

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.

- 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

- Check the months of inventory by both price and by location (neighborhood)



NORTHERN COLORADO
MONTHS OF INVENTORY (DETACHED)
 NOVEMBER 2018

	Fort Collins	Loveland	Windsor	Greeley
300-399k	1.3 Months ↑	0.9 Months ↓	1.9 Months ↓	1.4 Months ↓
400-499k	1.6 Months ↓	1.9 Months ↓	4.6 Months ↓	2.0 Months ↓
500-599k	3.4 Months ↑	1.6 Months ↓	5.5 Months ↑	Insufficient Data
600-699k	3.1 Months ↓	7.5 Months ↑	8 Months ↑	3 Months —
700-799k	6.3 Months ↑	3.5 Months ↓	4.7 Months ↓	3 Months ↑
800-899k	6.5 Months ↑	Insufficient Data	Insufficient Data	Insufficient Data
900-1Mil	3.5 Months ↓	Insufficient Data	4 Months —	Insufficient Data
1Mil +	16 Months ↑	17 Months ↑	Insufficient Data	12 Months ↑

Decrease month over month
 Increase month over month
 — Same as prior month

All data from IRES. Data deemed reliable, but not guaranteed. InfoSparks © 2018 ShowingTime.

- Check for a rise in new home inventories
- Compare household formations to building permits
- Track apartments – vacancy rates, rents, and construction

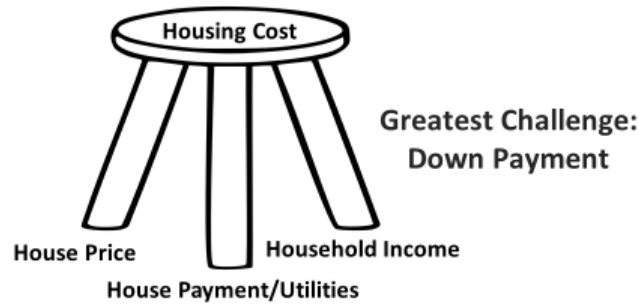
4. Forecasting #4: Builder Behavior

- 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
<https://www.denverpost.com/2018/11/24/denver-apartment-effect-millennials/>

- 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 - 78,000,00 - Want smaller, affordable homes with top grade finishes

- **Forecasting #5: Affordability**

- Affordability is a 3-legged stool



Year	Quarter	Median Price Existing Single-Family Home	Mortgage Rate	Monthly P & I Payment	Payment as a % of Income	Median Family Income	Qualifying Income	Composite Affordability Index
2015		223,900	4.03	858	15.1	68,260	41,184	165.7
2016		235,500	3.88	886	15.0	71,062	42,528	167.1
2017		248,800	4.20	973	15.8	73,891	46,704	158.2
2017	III	254,700	4.16	992	16.1	74,129	47,616	155.7
2017	IV	247,800	4.17	966	15.5	74,963	46,368	161.7
2018	I	245,300	4.44	987	15.7	75,429	47,376	159.2
2018	II r	268,000	4.70	1,112	17.6	76,004	53,376	142.4
2018	III p	266,900	4.77	1,116	17.5	76,608	53,568	143.0

- 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

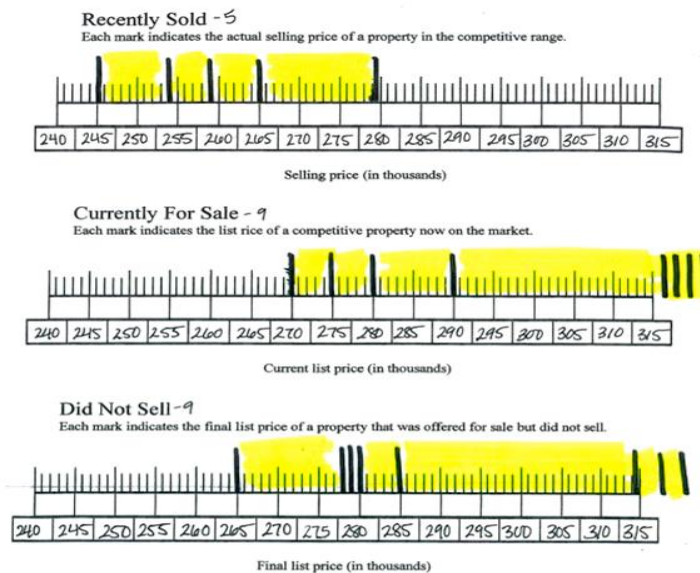
D. Absorption Rate Positioning:

- **What is “Months of Inventory”?**
 - 50 homes for sale in this zip code
 - 10 homes sold last month
 - Absorption rate = _____ homes per month
 - $50 \text{ homes} \div 10 = \underline{\hspace{2cm}}$ months of inventory



