Durham Luxury Real Estate Market—2008

Maddry Brewer & Zenner Realty

Authored By:

Jay Zenner

Years ago I was a guest at a dinner party where the guest of honor was a highly educated African man who spoke English with a heavy French accent. What sticks in my mind was that when the dinner conversation got around to American television, this gentleman laughed loudly and described as his favorite show, of all things, *The Beverly Hillbillies.* To him it was not about the Clampetts but a satire about Beverly Hills as the epitome of luxury living. I have never watched a sitcom the same way again.

More than 40 years after this satire ran it still has some lessons on what motivates luxury buyers.

I always think of this show when I periodically take a look at the executive or luxury segment of the Durham real estate market by reviewing sales and listing data recorded in the Triangle Multiple Listing Service. Much of the latest analysis was done on a weekend in which I also did a couple of shifts swinging a hammer with other Habitat for Humanity volunteers in east Durham, adding both irony and insight that the psychologist Abraham Maslow would have appreciated.

TMLS doesn't catch all sales in the luxury segment but enough to observe major trends. My conclusion is that it's a tough market but not without hope. Here are my observations.

For the analysis I set the minimum sales price at $700,000. In 2005, MLS recorded 33 sales in Durham County at that level or higher. In 2006, it was 31. Year to date in 2007 there have been 32 and as I write this there are 5 more properties under contract pending closing. This looks like a consistent market. The bad news is that there are 82 homes listed for sale at more than $700,000 suggesting that there are enough homes "in inventory" to last for two and a half years at current levels of demand. About 24 of these properties are new homes and a few of these are really just lots with proposed plans. A new community of upscale homes, Maida Vale, introduces the concept of a "Mediterranean inspired" community to the area. There are six properties listed but none showing as sold or under contract as of this writing.

Most homes for sale in Durham in this segment are in six or seven neighborhoods. Four of the top five, Hope Valley, Croasdaile, Meadowmont, and the Oaks have ratios of about 2 to 1 of homes on the market currently to recent demand. Treyburn has 13 homes on the market priced over $700K and only one sold when this was written.

Meadowmont and The Oaks both straddle the county line between Durham and Chapel Hill. Our neighbors to the west have a much more vibrant luxury home market with 140 homes currently on the market and 188 either closed or under contract so far this year. Chatham County currently has 121 homes on the market at $700K or more and 68 were sold or put under contract this year. Two thirds of the Chatham listings are new homes. Wake County currently has 674 homes on the market and 569 have closed or are under contract in this segment. Approximately 50% of Wake listings are new homes.

Of the 82 luxury homes in Durham on the market about a third of them are represented by 4 broker/agents. All four are women who have long been active in this segment and are well respected among their peers. The six listings in Maida Vale are represented by a Raleigh agent of a Triangle-wide firm. It is interesting that the MLS directions to the community start in Raleigh. Only one other agent has more than two listings in this category.

It is hard to discern anything in the marketing of Durham homes in this segment that is any different than the general marketing of homes at all price ranges. I'm sure I would get an argument on this because the MLS and newspaper ad copy for this segment tends to have more of a flourish and the brochure/flyers a more professional touch. One of the four agent/brokers that have dominated this market in Durham in recent years is represented in one of Google's top ranked web sites for luxury homes and has the majority of her luxury listings on the site too.

In the broader sense of marketing, however, it does not appear that most agents have grasped how different the environment has become as we shift from a sellers market to a buyers market. In the luxury segment of the Durham market the supply has been greater than the demand for several years…long before the national real estate bust… but little has changed in the way of marketing practices. This is true for the real estate industry in general and it will be interesting to see which of the 1300 +/- agents in Durham will adapt successfully to an environment with more homes on the market but fewer capable buyers.

A little bit more about real estate marketing…or, perhaps, described better as "marketing in the real estate industry." It is important to make that distinction because one of the effects of the real estate boom was that it didn't take much sophisticated marketing to sell homes.

