

## **KENNETH HARNEY: Give a little to get the house sold quickly**

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### **BY KENNETH HARNEY**

Washington -- If you're thinking about selling a house this fall, keep in mind this real-life real estate parable. It's all about pushing the envelope -- being too greedy -- at the very moment your local market might be past its price-growth peak and is cooling off.

The story was related to me in late August by one of the country's top analysts of housing price movements and mortgage trends, Amy Crews Cutts, deputy chief economist of Freddie Mac.

Cutts lives in a suburban Washington neighborhood of relatively modest houses. They're roughly the same age and on similar lots. Absent major additions or renovations, home values tend to move together within a narrow price band, most recently around \$400,000.

One former neighbor, however, decided to move the goalposts. He put his house on the market for \$50,000 more than anyone had ever paid in the neighborhood -- \$450,000.

"People will make me an offer," he said confidently.

Three months later, he hadn't gotten a nibble, much less a full price offer. But he still insisted that somehow, somewhere there was a buyer out there at \$450,000.

About the same time, a couple in the area decided to sell. Their house was comparable to the one listed at \$450,000. But they took a different approach. They listed the house at \$395,000, a hair below the going neighborhood number.

Not only did that look like a bargain compared with the higher-priced house down the street, but the couple also turned out to be in sync with some underlying shifts in market dynamics: Overpriced houses were sitting longer. Fewer serious buyers were in the hunt. Those who were out shopping were well-informed and picky, picky, picky. As a result, prices were not rising as they had in prior months.

Guess how it all turned out? You've got it. The \$395,000 house pulled in plenty of traffic, attracted multiple offers, and finally sold in a bidding war for \$425,000. The \$450,000 house sat longer and longer and finally found a buyer at \$410,000.

The moral here is obvious and is especially relevant to the months ahead. Sure, the latest (second quarter 2005) housing price data the federal government released showed prices nationwide still appreciating strongly.

But many markets around the country display signs of slowdowns, in part because of affordability issues: Household incomes are not keeping pace with housing inflation. Even with creative financing, interest-only adjustables and negative amortization loans, prices still are budget-busters in dozens of metropolitan areas.

Cutts believes that "we are near the peak" of price appreciation growth for this cycle -- maybe even slightly beyond the peak in some areas.

More ominous still, Federal Reserve Chairman Alan Greenspan made clear in a late August speech that short-term interest rates will continue to be ratcheted up for the foreseeable future, in part to calm runaway house price inflation.

By late fall and early winter -- or the first quarter of 2006 at the latest -- Cutts projects that the move to lower price appreciation will be obvious to everybody, and mortgage interest rates will be trending upward as well.

House price appreciation will average "more toward the long-term trend of 5% than double digits" in Cutts' economic model.

Of course, all bets are off if crude oil prices go anywhere near \$90 to \$100 a barrel, or if some other external shock causes interest rates to spike. Any major economic disruption that pushes the country toward recession would have a significant downward impact on house prices.

Soaring gasoline prices already are changing consumers' economic perspectives, and inevitably that seeps into homebuyers' mind-sets when they're shopping for property.

That brings us back to Cutts' real estate parable. If you are selling into a market that is shifting toward cool-down, or will be shortly, hold back on the greed impulse. In cooling markets, unless you snag the increasingly rare, totally clueless buyer, record-setting asking prices won't get you many offers.

Realtors need to preach this message to potential clients as well. Sellers should know that if you truly want to sell your house, price it realistically for your market's emerging dynamics.

Who knows? You just might luck out like Cutts' smarter neighbors, and sell for more than you're asking.

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