

In a Slowing Market, Price Is Only the First Step

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If for-sale signs have sprouted like weeds in your neighborhood and the grass is growing up around them, it's no time to panic, say real estate experts.

It's time to go back to the basics.

For years, nothing seemed to faze home buyers here. Price didn't matter. You could sell with dirty dishes still stacked in the sink. Even the eyesores got multiple bids.

In the past year, though, the number of homes on the market has tripled. Some sit for months instead of days. To sell, the experts say, the price has to be right and the house has to look move-in ready.

Setting a price at or below market, cutting it within weeks if buyers don't respond, helping buyers with closing costs, making your house stand out with new paint or new appliances -- those are traditional strategies in competitive times.

Now, some sellers also are dangling offers of vacations and cars. Others are turning to auctions, normally associated with foreclosures and fire sales. Some are just praying.

Here's a closer look at some sales tactics for today's market.

A Price You Can Count On

Pricing a house right is the most important part of the equation, but it can be hard to find that number in a changing market. It doesn't help to know what a house sold for six months ago or even three months ago.

"You have to look at what the contract prices have been recently, not at what the high-water mark was in 2005," said Linda Braley, an appraiser in McLean. "Those prices are gone."

Even those who had their houses appraised for refinancing in the past year should look again before listing, Braley said. "In a market where not much is changing, you might have a shelf life of about six months on an appraisal. But in the current situation, it's very difficult to keep up with prices."

The American Society of Appraisers in Herndon suggests sellers read their old appraisals to find things that had a negative effect and consider updating or remodeling those areas. Sellers might pay for an upfront appraisal, which costs about \$350, to avoid getting blindsided.

Sellers also have to take a steely-eyed look at the condition of their house. If there are defects, a shopper will zero in on those first, said Tom Hanson, an agent with the Pure Energy Team at Gerlach Real Estate in Silver Spring. Then, sellers must either fix the problems or lower the price, Hanson said.

Some agents routinely advise clients to start at or about 5 percent below the last sale. "A good agent will encourage the sellers to look at their bottom line" in deciding on price and how much financial help to give a buyer, said Margaret Ireland, chairman of the Northern Virginia Association of Realtors and a managing broker at Weichert Realtors in Manassas.

"We encourage sellers to see what's comfortable for them to walk away from the table with," she said. "The key is being flexible. Some people are so set that 'I have to leave on this date,' and that that's the main thing they want. But if you get a good contract with a price you can live with and the settlement date is sooner than you'd expected, then you try to work it out."

While some parts of the region are still seeing prices "ticking up a little bit," if a house isn't getting any traffic, the price is too high, Ireland said.

"What I teach my agents is that if you've got 10 legitimate showings -- with agents that are bringing clients and not just agents coming to look -- and there are no offers, it's time to lower your price," she said.

Also, if a property sits two weeks with no interest, not even an agent dropping by, "it's time to lower the price," she said.

The amount of the reduction depends on the price range. "If it's in the \$700,000-to-\$800,000 range, you need a good \$25,000 reduction," Ireland said. "For a house in the \$1 million to \$1.3 million range, it might take \$100,000."

Holly Worthington, president of the Greater Capital Area Association of Realtors and a managing broker for Long & Foster in Woodley Park, said single-family houses that sit for three to four weeks need an adjustment. The amount "depends on how much very similar inventory there is in that particular area." She defines the area as "that particular Zip code, because buyers generally look beyond a specific neighborhood."

In the condominium and townhouse markets, those with the lowest price win, agents say. "And it's getting that way for single-family homes," Worthington said.

If you don't want to waste time, go even lower than everyone else.

That's what Linda Zingg did in early May. She and her fiance, David Williams, decided it was time to downsize, but they didn't want to get caught in the market morass they saw building up around them in Manassas.

So instead of listing her three-story Colonial at the price advertised for two other houses on their street, or at the price that similar homes had sold for earlier in the year, she listed for \$40,000 below the competition. She got "a tremendous amount of traffic" at the open house and sold in two days, Zingg said.

The \$435,000 contract was \$10,000 above the listing price, but Zingg didn't pocket the extra money. It went to help the buyers with closing costs.

"We knew our strategy was going to be to price ourselves lower than other houses on our street," Zingg said. "We'd been watching for a couple months, as it was becoming more and more of a buyer's market. We'd seen sellers putting on prices that were too high and then trying to reduce them for quick sale. But that's like a red flag on a house." Zingg wanted to sell quickly because she and Williams had already bought a house, using an interest-only bridge loan recommended by agent Becky Fremont of Re/Max Olympic Realty in Manassas. She didn't want to keep that loan open for more than a month or two.

