

The Dangers of Overpricing in the San Francisco Real Estate Market



While overpricing almost always has negative ramifications for sellers (lower sales prices than if priced correctly to begin with), it can provide opportunities for buyers who carefully track price reductions and react accordingly. Such buyers will typically face less competition from other buyers – often no competition, which eliminates any need for overbidding – and allows for more aggressive negotiation of the purchase price. Across Bay Area markets, price reduced properties consistently sell for lower average dollar per square foot values than homes that sell quickly.

Data from sources deemed reliable, but may contain errors and subject to revision.
All numbers should be considered approximate.

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The Truth about Home Pricing

Ironically, instead of getting more money... [Over-pricing] usually stigmatizes a property and reduces the eventual sale price to *less* than it would have been with more realistic pricing.”

House Selling for Dummies

Fair market value is that price a qualified, reasonably knowledgeable buyer is willing to pay, which a seller, not under duress, is willing to accept after the home has been properly exposed to the market.

Neither agents nor sellers determine market value: Only the market – willing and able buyers -- determines market value. Agent and seller work together to create a plan – which includes pricing, preparation and marketing -- to maximize the conditions that reliably achieve the highest possible sales price.

The vast majority of buyers *will not make offers* on homes they consider significantly overpriced. Either they don't want to waste their time, or are uncomfortable with possibly “offending” the seller. In any case, they simply move on to other listings.

Well-priced homes create a sense of urgency in the buyer/broker communities to act quickly with strong, clean offers, and often lead to competitive bidding between buyers – which is the most likely way to increase sales price.

Overpricing wastes the optimum moment of buyer and broker attention: when it first comes on the market. This moment cannot be recaptured.

Overpriced homes kill any sense of buyer urgency and take much longer to sell, which then significantly reduces value in buyers' minds: "There must be something wrong with it if it hasn't sold by now." It almost always eliminates the possibility of competitive bidding.

Overpricing helps sell *competitive properties*, since they stand out as good values in comparison.

If a listing has inadvertently been overpriced, the *sooner* it is recognized as such and the price reduced, the smaller the negative impact. Price reductions must be big enough to regain the attention of buyers and their agents – typically, at least 5%.

In order to *win* the listing, some agents suggest a list price considerably *higher* than what they believe market conditions and comparable sales justify—because they believe *this* is what the seller wants to hear. This is called "buying the listing" and is a violation of the fiduciary duty of honesty that an agent owes their client.

- Price it right to begin with.
- Prepare the home to show in its best possible light.
- Implement the most comprehensive marketing plan possible.
- Hire an agent who knows how to negotiate effectively on your behalf, and manage the disclosure and due diligence processes.

The difference can add up to tens or even hundreds of thousands of dollars.

San Francisco Home Pricing Analysis

HOUSE Sales With & Without Price Reductions

House sales reported to
MLS, per Broker Metrics

■ Homes Sold: No Price Reduction

■ Homes Sold: 1+ Price Reductions

112% of LP

93%

Homes requiring price reduction averaged over 6 weeks longer on market to acceptance of offer.

100%

90%

70 days

Homes requiring price reduction before selling averaged a sales price 7% under original list price, while those selling without reduction averaged 12% over original list price.

Homes requiring price reduction before selling averaged a dollar per square foot value 10% below homes selling without price reduction.

No price
cut prior
to sale

Price cut
prior to
sale

24

No price
cut prior
to sale

Price cut
prior to
sale

No price
cut prior
to sale

Price cut
prior to
sale

Avg. Sales Price to Original
List Price Percentage

Avg. Days on Market
to Offer Acceptance

Dollar per Square Foot
Differential

The sales price to list price and days on market analyses were based upon 3 years of sales through Q3 2019, averaging Broker Metrics quarterly data. The dollar per square foot analysis was based on an analysis of 12 months sales ending 11/12/19. Adjusted for outlier data when identified. Data from sources deemed reliable, but may contain errors and subject to revision. All numbers are approximate.

