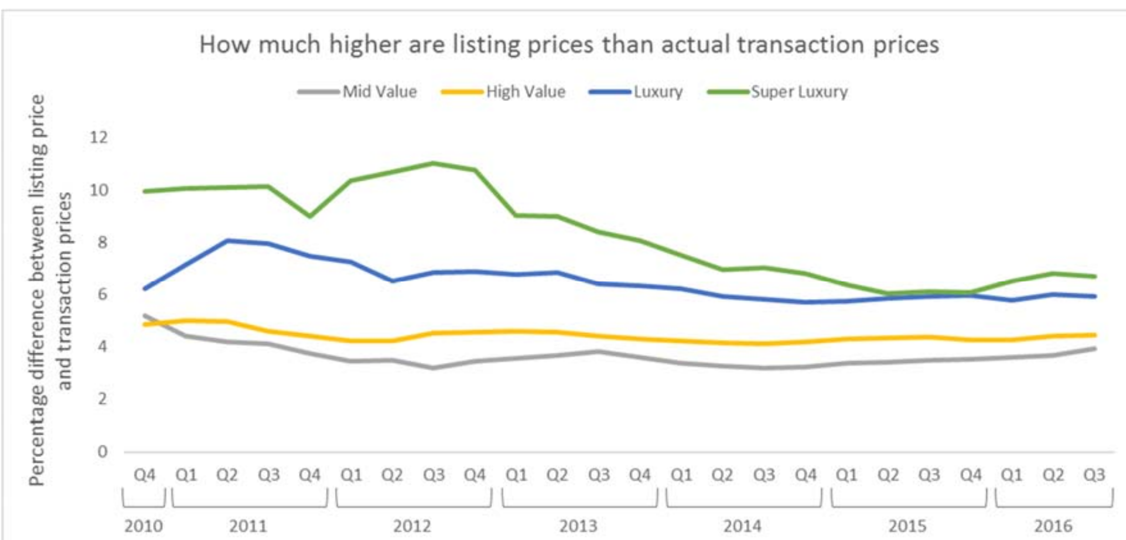
What value should I list for?

One of the most important aspects of selling a property is to determine the listing price. Not only does it require a fair appraisal of a property's market value, but also how long the property should be kept on the market to achieve its listing price. A property is rarely listed below market value but properties are often on the market for an exceptionally long time, usually because the price is too high. So what is the balance between listing price and time that it takes to sell the property?

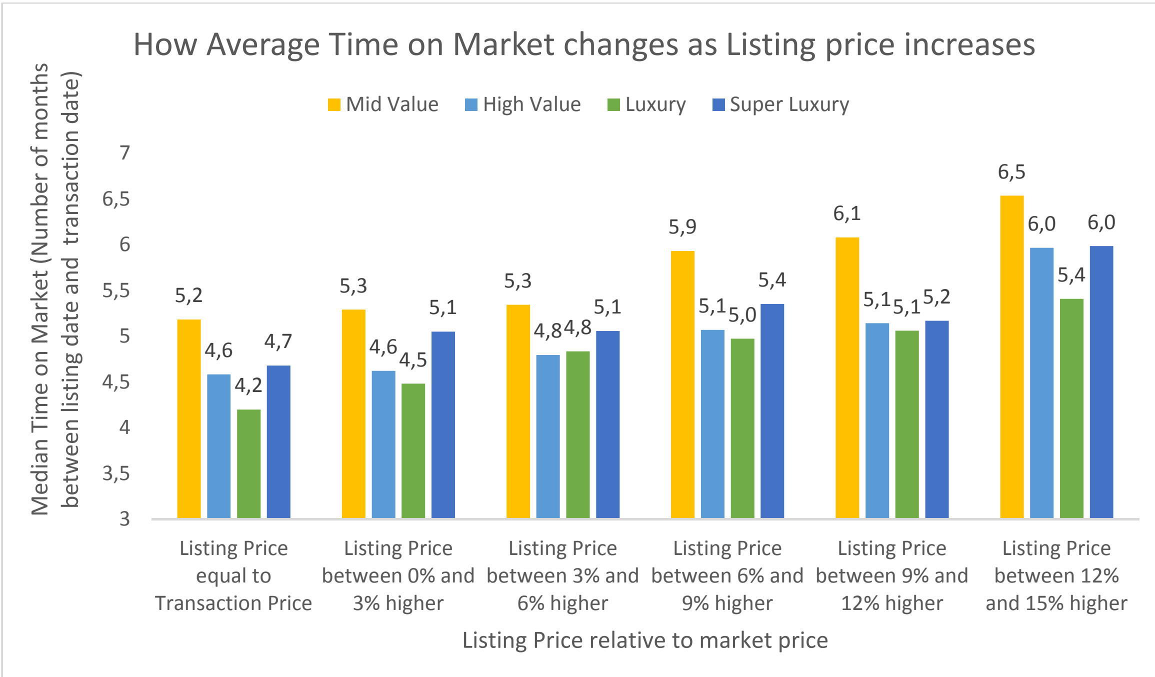
The immediate observation is that a property listed above market value generally takes longer to sell. Being prepared to wait that much longer increases the chance of finding the right buyer prepared to pay the higher price. But, how much above market value is too much, resulting in no buyers coming along that see the same value in the property?

The figure below shows the average percentage difference between the listing price and the property transaction price for four property value segments over the past six years. When looking at the third quarter of 2012, mid value properties were, on average, listed 3.2% above the actual transaction value whereas super luxury properties were listed roughly 11% above the transaction value.



While the percentage difference between the listing price and transaction price has remained relativity stable in the mid and high value segment from 2011, the luxury and super luxury segment has seen a decrease in percentage difference between the listing price and the transaction price from 2011. Another interesting observation is that the higher the value of the property, the higher the average difference between the listing price and the transaction price. It seems that owners of more expensive properties tend to list their properties for relativity higher market-related values compared to more affordable properties.

This may be due to the higher "penalty" experienced by mid value and low value properties if listed significantly higher than market value. This penalty comes in the form of longer time on market which is the number of months between the listing date and transaction date. As seen in the figure below, if a mid-value property is listed anywhere between 0% and 6% above market value, the average time it will take for the property to sell will be between 5.2 and 5.3 months. If the listing price increases to between 6% and 15%, the average time on market increases to between 5.9 and 6.5 months.



Above market listing prices for properties in the high, luxury and super luxury segment does not have a drastic increase in the time on market for the relative properties. For example, increasing the listing price of a luxury property between 3% and 6% above market value to 9% and 12% above market value will only see the time on market increase by 10 days.

Even though there is a sensitivity around the listing price and the time on market of the property, the time between the listing date and transaction date will most likely only be affected if the price is very high relative to the market value of the property.

In essence, this analysis has established that listing a property at prices significantly higher than the fair value may lead to higher waiting periods from the listing date to transaction date. Even though more expensive properties tend to be less sensitive to higher listing prices, it should be cautioned not to list low value properties for much higher than fair value since it could significantly increase the time needed to sell the property.

Portions of the data used to compile this newsletter were provided by Property 24.

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