Most of the focus has been on marketing agent services and the branding of the various franchises, all of which is designed to attract agents to the brands and clients to the agents.

Even things that look like they are meant to market homes, from signs, to open houses, to print ads, to websites, are really designed to attract agents or attract clients…not sell homes. The majority of effort in this area is focused on Promotion, one of the four Ps of the "marketing mix," to create a personal "brand" for the agent. The other Ps, Place (distribution), Product and Price have been largely left out of the mix.

If you doubt this, go to the web site of a company called Hobbs-Herder at hobbsherder.com. Hobbs-Herder is a very successful advertising firm whose owners proclaim themselves the "real estate marketing professionals." They develop business around the country by holding seminars for real estate salespeople. Don Hobbs and Greg Herder are also popular speakers at the National Association of Realtors conventions every year. The seminars are excellent and the brochures, websites, and direct mail campaigns they produce (at no small cost to the agents) are very well done.

After attending a couple of their seminars and several presentations at the NAR conventions, my only gripe with them is that they never talk about marketing real estate. I've challenged them personally on this and they insist that it's not necessary. Maybe because their headquarters is in Newport Beach, which is only an hour's drive down the coast from Beverly Hills, they haven't felt the impact of the deflating housing bubble.

We have to remember that in a market where there are ***more sellers than buyers****, listing agents* ***must*** *do a better job of marketing the property to serve their clients well. It's as simple as that.*

Since Hobbs-Herder reflects the conventional wisdom in the real estate marketing world, maybe agents should be forgiven for thinking that marketing is limited to promotion and that the way to sell homes in a buyers market is to do more and better promotion. This is not likely to work. Promotion has everything to do with the marketing of agents but has a more limited role in the marketing of homes. During boom times agents can earn a good reputation with clients through the competent management and negotiation of a transaction once buyers have revealed themselves.

That's changing, just like it did in banking in the 70s and 80s.

I've been in the residential real estate business now for about 5 years…a little longer if you count my experience…and it was an experience…buying a property to fix up and flip. But I began my *marketing* career in the mid seventies in banking when that industry was a relatively easy business. From the post-depression period until then, financial institutions were highly regulated to protect stability by limiting competition. The dialogue in bank marketing departments was limited to the value of "image" advertising and what "incentive" to give away in the next promotion for deposits. Then along came the money market mutual funds, a creation of the securities industry which drew billions of funds away from the system in a process euphemistically called "disintermediation." They were draining away the banks' life blood, cheap deposits.

The Feds were reluctantly forced to loosen the reins to let banks compete and suddenly a whole generation of bank marketers was asked to make recommendations on something other than trivial promotional matters. Great freedom was gradually given to design products, locate branches and price deposit services. Advancing technology played a role in changing the picture too and a lot of bank marketers couldn't hack it and were put out to pasture.

Something similar is happening in the real estate industry.

The revolution began when so called "discount brokers" started challenging the traditional practice of standardized commissions. A significant difference is that the Feds in this case are not enforcing standards; on the contrary, they are challenging them as anti-competitive and therefore, illegal.

As brokers we have been advised not to call these new competitors "discount brokers" any longer but instead, "limited service brokers." However, even that is not accurate because it is entirely possible for a real estate broker to provide full service at a lower price if overhead costs are kept down. Since established brokers that are part of a franchise may have substantial overhead, this is a threat to their business much as the money market mutual funds were to banks with large branch networks and 14 levels of vice presidents back at headquarters.

Until recently there was business enough for both full service and limited service brokers. Ironically, in a buyers market, both the limited service providers and the alternate distribution system known as "For Sale by Owner" are hurting the most.

Sellers are looking for professional help from brokers in a tougher market. But are they getting it?

When you sell your home you have to imagine yourself as the CEO of a small firm with one product to sell. Like the CEO in any other business, if the product isn't moving you bring in your Marketing Director and tweak your strategy. If your Marketing Director knows nothing but promotion, or worse yet, self-promotion, you may be in trouble.