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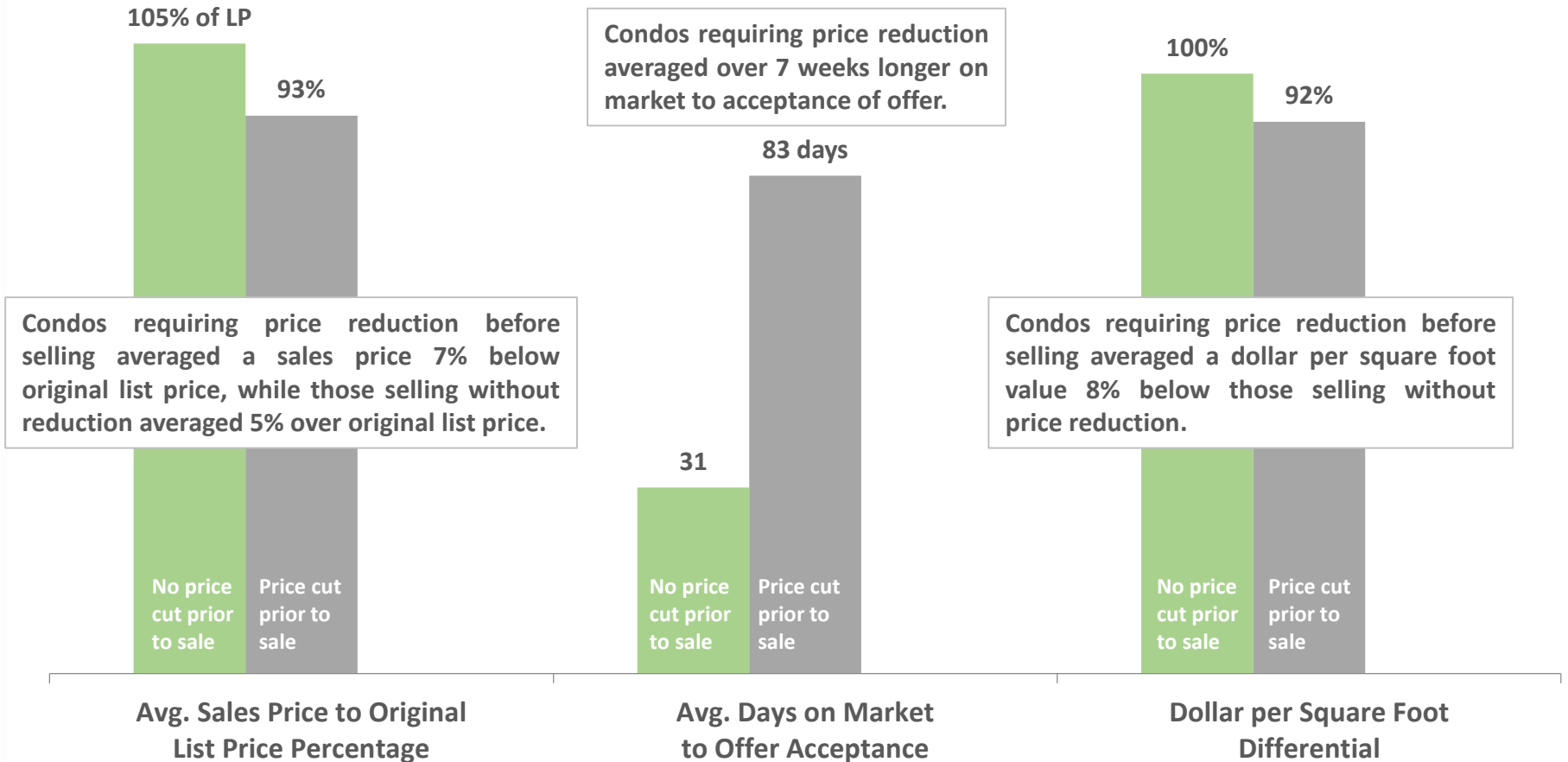
San Francisco Home Pricing Analysis

Condo, Co-op & TIC Sales With & Without Price Reductions

Sales reported to MLS, per Broker Metrics.
"Condos" includes co-ops and TICs.

