

LOCATION, _____, _____

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Go ahead, fill in the blanks. What have you always heard?

Location, location, location – the almighty real estate mantra - right?

And a mantra repeated enough becomes believed as fact. Problem is - that doesn't make any sense. Location is extremely important in determining both the desirability and value of real estate – but it is only one of three primary factors that determine the salability. Some may argue that it is the first and foremost factor – OK, but it's not the only factor.

The correct answer then is: LOCATION, CONDITION, and PRICE.

LOCATION

As with each of these three factors, this one has many layers and facets – all components of the location consideration and value. Where is the property? Earth? North America? United States? Maryland? Carroll County? Westminster? Suburban? Urban? Subdivision? Street Address? Legal Address? Survey Parameters? Elevation? Distance from desired destinations? Proximity to desired services? School district? All of these things are descriptors of the location. They are what they are. Unless we're talking about a mobile home, location is not going to change.

Some people may find a particular location to be desirable or at least tolerable, while others may not. The greater the number of people that find it desirable, the more valuable and salable the property is. Can this change over time? Certainly - but, at any given time – it is what it is.

To the extent possible, it would certainly be wise to try to find out about any known future development plans nearby. This is certainly something that could change the desirability and value of the property based on its location. Future development could either improve value or destroy it.

CONDITION

The scope of this factor is broad – condition encompasses many, many facets. It's basically everything about a property that isn't considered location and isn't its price. Factors of poor condition can sometimes be improved upon or eliminated – sometimes they cannot. Some factors of condition may be important to some buyers but not to other buyers.

Some condition issues may arguably relate more directly to location – but we will categorize them as factors of condition for the purpose of this discussion. Regardless of category, they are factors that warrant consideration.

Things like whether the lot is level or sloped, wooded or cleared. Is the property easily accessed. Are there any water features? The overall condition of surrounding properties may affect value. Noise levels from adjacent traffic, industry, or other sources should be considered. Directional orientation of the house to the sun and prevailing winds might be important. Views available from the house and land are certainly worthy considerations. How about density – how close together are the neighboring houses?

Landscaping can be a huge factor – consider cost and effort in maintaining existing plantings and/or future work. Are there large trees that might pose a risk for damage to the house? What about access to the property? Who maintains the roads and driveways? What about snow removal? Imagine all the grass to cut and leaves to rake. Is the property fenced and is it in good condition? Does the property experience flooding or standing water?

Curb appeal is a very influential factor. Simply stated, the better a property looks from the street, the easier it will be to attract full market value.

General cleanup of any debris, cleaning, power washing, repairs, painting, and replacement of damaged or missing items is definitely worth the effort and expense in all cases. Consider hiring a landscaping company to come in and give the property a good grooming if needed.

If the home is served by a septic tank, consider having it pumped empty if it hasn't been recently. And, have it inspected at the same time.

Consider hiring a roofing company to do a complete inspection and make any repairs necessary to roofing materials, vents, and chimneys. Consider having chimneys professionally cleaned if applicable. Don't forget the windows - they should also be clean and in good condition.

And, of course, interior condition is super important as well. Same considerations: declutter, pack away any unnecessary items, have a moving sale, place things in storage if necessary, and clean, repair, replace, and paint as needed. Properly store and secure things like prescription drugs, valuables, weapons, vital records, etc.

Make sure everything is in operating condition – including all lighting. If interior surfaces are painted with unusual or extreme colors, consider repainting with more neutral tones. Clean or replace carpets and all flooring materials as needed.

Since most buyers (as required by many lenders) are going to be hiring a professional home inspector to inspect your entire home and identify any problems or concerns, you might consider doing that yourself to head off any surprises or unexpected stumbling blocks once you have a buyer.