With that in mind, here are a few items for you as CEO of such an enterprise to consider in the broader marketing mix.

By far, the most important element in the marketing mix for a home is the product itself.

Except maybe in wildly speculative markets like some we have seen in Florida and California, nobody buys a home based on a brochure or a website. They want to experience the product in person. There are several characteristics of the product in the luxury market that make it more complex than other residential real estate.

First of all, the more distinctive and expensive the home is, the less tangible the real product becomes.

For the single mother swinging a hammer with the other volunteers to earn some sweat equity in the Habitat home she will buy, the product is primarily clean and safe shelter. This is something just above food, water and air on Maslow's hierarchy of needs. In a luxury home, the "shelter" part is almost an incidental factor.

Buyers in the luxury market are looking for something much higher up the hierarchy that satisfies a desire for esteem or even self-actualization.

CBS's *Sixty Minutes* recently aired a profile by Leslie Stahl of Tom Perkins, the fabulously wealthy founder of Kleiner Perkins Caufield & Byers, the venture capital firm that provided start-up capital for firms like AOL, Netscape, Amazon, Google and many others. A good part of the profile was dedicated to Mr. Perkins' new yacht, the *Maltese Falcon*, the largest privately owned sailboat in the world. It's almost as long as a football field and the 3 masts are 19 stories high. There are 11,000 square feet of living space on board and it requires a crew of 20 to operate. Mr. Perkins is not saying how much it cost him but admits it's somewhere between $150M and $300M. Did Mr. Perkins *need* such a big yacht? No, in fact, he already had a big yacht.

Is this an example of wretched excess and a gargantuan ego? Maybe. But what Mr. Perkins seemed most animated discussing was what a technological marvel his yacht was. He boasts that when building it he was the second leading customer in the world for carbon fiber after the US government which uses that material to build bombers. As a hands-on engineer he designed and programmed the controls himself and proudly showed Ms. Stahl how to use them. Clearly, what motivated him was not to have the biggest yacht but to design and build the most technologically advanced one. He was using his fabulous fortune and skills to create something unique and special. He was self-actualizing.

I don't want to overstate the obvious, but the point is that the wealthy buy homes (and boats) for more than just shelter. They have different interests and lots of choices. The wealthier they are the more choices they have.

This means that when you market a home to wealthy individuals, the things we typically think about, such as the square footage, number of rooms, HVAC systems, etc., etc ***….even price****… may not matter nearly as much as the intangibles.*

The buyer of a luxury home may be making a statement as simple as "I've arrived!" with comfortable shelter as a secondary benefit. The motivation may be a desire to find the best venue to provide lavish entertainment for friends or clients. Preserving a historic treasure will turn on some. A celebrity might seek privacy in a gated community with large lots and private security. Another wealthy buyer might be looking for a canvass to create something of great beauty or display a collection of art. Still another might be looking for the opportunity to join a convivial social scene or get access to a great golf club. Their desires might include proximity to a school, a job or a medical facility. It might be a hobby like raising horses or skiing that determines what they buy. Buyers in all markets usually want to live around people with similar status and interests.

As a seller/CEO in this market it is important to understand how to position your product for the most likely buyer. In the broader marketing context this would be called focusing on the "unique selling proposition" and the potential niches it might attract.

The second product consideration that is different in the luxury market than it is in the broader market is the idea of staging for showings. In the broader market the advice is generally to de-clutter, de-personalize, keep the home immaculately clean and go for the Crate and Barrel look if you can. Since luxury homes are more likely to be marketed for narrower niches, the seller should go with that, whatever it is, even if it seems to be breaking the staging rules.

