

SOME BASIC IDEAS

The local real estate market is very organized and orderly. It is defined by those area homes listed for sale in the MLS computer database. Our area has a high proportion of sophisticated and intelligent buyers and a well-developed set of customs and procedures. The vast majority of home sales are made through real estate brokers who utilize a computerized MLS search facility in conjunction with a lockbox system. These features facilitate locating and showing properties.

Most buyers see many homes and weigh their decision carefully before making a purchase. After all, home buyers know that this is their last home purchase and that they will live here *forever*. Also, most are spending what they consider to be a large sum of money. They believe that a home not only should provide shelter but also should be a good investment, a comfortable abode, and a palace made for entertaining.

The impact of the above on a home seller is that, with all these considerations, a home purchase will not be made impulsively or emotionally. Home sellers who spend time and money searching for that one buyer who will pay 10% more than fair market value invariably find it to be a frustrating and unproductive exercise in futility. There might be a sucker born every minute, but they are not here in the D.C. metropolitan area buying homes.

For the reasons cited, the selling prices of most homes **do** represent their fair market values. The significance is that, because of the continuity and orderliness of the market, future prices can be predicted from recent sales. Exceptions to this rule are rare and usually result from one of the following:

- ◆ A home was not exposed to the market properly or for a long enough time.
- ◆ A transaction was not at "arms length," for example, a sale between family members or a transaction with hidden considerations.
- ◆ A sale was forced by unusual outside pressure on the seller, for example, loss of income or serious health problems.

It bears repeating that the above exceptions are rare and that **prices of sold homes typically represent fair market values.**

You should not be surprised then that "the market," in its infinite wisdom, has already determined the selling price for your home, give or take a few thousand dollars. The idea of a well-informed, rational, and orderly real estate market is a most important concept that should be kept in mind as you proceed.

The most important decision in the home selling process is who, if anyone, will assist you. The majority of home sellers use a conventional, or full-service real estate broker. This option will be explored in depth later.

You have two other choices. First, a few real estate firms specialize in offering less than full service, usually at lower cost. If this idea appeals to you, further investigation is in order. But talk first with a full-service broker to define exactly what is offered. Then, knowing the answer, you are in a position to make an informed decision regarding which elements of full service you can do without, and what savings might be available. Be sure to ask **when** the commission is paid: Some firms ask to be paid up-front whether they find a buyer or not.

Second, there are the do-it-yourselfers, known as FSBOs (pronounced fizz-bows). The acronym FSBO stands for For Sale By Owner. One local study found that roughly one-third of FSBOs were successful in finding their buyer. Another one-third retained an agent eventually. The remainder never sold. Occasionally, one can see "For Sale By Owner" signs, but selling your home yourself is not recommended. A few of the reasons are the following:

- ◆ Limited exposure to potential buyers (less than 10% of what a broker will generate) which theoretically means ten times longer on the market.
- ◆ Such limited exposure will very likely lead to a lower selling price.
- ◆ Most buyers find it extremely awkward to negotiate or even to talk directly with sellers and therefore avoid FSBO properties.
- ◆ Lack of negotiating experience and lack of information often will result in a lower selling price, or worse yet, a bungled contract and possible lawsuits.
- ◆ Many buyers will pass by a FSBO home merely because they recognize that it is not in the real estate mainstream. This makes them wary.
- ◆ As most local buyers now retain an agent to represent them as their buyer-broker, you will probably be negotiating against an experienced professional. Further, the agent likely will be earning a commission on the sale of your home whether you pay it directly or not.
- ◆ Expected savings in broker's fees will also be greatly reduced if you offer a selling commission to entice real estate agents to bring potential buyers.

Only real estate agents have access to the up-to-date market information. News reports cannot approach the timeliness or specificity available to agents. Further, real estate agents are involved in home sales much more frequently than the average homeowner is. This familiarity leads to a degree of expertise that provides an edge on negotiating and successful home selling.

Compared with even the best-informed homeowner, most agents have a much better idea of what to say, when to say it, and to whom. Expert agents also know what *not* to say, which can be of vital importance. If your do-it-yourself room painting job does not turn out quite right, it is easy to fix. If the bathroom tile job becomes overwhelming, an expert craftsman can be summoned. With home selling you are dealing with large sums of money, a complex process, and legally binding contracts that are frequently impossible to re-work. A do-it-yourself home selling job that seemed as simple as merely finding a buyer can become a nightmare because of unforeseen complications.

So why do *any* sellers take the do-it-yourself route? The reason is, very simply, that it is so easy to calculate the savings of being a FSBO: For example, 6% of \$600,000 is \$36,000 (and that's a lot of money). But such savings will be cut to \$18,000 if a 3% commission is offered to agents who bring a buyer. On the other hand, the financial advantages of hiring a capable agent are much harder to quantify and therefore seem less certain; but they do exist. The pitfalls likely to beset a FSBO seller are generally unknown to him. If they do come to mind, they are easily ignored until it is too late. (It is a blessing to recognize what you *do* know, versus what you *don't*.)

Does this mean that you will need to deal with a real estate agent? You will be pleasantly surprised to find that the average real estate agent does not bite. Most can smile and behave pleasantly, if put to the test. A few have earned the coveted "human being" designation. Some might even qualify to become a friend. So, forge on fearlessly to learn how to select the best agent for your needs. But remember that **the choice of an agent is much more important than the choice of a firm.** The agent will play the central role in the marketing effort; the firm will play the supporting role if any. Home selling is an important undertaking, so stay tuned. (Ed note: If you know what "stay tuned" means, don't admit to it!)

*This series is excerpted from David Rathgeber's **SELLING YOUR HOME in the Washington, DC Metropolitan Area**
Copyright © David Rathgeber. All rights reserved.*

For the entire text of David's SELLING YOUR HOME... book, free online, visit: www.davidr.net