



SCHWARTZ *Report*

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ONLY THE LONELY

“ Only the lonely know the way I feel tonight. Only the lonely know that feeling ain’t right...” Many of you will, I am sure, remember these opening verses of the 1960’s hit. Listening to a CD of songs by the incomparable Roy Orbison on my way to counsel with a soon to be home seller, I couldn’t help but reflect on the plight of the unfortunate FSBO (for sale by owner). No private seller would undertake the arduous task of selling their own property unless they perceived an opportunity to gain as a result of the process. They fully anticipate that opportunity will be to save substantially on their costs of that sale. The largest portion of those costs of sale is the real estate commission, although particularly in Delaware, the transfer taxes are starting to give the real estate commission a run for its money. Transfer taxes are set by the various states, counties and or municipalities but there is no mandated “standard” real estate commission.



would-be FSBO. An exhaustive study of sales results published in July, 2017 by Collateral Analytics Research seems to indicate that such savings are like mirages in the desert. The conclusion of a tripartite analysis of sales data performed by Dr. Michael Sklarz and Dr. Norman Miller is that FSBO sales will, on average, sell for something less than

comparable Multiple Listing Service (MLS) sales when markets are in equilibrium. Curiously enough that difference in sale price settles out to be a discount of somewhere around the prevailing brokerage commission in a given local area.

They base their conclusion that “sellers would be ill advised to sell their own properties” on a three tiered analysis using a price per square foot comparison method. Scenario one looked at 454 municipal areas and revealed an average differential of 5.02% lower price per square foot for FSBO sales as compared to MLS sales in those areas. Scenario two made the same comparison but for 770 zip codes and found a price per square foot differential of 7.26% lower for FSBO’s than for MLS sales. Scenario three compared the eventual selling price to an estimate of value by an AVM (Automated Valuation Model). This AVM boasted a “confidence score for value accuracy of 80% or higher.” Here some 1.35 million sales* were included of which 210,168 were FSBO sales. The results suggested an average difference in the sale price for FSBO’s of minus 5.56% when compared to MLS sales that on average matched the AVM.**

There is an old axiom that fear of loss is or should be a more powerful motivator than opportunity to gain. So I think that would-be FSBO’s should focus on what they might be giving up rather than what they might be gaining. With the proliferation of real estate web sites that purport to estimate a home’s value, private sellers may think that they have gained an advantage in the number one thing that they feel most ignorant about, market value. However, many web sites are notoriously inaccurate both on the high and the low side. These estimates operate without a physical inspection, rely on “average condition scenarios” and frequently draw from public records which are in themselves notoriously incomplete and inaccurate. Sellers accept such numbers only at their peril. A Zillow “Zestimate” is just that.

When pitched to get into a real estate deal, Dad would always say “don’t tell me how much I’m going to make, tell me how much I might lose, then the sky’s the limit.” So if a FSBO is not likely to gain substantially from a private sale, what is he certain to lose? The number one answer to that question is qualified representation.

Even leaving this aside, there is still five, six or seven percent of the sale price of the property to be saved lurking out there which operates as the most motivating goal for the

*As of this past month, the country is on a 5.52 million sales pace for 2017.

**For those of you who are having trouble sleeping at night the whole study including methodology is available on my website home page side bar under the heading FSBO Low Profit.

The National Association of Realtors chief economist, Lawrence Yun, pointed out in a recent issue of Realtor Magazine that home inventories nationally are well below demand. We are starting to see that here as well. So let's assume, and this is a big assumption, that a FSBO will have to do little outreach these days to attract buyers. However, like the proverbial pooch that chases cars, what does he do when he catches one? Unrepresented sellers simply have to negotiate with too many people whose interests run counter to theirs. Here are a few of the challenges the FSBO sellers will have to tackle. In this age of buyer representation, there is the buyer and or the buyer's agent, both of whom are looking out only for the best interests of the buyer. How about the home inspector who is hired by the buyer to

analyze the condition of the property? He will certainly find something objectionable. How does one appeal or deal with an appraisal from the buyer's lender that does not match the sales price? Then there is the closing attorney who at most closings represents the buyer not the seller. You can see that it is a stacked deck. Therefore, if the trend in many marketplaces, as the Collateral Analytics study demonstrates, is to discount the sale price by all or part of the prevailing brokerage commission, it really becomes a pay me now or pay me later situation for the private seller. So, why go it alone? As my dad used to say, you can't beat somebody with nobody. You have got to have a team behind you if you are going to succeed.

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Visit my website
www.charlieschwartz.com
for a detailed overview of the current real estate markets in New Castle & Kent County, DE, S. Chester County, PA and Cecil County, MD.

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