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Research Emphasizes Danger of Overpricing Homes for Sale

By Kathleen Lynn — McClatchy Tribune Newspaper — January 2008

Realtors often warn sellers about the danger of overpricing a house. Now they have evidence to show skeptical clients: Research by Jeffrey Otteau, a New York appraiser.

He found that in a market where prices are declining, sellers who “test the market” with a high price usually end up with a lower price than those who price realistically.

“Houses that are priced right are selling,” said Otteau. “Overpricing extends days on market and guarantees that you will sell your home for less in a declining market.” Otteau, of Otteau Valuation Group, Inc., studied about 4,500 home sales that took place in the first half of 2007, largely in northern and central New Jersey. Most of the houses were priced between \$500,000 and \$750,000.

He looked at houses that sold in less than a month, and found that they had a median asking price of \$599,900 and sold for almost full price — a median of \$599,000. When he looked at houses that lingered on the market for more than a month, however, he found that they were priced higher — at a median of \$634,900 — but actually sold for less, a median of \$585,000. The median is the point at which half the sale prices are above and half below.

“Everything’s a function of price”, Otteau said. With a high price, the house stays on the market as buyers ignore it in favor of lower-priced competitors. And in an environment of falling prices, a house that sells three months from now is going to command a lower price than one that sells today.

Otteau said that pricing a house a little below the competition not only catches buyers’ interest — it also reassures them that they won’t kick themselves later for overpaying if, as expected, home prices drift lower in 2008.