

MANSION

SPREAD SHEET | SANETTE TANAKA

PRICE HIGH OR GO LOW?

It's the home-sellers' dilemma: Overprice a house in hopes of getting higher offers, or underprice it to incite a bidding war? A new study helps answer the question.



"THE PRICE IS RIGHT" isn't just a game show. It is a mental strategy real-estate agents use to get the most money when listing a home. When setting an asking price, there are two schools of thought: In one, agents overprice properties in the belief that a higher asking price will draw higher initial offers from potential buyers. Wendy Jodel, associate broker with Town Residential in New York City, says overpricing works when inventory is low. Ms. Jodel recently

listed a two-bedroom apartment on Manhattan's Upper East Side for \$1.35 million—4.5% above the price of similar apartments nearby. "I had no competition," she says, adding that few comparable apartments are available in the area. The apartment closed this week with multiple offers for \$1.32 million. Other real-estate agents take the opposite approach, pricing homes below nearby properties in hopes of starting a bidding war. Chris McDonnell, senior associate broker with Coldwell Banker Distinctive Properties in Vail, Colo., says he prefers to underprice homes by 5% to 10%. Now,

even in a heated market, buyers are looking for a bargain, he says. If sellers start low, they could potentially add 10% to 15% to the sale price. "There's so much pent-up demand out there right now. Money is just waiting on the sidelines," he says. This strategy, however, poses a challenge: "It's really hard to get your seller to agree to that," Mr. McDonnell says.

New research tackles this dilemma. A study published in the Journal of Economic Behavior & Organization in May found that homeowners who set the initial asking price 10% to 20% higher than similar houses in the neighborhood see a slight increase of \$117 to \$163, on average, in their sale price. Pricing a home 20% or more than similar houses leads to an impact three to four times as big. Pricing a home 10% to 20% lower than homes in the neighborhood leads to a decrease of \$117 to \$187, on average, in the home's sale price. The research explores a behavioral trait called "anchoring." That is a common tendency to rely on the first piece of information offered (the "anchor") when making decisions. Once buyers have an anchor, they typically interpret other information involved in the sale around it.

"Every house is different, and so those qualitative things really matter. Buyers will turn to the good attributes that justify the high price," says Grace Buchianeri, former assistant professor at the Wharton School of the University of Pennsylvania.

Prof. Buchianeri and co-author Julia Minson, a lecturer at the University of Pennsylvania at the time, analyzed 14,616 real-estate transactions in Delaware, New Jersey and Pennsylvania between January 2005 and April 2009 with an average sale price of \$234,000.

The study, "A homeowner's dilemma: Anchoring in residential real estate transactions" found that "overwhelmingly anchoring is a good strategy," Prof. Buchianeri says.

In the same study, researchers found that while agents privately believe that overpricing leads to a higher final sale, they publicly advocate underpricing. In this study, 35 agents were shown 10 sample properties between March 28, 2011, and May 2, 2011, and asked to recommend a listing price. In 70.4% of the properties viewed, agents recommended underpricing.

They had a "strong belief that listing low was the only way to go," Prof. Buchianeri says. "If you list it too high, you would never sell your house," they thought."

Pricing low may speed up the sale, which can save the real-estate agent both time and money spent marketing the property. In the end, agents may get a lower commission, but the difference is usually negligible. "It's intuitive if you think about it," she says. "It looks like the realtors are doing what's best for them, and as homeowners, we need to understand that relationship."

NAME YOUR PRICE

SELLERS WHO LISTED THEIR HOMES ...

... 10% to 20% higher than other homes in the neighborhood saw a slight increase of 0.05% to 0.07%, on average, in the sale price.

... 10% to 20% lower than other homes in the neighborhood saw a slight decrease of 0.5% to 0.8% in the sale price.

70.4%

Frequency that real-estate agents recommended underpricing homes in 10 sample listings.

Source: Journal of Economic Behavior & Organization, May



↑
Priced High

MANHATTAN An Upper East Side apartment was listed for \$1.35 million, about 4.5% above comparable properties nearby. It sold for \$1.32 million this week.



