



BY ROB HONEYCOMBE

# The pricing process... and making sure there's a worthwhile margin for you

Are your buyers getting a better financial return out of your projects than you are? None of this magazine's readers have ever completed a development with a miserable final margin... but in both boom times and regular markets it's not unusual to hear of missed opportunities and "pricing hindsight" that could have made a huge difference to the bottom line.

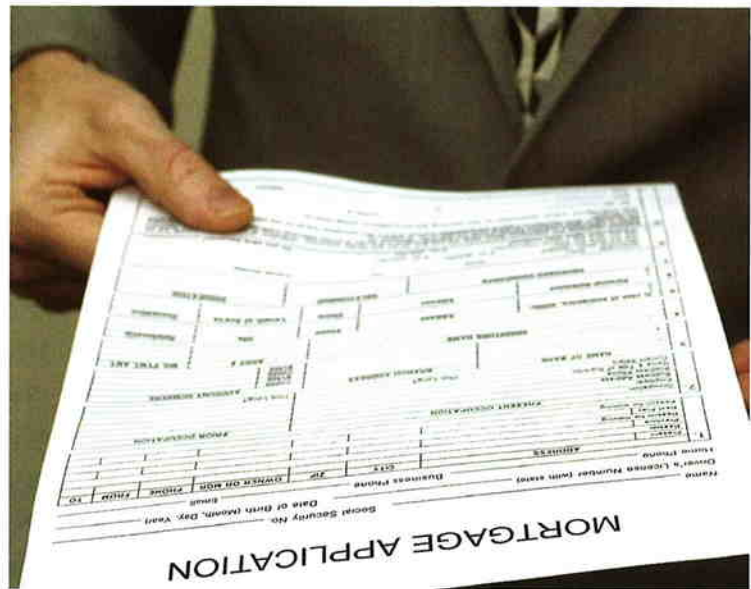
One consultant to a newly released inner-city project told me there'd been a rush of sales at the recent pre-release and the (part-time) developers' heads were spinning with their success. "They'll be flat out making a cent though," he mumbled. This was yet another case where sales momentum built quickly, there were no price rises and, surprise surprise, once the builders nailed their final contract sum it was a little more than the developers had expected. A near sell-out, but with bugger-all return for effort, let alone risk. We don't claim to have a magic recipe for pricing, but here are some suggestions that might help:

## LAND, PROJECT HOMES AND APARTMENTS

With any development the first step in maximising returns must surely be an open and honest dialogue with key consultants to assess the project's position in the market then, importantly, each lot's individual value. This exercise is all about pure subjectivity. The spreadsheet might show that to achieve target gross realisation the rate per metre must be \$xyz. But as we all know size is only one factor, and in this exercise it's critical to pre-empt all buyer perceptions. I'm yet to work on a project where we didn't get at least one comment on value from buyers that we hadn't anticipated and should have been blindingly obvious. Why? No-one spends enough time on this before launching.

Try hard to put yourself in your buyers' shoes and see it as your target market will. For example, younger buyers/tenants like being close to transport and will often accept traffic noise as part of the trade-off. In proportioning values within the project, look closely at potential noise impacts. Overlooking a pool can be great until there's splashing and yahooping, so owner-occupiers will likely shy away. Northern buyers especially will look for impacts of summer sun and breezes, while frost-bitten Victorians love their northern sun in winter (why don't they just move to Queensland!).

Are there details in the design of built-form product that will set it apart from competitors, and how much of this will a buyer be able to understand and



ABOVE: EXISTING BUYERS WILL LOVE YOU FOR PUTTING UP PRICES OF REMAINING STOCK  
LEFT: BE CAREFUL OF UNDERPRICING LOWER FLOORS AND OVERPRICING HIGHER ONES

see value in when choosing off-plan? Raked ceilings for example might not really impress until completion, but don't be afraid to price this product higher if you know it'll look sexy once built. Along with size consider which floor plans are most efficient and "furnish-able". One Brisbane riverfront project currently has one apartment type for sale with triangular-shaped balconies that you simply couldn't furnish – and these are dearer than the adjoining design that's smaller but with more usable space.