OK, now here's the touchy stuff: odors and/or pets. Odors from whatever source need to be identified and removed. Sometimes it is necessary to ask other people to give us an honest assessment because we have become used to or tolerant of the odors in our home. Mildew and mold can be a source of odors that some people are especially sensitive to. Cooking odors are often a problem. Maybe decide not to fix that shrimp scampi just before a scheduled showing. Pets can be a source of odors, but there are many other possibilities too. Pets can be a real problem for other reasons when prospective buyers view the property. Not only are some people especially sensitive to odors, they may also have allergies to certain types of animals. Or, they may be afraid of dogs – or just seriously distracted by their barking or growling. Heaven forbid a dog biting someone that is considering purchasing your home. Some people cannot stand the idea of

being in the same room with a cat. It is something to think about. Maybe you should consider placing your pets in a kennel during showings – or just taking them to the park for an hour or two.

Bottom line, do whatever you can do to make the condition of the property – inside and out - as good as it can be.

PRICE

So, now that we understand that there are only three factors that determine salability of a property, how do we discover the correct price: current market value? What specifically is the basis for a current pricing that will sell in a reasonable period of time – say within 90 days of listing the property for sale? The answer is there are many factors but it primarily boils down to sale prices of comparable properties in the comparable area (same geographic area) within the previous 6 months – or within the shortest period of time in the recent past that sales have occurred. The more recent the sale, the better the comparable.

Real estate agents and appraisers take basically the same approach – it's just that appraisers do a much more thorough and detailed analytical investigation. We all search our available data bases for similar properties that have sold and we discover what they actually sold for. We can see what the history of asking prices were, price reductions, days on market, final selling price, any seller concessions (money from seller to buyer) at settlement to help buyer with closing costs, etc., etc.

Ah, the agony! “What price should we list our home at?” “We want to get as much as we can.” “If the Smith’s house sold for that much, certainly ours is worth more.” “I’m not going to give this thing away.” “Our house is much nicer than that one – it ought to be worth a lot more.” “Well, let’s just try to get more and see what happens.” “We just don’t want to leave money laying on the table.” “Shouldn’t we just go with the Realtor that tells us the highest figure?” “Maybe one of those dumb rich people from out of state will come in and pay a higher price because they don’t know our market.” These are just some of the familiar laments about deciding how to price a home for sale.

I've had customers tell me on a listing interview, "Look, we have to net as much as we can so that we can afford to fix up the new house we're buying." Well, I certainly understand that everyone wants to net as much as they can. But the truth is, what you may want really has nothing to do with what the home is going to sell for. The sale price of any home depends on many factors – but not what you want to net. Market conditions, i.e., supply and demand, recent comparable sales, interest rates, and competition – along with things like location, amenities, features, physical condition, cleanliness and general showing condition will define what price a home sells for.

The reality is that when you price a home for sale too high for market conditions it can and often does result in the seller netting less money in the end, not to mention the frustration and anxiety that they most surely will experience. This is a fact that is supported by extensive data and thousands of disappointed people.

When the inventory of homes for sale is high – a buyers' market exists. In a buyers' market, buyers and their agents have no urgency to buy and can take their time looking around and comparing values. They also know what the comparable sales numbers are.

One of the realities to keep in mind is that chances are very good that the buyer will be financing a portion of their purchase. Therefore, the lender is going to require that the buyer pay for an independent appraisal prior to final loan approval. Though a good appraiser may be able to arrive at a more 'accurate' value than the listing agent – both professionals use the same comparable sales data to arrive at the property's current value and usually arrive at about the same figure. Of course there is a chance of finding a cash buyer – but many of those folks have become aware of the advisability of also having a professional appraisal done. So, even if you have accepted an offer at a higher price, a lower appraised value is going to cause the deal to go south. Most buyers will walk away with their earnest money and move on to another property unless the sellers are willing to lower the sale price to the appraised value. Very few buyers will

be able and willing to come up with any additional cash to give to the seller above an appraised value.

Smart sellers give consideration to having a professional appraisal done in advance to help determine the current market value of their home. The cost of the appraisal will vary with the size of the property, but typically will be about \$250 to \$500 - a relatively small amount of money in the larger scheme of things.

Be aware that some real estate agents may be the type to purposely or knowingly suggest that a home will sell for more than it is likely to - just to get the listing. If a seller interviews three real estate agents and two of them suggest a list price of about \$220,000 for example, and the third agent boasts that she can sell it for \$265,000 – be careful. There is a good chance that the third agent is trying to “buy the listing.” They know the house won’t sell for that amount but they just plan on waiting the sellers out for a series of price reductions. In whose best interest is that behavior? Sometimes an agent will try to convince sellers to list at a more realistic price but cannot persuade them with the evidence, and the agent still takes the listing. Once again, who is being served?