■ Condos Sold: No Price Reduction

■ Condos Sold: 1+ Price Reductions



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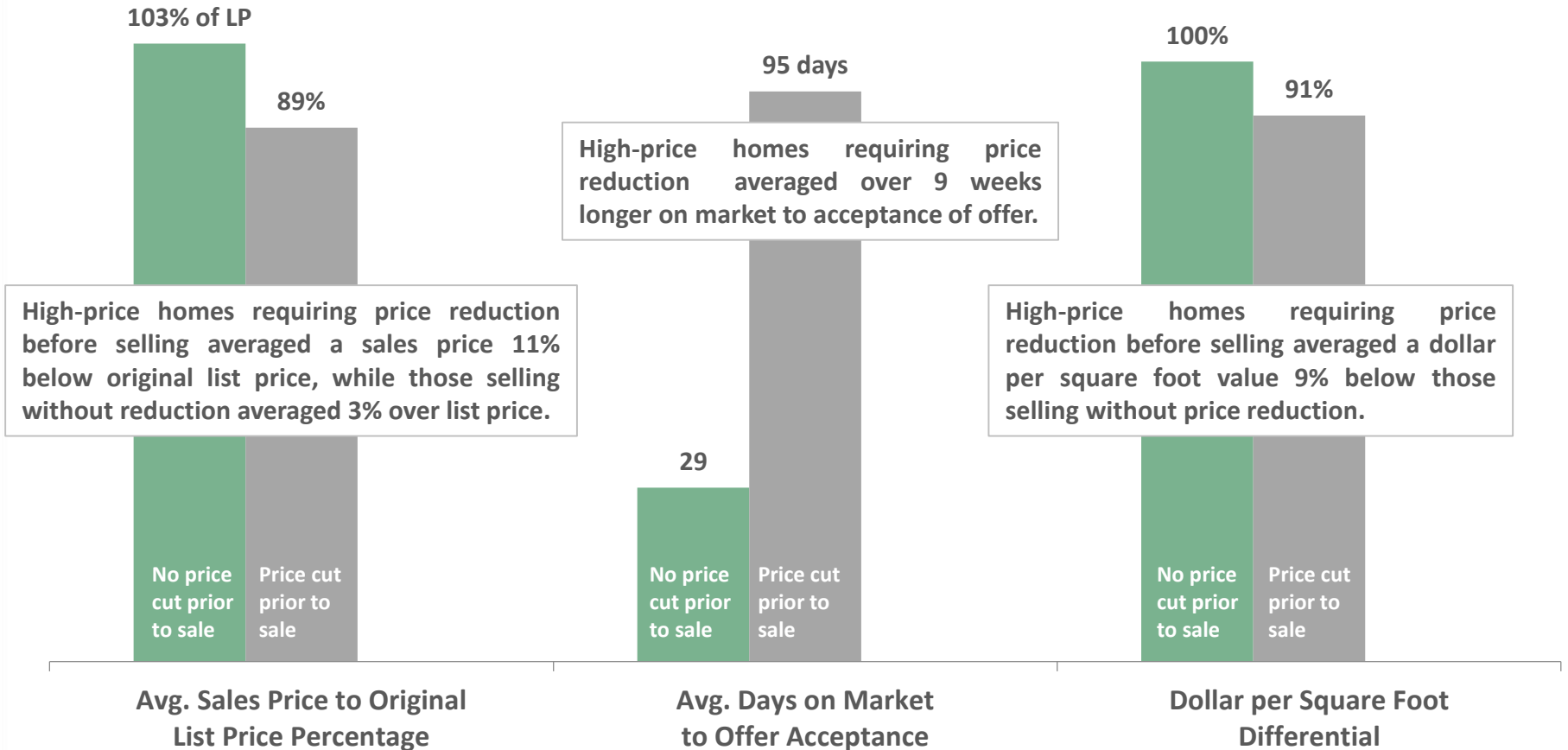
San Francisco High-Price Homes: Pricing Analysis

