

## The Real Estate Market Report For Sellers

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Understanding today's real estate market and how the market impacts the home selling process can be confusing. This report is designed help you make the right decisions for your family by helping you understand the market and its impact on the selling process.

The real estate market is a simple function of supply and demand.

In real estate, supply is the total number of homes for sale in your price range. The demand is the total number of buyers that will purchase a home in your price range on a month- to- month basis.

The total inventory... divided by the new sales... is called the monthly supply of inventory.

For example, a typical price range may have 25 homes for sale and only 5 new sales per month... This means the market has a 5- month supply of inventory. It would take 5 months just to sell all of the homes that are currently listed. Before you continue with this report, have your agent tell you exactly how many homes are for sale in your price range and how many buyers have purchased homes in the price range in the last 30 days. Be very clear, there are not enough buyers for all the homes that are listed in today's market.

Then understand the following:

### **HERE IS WHAT HAPPENS TO PRICES...**

(0 to 1)... month supply of homes... Inventory is limited and all new listings are like "gold." This quickly drives prices higher because multiple buyers write multiple offers at the same time. Homes usually sell within a week or two of going on the market. These sales are usually above the asking price so they become comparable sales for future listings thus driving prices even higher and those homes get multiple offers too... continuing the cycle. This low level of inventory is normal at the peak of a market.

(2 to 3)... month supply of homes... prices are going up steady but the bidding wars from purchasers willing to pay any price to get the only available listing disappear as there are more options for purchasers as the inventory grows. The best listings still get multiple offers but a typical listing will simply sell near the asking price and take a bit longer to sell.

(4 to 6)... month supply of homes... prices go flat and begin to fade because there are now in excess of a dozen homes available for each purchaser to choose from. The media usually picks up on the change in the market at this point. The negative press has a two fold effect: One, buyers start to wait thinking they may get a better deal in the near future and two, sellers and investors rush to the market thinking that they will lose money if they don't sell right away. With the percentage of buyers purchasing homes each month on the decline and the number of listings available in the price range increasing... the monthly supply inventory will grow quickly during this phase.

(7 to 15)... month supply of homes... prices drop as the number of homes each purchaser will have to choose from exceeds 20 and then 30 in each price range. With that type of selection and the media on board, the offers take much longer to get and come in low thus driving future comparable sales down. This will bring future listing prices down as well and just as the appreciation cycle continues, so does the correction cycle continue. The remaining investors are putting hundreds of homes on the market and the new home-builders are beginning to drop their prices more dramatically in addition to offering purchasers incentives to make their inventory more competitive. Again, the supply of inventory continues to grow.

(16 to 20+) ...month supply of homes... prices will fall much faster now that purchasers may have in excess of 50 or even 100 homes available in their price range. Prices feel like they are free falling now that purchasers have so many homes available options in their price range. Offers are coming in at ridiculous numbers and sellers are accepting them because homes are on the market for months. Builders are offering both massive discounts in price and other amazing incentives. Sellers are using price and much bigger price reductions as weapons against each other to try and gain a competitive advantage. *(Paulding County currently has a 19 month supply of homes 3-2009)*

### **CRITICAL POINT**

Remember, each price range or geographic area will have a different ratio. The “higher end” may be at a 20- month supply where as the lower end might be at a 12- month supply. The same is true for different geographic areas. You need to make sure that your agent is area specific and price range specific when they show you market statistics during their listing presentation.

Question? What is area specific and what is my price range? The answer is simple. Where would a buyer looking to live in your area consider buying a home? They will look beyond your sub-division but usually not from one end of the city to the next.

### **WHAT TYPE OF SELLER ARE YOU?**

There are 4 types of sellers in today’s market!

Before you make any decisions about what to do with your home, you need to know what type of seller you are so that you can determine the market’s impact on your plan.

The key to making the best decision is to understand BOTH the market condition and the type of seller you are. There are four types...

#### **1- THE SELLER WHO IS BUYING ANOTHER HOME:**

This seller is in a great situation because they are not taking their equity out of the market! They may have to sell at a discount to get their home sold but they will also “buy” their next home at the same discount so they aren’t really losing any money at all.

I had a seller once say to me... “I will just wait for the market to get better.” I said, “Great! I’m glad you realize that the market is cyclical and that you understand home prices will increase again in the future... my only question is this... What home would you like to wait in... this home or your new home?” I went on to explain to the seller that they would indeed see home values increase again but waiting for the home they buy to increase in value... or waiting for the home they have to increase in value... is simply a choice with no financial impact at all.

