maximizing Selling Price



Administrative Offices
Brunswick Woods Office Park
15 Brunswick Woods Drive
East Brunswick, New Jersey 08816
800-458-7161
www.otteau.com

Right Pricing – Achieving Highest & Best Selling Price for Your Home

One of the most difficult concepts to explain to a home seller is that notion that setting a lower initial asking price for a home usually results in a higher selling price for that property. At face value, this seems counterintuitive because the idea of lower asking prices conjures images of distress sales, foreclosures and auctions. This paper will discuss both the theoretical and practical benefits of Right Pricing as it relates to designing a marketing strategy for home sale.

The Theory

To understand the concept of Right Pricing, it is helpful to begin with the understanding that the Buyer's Perspective sets the tone, pace and price levels in any given real estate market. Prospective home buyers typically visit a wide range of available homes before deciding on which home they wish to purchase, and what price they are willing to pay for that home. This comparative shopping process is an expression of the economic Principle of Substitution which holds that an informed purchaser would pay no more for a home than the cost of acquiring another offering similar utility. Put simply, buyers do their homework to develop a perspective on market price levels in a given market.

With that in mind, it is easy to understand the benefits that accrue to the home seller when a home is priced competitively to its market. Home buyers viewing that home recognize it as an example of 'real' pricing offered by a seller who is willing to accept a fair price for the home. This scenario acts as a flashpoint which attracts the interest of buyers.....and of equal importance Realtors working with buyers.....which in turn serves to increase the number of home-viewings for that property. The result of such activity is to create a Sense of Urgency which tends to increase the likelihood of purchase-offers being presented for the home...perhaps multiple offers. In this scenario, the seller is better able to control the price negotiations as purchase offers tend to be nearer to asking price, which is more likely to result in a higher selling price for the home in the least possible time. To recap, the benefits of Right Pricing are:



<http://www.otteau.com/>

- Promotes buyer & agent interest
- Generates home-viewings
- Creates a Sense of Urgency
- Sets the stage for multiple purchase offers during the 1st 30 days of marketing
- Purchase offers tend to be higher in relation to asking price
- Puts the seller in firm control of price negotiations
- Likely to result in a higher home selling price in a shorter marketing time period

But just as Right Pricing brings many benefits to a home seller, Over Pricing can have equally powerful negative effects. This is because home buyers, recognizing the over pricing on a home, interpret this as a seller who lacks motivation and is less likely to accept a fair price for their home. Different from the Right Pricing scenario which creates a sense of urgency, this marketing strategy encourages buyers to take a 'Wait & See' stance, which over time has the effect of discouraging buyer & agent interest, reducing the number of home viewings, and experiencing fewer purchase offers over time. As this cycle plays out over time, the seller is relegated to attracting discounted offers for their home. In fact, as the overpriced home's asking price goes higher, the purchase offers are prone to go lower. This is because home buyers will attempt to offset that overpricing by lowering their initial offer price such that the middle point of the price negotiation coincides with Right Pricing. So, a home seller who sets their asking price \$20,000 above Right Pricing, is likely to attract offers \$20,000 below a fair selling price. And as the asking price goes higher, the initial offer prices are encouraged to discount even further.

Another undesirable effect of Over Pricing is that marketing time becomes extended, which serves to delay the sale, eliminates all sense of urgency and will eventually lead to price reductions. In a weak housing market, price reductions send a chilling message to home buyers already concerned about whether home prices will fall in the future. Such concern causes home buyers to wonder whether now is the right time to buy



<http://www.otteau.com/>

....or.....should they 'wait & see' whether home prices will trend lower. And price reductions serve to reinforce those concerns further eroding any sense of urgency to purchase. Also important is that delaying the sale of a home in a weakening real estate market will almost always result in a lower selling price over time.