Some sellers need more convincing.

Mike Hatter, a Coldwell Banker agent in Arlington, said he had to work hard recently to persuade an 82-year-old homeowner and his adult children to give up on expectations of last year's prices.

Hatter said he knew the brick Cape Cod near Ballston would be a tough sell because "it was almost unlivable." But the owner wanted close to \$750,000, based on neighbors' sales and a guarantee from an agent made over the phone.

But Hatter maintained not only that prices had dropped but also that the house needed at least \$60,000 in renovations. "The shower stall upstairs had rusted out, and there was a leak, so whenever you took a shower there was water leaking into the kitchen," Hatter said. "The owner also didn't have a vacuum cleaner, so the house was filthy."

The owner finally agreed to ask for about \$100,000 less than he had originally wanted and to offer closing help. With those changes, "We did get a buyer -- in less than a month. But we're lucky that we got what we got as quickly as we did," said Hatter.

Even a low price isn't necessarily going to do the trick, said Candy Clanton, an agent with Re/Max Allegiance in Fairfax. She says buyers are bargain-hunting.

"My clients have reduced their prices 50, 60 and 70 thousand in some cases, but they're just not seeing any traffic right now," she said.

Give a Little, and More

If cutting the price doesn't help, perhaps offering to give some of that money back to the buyer will work.

Financial incentives come in many forms. There's help with closing costs, whereby sellers agree to pay for buyers' settlement expenses, including the taxes and insurance payments. Seller contributions can also be used to "buy down" or reduce lenders' interest rates, or to pay bonuses to agents.

The total amount a seller can offer a buyer is limited by the lender and depends on the type of loan and the amount of the down payment, loan officers say.

If there is 100 percent financing, borrowers with good credit might be able to get as much as 6 percent in seller contributions, said Laura Triplett, a vice president at Fairfax-based George Mason Mortgage. For loans made to those with credit issues, lenders "don't like to see more than 3 percent" of the price in seller subsidies.

Rick Eul, a mortgage broker with [Bank of America](#) in Annandale, said he is seeing seller contributions on the order of "3 or 4 percent of the sale price."

In addition, Eul said, "we've seen a couple of cases where . . . they're paying 7 percent commission instead of 6 percent." By raising the commission, which is split between the buyer's agent and the seller's agent, the seller can encourage more agents to show the house. With so many houses on the market, just getting a buyer's agent to tour a house is harder these days.

Closing help often is used to buy down the interest rate for the purchaser, loan officers say. Though interest rates are still relatively low compared with past decades, they are now the highest in four years.

Buyers can always reduce their interest rate permanently themselves by paying points. A point is 1 percent of the value of a loan and usually translates into about a quarter-percentage point reduction in the rate. Sellers can also pay those points.

On a \$100,000, 30-year loan, it would cost \$1,000 to buy down the rate permanently from, say, 7 percent to 6.75 percent.

Sellers can also help buyers get temporary buy-downs from lenders.

Lenders offer three kinds of temporary buy-downs. In a 3-2-1 buy-down, a buyer can reduce the rate by 3 percentage points the first year, 2 percentage points the second year and 1 percentage point the third year by paying 1 percent of the loan for each percentage point in the reduction. On a \$100,000 loan, the total cost of a 3-2-1 buy-down would be \$6,000 -- \$3,000 for the first year, \$2,000 for the second and \$1,000 for the third.

Lenders also offer a 2-1 buy-down, reducing the interest rate from say, 7 percent to 5 percent the first year and then cutting it to 6 percent the second year. That would cost \$3,000 on a \$100,000 loan. A 1-0 buy-down, which would reduce the rate from 7 percent to 6 percent for a year, would cost \$1,000.

A borrower would save \$16 a month for the life of a \$100,000 loan if the rate were bought down permanently from 7 percent to 6 3/4 percent, Eul said. The savings from a 3-2-1 buy-down is \$66 a month for the first year, he said.

Beyond Real Estate

Vici Boguess of McEneaney Associates in Old Town Alexandria has one set of sellers trying to tempt buyers with a week's vacation on Kiawah Island near Charleston, S.C.

The townhouse near the King Street Metro station has been on the market since January, dropping in price from \$575,000 to \$542,000. The vacation "probably won't sell the house, but the owners thought that it might make an agent take an interest in it, enough to bring a client to see it," Boguess said.

