SELLER'S GUIDE

IMPORTANT THINGS TO CONSIDER BEFORE SELLING YOUR HOME

COURTESY OF

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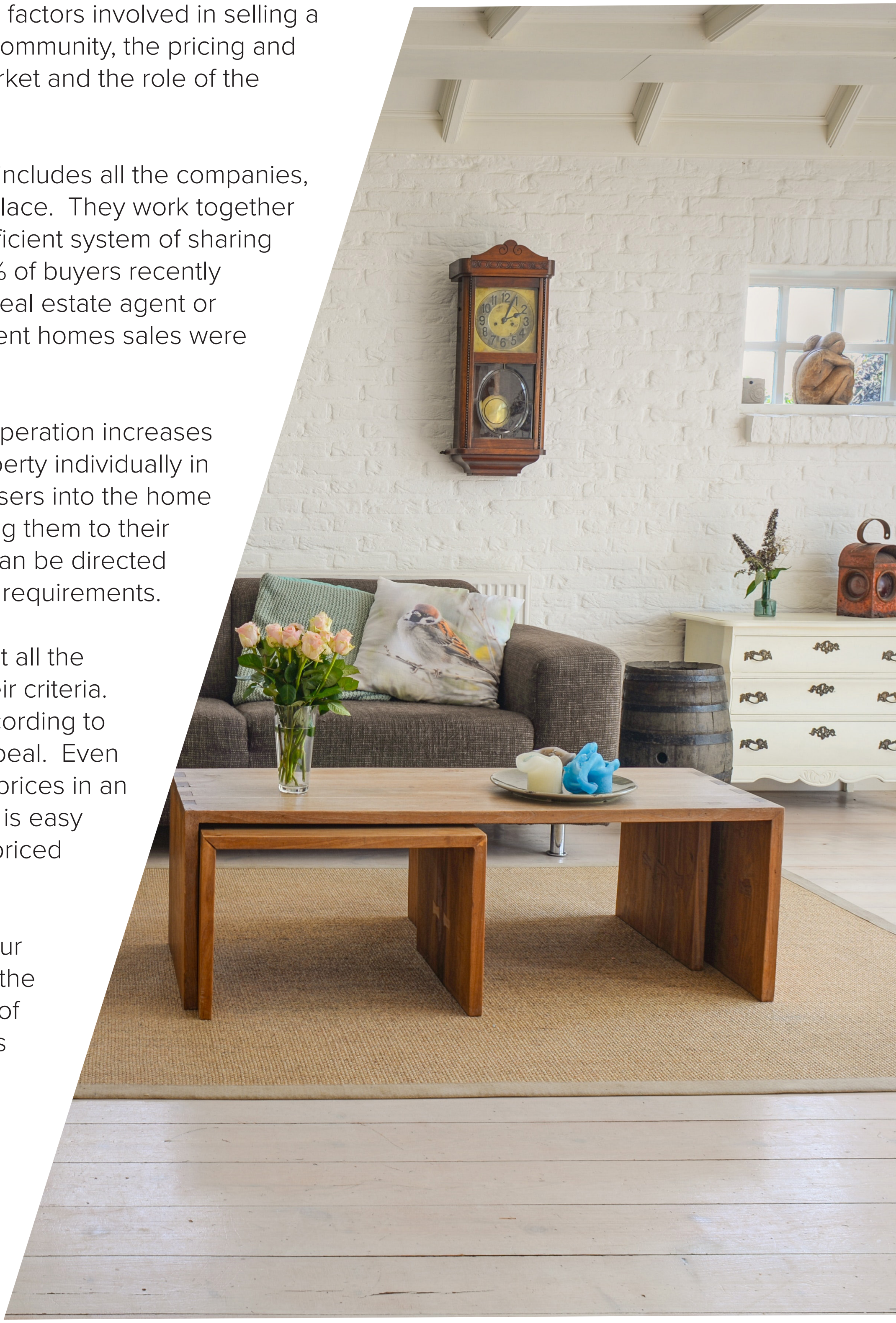
MARKETING FACTORS

There are three distinct marketing factors involved in selling a home: the role of the real estate community, the pricing and positioning of the home in the market and the role of the marketing coordinator.

The entire real estate community includes all the companies, offices, and agents in the marketplace. They work together to sell property in an incredibly efficient system of sharing information as evidenced that 87% of buyers recently purchased their home through a real estate agent or broker. Only eight percent of recent homes sales were for sale by owner sales.