For example, if the house was designed for formal entertaining, set the dining room for a large dinner party with the good silver and china. If there's a great view of the fourth fairway and you're going for the avid golfer, don't take down the shadowboxed hole-in-one trophy and all the pictures of you with the greats like Palmer and Trevino that you've played the course with. If the home has some history, emphasize the most interesting details in the promotional materials. For example, if you could say "the north bedroom is said to be the one Sherman used when he encamped here during his infamous march to the sea …" The history buff will seek out the room and envision how he will speak those very words when giving the tour of his new home. If the property has a good story, tell it in the promotional materials and the staging.

The final product consideration has to do with the community.

There is no question that the luxury home buyer in the Triangle has options. Chapel Hill has successfully nurtured its image as a laid back and sophisticated southern university town with wine and cheese at the tailgate parties, not beer and brauts. We in Durham can whine that their school system just *seems* better and that their taxes are higher, but it won't help. Durham has always had a grittier reputation not helped by recent events including contentious school board meetings and, of course, the lacrosse scandal.

Personally, I wouldn't live anywhere else in the Triangle because I like the "texture" of the place that makes it different from 50 other indistinguishable cities in the Southeast, including Raleigh and Cary, but without being smug like Chapel Hill.

Durham's image will eventually turn around. The transition will accelerate, and the luxury market will improve, if each luxury home marketed is marketed as if the transition had already been made.

Any listing agent writing copy for MLS or a flyer or an email campaign that can't find something good to say about the community isn't trying very hard. The American Tobacco Campus, the DPAP, Downtown revitalization, Duke east, Duke west, Duke Hospital, Duke Gardens, the new performing arts center, the country clubs, the golf courses, the restaurants, Nordstroms, RTP, RDU are just a few of the many possibilities. Even Treyburn, though it is more remote than the other neighborhoods will benefit from talking up the town. In fact, I would argue that talking up the benefits of the community will be much more helpful than talking about the number of square feet or the quality of the bathroom fixtures because of the nature of the luxury market. Spaciousness and quality are assumed in this price range and don't need to be dwelled on.

Identical houses in Forest Hills and Hope Valley should be marketed much differently. Forest

Hills is one of my favorite Durham Neighborhoods and one that I have owned two homes in. It mixes luxury and more ordinary homes in a nice blend and isn't isolated from working class neighborhoods. However, it's the sounds that distinguish it in my mind. In the evening you can hear the train whistles nearby. On summer nights there's a good chance you'll hear the roar of the crowd at a Bulls game and certainly the fireworks after many games. In the early mornings especially in the fall you can hear the marching band at NC Central practicing. Soccer or ultimate Frisbee games in the park add to the liveliness. Hope Valley is quieter, more serene and country club centered.

Understanding these intangibles of the product and communicating them effectively are crucial in a competitive buyers market.

When you talk about "Place" or the distribution system in the marketing of residential real estate you have to stretch the concept a little bit. The concept is the method you use to get the goods to your customers. Originally this was literally a place or a store. Of course, houses aren't usually distributed that way although you might notice several "stores" for modular homes up 15-501 near Roxboro.

When I taught the American Institute of Banking marketing course I used to use Dominos as and example of a company that built a pizza empire by focusing on the distribution system. In their case, this meant rapid home delivery. Nothing was remarkable about their product, prices or promotion, but they would have the pizza at your doorstep usually in less than 30 minutes and gave people a strong reason to buy from them instead of Pizza Hut.

There is a lot of experimentation taking place on the fringes of the primary distribution system for real estate. But nothing has broken out the way Dominos did from the pizza industry to challenge the 800 lb gorilla. Residential real estate is dominated by the network of REALTORs and the multiple listing services or MLSs that support them. Data on the vast majority of homes for sale in any market are part of the local database that local REALTORs access directly. Most of the time there are about 17,000 homes in the Triangle Multiple Listing Service data base which covers 17 counties in and around the Triangle. These databases are combined in a number of ways into a virtual national database of homes that can be searched from anywhere in the world with an internet connection.

