

COST, VALUE AND ICE CREAM CONES

By Judith I. Johannsen

If restaurants offer early-bird specials if you order dinner before 6 p.m. and if theatres charge less for movies that start before 6 p.m., then why is the price of an ice cream cone the same all day long and why don't sellers of homes automatically reduce their selling prices if they sign a purchase and sale agreement before 6 p.m.?

Whether you eat at a restaurant or go to the movies, the price listed is the price to be paid and there is no negotiating.

When you are buying a home, the price at which the property is being offered is more like the suggested retail price and is based on many things like location, a red hot or slow market, sales of similar properties in the area, interest rates, and even the seller's reason or need for selling. The final sales price may be a result of all those things plus the negotiating skills of the buyer and seller.

One of the things sellers do wrong when figuring out a listing price is equate cost with value. The number of improvements to a property and the actual cost of those improvements when added to that owner's original home purchase cost do not necessarily translate into a number that is equal to that property's market value.

Market value is the most probable price in terms of money that a property should bring in a competitive market where the buyer and seller act at arm's length (without a personal relationship such as parent and child, best friends or business partners), sensibly, and where the price is not affected by undue stimulus such as coercion or duress. Once sold, the property's sales price is the market value price.

Real estate agents routinely help sellers establish a realistic listing price and a likely sales price by estimating a property's market value through a comparative market analysis ("CMA") or broker's price opinion ("BPO"). CMAs or BPOs are not appraisals, but, rather, are brief evaluations of similar, recently sold properties in the area that are then compared to the seller's property, indicating an appropriate price range in which the seller's property could sell.

CMAs and BPOs are also prepared by real estate agents for buyers. Buyers, like sellers, need to know a property's current market value in order to submit a suitable offer so as to leave room for negotiation, but also to know at what point they may be paying more than what the market value data supports.

There is nothing in a CMA or BPO that estimates a sales price based on time of day. So, while the cost of a dinner or movie ticket may depend upon the time of day, the value of property does not. An exception to this would be if an agent estimated a property's market value in the morning and then, in the afternoon, a tornado destroyed the property, the market value for that property after the tornado would be radically different.

We all know that a lower price for an early-bird dinner or movie ticket is a marketing strategy used to get people into a restaurant or theatre and that those lower prices have no bearing on the quality of the meal or movie, but a property's sales price is almost always directly related to the quality of the property compared to other similar properties, whether it's bought and sold in the morning, afternoon or night.

Lastly, why ice cream cones cost the same no matter when you buy them, I don't know, but if they sold them at a pre-early-bird half price before noon, I think they'd be onto something.

Judith I. Johannsen is Assistant Counsel for the Connecticut Association of Realtors®, Inc.

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