Owners of a million-dollar house in Alexandria offered a free Mini Cooper as a bonus, "but it didn't work, and they sold the car when they had to move," said Dave Hawkins, managing broker for McEneaney in Alexandria. The house is still on the market, but the owners may rent it if it doesn't sell soon.

Another McEneaney listing advertises \$15,000 that can be used for closing costs, an interest rate buy-down or "for decorating credits."

Some sellers are buying a home warranty designed to cover repairs of some mechanical systems in certain circumstances. Others are paying homeowners association fees.

"I had one that closed today where the . . . seller offered a closing-cost credit to pay the condo fees for a year," said Boofie O'Gorman, a Long & Foster agent in Reston.

Looking Good

If the house looks like a dump, the traffic will pass it by. That's a basic lesson, Ireland said.

So the first step is to increase the curb appeal. "Clean up the yard. Plant a few flowers. Paint the front door. Add a new doorknob."

Others suggest upgrading exterior light fixtures and replacing ripped window screens. Foundation cracks, loose gutters or dirty siding will raise questions about the care and maintenance of a home.

Inside, remove or replace ripped or stained carpets, leaking pipes and broken lamps. Keep the house shiny-clean.

"If you're putting money into things, the kitchen and the bathroom are the best investments, and you're going to get it back," Ireland said. "But it doesn't have to be new. As long as things are in good working order, you're okay."

Hatter tells clients, "There's a \$1 to \$4 inverse relationship" between upgrades and prices. "For every dollar you don't put in, it costs you \$4 in what you can sell it for."

Beyond clean is "staging," or making over the look of a house.

Brendan Haggerty didn't believe in the power of presentation when he listed his Silver Spring house this spring, but when the four-bedroom Cape Cod didn't move for 2 1/2 months, he was willing to switch to another real estate firm that emphasized the work of its on-staff interior design crew.

"I wasn't sold on the concept *per se*, but I was willing to try anything," Haggerty recalled.

After a two-day repackaging by agent Hanson's Pure Energy Team, the Cape Cod in Woodmoor drew an offer at the open house in early May. The buyer paid just under the listing price of \$535,000. "It obviously worked," Haggerty said.

Prepping, or staging, houses is not new. But in a tough market, it's vital, Hanson said.

"Some [sellers] have very little to do. Others have quite a bit."

Haggerty's house was in very good shape, with nice furnishings, but needed "some cosmetic work," Hanson said. "We switched out some light fixtures that needed to be updated and removed a carpet to expose the hardwood floors."

The firm also moved in some of its own furniture and a rug, to "accentuate the positive" and eliminate clashing colors. There were also "a lot of toys everywhere" that had to be put away temporarily, and a room filled with playthings was turned into a study, Haggerty said. "They also talked to us about the way the furniture was arranged in the house," Haggerty said. To make more space for the kids, the family had lined up most of the big pieces along the walls. "But they said that actually made the rooms look smaller, and they moved the furniture back into the center of the rooms."

The Auction Approach

Though many agents say auctions are stigmatized by their association with foreclosures, Lilly DeGol, a Re/Max Allegiance agent in Alexandria, is "very happy" after recently teaming up with an auction firm.

DeGol worked with Homeland Auctions in Leesburg this month after her three-bedroom investment condo in Fairfax stalled for 90 days in the multiple listing system.

DeGol had bought the unit a year and a half ago and had seen a market change coming but was still surprised by the magnitude, she said. "I had done the usual marketing, reduced the price about \$15,000 and offered closing cost help," she said. Still, there were no nibbles.

After she took a class on how agents can team up with an auction house, she "decided to use it for my own property." About 20 bidders showed up for the sale outside her condo building. The process sets a minimum bid that is the assessed value of the property.

DeGol also introduced a D.C. client to the idea, selling a Northwest townhouse at auction this month.

Homeland Auctions President Gloria "Lynn" Gardner said she "can't keep up with all the calls these days" and disagrees with the perception that auctions are second-rate. "We're doing for real estate exactly what a Fourth of July sale does for retail."

Nationally, auctions "are up, but they are still less than 1 percent of the market," said National Association of Realtors spokesman Walter Molony.

DeGol, though, is a convert, for now. "We got huge traffic" from the national print and online advertising that the auction firm can command by grouping sale notices, she said. "As Realtors, we usually do this the traditional way, but this is another option. And we need options now that the market has changed."