↓
Priced Low

VAIL, COLO. A contemporary-style home is currently listed for \$2.495 million, about 10% below comparable properties nearby, in hopes of sparking a bidding war.

Summer Rentals for Procrastinators



\$125,000

a month in the summer
Newport, R.I.

Protected by wrought-iron gates, this French chateau-style house, known as Champ Soleil, was built in 1929 on Newport's Bellevue Avenue and sits on 5.5 acres. It includes 22 rooms spread over three levels and features French doors, marble floors, six marble fireplaces, 18th-century pine paneling from Paris and three kitchen areas. There is also a formal dining room. The gardens include extensive lawns, a rose garden and a pool. The master bedroom sits at the top of the grand staircase. In all there are six bedrooms, seven full baths and three half baths. It is also available for one-week rentals, price upon request.

Agents: Karen Camp and Kerry Dwyer, Lila Delman Real Estate

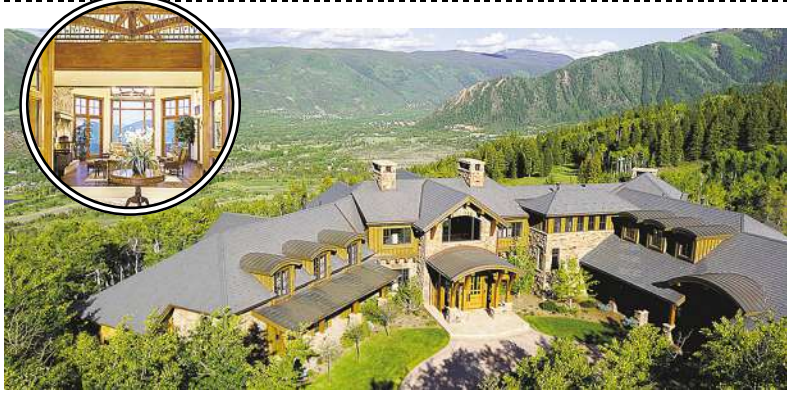


\$295,000

for August including Labor Day, or \$150,000 for two weeks in August
Southampton, N.Y.

This 9,000-square-foot home with 10 bedrooms and 10½ bathrooms sits on more than 2 acres of landscaped gardens. While the shingle-style house dates back to 1895, according to the agent, it was renovated in 2000 and includes a kitchen with a butler's pantry, a formal living room, a library, a family room and a solarium. If you're looking to enjoy the outdoors, there is a pool with a cabana, a tennis court and a putting green. It is about five minutes to the beach.

Agent: Pat Petrillo, Sotheby's International Realty



\$150,000

a month in the summer
Aspen, Colo.

While this 12,000-square-foot home has views of four ski areas and ski-out access to Buttermilk Mountain, it was also designed to take advantage of Aspen's busy summers. Built in 2011, there is a pool, a hot tub, an outdoor kitchen and plenty of outdoor seating. The home includes five bedrooms, seven full baths, three half baths and a separate caretaker's unit. An elevator goes to all three levels. On the lower level is the exercise room as well as a family room with a bar and poker table. Located on 8 acres, the house is less than 10 minutes from downtown Aspen.

Agent: Betsy Black, Sotheby's International Realty

—Sarah Tilton

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Kiawah Island REAL ESTATE

85 BLUE HERON POND ROAD
Price: \$18,000,000 | Sq Ft: 15,322 | View: River & Marsh
Bedrooms: 7 | Bathrooms: 9 full, 3 half

The stunning natural beauty of Kiawah unfolds across 10,000 acres—now is your chance to claim 12 as your own. Just 21 miles south of "Top City in the World," Charleston, S.C., 85 Blue Heron Pond Road is a private estate showcasing a Shreve-Wharton design, overlooking unforgettable marsh vistas. Incorporating local building customs to embrace its natural environment, the graceful structure is covered with weathered red cedar shingle and shake along with handmade Savannah Grey brick. The estate includes a 15,000-square-foot main home, along with a five-car garage, guesthouse, and 5,000 square feet of luxurious outdoor living spaces. Walk through the property's verdant gardens, stroll the beach, or lose an afternoon to the pool—all accompanied by a silence as golden as the whispering, marsh grasses enveloping 85 Blue Heron Pond Road.

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