Because this system is built to serve the lowest common denominator it doesn't necessarily do a wonderful job for the luxury market. The "remarks" field allows a very limited description to accompany the other basic information about the home. This is the extent of ad "copy" that gets passed on routinely to national search engines like Realtor.com. Most listing agents that specialize in luxury homes will choose to "showcase" their listings on Realtor.com which allows more copy but still a limited number of pictures. This requires an annual subscription for the service but it is well worth the additional exposure. Still, it is no different than what a $150K investment property would get if the broker took the time to write some additional copy.

If you go to the internet and google "luxury homes" you will also find several websites that are trying to provide that extra level of exposure for luxury homes. None of these sites are comprehensive. They are marketed to real estate brokers who want to specialize in luxury homes. However, the primary beneficiary is the agent, not the seller. If you are moving from Dallas to the Triangle and you wanted to find a *buyer* agent with some experience in the luxury market, this might be a good starting point. An agent with several listings will have some immediate credibility. But since that agent represents only a fraction of the homes on the market as the *listing* agent, it is of marginal value in getting her listings sold.

Although it leaves something to be desired in the luxury market, the MLS is still the *sine qua non* of real estate marketing. Even those brave souls who choose to attempt the FSBO (For Sale By Owner) route are well advised to pay a broker to place their home in MLS. Most independent (non franchise) brokers, including us, are more than happy to negotiate this and several other levels of service.

Even with its limitations, MLS is still the best way to get global exposure for a luxury property.

Most people understand that the MLS creates this searchable database. Less well understood is that it also dictates the way many aspects of the real estate business are done. Well before there was an internet, the primary purpose of the MLS was not the sharing of data but the sharing of compensation.

The most important aspect to understand is that when a broker enters data in MLS on a home being listed, one of the fields that must be filled out is the compensation that his brokerage is willing to offer to the brokerage of the buyer's agent.

Although the mindset for years and years has been that there are "standard" commissions and "standard" splits with the buyers' agents, the Department of Justice frowns at the mention of that word because it sounds much too much like price fixing. There are no regulations from either the real estate commission or the MLS that specify amounts or types of compensation. In fact, they make very clear that they have nothing to do with that area and will not even mediate the occasional dispute.

This is a very painful topic for most agents but especially those who have specialized in luxury properties.

Here's why. The average closing price of homes that sold in Durham in 2007 was just under $200,000. If the old standards still applied, the commission that the seller would pay would be 6% or $12,000. The old standard was that the buyer's broker would be offered half of that through the MLS agreement, that is, 3% or $6,000. Most sellers will grumble a little about this but when you explain how the commission is allocated it doesn't seem outrageous. However, if you apply the same "standards" to a million dollar sale, it's a little harder to explain why the costs or skill sets for either agent would be 5 times more valuable.

Let's take an extreme example. The most expensive home listed in the Triangle MLS at this moment is an estate in North Raleigh listed for $23,000,000. There is no way to tell from MLS what the listing broker is making, but he is offering the buyer's broker 2.5%. I don't mind making a blanket offer right now to anyone wanting to purchase this property that if I represent them, I will rebate them $100,000 at closing AND underwrite a Habitat Home in their name in Durham. Even with that, it would still guarantee that I'd have the best year in real estate that I've ever had. In other words, I'd be more than willing to negotiate my compensation in "non-standard" ways. I doubt if there is an agent in the Triangle that wouldn't.

But let's look at a more likely scenario. Right now there are 257 homes on the market in the Triangle with list prices between $1,000,000 and $1,500,000. 19 of those properties are in Durham. We have already established that the sales in Durham are slower than other parts of the Triangle. Imagine you live in Durham and own a home on the golf course at Croasdaile. It's a big home, your kids are gone and you spend a good part of the year at your beach home, so you want to sell this home and move to a luxury condo where things are taken care of when you are at the beach or traveling.