Home Sales, \$2.5 Million+, With & Without Price Reductions

House, condo and co-op sales reported to MLS, per Broker Metrics

■ Homes Sold, \$2.5m+: No Price Reduction

■ Homes Sold, \$2.5m+: 1+ Price Reductions



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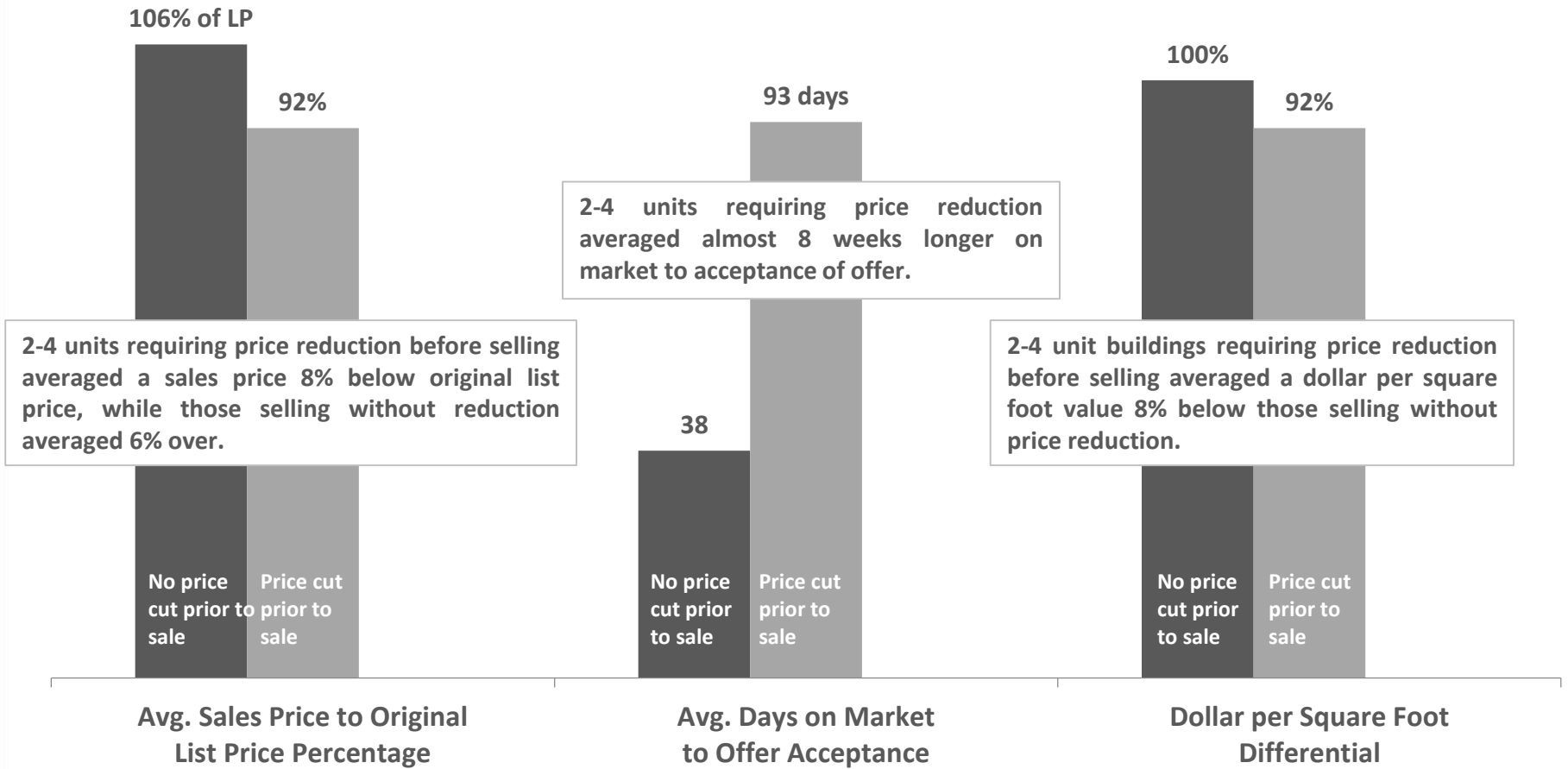
San Francisco Multi-Unit Residential Pricing Analysis

Sales of 2-4 Unit Buildings, With & Without Price Reductions

Sales reported to MLS, per
Broker Metrics

■ 2-4 Unit Buildings: No Price Reduction

■ 2-4 Unit Buildings: 1+ Price Reductions



The sales price to list price and days on market analyses were based upon 3 years of sales through Q1 2019, averaging Broker Metrics quarterly data. The dollar per square foot analysis was based on an analysis of 12 months sales ending 6/21/19. Data from sources deemed reliable, but may contain errors and subject to revision. All numbers are approximate.

