

February 18, 2007

## The Psychology of Pricing

By **TERI KARUSH ROGERS**

IN a market where buyers and sellers circle one another warily — each certain that he or she is being taken advantage of, no matter what the conclusion of a deal — the asking price of a property is rarely a straightforward reflection of comparable values. While comparables may be a starting point, the price at which a seller offers a property is often also based on wishful thinking, propaganda and ploy.

Buyers, in turn, parry by deconstructing the price. They aim not merely to assess a dwelling's fair value but also to plumb a seller's bottom line and vulnerabilities. How a price tracks with similar properties, how large and hasty any reduction is, and even how parsed or rounded a number is — all these are grist for concluding, rightly or not, whether a price is firm, desperate or a sign of painful dealings to come.

Or even a sign of delusion.

Despite whispering advice like courtiers into the ear of a monarch, brokers say some sellers have delusions of grandeur, stemming from a failure to grasp that what they want for their home has nothing to do with what it's worth.

"Most of the time a seller will start to talk about what they want, and I will say, 'I don't care — don't tell me,' " said Andrew M. Phillips, a senior vice president of Halstead Property, who teaches classes on pricing to Halstead agents. "I will do my analysis and come back to you with quantitative information."

Even when the seller and broker reach an agreement on a home's value, it is often wise to adjust the asking price downward, and not just because buyers like bargains.

An equally compelling reason to fly low is to adhere to psychological "break points." These are dollar thresholds that buyers are most likely to select as the top amounts they are initially willing to spend or to use in Internet searches.

("Initially" is the key. Once buyers set foot in a house or apartment and make an emotional connection to it, they are more vulnerable to budget creep, by which a \$25,000 increase can be rationalized as a little bump of \$30 or \$40 a month in the mortgage.)

Major break points occur at \$500,000, \$1 million, \$1.5 million and so forth. Smaller ones occur every \$100,000 and then at every \$20,000 or \$25,000. So, for example, if the market value of an apartment is around \$610,000, brokers generally advise sellers to round down to \$600,000 so that the property lands within a buyer's budgetarily myopic field of vision.

(For each type of apartment, there are other contextual break points. For example, Mr. Phillips noted, many

studio buyers say they won't look at anything over \$300,000, while buyers of small one-bedrooms often hover below \$500,000 and, for larger one-bedrooms, below \$750,000.)

Many brokers tweak break points even further, counseling their clients to name a price just under a break point — for example, choosing \$599,000 rather than \$600,000. While buyers intellectually recognize the lack of meaningful difference, the lower amount is said to appeal on a less conscious level. (It works in reverse, too: buyers in a bidding war are often counseled to offer an amount just above the next break point.)

"I always joke with people that I'm a department store pricer, because I think that psychologically the first number has an impact," said Frederick W. Peters, the president of Warburg Realty. "Even though it may seem cheesy, it actually works."

As an example, Mr. Peters said that it's wiser to price a property at \$4.995 million if it's worth \$5 million. "People are influenced by the first number," he said, adding, "It's the 4 that influences the way they perceive the price. Also, if you stay under a threshold, you are going to be found by more computer searches."

Barbara Fox, the president of Fox Residential Group, suggests pricing a property slightly below a threshold but a little higher — say, 5 percent — than its market value. "Everybody likes to be able to negotiate a little bit," she said.

Some brokers reject the relatively common \$99 or even 99-cent endings. They argue that marching to a more distinctive rhythm — like \$487,500 instead of \$499,000 — may not only sweep aside listing clutter but also telegraph that the asking price has been so carefully calculated as to be nonnegotiable, assuming that is the desired message.

Theoretically, with a carefully calculated figure, "the power would be much more on the seller's side in terms of a negotiating position," said Joan Sacks, an associate broker at Stribling & Associates, "whereas when you get to the more typical type of pricing, rounded numbers, like \$995,000 or whatever, the instant perception is that this is just the first asking price."

A highly specific price reduction that follows a rounded original listing price may lead some buyers to more strongly infer nonnegotiability, which may or may not be the seller's intention. But affixing a truly oddball number can also send that message.

"I've seen prices like \$433,779," said James Lake, a vice president of Bellmarc Realty. "It indicates it's going to be a difficult transaction from beginning to end."

Ms. Sacks agreed. "That would be a real turnoff," she said. "Then, you're talking about someone who's going to be arguing about leaving a curtain rod."

Even if round numbers invite negotiation, proponents say, they are more effective than fractional ones because soliciting bids of any amount is exactly the point, leading to snowballing and competing interest. (An exception: dwellings valued around \$1 million. In New York and other states where buyers of properties priced at \$1 million and higher pay a "mansion tax" of 1 percent of the purchase price, a listing of \$999,999 is a better choice than \$1 million.)

Using round numbers that catapult a listing to the top of a break point may confer an additional, subtle psychological advantage merely by being the first to trot onto the stage after an online search.

“The higher up you show up in the search engines, the better off you seem,” said Ravi Dhar, a professor of marketing and management at [Yale](#) and the director of the Yale Center for Customer Insights. He pointed to studies of voting habits that demonstrate a slight advantage to the candidate listed highest on the ballot. “The first few options you see are a reference point, a starting point, and all of the advantages of that apartment loom larger.”

Still, sellers are almost certainly at a disadvantage if their price towers over comparable properties'. Prices of more than 5 percent over the market will probably have a chilling effect on buyers, said Confidence Stimpson, a senior vice president at Stribling.

