Move that listing: 6 right-pricing tips for a shifting market

In a shifting market, the right price is everything. Here's how to make sure you're helping your sellers crunch the numbers effectively from the get-go

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Aug. 16, 2022
Last updated Sept. 13, 2022

In a super-heated market, almost any price will do — competing buyers will do what they need to do to land the property. In a downturn, however, nailing the price is absolutely critical.

Although the timing of the recent market shift varied from region to region across the U.S., it arrived in Northern California the first week of May 2022. Some sellers understood that a day of reckoning would be coming at some point, but its sudden appearance caught most off guard resulting in confusion, frustration, anger and disbelief.

On the positive side, due to easy access to extensive online real estate market data, we live with the most educated sellers of all time. Consequently, a decent percentage of sellers saw the shift occur and were aware they would have to deal with the new reality. Others, however, have refused to acknowledge the changing market and insist their home be priced at pre-shift levels.

Coupled with this are a group of real estate agents who either do not understand the new market or are unwilling or unable to educate their sellers in setting effective prices. We also have a large group who have had their licenses less than 10 years and have never been through a significant shift before.

The result is properties placed on the market with prices that stretch the boundaries of reality which, unfortunately, languish for extended periods. The net result is properties being categorized as "stale" and typically selling for less than they would have had they been priced correctly at the beginning.

When the market is heading in a downward direction, buyer behaviors change dramatically. Whereas a few short months ago almost any home sold in a few days, homes that are in "iffy" condition, a poor location or that do not show well are being overlooked as buyers, who finally have a modicum of choice, are going after the premium homes first.

At the end of the day, in a declining market, price is the only thing that will get some properties sold.

Here are our 6 critical rules for effective pricing in the midst of a shift:

1. Explain the new reality

Like it or not, the market that existed prior to May 1, 2022, no longer exists. This is extremely bad news for sellers who made plans based on the price they hoped they would achieve had the market continued upwards.

A friend of mine came up with a great analogy for explaining why pricing from just a few months ago no longer applies. "Think of those previous sales as lottery winners," she explains. "In every lottery, only a handful of people end up winners. Since there was almost no inventory," she continues, "Only a handful of sellers actually cashed in at the peak of the market. Like all lotteries, once the draw has been made, it is over no matter how many tickets you are left holding."

The second consideration is the evolution from an emotionally-driven market to a data-driven market. As prices continued to spike upwards at the beginning of 2022 and interest rates started their upward trek, some buyers, believing they would soon be priced out, threw all their assets on the table in a last, heroic Hail Mary attempt to land a home.

During this period, from February through April, we began seeing unprecedented sales prices as buyers, operating on adrenaline, did whatever it took to win in a multiple offer scenario and land a home.

Once the interest rates rose beyond many buyers' expectations, cooler heads emerged and the market tipped. As a result, buyers are no longer buying with emotions; they are using emerging data and logic. Using online market data, they are able to extrapolate current values and make offers accordingly.

Those homes that are visibly overpriced are being ignored en masse, as are properties that are less than ideal. Now more than ever, sellers need to understand that property condition matters and effective preparation will help a home move while others nearby remain stagnant.

The third consideration is for those buyers who think they can lob in lowball offers. If you look at the Absorption Rates or Months of Inventory numbers, we are still in a seller's market.

As an example, in California's Alameda County, there was only 1.8 months of inventory at the end of July 2022. In fact, many believe that once buyers come to terms with the new higher interest rates, we will see a resurgence of sales.

Even with the recent increases in inventory, we are still dramatically under the numbers that indicate that we have shifted to a buyer's market. With this in mind, buyers trying to score with ridiculously low offers will be left out in the cold.

2. Prepare an effective comparative market analysis (CMA)

The general rule of thumb we use in preparing a CMA is to stay in the same neighborhood as the subject home and go back three months. We then set the search parameters at 100 sq. ft. above and below the home we are trying to value.