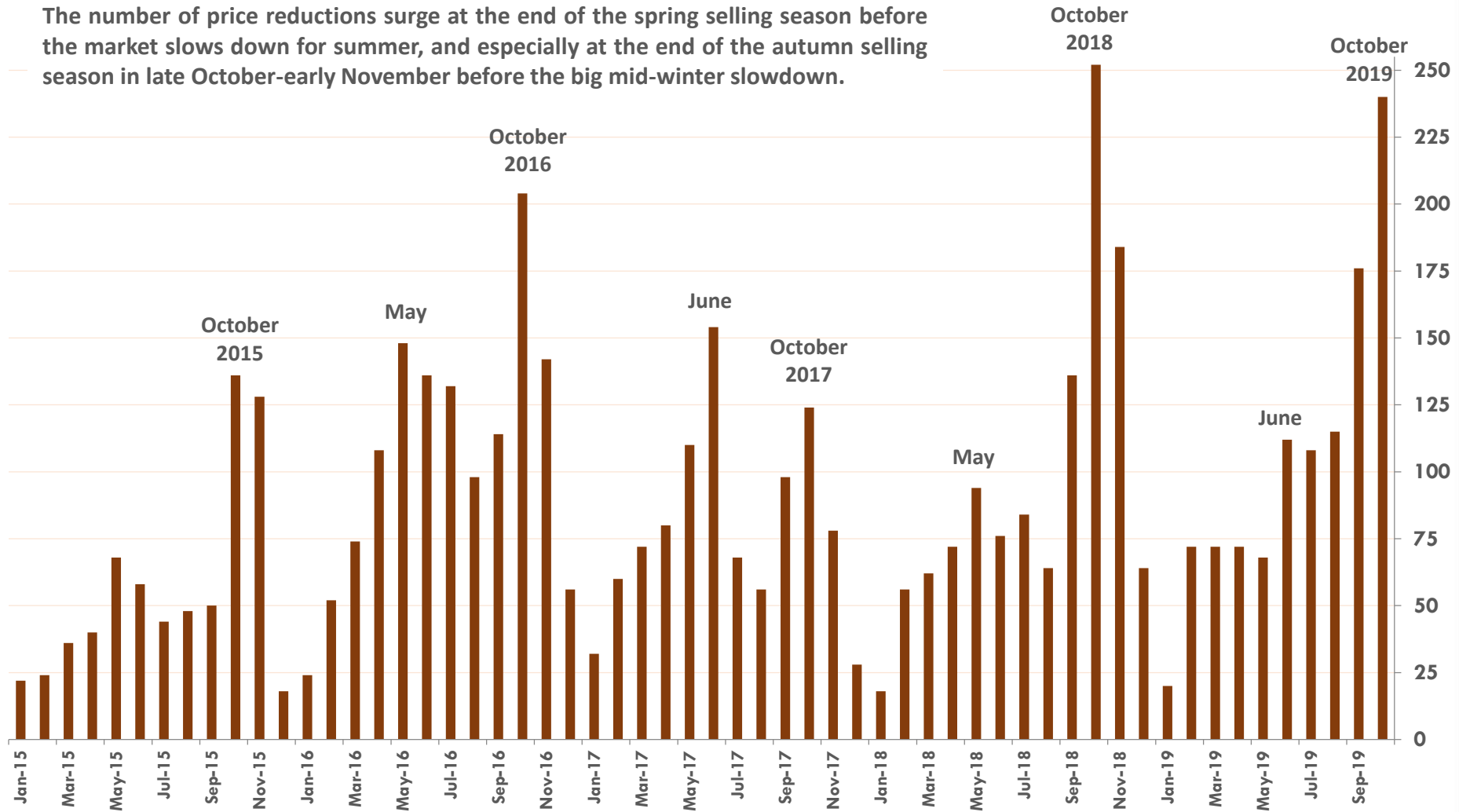
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Price Reductions on Active Listings

San Francisco Real Estate Market Dynamics

For houses and condos.

The number of price reductions surge at the end of the spring selling season before the market slows down for summer, and especially at the end of the autumn selling season in late October-early November before the big mid-winter slowdown.



