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The Difference Between Cost, Price & Value

One of the biggest problems you face in obtaining top dollar for your property is determining your property's value. The problem of determining value occurs primarily because both sellers and buyers use three words interchangeably: price, cost and value. A lack of understanding regarding the meaning of these words and their use causes communication breakdowns and allows emotion to replace objectivity during price negotiations. The fact is, neither cost nor price is the same as value.

Cost

"Cost" is history. Cost measures *past* expenditures. But that was then, and this is now. What you paid for your property then or the cost of maintaining it doesn't mean anything as far as the present or future value of your property is concerned.

Why? Markets can and do change dramatically. During 2021 and into 2022, property values in Texas soared, and people made huge profits upon resale because demand (due to relocation) was so great. After that, prices leveled off or in some cases even declined. Unfortunately, many recent sellers have realized significantly less profit upon selling. Some even lost money. Thus, your potential profit or loss as a seller doesn't enter into the equation when determining your property's present value.

Price

"Price" is here and now. You put an asking price on your property. The buyer puts an offering price in their offer. You and the buyer negotiate back and forth until you arrive at a mutually acceptable purchase price. Today's purchase price becomes tomorrow's cost.

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Value

“Value” is subjective. It is your opinion of your property’s worth to you based on the way you use it now and plan to use it in the future. Interesting – the words “you” and “your” both appear twice in the preceding sentence. Because your opinion is subjective, the features you “value” may not be the standard for others.

Two factors affect value:

- *Internal:* Your personal (internal) situation is the first factor, and it changes over time. Let’s illustrate – suppose you were a growing family buying a property 15 years ago. You would most likely have put great “value” on such things as 4 bedrooms, a huge yard and a great school system. But now, 15 years later, your family is grown. You don’t need 4 bedrooms, a yard or that terrific school system. The property didn’t change – your personal (internal) use for that property did. Thus, its “value” to you changed. It’s the internal factors in people’s lives that compel them to buy and sell property.
- *External:* These are the circumstances outside of your control that affect value – for better or worse. For instance, if an eight-lane highway is proposed to cut through land close to yours, your property’s “value” could take a hit. If, on the other hand, a major company decided to open up a new facility near your property, your property’s “value” may increase. The law of supply and demand is a huge external factor that affects value. If there are more buyers than available properties, the value goes up. If there are more people wanting to sell than there are buyers, value goes down.

Takeaway ...

Remember, “cost” is past, “price” is present, and “value” is in the eye of the beholder. Neither the cost you paid nor the price you want to get matters to the buyer. What matters to the buyer is the “value” *he or she* sees in your property at the time of sale. Not understanding this principle often causes sellers to make a very common mistake ... overpricing.