

# HOME PRICING 101

## Isn't Real Estate Like Basic Economics? By Jen Hudson, GRI

Real Estate follows the rules of basic economics - supply and demand. The supply and demand in real estate is the same as the supply and demand in the stock market. Please read that again.

We can all understand how the stock market is driven by supply and demand. When the marketplace needs a product, then the company who can deliver that product sees their stock prices rise.

In real estate, the same can be said. When the marketplace needs more homes then prices rise. When there is an excess of homes, and not enough buyers to consume the product immediately, then prices come down. Of course, there are many factors that affect the price of a home, such as the neighborhood, economy, interest rates, even the price of gas, but I'm talking about the basic concept. The idea that the seller sets the price for a home could not be farther from the truth. In reality, it is the market that sets the price. Unfortunately, even many real estate agents do not fully grasp this concept, so allow me explain it a little further.

Our real estate market has variances from year-to-year, month-to-month, and even day-to-day. We can all acknowledge that. When there are a large number of homes on the market, prices tend to decline. When there is a shortage of homes, prices rise. Simple enough, right?

Many real estate agents will talk about how they spend their time and go through a lengthy process to determine a price for your home. They research what houses have sold for in your neighborhood 4 months, 6 months, 9 months ago or even longer! What they really should be looking at are the current pending sales, and here's why.

Let's use the stock market as an example. What if you based your numbers on prices that the stock market closed at a week ago? We can all agree those numbers would be totally irrelevant and would not give you an accurate picture of your portfolio. You may actually be holding more of less, but you have no way of knowing unless you use current data and prices.

For real estate, you can calculate the supply of homes on the market by looking at the number of homes available. You can calculate the demand by looking at current pending sales. Yes, it is the pending sales (not sold homes) that truly indicate what the market is doing at this **moment!** This is the complete opposite of what most real estate agents do. They place a large value on closed sales and don't bother to look at pending sales. That's just silly!

In a basic "listing presentation," your real estate agent will explain the current listings on the market, expired homes and sold homes. It is only by understanding what is happening at that **moment**, can we understand the basics of supply and demand and truly price a home to sell.

I'm sure you have heard of (or even had one yourself) a property on the market for a year with no one looking. Then, all of a sudden you receive 3 offers on the same

day. Was it because the house suddenly became very special? Probably not. I can guarantee you there was either an increase in the buyer pool for that particular home or the supply of similar homes took a dip down.

The same situation applies to the seller who knows that they are asking too much for their home, but they list it high anyway. Then, to their surprise they receive 5 offers in 24 hours. Was it because they were right? No. It was because at that **moment**, the supply for that particular home was low.

Once agents realize how it all works, they can provide their clients with an open-minded perspective to pricing their home that 99% of all other agents ignore.

I've been tracking pending sales for years and this is why. If you are considering a move in Stanwood, Arlington, Marysville, Everett or on Camano Island, give me a call. When it comes to real estate, my goals are simple. Let me put your needs first.