

# How to Determine if the Price is Right

We're often asked by our clients, "How much under the listing price should we offer?" While this is an excellent question, the answer is often difficult to pinpoint. The main reason I emphasize the education phase for homebuyers is because ultimately that is the best way for them to understand property values. When you review and study 40-60 (or more!) listings, then drive by 10-20 and look at 5-10, you will learn to immediately recognize the "Hot Listings" as well as recognize the "dogs." Sellers price their homes using four basic strategies:

## **1. Ridiculously Overpriced**

These sellers have listened to a real estate agent over-inflate the value of their home in an effort to obtain a listing. There is a natural tendency on the part of sellers to list with the real estate agent who promises them the highest sales price, which also explains the tendency of less scrupulous real estate agents to give the seller a high "value" in an effort to obtain the listing, sometimes overvaluing by 10-20%. These sellers may need a few months before they realize that their home is way overpriced as compared to others in the area. And the longer an overpriced home stays on the market, the more likely we can get the seller to face reality and sell at a lower price.

## **2. Slightly Overpriced**

These sellers fall into 2 categories:

- Those that feel their home are worth every penny of their asking price.
- Those that want to leave a little "negotiating" room.

These homes, which can range between 4-10% overpriced, account for perhaps 75% of all homes for sale. Oftentimes, these sellers will reduce their price at the first sign of resistance on the market.

## **3. Fairly-Priced**

These sellers have carefully and realistically studied other homes for sale, and they have priced their homes very competitively. These homes usually sell within 4 weeks at or very close to the listed price.

## **4. Attractively-Priced**

These homes are deliberately priced below value, perhaps because the seller wants a fast sale or the real estate agent recommended too low of a price. Even with many competing offers, these homes usually sell within 7-10 days, at or above the listed price.

**A Note on Lender Protection:** Even by carefully studying homes for sale, it's difficult to establish Fair Market Value (FMV). If you're obtaining a new home loan, make sure you're protected by the Professional Bank Appraisal. Home lenders want to ensure that you don't overpay for a home; if the home does not meet value in the eyes of the bank appraiser, you'll be informed.

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