The cumulative effects of this cooperation increases the promotion done on each property individually in the marketplace. It brings purchasers into the home buying process and after qualifying them to their wants, needs, and abilities, they can be directed toward the home that meets their requirements.

Purchasers tend to want to look at all the available properties that meet their criteria. They will compare the homes according to value for price, condition, and appeal. Even if the buyers are not familiar with prices in an area, after seeing a few homes, it is easy to determine whether a home is priced correctly.

The agent's objective is to get your home sold, not necessarily to be the one to sell it. The sheer number of other agents in any market makes it more likely that another agent will sell it. The listing agent's job as marketing coordinator is to manage the sale to maximize promotional efforts, represent the seller's interests, and to use their experience to make the transaction go smoothly.

DIFFERENT VALUES

What your home is worth depends on why you ask the question. It could be one value based on a purchase or sale and an entirely different value for insurance purposes.

Fair market value is the price a buyer and seller can agree upon assuming both are knowledgeable, willing and unpressured by extraordinary events. This value is generally indicated by the comparable market analysis done by real estate professionals.

Insured value is determined for insurance coverage. Homeowner policies typically have replacement clauses in them and the cost of demolition, new construction and the added complexities of matching existing construction could actually exceed the cost of new construction.

Investment value is based on the income it can generate during its useful life. This value is dependent on what kind of yield an investor requires to capitalize the value over time. The formula for this is to divide net operating income by the capitalization rate required by the investor.

The assessed value of a home is used to determine the property taxes the owner must pay. This value is determined by the responsible state government agency.

Homeowners are generally more familiar with their home's market value. Since it can be lower than the replacement cost, owners should review the insured value with their property insurance agents periodically.

It is surprising how much difference there can be in each of these separate values. It is important to recognize the purpose for the value.

GETTING TO VALUE

Fair market value is the price that real estate would sell for on the open market without any unusual forces being involved. The definition is relatively simple but there are certainly different methods of determining what it is.

A homeowner could order an appraisal before they put their home on the market but would incur the expense of an appraisal and more likely than not, it won't or can't be used by the buyer or their lender. The advantage is that an appraisal is a professional approach by a disinterested party to establish value.

Licensed appraisers use three approaches to value: the market data, the replacement cost and the income approach. The appraiser can put more weight on one approach than another based on his/her assessment of what would be appropriate.

The replacement cost looks at what it would cost to rebuild the property today less the depreciation it has experienced by age and wear and tear plus the value of the lot.

The income approach uses a capitalization rate based on the net operating income of a property to determine value. It is more applicable to commercial properties than it is for homes used by homeowners and not rented.

The market data approach relies on recent sales of similar properties near the subject. The appraiser will make monetary adjustments for differences in the comparables that are used to create a more accurate comparison.

Real estate agents use a similar approach to determine fair market value by performing a Competitive Market Analysis, CMA. Like the market data approach of an appraisal, it looks at recent sales of similar properties. It also considers properties currently for sale and what homes were unsuccessful in their attempt to sell. This approach is sensitive to supply and demand and may be more reactive to rapidly rising or declining markets.

Both appraisals and CMAs have a distinct advantage because of the opinion as a professional compared to online website estimates using raw data and mathematical formulas. Regardless of which method is used, it is an estimate. Obviously, some estimates are more accurate based on the experience of the person making the estimate.

A price is placed on the property by the seller, but value is ultimately determined by the buyer when a final sale is achieved.

ONE-BUTTON PRICING

Stuck trying to find the right price? This may be a simpler solution.

An Automated Value Model, AVM, is a computer model that looks at public records and makes a determination based on square footage, comparable sales and other elements. It is as easy as putting your address in a blank but unfortunately, AVM results are only accurate about 20% of the time.

A popular AVM, Zestimate®, states "It is considered a starting point at determining a home's value." While an AVM contains some of the same information as a comparable market analysis, it lacks a critical human factor.

Having a pair of experienced eyes consider aspects that are not easily quantified can make a big difference. A skilled professional can tell which properties are truly comparable. A knowledgeable expert can recommend marketing strategies that can dramatically improve a seller's net proceeds.

Even if a person isn't ready to sell yet, they like to know the value of their investment. It is easy to find the price of stocks or mutual funds on any given day but the value of a home is more difficult.

Regardless of whether you're just curious as to how much your home is worth or are ready to monetize your equity, the experienced opinion of a real estate professional can yield a more accurate value.

