

What is the Purpose of a Price Reduction?

Let me start with a football analogy. I find it fascinating that managing a game has gotten so complicated that coaches roam the sidelines with huge, laminated, color-coded charts telling them what to do in various situations. Many rely on “analytics” rather than having a feeling for the “ebb and flow” of the game. For example, after scoring a touchdown, *should* the team try a 2-point conversion or just kick the “extra-point”? Data drives many decisions in our daily lives and I think we rely too often on the past as if the future is guaranteed to repeat itself. Human beings are not machines!

Real Estate is at its core a “*people* business” which means we need to educate the public, be prepared to answer their questions and respond to their concerns. Too many of us make what we do a mystery which can cause our clients and customers to under-value what we do as well as make them frustrated when we do not explain ourselves. The “price reduction” is a prime example of this. Sellers have the right to expect that we have some idea regarding the “market value” of their property although many sellers have conflicting needs as far as how to price their properties. When properties do not attract interest or serious offers we have to be prepared to discuss how to change that.

Many Real Estate agents have a “mental” chart that they use when a house is NOT selling. While there may be a number of possible explanations for this, many have a “one-size fits all” answer: **REDUCE THE PRICE!** While circumstances may require a price “adjustment”, lowering the price is *not* a universal cure: it may accomplish nothing and it co\$ts money. Once a property is marketed, regardless of the conversation about “market value”, many sellers internalize their initial asking price meaning that any reduction may be perceived as a loss of equity even if the price had no chance of working in the first place. I wonder how many agents tell a seller that their initial “asking price” is reasonable only to have to admit later that it was too high? That will not be a fun conversation and, frankly, may be the first indication of a relationship going in the wrong direction.

Let’s assume that a price reduction is the *only* or the best course of action to increase activity so that we can generate an offer. To be effective, *any* price reduction **has to accomplish one of two things** (doing both is even *better*). Otherwise, you may literally be wasting the seller’s time and money!

- *Would* the proposed *lower* asking price make your house more *attractive* to prospective buyers already looking within your local market and price-range? If there are other houses similar to yours, would a *lower* price *motivate* someone to want to see yours *earlier* in the “shopping stage” or make yours more *appealing* as compared to your competition? What is the next *lower* price in your market and what is your competition? A reduction should have a *strategy*!
- *Would* the *new* price “introduce” or “expose” your house to an *entirely new* group of prospective buyers who may not even know your house is available for purchase? I refer to what I call price “bracketing”, meaning what price range are buyers using for their searches?

An agent and their seller-client **need to know the local market (the “competition”)**: reducing the asking price co\$ts **REAL** dollar\$ which may impact a seller’s plans. A seller should discuss *strategy* with their agent and make an *informed* decision BEFORE giving up their hard-earned money.

Simply *lowering* the price, especially if the real issue is poor or ineffective *marketing*, may not change anything! If the marketing is *ineffective* (meaning that agents and buyers are *not able to find* your property in their search results), few if any may even know you lowered your “asking price”. **Guess what happens next?** An agent may suggest that the reduction was not sufficient and ask for more!

There is no time for inexperience, empty promises or false expectations!

HIRE WISELY: We are not all the same!