

# MarketNotes

THE LATEST ON ANNAPOLIS REAL ESTATE

## What to Do in a Buyer's Market

When it comes to selling a home in a buyer's market, sellers should take every step they can to ensure their home is the very best choice for the buyers that are in the market. Sellers have control over price, incentives and condition. And they need to use all three components to attract buyers in a slow ("falling") market.

### Price

The seller sets the price. The buyer sets the value. The market sets the range. Sellers have control over the listing price and if the sellers set the price too high they may scare buyers away, and, if they set the price too low, they may give some of their savings away.

Homes should always be priced based on the current market trends. When selling in a buyer's market (declining market) position the product at or slightly below recent sales, but always slightly less than the average of the lowest similar homes currently for sale. Where there are only a few buyers (such as during the holidays and winter markets) sellers must get the serious buyers to look at their home first!

While price reductions may be necessary when a property is incorrectly priced to start with, listing agents may ask sellers for five percent (5%) reductions in price every thirty (30) days until the house gets sold. But reducing price by five percent (5%) on a \$400,000 – to \$380,000 – doesn't open the house up to a new group of buyers. It would take a thirteen

percent (13%) reduction in price to drop into the next lower price bracket, i.e., below \$350,000, because many real estate search engines use search \$50K brackets.

### Incentives

Sometimes it's all about the deal. Sellers can offer incentives to get homes sold for the best price and terms by offering selling bonuses, closing help, higher commissions, seller paid loan points, home warranty, or other incentives.

A \$10,000 price reduction saves a buyer only about \$60 per month in mortgage payment (calculated using 6.5% on a 30-year fixed mortgage). On a \$400,000 (about the average price of a home in Anne Arundel County), the buyer's principal and interest mortgage payment would be \$2,402. The \$10,000 price reduction would result in payment of \$2,342 or only about a \$60 per month saving.

In order for a buyer to save \$10,000 at \$60 per month, they would have to save for 167 months or nearly 14 years. As an alternative, a seller might offer \$10,000 in closing help and thus reduce the amount of cash a buyers needs to bring to the settlement table.

The \$10,000 would nearly cover the estimated settlement costs for the purchase of a \$400,000 home. For first-time home buyers, having \$10,000 in cash versus saving \$60 per month, might make the difference between being able to purchase a home now or having to wait until later. And, generally sellers can contribute up to about three percent (3%) of the sale price in closing help without any issues from the buyers' lender. The \$10,000 is closing help would reduce the cash a buyer needed at closing from \$30,000 to around

\$20,000 – 30% less cash versus a 2.5% reduction in price.

### Condition

When sellers place their house on the market it is no longer their home but a product for sale. In addition to price and incentives, sellers have control over property condition. Proper (short and long-term) maintenance makes homes shine inside and out.

Start with the curb and the front door – if buyers never get past the front door, they'll never see how wonderful the sellers' home is inside (its called curb appeal). So mow the grass, rake the leaves, paint the front door, polish the brass, and hang a seasonal wreath. On the inside, toss out the clutter or box it up and store it away. I tell buyers that they're not buying the stuff just the house, but, it is human nature to look at the stuff and not the house. Help buyers focus on the house and not your stuff.

### Conclusion

Price, location and condition all play a role in the sale of home. The seller has control over price and condition but usually cannot change the location nor change market conditions (interest rates, competition, inventory, market sentiment, etc.). When facing conditions that sellers and their agents have no control over, there is a price at which someone will purchase the property despite all objections – location, condition, and market conditions.

For a confidential, private, professional assessment of your home in today's market, please contact Stephen Howell at 410-923-3217.