

COMPASS

When a Price Reduction is Necessary

- The listing has been fully prepared, exposed and marketed for what you deem to be a reasonable period—3, 4 or more weeks—and no acceptable offers have been made. Market conditions may have changed significantly or perhaps the Seller wanted and you were willing to try the listing at a higher price than what was strictly justified. Now you've concluded that overpricing is the reason the property is not selling.

As with all major decisions, how to proceed is for the Seller to decide. You provide counseling and expertise as to options and strategies, and ultimately what you believe the correct decision is. But do *not* bully your client—that may poison the relationship, and is inappropriate in any case.

You want a direct meeting, if possible—as opposed to a phone call or an exchange of emails—to review “the implementation of the marketing plan, response and feedback received from buyers and brokers, and options for going forward to get the property sold quickly and at the best possible price.”

Topics to review

1. Marketing campaign to date: *everything* you've done to sell the property—ads; internet marketing and website viewings; promotional materials; listing website; direct mail; email announcements with media slideshows; brokers' opens, open houses and individual showings; the number of buyers and agents who have seen the house; so forth and so on.

“We've done everything we could think of to reach every potential buyer and every potential broker who might have a buyer. Can you think of anything, Mr. & Ms. Seller, that we should have done and haven't?”

2. Market response: **specific feedback from buyers and agents**, as possible to solicit. Obviously, the most pertinent fact is that no acceptable offers have been received. Review input from showing agents as to why their buyers didn't make an offer—strengths, weaknesses, competitive properties, pricing. Review input from other Compass agents as to why they believe the property has not sold.

“This is not me speaking. This is the feedback from potential *buyers* and their *agents* themselves as to what they thought of the house and why they did not make offers. Frankly, it doesn't matter what we think; what matters is what the buyers think—and we need to adjust our strategy to take those opinions into consideration.”

3. Review what has sold or went into contract while your listing did not: Are there reasons discernable for this?

4. Changes in market conditions and trends, as applicable. Come prepared with detailed MLS information, economic data, and recent news articles: inventory levels, days on market, price reductions, sales price as a percentage of list price, mortgage issues, etc.
 - Changes in market inventory: “There are now ___ months of inventory on market as opposed to ___ months when we first went to market.”
 - Fewer buyers at open houses, fewer offers being made, fewer multiple offer situations, fewer sales, more time on market, more price reductions, more negotiation on price, more back on markets (from cancelled escrows)
 - Comparable properties now priced more aggressively. Review competition in detail.
 - More market uncertainty; more buyer uncertainty; perhaps fewer buyers
 - Conversely, strong buyer demand generally – other properties are selling, because...they’re priced more aggressively
 - Negative economic trends; newspapers full of bad economic news or uncertainty (bring copies of articles); interest rates are rising; stock markets falling; recession; etc.
 - Review what properties HAVE sold and why – often they’ll be the ones most competitively priced
 - A lot of listings are still expiring without selling – why is that?

“Market activity is generally strong, a good number of listings are going under contract, but we’re still not attracting offers. We want to take advantage of the window of opportunity here before the typical market slowdown of [the holidays, the summer].”

“I don’t know for certain what’s going to happen in the future, but based upon current information, there is no prognosis that market values are going to change significantly for the positive in the near future. However, if you honestly believe the market is going to markedly *improve* soon and you don’t *have* to sell, then you may want to take your home off the market. If, on the other hand, you want or need to sell now, then the sooner we act on revising the pricing, the more money you’ll probably end up getting.”

“To be effective, a price reduction must *get in front of the market*. The last place we want to be is one step behind the market as it goes down. That’s like chasing water downhill. It’s vital that we grab the market’s attention anew.”

5. Timing issues.

“It’s October 18th now and the market typically shuts down at Thanksgiving for about two months. The next 5 weeks are probably our best opportunity to get the home sold before mid-January of next year.”

