

The price is right: Proper pricetag holds the key to speed of house sale

By DANIELA DEANE
The Washington Post

WASHINGTON — Correctly pricing a house for sale is one of the hardest things to do in real estate. It's also one of the most important. Pricing is a combination of math and magic, each price an attempt to take the pulse of the market at that precise moment. And in the current market, pricing is perhaps an even more delicate issue, as agents wonder whether the traditional summer slowdown is a real cooling of the overheated market as the economy sputters, or just a blip.

Price determines whether the property flies off the market in a day or sits for months unsold. But there are all sorts of pricing strategies out there that sellers and buyers should be aware of.

Agents say they do see signs of slowing. But they also say it's too early to tell whether it's still the summer hangover or a new trend. With the anniversary of the Sept. 11 terrorist attacks coming, they say a true picture will not emerge until late September or early October.

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Where do prices come from, anyway? An agent usually suggests a price to a seller and together they agree on the price at which the property will be offered.

When Marsha Dimitiglou recently sold her two-bedroom condo in suburban Bethesda, Md., she left the pricing totally up to her agent.

To come up with a price tag, real estate agents first check the comparable sales, called "comps," in the neighborhood through the local multiple-listing service.

"My agent was an expert in the building where my condo was located," Dimitiglou said. "I was watching what other people were getting, but my thought was that he had the best ability to price the unit. He represents most people in that building."

To come up with a price tag, real estate agents first check the comparable sales, called "comps," in the neighborhood through the local multiple-listing service. Here the listing service is the Metropolitan Regional Information Systems Inc., or MRIS. The service is available only to licensed real estate agents and brokers.

Not having access to the MRIS is one of the main hurdles for a seller who wants to avoid real estate commissions. Owners who want to sell their own homes can check public property records through county Web sites or libraries to see what has sold in their area at what price. But properties under contract, which become more important in a fast-changing market, are unavailable. Listings taken from the MRIS can be seen on various Web sites, including Longandfoster.com, Realtor.com and HomesDatabase.com.

"The first thing I do is run the comps, looking both at that particular neighborhood and that Zip code," said Jay Moody, an agent at McEneaney Associates Inc. in suburban Arlington, Va.

But Moody said that in this fast-changing market, where prices

have been steadily and quickly rising, comps often are not enough.

"In the last couple of years, I've paid more attention to listings rather than comps, either active listings or ones that just recently went under contract," she said.

Moody said she then visits all listings that would compete for the one she is trying to price. The more important piece of information, however, is the price at which the house is under contract, because that's the price a buyer has agreed to pay. And finding that out can be trickier. Sales prices become public record only after settlement. Prices of houses that are under contract are supposed to be secret. But agents do try to find out, and sometimes they succeed.

"You call the agent who is selling it," said Northern Virginia agent Robyn Burdett of Re/Max Xecutex. "You try to get them to help you."

Moody said you can usually get the listing agent to say whether the property sold above list price and how many offers it fetched.

"You can also deduce the contract price by seeing how long it was on the market," Moody said. "If something has gone under contract in a day or two, chances are they got the list price."

Burdett said that once she has the comps in hand, she adds and subtracts depending on the property's features. "You add value for a brick front, for a lower-level patio with a hot tub, hardwood floors all over the house, a finished basement," and subtract for things such as poor condition or

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a location on a busy road.

Moody said sellers often wrongly believe that they can add the exact amount of dollars they have spent on improvements onto their price. "It's not like that," she said. "It's not a direct relationship."

Appraisers take into account any major remodeling that has been done, but their valuations for both the property's price and the value of any remodeling projects can vary. Appraisers make adjustments for improvements, ideally using what they call a "matched-pair analysis," in which they look for similar houses with maybe only one difference, narrowing down the improvements for comparison.

"While I'll value that bathroom

at \$10,000, someone else will say \$12,000," Washington appraiser Paula Iannotti said. "They should be fairly close, though."

Buyers and sellers should know that pricing is not an absolute science and that agents have been known to play pricing games. Sometimes they overestimate a property's worth to try to book a seller, a practice known as "buying" a listing, or they underestimate value to snare multiple buyers, a strategy known as "teaser" pricing.

Judi Goldberg thought one agent was trying to buy her listing recently when she interviewed three agents to sell her suburban Potomac, Md., rambler. The three agents suggested prices from \$950,000 to \$1.5 million. Goldberg said she didn't trust the one who suggested \$1.5 million.

"I felt like she was saying, 'If I give you a high price, you'll take me as a broker,'" Goldberg said. "I just thought she was throwing that number out to jazz up excitement."

Goldberg picked the agent who suggested the midway price of \$1.2 million. The house sold in one day at list price. Does Goldberg think the quick sale meant she could have gotten more? "I did think about it fleetingly. But then it passed," she said.

It isn't hard for an agent to persuade a seller to agree to a higher price, agents say, because owners often believe their properties are worth more than they are.

"There's plenty of buying of listings going on," said Maxine Schwartzman, an agent at Long & Foster Inc.

"Certain agents are notorious. All their listings are overpriced." Agents who buy listings tend to use their overpriced properties as a way to meet potential clients, Schwartzman said.

"They meet people who come through the house, telling them that if they don't like this house, they can show them another one. They end up making a fortune while the poor seller is just sitting there."

Underpricing is used to create a frenzy over a property and attract multiple, competing bids that can drive the price up tens of thousands of dollars. Psychologically this works because everyone loves a bargain. It's also a way to snare buyers who may have set a limit on how high they would go. The property is priced under that limit, so they go see it and perhaps bid on it. It then sells for more.

"If you have the right property in the right condition, underpricing it just a bit is a tactic that works extremely well," said David Spires, owner of the Partners in Real Estate brokerage.

The danger for the seller is that if only one buyer comes forward with a full-price offer, the seller could be obligated to pay agent commissions even if he decides not to sell at that price. In a standard listing contract, a commis-

sion is due to the buyer's agent when a "ready, willing and able buyer" writes a contract, subject to the removal of the contingencies.

"If a seller gets an offer at their price and then they decide not to proceed, the agent still earns their commission," said Richard Luchs, a real estate lawyer at Greenstein DeLorme & Luchs PC in Washington. It's possible to modify the standard contract so that is not

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the case, however.

Whether sales are slower or not, prices are higher than ever. Secondary mortgage giant Freddie Mac said recently that home values increased by an annualized rate of 7.6 percent nationwide in the second quarter of 2002. The mid-Atlantic states showed the largest gains in value of any part of the country, an annualized rate of 13.8 percent in the second quarter.

The appreciation rate is down, however, from its peak in early 2001. Being familiar with the comps is the best way for buyers to get a feel for the price's accuracy. Appraiser valuations are the reality check; they are what lenders base their mortgage offers on, and are based on what comparable properties in the area sold for. Appraisers work for the lending institutions unless hired specifically by an individual for an independent valuation.

"Lenders don't like to see you appraise properties for more than

other properties in the neighborhood have sold for," said appraiser John Keegan of DeHart & Deming Inc. in Alexandria, Va. "Appraisals are based on comps and comps and comps."

And it seems the comps that justify the appraisals are there in most cases.

"We've only heard of isolated incidents where buyers have had to come up with the cash because the appraisal was too low," lawyer

Luchs said. And appraisers say lenders are watching their appraisals carefully, anxious to avoid the situation of the early 1990s, when falling prices meant some borrowers owed more than their properties were worth.

"Appraisers have become very conservative," Luchs said. "They're not going to be persuaded by the price increases unless they have the comparable sales to justify the price."

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