You call a REALTOR whose sign you have seen on several homes in the community. You meet and she's charming and gracious and shows that she can produce gorgeous brochures. You agree to list the home at $1,250,000 (we'll talk about pricing later) which seems to be in line and will be more than enough to net what you need to purchase the condo that you want and to take a cruise around the world before you move in. Your agent produces a listing agreement. These days the standard listing agreement approved by the NC Real Estate Commission includes the disclosure of the compensation you agree to pay your listing broker and what the broker will offer the "cooperating broker" who represents the buyer.

Your REALTOR explains that her company's policy is to charge a 6% commission and to offer half of that to the buyer's broker. She will treat this as a matter of fact and *most of the time will get away with it.*

Before we see how the money breaks down in this scenario, now is a good time to talk about how agents work and how they generate their business. First of all, virtually all active agents are independent contractors who do not get a regular salary. It's a "straight commission" job, so you only eat what you kill. I mentioned the $23M listing in Raleigh to make the point that selling such a property is equivalent to winning the lottery for the average real estate agent. The number of licensed agents in the Triangle market is somewhere in the neighborhood of 10,000. The 408 homes on the market now listed for over a million represent only 2.3% of all the homes on the market. Most of those 10,000 agents have never sold a million dollar house and the odds are most never will. But they understand the numbers and will if they can.

All REALTORs are licensed to represent both buyers and sellers. Almost all will admit a preference. Most of the conventional wisdom that is taught agents when they start is to pursue sellers, arguing that once you get listings, buyers will start coming to you. Nevertheless, many successful agents begin as buyers' agents. Even if they prefer representing buyers they may gravitate to doing primarily listings after a few years because the satisfied clients that they represented as buyers start putting their homes back on the market.

They may also get to the point where they don't have time for buyers. Buyers generally take more time because you are running around showing houses and a lot of it happens in the evening or on a weekend. It's my observation…nothing scientific about this…that the more extroverted, gregarious and nurturing types gravitate to buyers. If you represent a buyer and a deal falls through, especially in today's market, there are other options and disappointment is brief. The converse is true for sellers where disappointment can be profound and unpleasant.

The roles are different too. In most sales, the seller's agent won't meet the buyers unless they are all present at the closing. Extending the analogy of the seller as the CEO of a small company, this means that the seller's agent becomes the Marketing Director and the buyers agent is the Salesperson. Actually, the buyer's agent is more like a manufacturers' rep who is authorized to sell the products of lots of small companies…an ever changing list of more than 17,000 one product companies on average, in this market.

Most real CEOs understand that being a good salesperson does not qualify someone to be a marketing director. There are different skill sets for the two positions.

How do buyer agents find clients? Lots of ways. Some of it is the same kind of hustle and working a network of connections that occurs in any other sales profession. Search on Google for "Real Estate in Durham" and you will get lots of links both paid and "natural" leading you to Durham agent websites that are designed to "capture" potential buyers. Many of the other sites you see will be "lead aggregators" or companies like Homegain that capture the leads on the Internet and literally sell them to agents. Most of the real estate franchise offices have programs to generate buyer clients for their agents and they will often charge the buyer's agent dearly for "warm leads." An exec moving to the area to work at RTP will probably solicit a recommendation from his employer. A few administrative assistants at Duke control a lot of real estate leads in Durham. The luxury home websites may also help identify potential agents for someone coming here without local connections.

I can't think of a single reason why a buyer would not want to engage a buyer's agent. It's a no-brainer. It's similar to hiring a lawyer to pursue claims for you on a fee contingent basis.

The net result is that most buyers end up with a buyer agent to represent them. Because buyer agents usually know the market and the process better than the buyer they can have a great influence on which homes the potential buyer will look at and eventually buy.

Let's go back to our hypothetical Croasdaile property that we are listing for $1.25M. Since there are far more agents in Wake County than in Durham, and for other reasons, clients looking for a home in that price range could very likely end up with a buyer agent located in Raleigh.

