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Pricing a house when supply exceeds demand

By Alan J. Heavens
Inquirer Real Estate Writer

What does "properly priced for the market" mean when the supply of houses exceeds the demand?

Real estate agents and appraisers are scratching their heads just as hard now as they did during the recent seller's market.

It's not as if buyers want free houses. They are willing to pay what they consider the "right price," as seen in the fact that this region's median price for existing houses rose 7.9 percent in the first nine months of 2006, despite a 9 percent decline in sales compared to a year ago.

In general, the asking price for a house is a "balance obtained by considering a neighborhood and the sale prices of comparable houses within the context of market conditions," said Noelle Barbone, a veteran real estate broker and vice president of Weichert Title.

Buyers are more than willing to commit in this market. They just need conclusive proof that what they are buying has the most value.

Yet it seems many sellers still aren't getting it.

"We talked about that at our sales meeting this morning," said John Duffy, a Main Line real estate broker. "Sellers still have a price for their house in mind, and they add a certain percentage to that price because two years ago their neighbors sold their house, and they should get more because their house is better than their neighbors'.

"Although the mindset is slowly changing, today's conditions don't match the way things were two years ago, or even a month ago," Duffy said. "The most important considerations now are competition and days on the market."

Houses are spending an average of 53 days on the market now, compared to 46 a year ago.

To determine the right price, Duffy said, he compares a listing with what has sold in the last year in the immediate neighborhood. After all, real estate is all about location.

"Just as an appraiser would do, we compare apples with apples - hopefully comparable properties no more than two or three blocks from the one we are trying to price," he said.

Real estate broker and appraiser Michael Frolove acknowledged that finding that proper price is complicated, and he takes issue with the contention by some housing economists that what we now have is a "normal" market.

"A normal market is where there is a balance of sellers and buyers, but this one has a lot more for sale," Frolove said. "I get the feeling that buyers feel that they have been taken advantage of by sellers and want to get back at them.

"Sellers are always the last to react to changing conditions. Buyers are sucking up the negative hype and then taking advantage of the negative hype," he said. "What results is no meeting of the minds between buyers and sellers, and a market needs such a meeting of minds to adjust to new conditions.

"If it is priced right, it will sell, but not right away, because the buyers want to see 12 more properties that day before they decide," Frolove said.

What he uses is comparable-sales information no more than six months old, "but even that may be a little too high."

An appraisal is ordered by a lender to make sure that the property will sell for at least the amount of money the lender is providing.

Edward Welch, general manager of Higgins & Associates, an Erdenheim appraisal firm, suggests that brokers have listings appraised before the properties reach the Multiple Listing Service, rather than depending on comparable sales to price them.

Doing that would make it easier for listing agents to explain the reasoning behind the pricing, Welch said, and would prevent "agreements being renegotiated or deals dying because the buyers' appraisal was returned for less than the agreement price."

But all in all, most lenders seem to be able to work with the appraisals coming in today. "All the appraiser has to do is get the property to value," said Fred Glick, president of USLoans Mortgage L.L.C. in Philadelphia.

"What lenders want varies, but a lot of them are declining [comparables] from a year ago because it was a different market," Glick said. "What they do want to know is whether the market is showing appreciation, depreciation, or is stable."

Contact real estate writer Alan J. Heavens at 215-854-2472 or aheavens@phillynews.com.
