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Playing with the Numbers

The list price of a home is both an incredibly important number and an almost useless number depending on where a buyer is in their search for a new home.

In most cases, the very first thing a prospective buyer looks at is the list price. At a glance this helps them determine if a given home is in their range. A home priced on the low side could be viewed as an opportunity, but too low and one starts to wonder what is wrong with the home or how outrageously it will be bid up. In contrast, a home priced too high may not command much interest. In our current hot market it only takes about 2 weeks on the MLS before prospective buyers to start thinking "lowball" or at least under asking.

Like it or not, this current mindset has led most listing agents to recommend pricing a home a little below where the comps indicate. With the majority of homes receiving multiple offers, there is very little risk that an aggressively priced home will not be bid up, and in many cases, quite generously!

So, how is the list price a hindrance? Take a look at the table below which shows the difference between the sale price and the list price (expressed as a percentage) of homes in several local cities:

Sale v. List Price*	San Carlos	Redwood City	Palo Alto	Mountain View	Sunnyvale
Average	9.5%	6.7%	13.1%	14.2%	9.3%
Maximum	26.3%	28.7%	53.1%	35.4%	25.9%
Minimum	-11%	-10.3%	-9.3%	-4.1%	-4.8%

* Sales data from June 1 to July 23, 2014.

If you are a Palo Alto buyer, bidding 13% over the list price means you would have only missed out on winning the bidding by 40%, at least in the most extreme case. The rest of the cities shown have a spread of closer to 20% between the average and maximum prices, which still adds up to hundreds of thousands of dollars!

Our point? The list price is a fairly arbitrary number. It could be ridiculously low (the Palo Alto home that went for 53% over was listed at $1.45M and sold for $2.22M) or it could be in line with the comps. It becomes a hindrance though when buyers start computing the percentage they are going over the list price and letting that guide their offer price. At some point the successful buyer puts aside the list price and focuses on the recent comps (keeping in mind the upward trajectory of the current market), the input from their agent and how much they want the house in order to determine their offer price.

Is list price important? Absolutely. It gets people through the door (or not). But, like the kickoff at the beginning of a football game, it gets the game going and can help establish momentum, but it never determines the outcome of the game.

Best Regards,

Janie and John

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"Oh, by the way, we are never too busy for your referrals."