6. The case for revised pricing.

“When we put the property on the market, we honestly believed that our pricing strategy was correct, but *the situation has changed*, and either we adjust our strategy or we lose any momentum to getting the home sold quickly and at the best possible price.”

When we first went to market, we thought that a higher price was worth a try. This is a special property and nobody knows for sure how the market will respond to any particular new listing. But now it’s clear: we gave it our best shot and it didn’t work. Now we need to adjust the price.”

If we don't revise the pricing right away, the danger is that the listing—on the market for an extended period of time without offers—will become “stale” in the eyes of the buyer and broker communities. Buyers begin to assume there must be something *wrong* with the property, which dramatically reduces value in their minds; they no longer feel any sense of urgency to move quickly in presenting a strong offer.

“The best chance for achieving the highest possible sales price now lays in a significant price reduction to increase competitiveness, to stand out from the crowd of listings, to re-engage the attention of the buyer and broker community and re-create the sense of urgency that they should be making an offer on your home *right now*.”

“We’ve done everything we can think of to market the property; the house shows beautifully; we can’t change its location or the market conditions; the only thing we *can* do is to adjust the price. And that will give us the ammunition to begin re-marketing the property to grab the market’s attention anew.”

Additional scripts:

“Knowing what we know today, if we were bringing the property on the market right now, we have to ask ourselves: where would we price your home?”

“Of course, the same market trends that are reducing the market price of your home for sale is doing the same for the home you want to buy. And, indeed, for the seller who plans to upgrade to a more expensive home, this market trend will typically end up saving them more money on the buy side than they’ll lose on the selling side.”

“A lot of agents and sellers are still pretending that the market hasn’t changed, that it’s still appreciating at 20% a year and that every property will sell in one day for over-asking with multiple offers—and they’re living in the past. Those who react to the changing market will end up selling their homes. Those who don’t will end up sitting on the market and losing money.”

“A too-small price reduction will generate a ho-hum response and end up hurting us more than helping us. You don’t always want to be one step behind a declining market – it’s like chasing water downhill. There’s little point in a price reduction unless it makes the market sit up and take notice.”

“The price reduction has to be significant enough to catch the market’s attention. We’ll kick-start a brand new marketing campaign to generate the excitement that would bring in a good offer from a qualified buyer—and might yet result in multiple offers that could still *possibly* generate an over-asking sales price. A price reduction is our best chance now of creating that situation.”

If the property has been on the market for months and a dead marketing period is beginning, the Seller might consider removing the property from the market until the new marketing period begins and then having you bring the property back on market then, hopefully with the significant price reduction that is required. In this scenario, keep the property under listing contract even while not being actively marketed, but have the Seller sign instructions to the

effect that you are not to actively market the property during that period. (Comply with MLS rules.)

“One potentially viable choice for you is to take the property off the market and consider re-marketing in _____. But we need to carefully assess the possible advantages and disadvantages of such a strategy.”

If Seller has benefited from huge price appreciation, you might suggest that taking what profit is available now may well be the smartest financial move, as opposed to awaiting a market rebound in hopes of making even more money: “Sometimes one has to know when it’s time to sell and take the profit off the table.”

If Seller brings up the idea of renting the home (esp. in San Francisco, with its stringent rules on eviction):

“That’s certainly an option, but...

- ✓ Renters typically reduce property value
- ✓ Renters generally make properties look much worse than owner-occupied properties
- ✓ Managing a rental house can be a hassle
- ✓ Evicting tenants to sell the home later may be problematical, prohibitively expensive because of SF rent control laws...or even impossible
- ✓ SF tenants are now owed moving fees upon eviction – thousands of dollars
- ✓ For all the above reasons, most SF buyers don’t want to buy tenant occupied homes
- ✓ A vacant house will have to be expensively staged to show well, and, of course, it’s expensive to keep the house vacant during the home sale period
- ✓ Renting for an extended period may affect the \$250,000/\$500,000 exclusion from capital gains for owner-occupied property upon sale
- ✓ If you’re waiting for a dramatic upturn in the market, you may be waiting for a while