In the final stages of Over Pricing – after extended days-on-market and several price reductions – a home begins to attract interest from buyers who are looking to profit from sellers under duress. These buyers, often referred to as bottom-feeders, tend to offer deeply discounted prices for homes. In the end, the Over Pricing scenario has many adverse effects, including:

- Eliminating all Sense of Urgency
- Extending marketing time in a price declining market
- Results in asking price reductions over time
- Forfeits price control to the buyer
- Encourages discounted purchase offers
- Attracts bottom-feeders
- Leads to lower selling price

The Original Study – 2nd Half of 2006

To test this theory, we conducted a series of market studies which correlated the relationship between a home's asking price and selling price. The latest of these studies analyzed more than 12,000 home sales throughout northern and central New Jersey which sold during the 2nd half of 2006 (July – December). These home sales occurred in the selling price range of \$300,000 - \$500,000 in the counties of Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Passaic, Somerset, Sussex, Warren & Union.

The results of the study were conclusive in that homes employing Right Pricing sold for a higher price in a shorter time. And homes that were Over Priced took longer to sell



<http://www.otteau.com/>

and sold for a lower price. In the chart below, the homes included in the Right Pricing Scenario had an initial asking price within 5% or less of the home's final selling price. For those homes, the median selling price was approximately \$11,600 higher despite an asking price that was \$24,475 lower. By comparison, homes that were Over Priced had a higher original asking price which resulted in a lower final selling price. It is also noteworthy, that those homes with a Right Pricing asking price were sold in less than half the time, and for a higher price.

Median Selling Price					
Scenario	List Price Discount	Original List Price	Final Sell Price	Sell Price Ratio	D-O-M
Right Pricing!	5% or less	\$393,000	\$382,225	98%	37
Over Pricing	6% or more	\$417,475	\$370,625	90%	90
Selling Price Gain			\$11,600		

The conclusions above are dramatic and prove the theory with actual home sales in the housing market. Following are some notes on the results presented above:

- That these home sales were spread across such a wide and diverse geographic area lends strong credibility to the study results. In fact, it is our opinion that these results are transferable to most geographic submarkets as the principles upon which they are based tend to be universal.
- The validity of this study is enhanced by the price range analyzed, from \$300,000 - \$500,000, as this has been the strongest segment of the housing market since 2000. Studies of housing markets by price range have universally concluded that lower home price ranges in the New Jersey housing market are driven by the highest demand, the lowest supply and most healthy supply & demand balance of the housing market. Thus, if Right Pricing delivers a higher selling price in a relatively strong housing segment, the benefits would be even greater in higher priced markets which are experiencing weaker market conditions. Thus, the selling price advantages to a home seller with a more expensive home would be even greater than demonstrated above.



<http://www.otteau.com/>

- The results of this study concur with an earlier one we conducted on Townhouse sales. In that earlier study we analyzed more than 1,800 townhouse sales across northern New Jersey which sold during the 1st half of 2006 (January - June). These townhouse sales occurred in the counties of Essex, Hunterdon, Morris, Passaic, Somerset, Sussex, Warren & Union. The results of this study were equally conclusive in that townhouses that employed Right Pricing sold for a higher price in a shorter exposure time. And homes that were Over Priced took longer to sell and sold for a lower price. The study results determined that Right Pricing resulted in an average selling price gain of \$19,500 and a median price gain of \$8,000 (based upon an average selling price of \$389,000 and median selling price of \$355,000). In addition, Right Priced homes had a median marketing time of 26 days compared to 71 days for Over Priced homes.

The Follow-Up Study – 2nd Half of 2007

To test this theory once again, we updated and expanded our prior study analysis to include New Jersey home sales that occurred during the 2nd Half of 2007 (July - December) and which were located within the broad market area comprised by the counties of Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Warren & Union.

The results of this updated study were equally conclusive in that homes employing Right Pricing sold for a higher price in a shorter time. And once again, homes that were Over Priced took longer to sell and sold for a lower price.