For example... If you have to reduce the price or accept an offer that is \$30,000 less than you might have gotten in the past in order to get it sold, in three to five years when the market cycles back you will regain that \$30,000 of equity in your current home or gain \$30,000 in equity in your new home which was purchased at a discount as well.

## **2- THE SELLER WHO IS BUYING A MORE EXPENSIVE HOME:**

This seller is in the best situation possible! Higher end homes tend to lose value much faster than lower end homes during a correction. Higher end homes also tend to appreciate much more during an appreciating market. The seller in this example wins on both ends.

The seller may need to discount their price in order to sell their home but the higher end home that they “buy” will be at a much deeper discount. They may drop their price \$30,000 on a \$250,000 home to get it sold but the seller on the \$500,000 home just dropped his price by \$60,000 in order to get it sold. In both cases, when the market recovers... each seller will get their equity back so if the seller of the smaller home gives up \$30,000 but gets back \$60,000... they win.

On the back end... the higher end home will appreciate much more during the next boom. The \$250,000 could appreciate to \$325,000 but the \$500,000 could appreciate to \$650,000 during the next boom. The seller of the smaller home might get their equity back and then make \$75,000 if they stay in the home for a decade. If they sell now... they can buy the \$500,000 home at a \$60,000 discount and then make another \$150,000 over the next decade while living in the house they wanted to buy to begin with.

## **3- THE SELLER WHO IS CASHING OUT OF THE MARKET:**

This is a seller who has to sell in today's market without a chance to wait 3 or 4 years for better prices to return. The bottom line is that they need to cut their losses... immediately. It is simply a function of a bad price now... or worse price later. The problem is that “amateur investors” are not familiar with the idea of a “stop loss.”

In the stock market for example, the professional trader will ALWAYS have a “stop loss” in place... usually at a loss of 8%. If the stock goes down, they automatically sell and accept an 8% loss. Amateur traders do not use a stop loss so at an 8% loss... they are in denial. At a 12% loss... they start to stress and worry. At a 15% loss... they start to panic and by the time the loss reaches 20% ... they accept reality and get out!

Homeowners do the same thing. They don't stop the loss and get out... They too give in to their “emotions” and lose more and more of their equity by waiting.

## **4- THE SELLER CAN NOT SELL:**

This is a seller who does not have the ability to sell at today's prices. If you can't cash enough equity out of the home to buy the next home or you don't have enough equity in the home to sell at today's prices then staying in the home may be the best option.

## HOW MUCH IS YOUR HOME WORTH?

Understanding today's market price for your home is not difficult if you will just look at the market objectively. Think about the last time you purchased a home. As a buyer, you qualified to purchase up to a price point, looked at all the best homes in that price range and then made an offer on the one you felt was the best for the money. The buyer for your home will do the same thing:

For example... If you have a home that you'd like to get \$495,000 for, then you are competing for a buyer who will be looking at everything from \$450,000 to \$500,000.

### Question #1: How many homes are available in that price range in your area?

- Let's say there are 63 homes available right now and that number is growing.

### Question #2: How many buyers are purchasing homes in that price range each month?

- Let's say there are 6.
- A Common mistake many sellers make is to assume there are enough buyers for all the listings and selling a home is as simple as "listing" the home. In today's market, only 1 out of every 6 homes will sell each month. This will become 1 out of 7... than then 1 out of 8... and so on.

### Question #3: Would you like to "list" your home or "sell" your home?

- This is a critical question in a correcting real estate market because 90% of the listings will NOT sell each month. You can "list" your home at any price. That doesn't mean it will sell. You can "list" your home at any commission. That doesn't mean it will sell. You can "list" your home with just any agent. Again, that doesn't mean it will sell.

Critical Point! If you would like to "sell" your home and there are only 6 buyers per month that purchase a home in your price range then you will have to be one of the "TOP 6" listings if you expect to sell your home. Does that make sense?

Have your agent research the 63 homes that are currently active in your price range and identify the 5 to 7 homes that are the biggest, the newest, have the best locations, the most upgrades and the ones that are in the best condition for the price range. Then compare your home to the top 5 and ask yourself honestly... If you were a buyer, would you make an offer on your home or one of these?