One other thing to keep in mind, for whatever period of time the property does not sell because it is overpriced, the owner will continue to make payments on the house, taxes, insurance, utilities, and maintenance. How does that affect the net profit?

What is the motivation for selling? Is there any urgency? How long can you stay? A job transfer, having a new home built, under contract for another home already, just want to get out of the neighborhood, need to downsize, need a larger home, getting divorced – there are many different levels of motivation that may be present. An objective evaluation of your motivation has to be made. Selling and buying a home is unavoidably an emotional process. Try to honestly evaluate what is going on.

What happens if you try the higher price and the home doesn’t sell in 30 days, or 60 days, or 90 days, or longer – or ever? Do you reduce the price? How much? What if it still takes another 60 days, or 90 days? Do

you reduce it again? How many buyers did you miss that might have purchased at the lower price? Have they moved on by now – already bought another property? Has the competition increased? Have interest rates moved higher, reducing the number of qualified buyers?

Something that seems to happen but is difficult to quantify or even prove is that if a property comes on the market and it is clearly overpriced, some people will pass judgment about the sellers' ability to be reasonable about all the aspects of the transaction. Not just the sale price – but their reasonableness in negotiating about repairs, close of escrow date, amount of earnest money, etc., etc. As a result some potential buyers will not even try to make a reasonable offer to purchase because of anticipated “difficult sellers.”

SUMMARY

All three factors: location, condition and price, work together – not independently. There are many combinations of these factors that can cause a sale to happen. For example, a property in a terrible location, in horrible condition might sell in one day if the price is attractive enough. It happens all the time. But if the price isn't appropriate to the location and condition, it may never sell.

Likewise, a property that is in a great location and excellent condition may never sell if the price is too high, i.e. more than the current market value based on comparable sales.

Even if someone were to come along that wouldn't mind paying more than the current market value based on comparable sales, they wouldn't be able to get financing for the purchase. If they need to borrow money (which is usually the case), their lender is going to require that an appraisal be done (by an appraiser of their choosing) to ensure that they aren't going to be party to a transaction where more than fair market value is being paid.

OK, yes, an all cash buyer might stumble along and be able to pay more than they should. But most people that have that much cash also have

enough sense to get their own appraisal done for the same reason the bank does.

Countless times property owners have lamented, “I’m not giving this damn place away!” – even though nobody has asked them to. Selling it at fair market value is not “giving it away”. It might feel like it when you add up all the money and labor and love that has been “invested” in the property over time. The other classic pronouncement is, “We need to net \$XXXX.00 so that we can purchase our next home”. Well, that may be, but again, it has absolutely nothing to do with what the current property is going to sell for.

Oh yeah, you might be asking, “What about market conditions – inventory, supply and demand, interest rates, special loan programs and incentives, new construction starts, and the general overall economic pressures?” Certainly these non property specific influences must be considered too.

Here’s an idea, have a presale appraisal done. Have something formal and official to stand on when establishing your price. Advertise that the listed price is based on a recent appraisal. Make a copy of the appraisal available to prospective buyers.

The truth is the truth my friends. Overpriced properties are not going to sell.

DISCLAIMER

John P. Hale is a licensed real estate agent in Maryland and Pennsylvania. He is affiliated with Coldwell Banker Residential Brokerage in Westminster, Maryland. John has been licensed since 2000 and also practiced in Tucson, Arizona for many years. Mr. Hale holds the following designations and certifications awarded by the National Association of REALTORS® (NAR) and other authorized institutions: ABR-Accredited Buyers Representative, AHWD-At Home With Diversity, CNE-Certified Negotiation Expert, CRMS-Certified Risk Management Specialist, CRS-Certified Residential Specialist, CTA-Certified Tourism Ambassador, e-PRO-Online Real Estate Practice, GRI-Graduate of Realtor Institute, MRE-Master of Real Estate, MREP-Mortgage Real Estate Professional, and MRP-Military Relocation Professional.

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