No client is going to look at all of the nearly 300 homes that are available in that price range. Few buyers' agents in Wake are likely to recommend looking at any of the 20 or so in Durham unless they have a very good reason. On the contrary, they are more likely to find reasons *not* to go to look in Durham. Their motives aren't necessarily malicious but are driven by a couple of factors. The first is simply by ruling out Durham you narrow the choices and move closer to a sale. Secondly, even if they don't necessarily believe all the bad things they have heard about Durham, they don't want to learn the hard way from a disappointed buyer that some of it is true.

The conclusion I have come to is that the key to marketing luxury homes in Durham is to make a substantial focus of the effort on the distribution system, in other words, the buyer agents.

So how do you do that?

There are several things but the short answer is "Bribe them."

Buried in the MLS information the buyer's agent will pull up before showing any home is the compensation offer from the listing broker. Most of the time, there will be a commission ranging from about 2.5% to 3.5%. Luxury homes tend to be at the lower range for the reasons implied above. On our Croasdaile hypothetical each half of a percentage point costs the seller $6250 and puts it in the buyer's brokerage office's account.

If promoted correctly in the "agent only" remarks and through a direct mail campaign, an extra half percent is usually enough to get even the most jaded buyer agent's attention. A full percentage point is even better.

Once you have their attention there are two other things that are important to the buyer agents. First, the product itself must live up to expectations. This includes the physical property and the intangibles you establish in positioning it. For example, if you are positioning the property as having historical significance, that has to be demonstrated.

Secondly, you want to convince them that the transaction will be handled smoothly and professionally including negotiations on the final price, repairs, occupancy, etc. There are some very specific things you can do to assure this.

This all might sound a little radical and in some ways it is. Oddly, clients seem to "get it" more easily that many agents. But when you imagine the seller as the CEO of a small company who hires a marketing director who works with a network of independent sales reps to sell your one product, you can take the analogy another step. One of the things a CEO does in a real business is work out a budget that includes marketing expenses, revenue and net profit.

In the traditional commission model, marketing expenses are borne by the listing agent and are typically not reimbursed. This does not provide much incentive to the listing agent to do much more than they would for a $150,000 listing. In fact, the motivation is to do the absolute minimum necessary, which wasn't really much in a booming market.

Nothing in law or regulation says that the arrangement has to be that way. If I was the seller/ CEO of that $23M listing in North Raleigh I might propose something quite different to the listing agent/marketing director I wanted to bring on board to market my property.

I might propose to this agent that I would make up to $100,000 available in the budget for a marketing plan that the agent would develop and I would approve. I would offer a six month contract and allow a monthly retainer fee of $5,000 to $10,000 drawn from the budget depending on the agent's subsequent role in rolling out the marketing plan. I would offer a bonus equivalent to 1.5% of the sales price at closing if the property was under contract within three months or 1% if under contract before the end of the listing agreement. I would also have him offer a commission to buyer agents at least .5% higher than the prevailing rate for similar properties for sale in the market. I could also offer an additional $50K bonus to the listing agent if the final sales price was over $20M. There is literally no limit to the variation of potential arrangements.

This approach makes the negotiation more complicated but it also provides more incentive for everyone involved.

Even if most agents bought into the logic of creating incentives for everyone in a way like this, the biggest obstacle they would encounter in negotiating an arrangement similar to this with a seller would be getting approval from company management. After all, tradition is not just tradition. All kinds of processes, procedures and systems are built around the traditional ways of doing business.

Most offices would figure out how deal with it for a $23M listing, maybe even for the next largest in the area, which is $9M. But the farther down the list you go and the more unconventional transactions you do, the more disruptive it is. After all, the current more traditional arrangements work just fine for the vast majority of transactions.

If you do the arithmetic and compare the costs to the seller between doing things the traditional way and the hypothetical proposal, the latter should cost the seller less and motivate both agents involved. However, it is still a significant cost.

Although a good CEO will always be concerned about costs, his primary concern is profit, or in residential real estate what we call the" seller's net. "

This is a good transition point to begin a brief discussion about the third P, or Pricing. In a newer subdivision with strong sales where all the lots are about the same and all the homes were built in a similar style with similar amenities by the same builders, determining a “market value” for a listing is relatively easy. The older and more unique a home, the less cut and dried the process is for setting a price.