Since we have gone through a period of time with relatively few sales, we use as few parameters as possible to pull up comparable homes. If we do not come up with enough properties, then we begin to open up the parameters.

In my mind, the perfect number of homes is 10. Some like the Rule of Three: three actives, three pendings and three solds. Personally, I like to have more than three previous sales to deepen the data set I am working with. I prefer a couple of actives and pendings and at least five solds.

While there are a number of great CMA products out there, we prefer CloudCMA because of its ease of use, pricing calculator and the fact you can set it to include all of the pictures from comparable properties. These pictures often communicate more than the actual pricing data because sellers have an opportunity to view the condition and upgrades of previous sales.

In the current market, we are running two CMAs: one that goes back to the beginning of May and a second which goes back to the beginning of the year (and in some cases, back into 2021). The purpose is to show the change in the markets and to effectively eliminate the homes with ridiculously high prices.

While a bit of extra work, the side-by-side comparison helps sellers see that what happened between February and April is an anomaly.

3. Produce a comparative AVM

One of the issues in the current market is the inability of AVMs (Automated Valuation Model – think Zestimate) to keep up with the emerging market. Consequently, a seller may try to use an AVM from Zillow, Realtor.com, Homes.com or another website to set the price of their home.

Not only is the data skewed due to the sales earlier in the year, AVMs from different websites typically differ radically from each other when providing suggested valuations.

In a previous post, I explained that an effective way to downplay this strategy is to produce a document that shows four AVMs for the subject property side by side. In most cases, sellers will be able to see that on any given day, AVM valuations are not an effective way of determining a price in this new market.

4. Show trends over the past 6 months

We use TrendGraphix to help us view data in a graphical form. This gives us the ability to present the market trends in a format that can be easier for sellers to understand than a slew of numbers.

While some Realtor associations or brokerages provide access to data services such as TrendGraphix, NAR (the National Association of Realtors) provides data through RPR (Realtors Property Resource) which can also provide local trends in graphical form.

As a last resort, sites like Zillow provide some limited regional data in their Market Overviews. We want to be able to show sellers charts showing trends in actives, pendings and solds, price per square foot, average or median list price vs sales price, average days on the market, percentage over or below average list price and market saturation.

Some MLSs and Realtor associations provide market snapshots, as well. The only issue is that they show the entire market city-by-city, not a specifically defined neighborhood report.

5. Price ahead of the market

In an increasing market, you can price slightly higher than previous sales. When prices are trending downward, effective prices are slightly lower than the last closings. Unfortunately, pricing in the current market is a bit more tricky than normal.

In reality, current price reductions are not actually declining prices; they are simply prices as they should have been had we not had the ridiculous sales in February through April.

In other words, if you pull those months out of the equation and extrapolate prices based on trends starting back in the fall of 2021, you will come up with pricing as it should have been had the market continued in a normal fashion.

6. Tell the truth

In keeping with our code of ethics, communicate with sellers that you will not give them a fake price to score the listing. In the same way, a medical doctor ascribes to the Hippocratic Oath, “First, do no harm,” let your clients know you will tell them the truth in order to give them the best chance for an effective sale and that your desire is to prevent them from the financial harm that could occur if their listing stays on the market too long.

If your sellers insist that another agent has promised them a higher price, then encourage them to go with that agent but to only give a short listing period. Tell them, “If they promise you a higher price but cannot deliver in a short period of time (no more than six weeks), then please come back to me to list your home to honor the fact that I told you the truth in the first place.”

Some sellers will honor this; others, once they figure out the reality, will either pull their listings altogether or work with their existing agent to lower their pricing so as not to have to change agents.

This is a long play. I have lost out in listing appointments and watched sellers struggle with their agent of choice all the way to an unhappy close, only to have the sellers refer other clients to me instead of the agent that actually sold their home. I may not have gotten the first listing, but with my integrity intact, I sold their friends’ houses later on.

In the new reality, effective pricing is everything. Work with your prospective clients to set realistic prices – those homes that are prepared properly and priced competitively are the ones that are currently selling.