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Tiny price cuts don't help seller

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It's the worst-case scenario for home sellers: To endure price cut after price cut until their house becomes stigmatized and hungry buyers smell blood.

But how can you avoid this unpleasant scenario in today's troubled housing markets? The answer, experts suggest, is to put your home on the market at the right price, and if it doesn't sell quickly, cut the price deep and fast, so you won't be caught in a downward spiral of price reductions.

Not surprisingly, few sellers want to hear that advice. They'd rather price their home aggressively and then hope a buyer will take the bait.

But testing the market simply isn't a good strategy with home prices depressed, sales at a slower pace in many markets and buyers on the hunt for good deals, said Mark Reitman, Chicago sales manager for real estate brokerage Redfin in Schaumburg, Ill.

Buyers today are "looking at every aspect in so much more detail and trying to find out how they can get a lower price," he said.

Pricing is especially crucial today because a trend toward lower home prices "prevailed throughout 2007 and has continued through the first half of 2008," according to Standard & Poor's, a New York-based financial company that publishes the S&P/Case-Shiller Home Price Indices.

Economists have debated the relative merits of home-price indexes. While there is little agreement on which measures are most credible, there is an undisputed consensus that home prices have fallen and may continue to do so, albeit perhaps at a slower downward pace.

There is "no national turnaround" in home prices, though it's "possible that we are seeing some regions struggling to come back, which has resulted in some moderation in price declines at the national level," said David Blitzer, chairman of the S&P Index Committee.

House prices have fallen more sharply and quickly during this downturn than they did during previous downturns, according to "Downward Stickiness in Prices," a paper by Karl Case, professor of economics at Wellesley College and co-creator of the S&P/Case-Shiller indexes. Case attributes this

diminished "stickiness," to use a bit of economist-speak, of home prices to foreclosure sales and the use of adjustable-rate mortgages during the recent housing boom.

Yet homeowners still cling to outdated beliefs about the value of their own home. A survey by real estate information Web site Zillow.com found that 62 percent of homeowners believed their home had appreciated or held steady in the past year, even though 77 percent of U.S. homes lost value during that period.

"Our survey reveals a wide gap between the perception homeowners have about their own home's value and the realities of a market in which three-quarters of homes declined in value in the past year. We attribute this gap to a combination of inattention and a fair bit of denial that causes people to believe their home is insulated from the woes of the market that affect others, but not them," said Stan Humphries, Zillow's VP of data and analytics.

A collective delusion may be but cold comfort for home sellers who suffer the consequences of mispricing their home. Overpriced listings start out behind the market, which forces the seller to drastically cut the price or follow the market down through multiple price reductions.

Buyers, who are well aware of that dynamic, will request a history of asking prices before they make an offer, Reitman says. A series of price cuts acts as a "code" that signals to buyers that the seller is extremely motivated, and that knowledge empowers buyers to make lower offers and "stick to their guns," he warns.