As we have observed, the product we are dealing with in the luxury market is more than shelter or the artful arrangement of bricks and mortar; it’s an *idea* that conveys status, reflects interests, rewards accomplishments or realizes dreams.

The more removed from simple shelter a piece of real estate is, the more its value is determined in the eye of the beholder. This means that prices in the luxury market tend to be less elastic. In other words, buyers aren’t as sensitive to price. If a particular property does not satisfy their wants and desires, even drastic price cuts will not motivate them to buy. Most buyers in this market are not looking for bargains or spending their last dollar to acquire a home. On the other hand, they will pay up for something that meets their higher level desires. There is some truth to the old luxury market axiom that if you have to ask the price, you can’t afford it.

This is both good and bad. On the one hand the analysis necessary to set a price is more complicated and more art than science. On the other hand, it’s really not as important. If you have a good story and can tell it well (or create a unique selling proposition in marketing jargon) and execute a marketing plan, the seller/CEO should offer the property at a price that achieves a desired net after all costs, and then some.

In all price ranges, a residential property in Chapel Hill will bring more and sell more quickly than a similar one in Durham if you just look at the tangible aspects.

The key to getting the maximum net for the seller in Durham is recognizing the inherent value in the property and re-mythologizing the community.

Which brings us to the last P, Promotion.

Directly reaching potential buyers with anything more than what can be conveyed through MLS is difficult since they literally may be anywhere in the world. It is essential to “showcase” luxury properties on Realtor.com which will allow your agent to place additional copy beyond what passes from the MLS system. A showcase listing will also allow a link to another web site with additional information.

A very important promotional focus in the luxury market should be the broad Triangle wide community of buyer agents. Technology has actually made this quite a bit easier in the last 18 months. There are several companies that now provide services that include email campaigns to other agents. Before these entrepreneurs came along, trying to maintain an accurate email list of just a 1000 active agents in the Durham market by an individual agent or even a large office was a nightmare. Physically dispatching the emails could take hours. These services now allow you to expand the scope of your mailings to the whole universe of agents…nationwide if you want, quickly, and at a reasonable cost. These services also have relationships with the major ISPs (Internet Service Providers) that insure that the communications are not blocked at the ISP level as spam.

This still has to be done correctly by the listing agent/Marketing Director to be effective. In the course of a couple of hours while I was drafting sections of this report, I received two emails from agents in Raleigh promoting upscale properties. In the first, neither the picture of the home or the agent were particularly attractive. There were two columns of bullet points outlining features of the property like square footage and number of rooms. There was no other copy. The only thing that even suggested a lifestyle benefit was one of the bullet points extolling "a large deck for entertaining." The property was also priced at $1,399,900, as if to get the attention of bargain hunters. In the other "e-flyer," the agent was apparently trying to save forty or fifty bucks by including all three of his listings in one email. A property listed at almost $900,000 was sandwiched between two others listed for less than $300K. There were no details on any of them. This is pre-bust marketing where everything eventually sells and not much marketing is needed.

Conclusion

The residential real estate industry is facing challenges similar to those banks faced in the 70's and 80's with regulators, competition, market conditions and technology all catalyzing change. The luxury market in Durham also faces challenges embodied in the image of the community. Failure is not inevitable. But sellers and listing agents *can not* simply sit back dumbfounded and wait for the cycle to come back around to boom times. More sophisticated marketing is possible and necessary. Sellers must establish their role as CEO and engage competent listing agent/Marketing Directors to collaborate on effective marketing plans.

If you are considering stepping into that role as CEO/seller of a luxury property and are interested in engaging a competent Marketing Director/listing agent I hope you will consider me. An interview can be arranged at your convenience.

- Jay Zenner—Broker
  JayZenner@DurhamLuxRE.com
  Springtree Realty