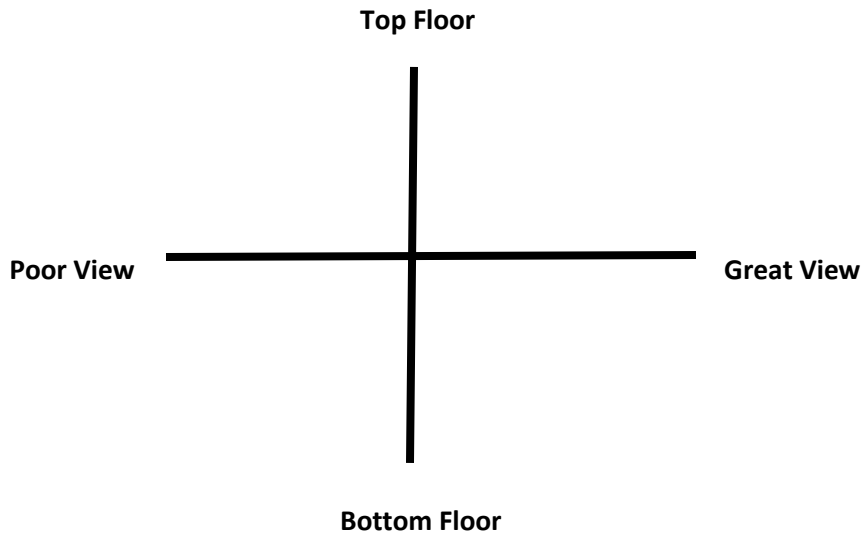
- **Neighborhood Absorption**
 - 5 homes are for sale in this neighborhood
 - 1 home sold last month
 - Absorption rate = _____ per month
 - At this rate of sales, it will take _____ months to sell all the homes in this neighborhood.

E. Competitive Price Lines



- Visual Pricing Tools: www.focus1st.com Pricing Book: Visual Pricing for Real Estate

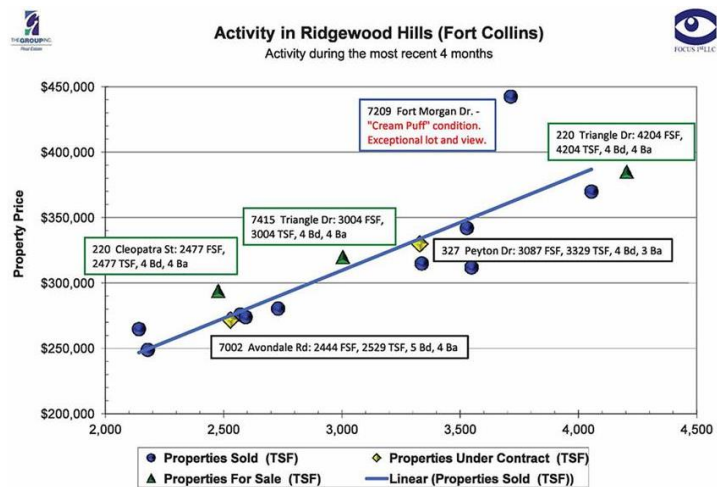
F. Pricing Condos in Multi-Story Buildings



G. Five Components of Value

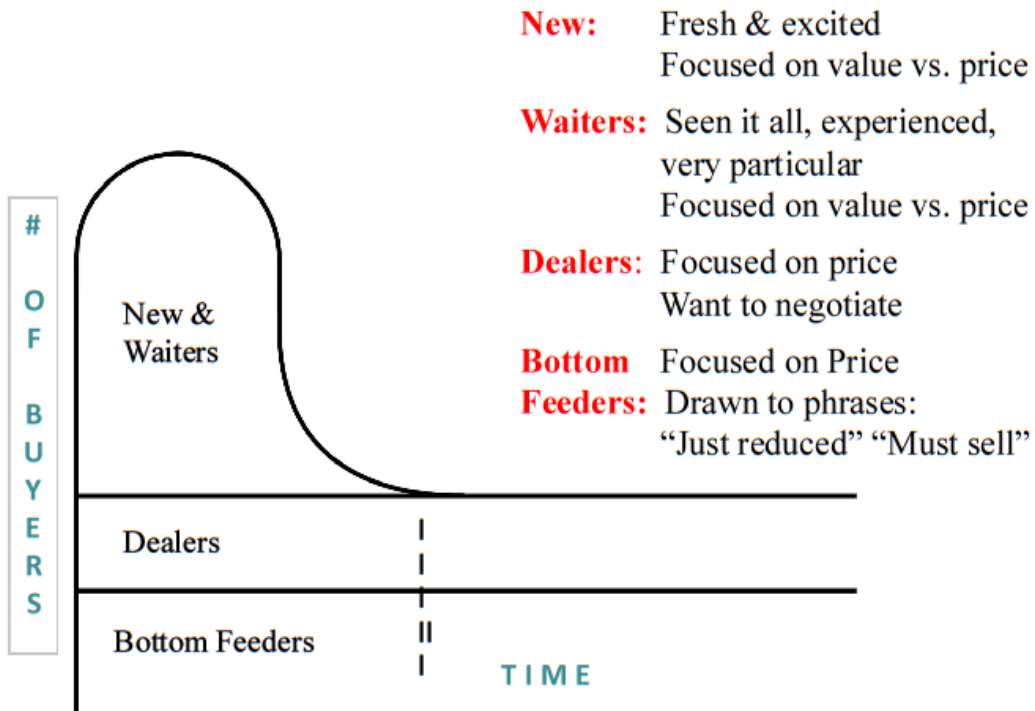
1. _____
2. _____
3. _____
4. _____
5. _____

H. Scattergram



N. Why Your First Offer Is Often Your Best Offer

WHY YOUR FIRST OFFER IS OFTEN YOUR BEST OFFER



Seller Expectations Case Study & Strategy:

Group A

Group B