What we all dread is that early release

sales review when there's an obvious "patch" on the sales matrix as buyers flock to a certain type of product or location in the development. In pricing strategy nirvana we should achieve a steady sales rate at an even spread of product, and that means pricing cheaper for any negatives against a lot, and dearer for the stars.

## WHAT ABOUT THE VIEWS?

Views are important for any property so make sure you really study these. If it's a multi-level building get a cherry-picker,





take as many photos as possible and really spend the time to analyse them. The more certainty on view you can give a buyer the better the price you'll achieve – it's one less "maybe" on their long list of things to be wary of. You'll also be a lot happier when the building's finished if you've pre-empted the views from unsold stock.

It's worth a round table discussion/blood-letting argument to confirm the proposed finishes of built-form products are appropriate to the targeted market. If some architects and salespeople are left to choose there can be overcapitalising (hard to believe I know!). It's worth taking the time to assess each of these to ensure their cost to you is translating to extra sale price. If it's not, or it's not helping to speed sales and save you time, then dump it.

Your feasibility might show that the cost to produce this parcel of land is "X" so for a margin of "Y" the price must be "Z". Now step into "buyer world" and consider what real value your property offers them – and accept that some lots will get you a better margin than others.

As an aside, are your price lists set by a development manager or sales manager? Your team at the coalface with buyers will maximise dollar results if they have a sense of ownership of the numbers. We saw one senior development manager march into a meeting of salespeople and marketing teams with a concrete price list and a "manifesto" of pricing strategy, and the contempt from the group was almost palpable. Salespeople might not carry the formal qualifications

of many of your consultants, but the better ones, the ones who've had solid experience with buyers, will understand pricing and be best-placed to advise.

#### KING OF THE CASTLE

In a multi-level building we'd recommend being brave with top-floor premiums. There must be something primal with being "king of the castle", but no matter how hard we've priced top floors compared to the exact apartment below, we've always achieved the premium. Price escalation up the floors should be reasonable only, otherwise you run the risk of underpricing lower floors and overpricing higher ones. Ground floors with big courtyards can attract a premium for some buyers, but in an inner-city location, for example, there are probably more buyers that are wary of security concerns.

#### BE QUICK TO MOVE WITH YOUR PRICE RISES

We think project marketing is all about gaining and exploiting momentum, and once you have reducing supply of a product you should be putting up the price – even if it's just one type or one location within your project. Your existing buyers will love you for it and you'll lock in their deal if it was wavering in any way. They've already told their friends they nicked it and will now tell even more of them what a great place it is to buy.

We recommend giving existing inquiry a short time to buy at the "old" prices. In one project we had a buyer return after earlier releasing their hold on an

apartment. Why? They got our email about the 5 per cent price rise that had taken immediate effect for new inquiry and wanted to grab that instant capital gain! Obviously it's important to not be overconfident, but handled well, a price increase can be one of your most effective sales tools.

#### ONE LAST SUGGESTION

Don't discount. Ever. If you're stuck with unsold stock then add value through furniture, stamps or other incentives. Dropping the price is guaranteed to earn the wrath of your current buyers and will turn your biggest fans into public enemy number one. One public company developer has recently knocked almost \$100,000 off some city apartments a year after completion. Imagine how the next-door neighbour feels about having their equity ripped up... probably not going to rush down to buy one of the 200 apartments that developer's releasing shortly down the road.

Like all development planning your pricing strategy is critical if you're going to maximise your margin. While you're waiting for construction prices to come down (and hell to freeze over) you might as well spend the time planning how to squeeze out the extra revenue. ➔



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ABOVE: THE MORE CERTAINTY ON VIEW YOU CAN GIVE A BUYER THE BETTER THE PRICE YOU WILL ACHIEVE  
BELOW: TRY HARD TO PUT YOURSELF IN YOUR BUYERS SHOES AND SEE THE PRODUCT AS YOUR TARGET MARKET WILL