Sellers who think that buyers will simply show up and make their best offer do not understand how the market works. “The challenge is getting buyers to see it in the first place, because their broker is doing the search at \$5 million, and you’re at \$5.2 million,” Mr. Peters said.

The buyers who do see it, meanwhile, will be disposed to make negative comparisons with better endowed dwellings in the same price range. Even apartment hunters who like the place may shy away from making an offer at what they believe is a fair, but lower, amount.

“They feel like they’ll be rejected,” said Mr. Lake, “and they don’t want to be financially embarrassed.”

Sellers who have priced too high can still salvage the situation. Brokers say they must act quickly — ideally within a few weeks — and make sure there are buyers around to take notice. (“In July, a one-bedroom price drop will get activity, but a Classic 6 probably won’t because families are away,” Mr. Phillips said.)

Second, to be effective, the lower price must tempt a whole new group of buyers, which means slimming down to at least the next break point.

“Something dropping from \$949,000 to \$899,000 will suddenly show up on someone’s radar,” said Lisa Strobing, a Bellmarc executive vice president who teaches classes on pricing to agents.

For sellers already hovering just above a break point, the reduction can be small though psychologically significant, like going from \$2.01 million to \$1.95 million. But in general, Ms. Fox said, “small reductions are a waste of time.” She recommended whittling down by 5 to 10 percent, or more depending on the situation.

Of course, Mr. Phillips said: “A good broker will interpret certain things if a property’s been around for a month at \$1.5 million, and then dropped by \$100,000. If another couple of weeks go by and there’s no action, you will know a little bit of negotiation is possible there.”

Still, proper pruning can elicit a swift reaction.

Last February, Wendy Maitland, a vice president at the Corcoran Group, listed a client’s SoHo loft for \$1.695 million, because her client “really wanted room to negotiate it.” The one-bedroom, two-bathroom co-op, which was newly renovated, languished for six months until the seller, motivated by a job transfer to London,

dropped the price by \$200,000, to \$1.495 million. It went into contract for \$1.48 million in October, less than two weeks after the reduction.

“In that case, it was a dramatic price drop because I didn’t want to drop it little by little,” Ms. Maitland explained. “It’s much more effective to do a one-time significant price correction than to drop something in dribs and drabs. It ends up staying on the market for too long and can become somewhat of a white elephant even if there’s nothing wrong with it at all.”

But problems can’t always be cured by price cuts alone.

Charlie Summers, a senior associate broker at Bellmarc, had a one-bedroom co-op in the Gramercy Park area listed last May at \$499,000. “People looked at it as an overgrown studio, and we just couldn’t sell it,” he explained. Over the next six months, the sellers, Stacy Jessup, a 33-year-old accountant, and her husband, Cooper, a 33-year-old business analyst, dropped the price to \$479,000 and then to \$450,000, their bottom line all along. But they worried that buyers would bide their time waiting for further reductions. They knew from looking that that could happen.

“Sometimes you watch a place, and you see the price drop, and you think, ‘I’m not even going to look at it yet,’ ” Mrs. Jessup said.

Their concern seemed justified. “We still were getting nothing but nonserious offers,” Mr. Summers said. “People would smell blood, a stale listing and a desperate seller, and put in lowball offers like \$360,000, \$370,000.”

By December, with their first baby expected any day, the Jessups dropped the price to \$399,000 and issued a public ultimatum with their listing: if their apartment didn’t sell by Dec. 20, they would take it off the market altogether.

“We were serious,” Mr. Jessup said. “We weren’t going to risk bringing all sorts of strange germs into an apartment with our baby there.”

The final two open houses, spaced two days apart, drew a total of 55 people, versus the meager turnout of 5 or 10 the previous showings had drawn.

“People could see it was obviously attracting a lot of attention, and their brokers were telling them it was underpriced so they should come in over the ask,” Mr. Summers said. “By that Wednesday I had collected six prequalified offers.” The apartment is in contract for substantially over the \$399,000 asking price, and the Jessups, now the parents of a son, are house hunting on [Long Island](#).

Like the Jessups, other sellers agonize that rather than whipping up buyers’ interest, cutting the price will dim a property’s luster and make them look desperate.

Professor Dhar suggested that some anxiety may be warranted.

“If we start getting a good deal on something, we always think, ‘Is there something wrong there?’ ” he explained. “It makes you look at the apartment through a more critical eye and notice the deficiencies, like

buying products on sale in the marketplace.”

On the other hand, he said, “if you give people a reason why you’re dropping a price, then psychologically they interpret it differently.” Sellers could neutralize a buyer’s negative reaction, he suggested, by explaining that they were moving to another state.

As for brokers, many argue that seeming eager to sell — even if you aren’t — is a canny strategy.

“There’s always new infusions of people into the market, and it’s not like you’re soiled goods,” said Neil Binder, a principal in Bellmarc. “It would be good to let buyers perceive that you’re desperate so that they say, ‘Let’s run in and make a bid.’ I want to get a lot of people in there to develop a crescendo of activity and create a bidding war.”

Price reductions also work by making buyers feel more in control.

If, for example, an apartment is not drawing offers at \$450,000, Mr. Summers said, then as a buyer, “you’re afraid to put in an offer for \$410,000, possibly because you don’t see anyone else making offers, and you’re afraid you’re overpaying even at that price.”

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