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PRICING PROPERLY

Over pricing can cause more issues than you'd think

A common rationale that sellers entertain is that "we can always start a little higher and come down but we can't go up on our price." The problem with this logic is that the buying public is very saavy in today's Internet information era.

Buyers have access to the very same data that seller's use to price their home properly. And even if they were not completely up to date, they usually ask their agent's opinion before writing an offer.

Even if a buyer were willing to pay more for a home than it was worth, if they're getting a mortgage, it will require an appraisal. The appraiser will be looking at the same comparables to justify the price. Most buyers are reluctant to pay

Overpricing causes several difficulties:

» Reduces sales associates' activity because they know it is over-priced and don't want to waste their time showing it because the seller is unrealistic. Increasingly more often, selling agents are representing the buyer and have a responsibility to find the best values for their clients.

» Reduces advertising response because buyers as well as agents looking for a home in a certain area become familiar with what is available.

» Loses interested buyers who might have looked at it but didn't think the seller would consider what they thought it was worth. Not all buyers are willing to go to the effort to write an offer, put up earnest money, and take the time it takes to find out if the seller will take less.

» Attracts the wrong prospects because they are expecting more amenities in the home based on the price and once they see it, it won't compare to the other homes in that price range.

» Eliminates offers for the same reason because the wrong prospects are looking at the home.

» Helps sell the competition by making the other homes in that price range look like they have more to offer.

» Can cause appraisal problems even if you were to find a buyer who was willing to pay more than market value. The lender would require an appraisal which would demand factual, objective proof that the home was indeed worth what the buyer was willing to pay for it. The lender does this so that if they have to take the home back because the buyer defaults, the loan would be covered by the sale of the property.

» Extends market time because of all of the reasons listed above.

SECOND GUESSING PRICE

When your home sells quickly, that's a good thing...right?

Imagine a homeowner was consulting with their agent about the price to place on their home. The agent suggests that the market data indicated that $275,000 to 300,000 would produce a quick sale by pricing it properly. The owner puts a $300,000 price on the home.

The first person who looks at the home makes a full price offer. When the seller receives the offer, he comments that he thinks he priced the home too low and counters for more than full price. The counter-offer is rejected. The home stays on the market and at the end of the first month when based on market conditions, the home should be sold, no other offers have been made.

It may be human nature that when an offer is received so quickly, the first thought to come to mind is that it was priced too low. A more appropriate thought might be that it was priced correctly. In some cases, when a home comes on the market, there is increased competition (real or perceived) among the buyers waiting for the "right" home to come on the market. The home can sell for a higher price than if it sits on the market for several months.

There may be stories of sellers who turned down the first offer and ended up receiving a better offer that would net more money. However, if you talk to real estate professionals, more times than not, the home ends up selling for less.

The wisdom of experience advises owners to find a real estate professional that they trust and have confidence. Allow that professional to become familiar with your home and compare it to similar homes in the market that have sold recently and ones currently on the market. Determine the demand for homes in the area compared to the inventory. Decide on a price that will allow the home to sell within a relatively short period of time. And lastly, be satisfied if your home sells quickly for the price you put on it.

ATTRACTING BUYERS

There is a common body of knowledge among real estate professionals that indicates that the longer a home is on the market, the lower the price will be. Many sellers discount this belief in the beginning because they feel confident their home will sell quickly.

Lowering the price is the most obvious thing that can be done to encourage buyers but it might be good to look at what builders do. Builders offer a variety of incentives such as upgrades, seller-paid closing costs, interest rate buy downs, washers, dryers, refrigerators or big screen TVs.

Interestingly, much of the resale market doesn't employ many of these techniques. According to the latest NAR Home Buyers and Sellers Profile, 64% of sellers did not offer any incentives at all. 21% of sellers offer a home warranty. 16% of sellers offered assistance with closing costs and 6% offered credit toward remodeling or repairs.

The attached chart indicates that while sellers were not willing to offer incentives in the beginning of their marketing period, as weeks pass and their home hasn't sold, they did add incentives.

The ideal outcome is to maximize proceeds in the shortest time possible with the fewest unexpected issues. This involves having a firm understanding of current, local market conditions and crafting a marketing plan that will insure results.

There is so much at stake, the value of a trusted real estate professional is essential.