The charts below convincingly demonstrate the advantages of Right Pricing across three separate and distinct price ranges:



<http://www.otteau.com/>

Entry-Level Right Pricing! Analysis					
Home Prices from \$300,000 - \$500,000					
Strategy	List Price Retention	Median Original List Price	Median Final Sell Price	List Price Retention	Median D-O-M
Right Priced	90% or Higher	\$399,900	\$382,000	96%	53
Over Priced	89% or Lower	\$449,000	\$375,000	84%	127
Right Pricing! Premium			\$7,000		

Mid-Level Right Pricing! Analysis					
Home Prices from \$500,000 - \$750,000					
Strategy	List Price Retention	Median Original List Price	Median Final Sell Price	List Price Retention	Median D-O-M
Right Priced	90% or Higher	\$619,850	\$595,000	96%	49
Over Priced	89% of Lower	\$694,975	\$585,000	84%	126
Right Pricing! Premium			\$10,000		

Luxury-Level Right Pricing! Analysis					
Home Prices from \$1,250,000 - \$1,750,000					
Strategy	List Price Retention	Median Original List Price	Median Final Sell Price	List Price Retention	Median D-O-M
Right Priced	90% or Higher	\$1,467,000	\$1,450,000	99%	27
Over Priced	89% or Lower	\$1,699,000	\$1,385,000	82%	116
Right Pricing! Premium			\$65,000		

The conclusions above are dramatic and prove the theory with actual home sales in the housing market. Following are some notes on the results presented above:

- The follow-up study covered an wider geographic area lends even greater credibility than the original study and indicates the universality of the Right Pricing concept.
- The follow-up study was developed over 3 separate price ranges in the housing market demonstrates the benefits of the Right Pricing! strategy across the entire real estate price spectrum. Further, that the potential price gains to be realized



<http://www.otteau.com/>

are increased in higher home price ranges is consistent with the overall weakness in the luxury home market for the past several years.

The Conclusion

Based upon the theory and data presented above, Right Pricing clearly works to the benefit of the home seller by resulting in a premium selling price in the shortest marketing time. Home sellers are encouraged to consider this marketing strategy as an alternative to the extended marketing time and declining selling price trends of the current housing market.

Copyright

All rights reserved. Without limiting the foregoing, no part of this publication may be reproduced, copied, stored in a retrieval system, or transmitted in any form or by any means, without the prior written permission of the Otteau Valuation Group, Inc.



<http://www.otteau.com/>

OTTEAU VALUATION GROUP, Inc.

Bringing Clarity to Real Estate

The lightning strike speed of today's information flow has accelerated the pace of change for real estate markets. As a result, trends that previously took years to develop can now unfold in a few short months. Our mission is to assist our clients in keeping pace with that change by providing insightful analysis and cutting edge pricing skills.

To accomplish this we have assembled a team of skilled professionals specializing in the complex field of real estate market analysis. With a broad based exposure in real estate valuation and consultation, our firm engages in a diversified practice encompassing all property types. Appraisal and consulting services are provided to financial & lending institutions, developers & builders, attorneys, investors, relocation management service companies, governmental agencies, corporations and the public.

Our Consulting Group provides a wide array of services to developers and builders with respect to market analysis, project feasibility, demographic trends, project valuation and municipal project approval proceedings. Litigation support is provided for matters requiring the valuation and corresponding expert testimony for eminent domain proceedings, contractual disputes, bankruptcy, tax appeals, equitable distribution, estate valuation and stigma related issues.

Jeffrey G. Otteau

President

As President of Otteau Valuation Group Mr. Otteau manages all facets of the firm's business including serving as General Manager of www.otteau.com which is an information provider on real estate trends. He has been actively engaged in real estate consultation and valuation since 1974 and holds the State Certified General Real Estate Appraiser certification, the highest level offered. His practice is concentrated in providing project feasibility, marketing analysis, redevelopment guidance and valuation analysis to developers, financial institutions, governmental entities and investors. Frequently quoted in the New York Times and Wall Street Journal, and having made television

appearances on CNBC, Bloomberg and NBC, Mr. Otteau is widely respected for his knowledge and insight into real estate trends. His attention to detail and comprehensive fact finding has made him the go-to person for industry professionals seeking to enhance their competitive position in the marketplace. Jeffrey has provided testimony as an expert witness at the municipal, county and state levels, authored several texts on property valuation techniques and has lectured throughout the United States and in Canada. He served on the Appraisal Standards Advisory Council, which consulted with the Appraisal Foundation in Washington, D.C. on its agenda of projects and major technical issues. Mr. Otteau served as a past Chairman of the Employee Relocation Council's Appraisal Standards Council and was inducted into their distinguished Hall of Leaders in 1995.



<http://www.otteau.com/>