



WRIGHT-KINGDOM

The Right Choice in Real Estate

## Real Estate Update

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### Price vs. Value: Determining the Price of Your Home

It is important to realize the practical differences between the terms 'market value' and 'price' in relation to the sale of a home. The terms are not the same even though they are used interchangeably by the public and often even by the professionals that surround a real estate transaction.

The book The Appraisal of Real Estate defines market value by saying, "...it is generally agreed that market value results from the *collective* value judgments of market participants (buyers), not from *individual* judgments. A market value estimate must be based on objective observation of the *collective* actions of the market." Market value is therefore a range we can determine from an analysis of current price activity in your neighborhood using several properties comparable to yours that are now under-contract (sale pending), and properties that have sold recently.

One way to define the concept of 'price' is: the amount a Buyer will pay for a specific property at a certain point in time. Price is not a set amount. It can vary within a range determined by a group of buyers (the 'market value'). If your price is not within this range of market value, you will not have as good a chance of attracting the right buyer.

Arriving at a price is therefore a process of evaluating *a group* of recent sales and under-contract properties. We need to look at statistical averages which give us a *range of value* rather than relying too heavily upon isolated individual sales. Some of those sales may have had important characteristics effecting their price that were different from the property we are trying to prepare for sale now. Those aspects may have included: sellers or buyers acting under duress (divorce, job loss, job transfer, etc.), special financing, better condition, better location, or better design features when compared to the home we are trying to price.

When we see a home or property on the market for a long period of time, it is often an example of the home's owners believing, or wanting to believe, that the property has an intrinsic value that is higher than the price a buyer will pay. These home owners are essentially 'hoping' that a Buyer will appear that will disregard the 'market value' of the property and pay a higher price than the rest of the market will.

But most often, if the home is priced too high, you are risking being on the market too long--and the market is ruthless in stigmatizing the property as 'having something wrong with it'. If the home is on the market too long the result may be little showing activity, and you will begin attracting undesirable bargain hunters. The chances then increase dramatically that you will end up receiving less for your house than if you had priced it more reasonably to begin with. This is the fine line you walk if you decide to gamble and price the property above its market value.

Are you a gambler? To a great extent that is what you are doing when you set a price on your home that is above its market value. You are gambling that the Boulder or Larimer County real estate market will have the strength to catch up with your price. With the current economic environment causing relative weakness in today's market, that is indeed a risky proposition.

Market value is independent of the Realtor. Choose the person you think *will best advise you and advocate your interests*, market your home most effectively, *and* help you negotiate an effective price with prospective Buyers. When the time is right, you and I can determine your final pricing strategy. Together we will take into account current economic trends, the property's condition, and its market value.

Sincerely,