INCREASE YOUR MARKETABILITY

The seller has three tools available to affect the marketability of their home: price, condition and terms. Price is the easiest to adjust to compensate for the competing properties, amount of inventory or market conditions. However, lowering the price is not necessarily the best decision when trying to maximize the proceeds of sale.

If a home is in poor or outdated condition, updating can be done to make it show favorably with other homes that are currently on the market. Sometimes, sellers rationalize not doing the work by saying they believe the buyers would rather make their own choices. The truth is that most buyers are using all their resources to get into the home and will have to live in its present condition until they can save enough to make the changes they want.

Another reason to go ahead and invest the money and effort into improving the condition is that it is difficult for buyers to imagine the home other than its current condition. When comparing one home to another, buyers will sometimes refer to a home as the “stinky house” or the “old kitchen” which may put it at a disadvantage.

While price and condition are the main things that control the marketability, terms can be equally effective. Terms relate to financial considerations made by the seller to induce a buyer to decide to purchase their home.

Seller-paid points or closing costs, interest rate buy-downs and owner-financing are examples of terms that may increase the marketability of a home because of the additional benefits to buyers.

An example could be that a seller will carry a 10% second lien so that the buyer can get an 80% loan to avoid the expense of mortgage insurance. The seller gets most of their equity plus a fair interest rate on the loan that doesn’t have to be tied up for 30 years like the first mortgage.

Increasing the marketability of your home is a great conversation to have with your real estate professional, especially, to help you get the highest price in the shortest time with the fewest problems. Just be aware that not all agents may be as creative as some.

DIGITAL SHOWINGS

Ask any real estate professional if they have sold a house without the buyer having physically seen it and they'll most likely tell you they have. While it might have been an unconventional sale, it is more prevalent today than it was twenty or even ten years ago.

The digital world of the Internet has changed the process of buying a home. It is evolving as people become more comfortable with the reliability of the information available.

Getting in a car and driving around all day looking at homes that may or may not fit your needs or wants is not productive for buyers or the agents.

Maps and satellite pictures show you precisely where a property is and provide additional perspective not available at street level. When the Federal government determines the rules, aerial shots from drones will be commonplace. Proximity to work, schools, shopping, restaurants, entertainment and sports facilities are easily determined online.

The quality and the quantity of pictures has dramatically improved in the last twenty years. Buyers and agents alike can view a property online and get a fairly accurate idea of the condition and layout of home and whether it warrants a physical visit. Videos can "walk" you through the house to be able to assess if the floorplan will work for you.

The NAR Profile of Home Buyers and Sellers reports 95% of all buyers cited an online website as an information source with real estate agents being a close second at 89%. 42% of all buyers looked online for properties for sale as the first step taken during the home buying process.

Interestingly, 87% of buyers purchased their home through a real estate agent or broker compared to only 68% in 2001. The agent services deemed most valuable to buyers were help finding the right home to purchase (52%) and help to negotiate the terms of sale (13%) and the price (11%).

A challenge for sellers is to understand that the digital showings are a critical part of today's process. They save time and money for both buyers and are convenient because they can be done at any time of day and from anywhere. The difficulty is the seller's feelings of inactivity when they believe their home is being shown frequently.

Agents can share statistics that show a variety of digital activity like number of unique visitors, length of time spent on the listing site as well as the other features that were accessed. 65% of all buyers walked through the home they purchased after they viewed it online.

THE RIGHT QUESTION

"Bring me the Lobster who won!"

Asking the right questions will lead to the answers that help you determine which agent to use for one of the largest investments that most people make...the purchase or sale of their home.

Rudyard Kipling wrote the verse "I keep six serving men, they taught me all I knew; their names were what and why and when and how and where and who." Prefacing your questions with one of these words can help you get the information you need to make a good decision about the REALTOR® you use.

» How long have you been selling homes and is this your full-time job?
» What designations or other credentials do you have?
» How many homes did you and your company sell last year?
» What is your average market time compared to MLS and your top competitors?
» What is your sales price to list price ratio?
» When will you report to me on the progress of my transaction?
» Who can you recommend for service providers like mortgage, inspections, repairs and maintenance?
» Why do you want to work with me?
» Where are the biggest opportunities to expose my home to the largest market?

> Finding the right person to represent you is a little like the person who ordered a lobster dinner at a restaurant. When the waiter brought out the meal, the lobster only had one claw. The customer asked why it only had one claw and the waiter said: "I don't know; I guess it was in a fight."
> The customer looked at him and said: "then, bring me the lobster who won."