Per National Association of Realtors Inventory Core Metrics by County:

<https://www.realtor.com/research/data/>

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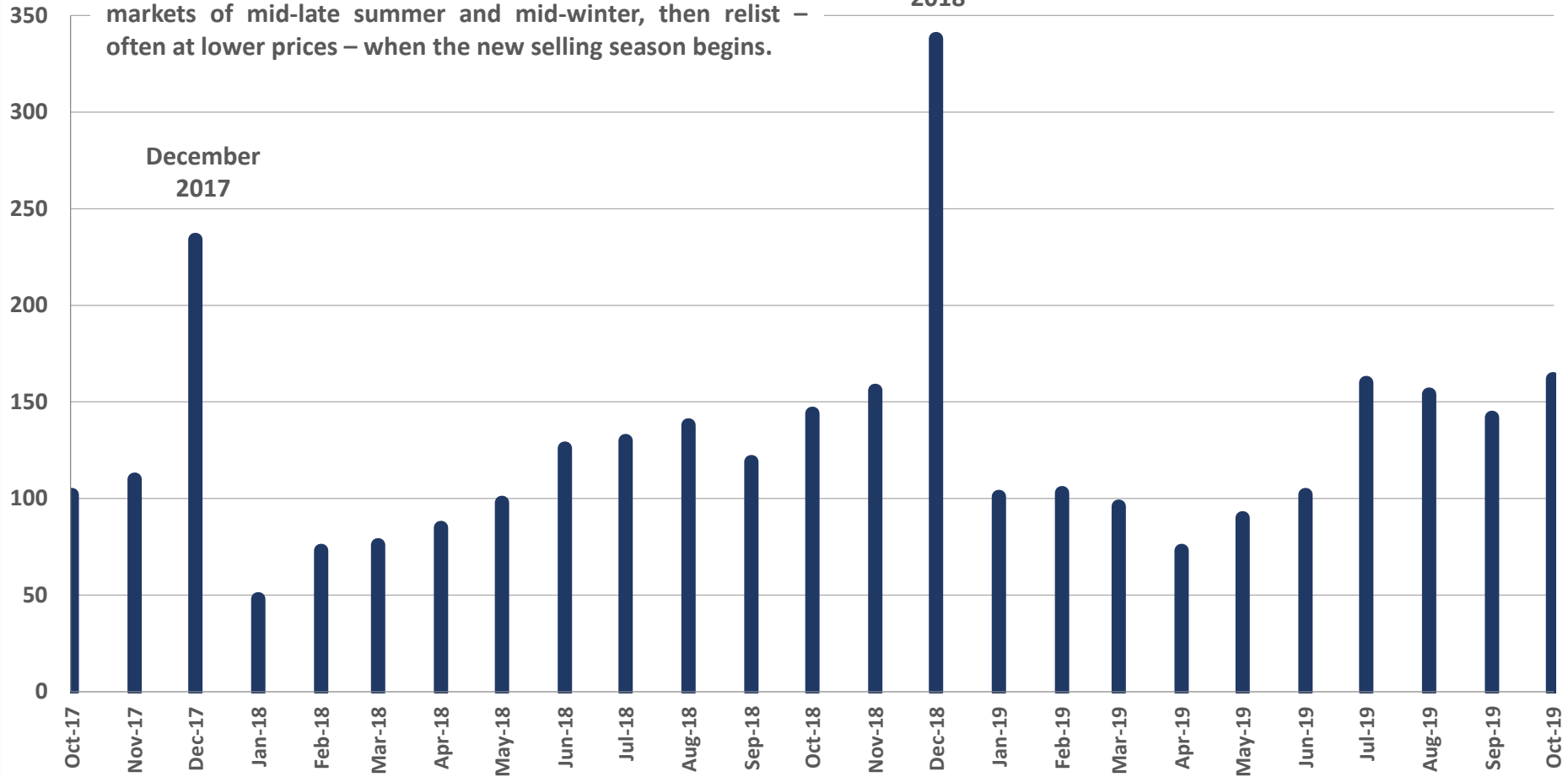
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San Francisco Market Dynamics

Listings Expired or Withdrawn (No Sale)

Houses, condos, co-ops, TICs, 2-4 unit buildings, as listed in MLS per Broker Metrics

Listings typically expire or withdrawn without selling due to being perceived as overpriced, and/or to avoid the slower markets of mid-late summer and mid-winter, then relist – often at lower prices – when the new selling season begins.



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