- For example, if at \$275,000 to \$300,000 the top 5 to 7 homes are all bigger and newer than yours, we can't compete in this price range and expect the home to actually sell. In a decline, the top 5 to 7 homes may have been homes that once would have sold for \$325,000 but today they are being offered for less. If at \$275,000, your home is one of the top 5, then you know this is the price range that you need to offer your home if you expect to "sell" it.
- At this point, your agent will probably show you "comparable sales" in the \$275,000 price range. These are homes similar to yours that have recently sold. In this example, your home is not worth \$275,000 because the comparable sales are in that price range. The home is worth \$275,000 because for \$295,000 a buyer can purchase a bigger, newer home. Again, simple supply and demand. An over supply of homes will only cause the competition to drive prices lower.

## WHAT ABOUT DISCOUNTED COMMISSIONS?

Commission is a very sensitive subject. Let's get right to it.

In many cases, sellers make decisions about "listing" based entirely on the commission their agent is going to charge. In a great real estate market where every home listed sells for top dollar in less than a week... the commission is less of an issue.

The problem is that in a correcting real estate market, where there is only one buyer for ever ten to twenty homes that are listed, "listing" at a discounted commission may be all you do. Again, did you want to "list" your home or "sell" your home?

First of all... First of all... How much are we really talking about in most cases? One percent? Two Percent? Translate that difference into dollars. If you were to list a \$200,000 home, then 1% is only \$2,000. Would you take a cash offer at \$198,000 in today's market? In most cases with a huge smile all the way to the bank! Be careful not to choose an agent who's job is to negotiate the highest sales price on your behalf over a \$2000 difference in commission. My advise, hire a skilled agent and let them negotiate with the buyer before you negotiate with your agent.

As the average sale price goes up, the commission that many sellers are trying to save becomes less and less of their negotiating room. Negotiate with your buyer first and let a skilled agent do their job. Remember, a discount broker has already proven they can't even negotiate their own commission let alone top dollar in a declining market for your home.

Skilled real estate agents have represented buyers and negotiated prices that were thousands of dollars less than their buyer would have paid... thus costing a seller, like yourself, thousands of dollars during the negotiating process.

Skilled real estate agents have also represented sellers and negotiated prices that were thousands of dollars more than the seller was willing to take. This time, costing the buyer thousands of dollars during the negotiation process. You should focus on finding an aggressive agent that is skilled. For no other reason, they will negotiate far more on your behalf than most sellers are trying to save in the form of discounting the commission.

Having said that, the next thing we need to understand is why so many agents and even companies will discount the commission as a business model.

### Question: Why would a real estate professional discount their commission?

In making an educated decision about whom to hire, it is often important to understand why agents will offer a discounted commission. It is simple really... a great listing, in a nice neighborhood, will cause the real estate agent's phone to ring off the hook with sign and ad calls? These are potential buyers looking for a home.

Fact: 99% of these buyers will not purchase the home they called about!

Do you know how much commission that real estate agent can make if they go ahead and sell that buyer another home? A full two and a half or three percent! In truth, an agent can make a lot of money getting buyer calls off of their listing inventory even if they don't sell the listings or make any commission at all on the listing side.

Do the math... If an agent were to take a 4% listing and give 3% to the selling broker... they would make \$2,000 as your listing agent on a \$200,000 home. They have expenses, a split with their office and taxes. That doesn't leave much, does it? So why would an agent or company agree to do that? If the home doesn't sell and each month the agent can pick up just one buyer off the sign, ads or an open house... They will make a full 3% or \$6,000 every time they sell another home to that buyer. Again, the majority of buyers will purchase a home other than the one they called on so the listing can be the best source of new business that agent has.

In a market where the majority of homes listed do not sell month in and month out, do you really want to hire an agent that has more financial incentive to keep the home on the market than they do if they get it sold?

In closing, remember most homeowners are not professional real estate investors. Most families are simply living their lives and how do you measure the value of moving on to the next chapter of your life as quickly and efficiently as possible? Making a wrong decision about the agent you hire and the terms of the listing agreement is not only a potential financial problem but can be a very trying emotional process as well.

We can turn back the clock so the fact remains... you missed the "peak" of the market. Do the "right" thing now and then move on with your life. Don't look back... look forward. The real estate market will appreciate again soon enough.

In the mean time, thank the real estate professional that gave you this report because their commitment to communicating the truth about today's real estate market is... priceless.

Compliments of

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