Pricing Part 2:
Absorption Rate Positioning and Pricing Dialogues
A Ninja Webinar with Larry Kendall, author of Ninja Selling

A. Know Your Market Direction – 5 Things You Need to Know to Position Yourself as “The Source”

1. Forecasting #1: Employment (Leading indicator by 12 to 18 months)

Find employment numbers at your state department of labor.
Compare the same month year over year.

2. Forecasting #2: Appreciation Rate (Is the appreciation speeding up or slowing down?)

Go to www.fhfa.gov and check the House Price Index. (Canada: www.cmhc-schl.gc.ca)

Look at the quarterly appreciation rate and then annualize it (multiply x 4). If the annualized rate of appreciation is less than the last 12 month’s appreciation, the market is slowing down. If the annualized rate is greater than the last 12 month’s appreciation, the market is speeding up.

   o Navigating www.fhfa.gov. Several years ago, the Federal Housing Finance Authority “upgraded” their website which now makes it much harder to navigate and find what you are looking for. Here is a step by step process:

      ▪ Go to www.fhfa.gov
      ▪ Scroll to the bottom of the home page
      ▪ Find “House Price Index”
      ▪ Click on “Download HPI”
      ▪ You are now on the page that says “Reports & Plans”
      ▪ Look for the most recently quarterly report (Example: 3Q2018)
      ▪ Click on that quarterly report
      ▪ You should now be on a page that says “U.S. House Price Index Report – 3Q2018”
      ▪ Scroll to the bottom
      ▪ Click on “Attachments 20183QHPI” and download it
      ▪ This is about an 80-page report. Here are the pages that are most relevant to what you want. (Note: the exact pages may vary each quarter.) Pages: 11, 16, 17, 18, 34-36, 38-39, 40-53.

3. Forecasting #3: Supply and Demand

   o Check the months of inventory by both price and by location (neighborhood)
Check for a rise in new home inventories

Compare household formations to building permits

Track apartments – vacancy rates, rents, and construction

4. Forecasting #4: Builder Behavior

Is replacement cost less than resale? (This is a warning sign of price adjustments.)

Is replacement cost more than resale? (This is a signal for rising prices.)

Standing inventory. (This is a signal for future price reductions or incentives.)

Builder incentives

Builder/Buyer Mismatches

Boomers – want smaller and free and clear

Millennials – want “Apartment Effect” homes

Demographic & psychographic mismatch

- Boomers – 80,000,000 – Dream Home: McMansion
- Gen X – 46,000,000
  - Only half as many buyers for McMansions
  - Grew up on “Friends” – want experiences more than houses
- Millennials - 78,000,000 - Want smaller, affordable homes with top grade finishes

Forecasting #5: Affordability

- Affordability is a 3-legged stool

Affordability Impact on Prices? Check the market profile

- 25% are first-time buyers
- 60% are existing owners
- 15% are investors

For first-time buyers, build a team – parents, grandparents, siblings, etc. for down payment
Great Data Sources:

- Multiple Listing Service
- FHFA.gov
- National Association of Realtors
- Realtor Property Resource (RPR)
- Core Logic
- ArchMI
- ComeHome.com (Powered by House Canary)

B. Position Yourself as “The Source”. Become a Category of 1.

- Know your market and its direction
- Create simple talking points.
- Clarify what is really happening

- Don’t rely on the _____________.

- Influence the _______________.

C. Manage the market & seller expectations. (Zestimate Accuracy)

- National average = + or – 4.3%, 50% of the time
- + or – 5%, 55% of the time
- + or – 10%, 75.7% of the time
- + or – 20%, 87.6% of the time

Source: Zillow, Inc. (12/1/2018)

- Zestimate Accuracy on a $400,000 home

  "Zestimate Accuracy on $400,000 home"
  - $382,800 - $417,200, 50% of the time
  - $380,000 - $420,000, 55.5% of the time
  - $360,000 - $440,000, 75.7% of the time
  - $320,000 – $480,000, 87.6% of the time
  - Source: Zillow, Inc. (12/1/2018)

- House Canary is now ComeHome.com
D. Absorption Rate Positioning:

- **What is “Months of Inventory”?**
  - 50 homes for sale in this zip code
  - 10 homes sold last month
  - Absorption rate = ______ homes per month
  - 50 homes ÷ 10 = ___________ months of inventory

- **Neighborhood Absorption**
  - 5 homes are for sale in this neighborhood
  - 1 home sold last month
  - Absorption rate = _______________ per month
  - At this rate of sales, it will take _____ months to sell all the homes in this neighborhood.

E. Competitive Price Lines

- Visual Pricing Tools: [www.focus1st.com](http://www.focus1st.com) Pricing Book: Visual Pricing for Real Estate
F. Pricing Condos in Multi-Story Buildings

![Diagram of Top Floor and Bottom Floor with Poor View and Great View]

G. Five Components of Value

1. __________________________________________
2. __________________________________________
3. __________________________________________
4. __________________________________________
5. __________________________________________

H. Scattergram

![Scattergram of Property Price vs. Activity in Ridgewood Hills (Fort Collins)]

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I. Dynamic Pricing:

“I don’t skate to the puck. I skate to where the puck is going to be.” – Wayne Gretzky

J. The Pricing Bridge:

• _______% more showings
• Can’t find inventory? Look ______________________________.

K. Absorption Rate Positioning: (See tutorial handout)

L. Buyer Eyes Pricing: (See spreadsheet handout)

• ___________________________ is better than telling.

M. The Simplest (and most powerful) Pricing Dialogue

1. Have the seller find their square footage on the horizontal axis and then draw a line straight up.
2. “Would you agree that your home will sell someplace on this line?”
3. “Based on the current market, where do you believe it will sell on this line?”
4. “Where would you like to price your home on this line?” (If they name a price that is acceptable to you, agree with them and discuss specifics such as the pricing bridge, etc.) If they are outside of your acceptable range, ask the next question.
5. “Do you believe that price will get you where you want to go on time? If we get to (date) and your house isn’t sold, what will you do? What is your Plan B?” (Discuss options and consequences.)
6. “If we get a contract on your home in the next 72 hours, are you OK with that?” (Explain market dynamics and how the most showings occur in the first 25% of the listing period.
   (Note: Do you notice the seller is making the pricing presentation to you? This is a Ninja Move!)
N. Why Your First Offer Is Often Your Best Offer

WHY YOUR FIRST OFFER IS OFTEN YOUR BEST OFFER

New: Fresh & excited
Focused on value vs. price

Waiters: Seen it all, experienced,
very particular
Focused on value vs. price

Dealers: Focused on price
Want to negotiate

Bottom Feeders: Focused on Price
“Just reduced” “Must sell”

Seller Expectations Case Study & Strategy:

Group A

Group B