

SELLING LUXURY HOMES

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BECOME THE PREFERRED
REAL ESTATE AGENT AND
TRUSTED ADVISOR TO
HIGH-END CLIENTS IN YOUR MARKET



John Cotton, Jr.

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To my fellow Realtors®

*Through hard work,
persistence and professionalism,
you make a challenging profession
look easy*

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SELLING LUXURY HOMES

INTRODUCTION

WHAT WOULD IT BE LIKE TO SELL A MULTIMILLION-DOLLAR PROPERTY? How would it feel to gain a spectacular listing and meet the accomplished people who either own that property or have the ability to purchase?

For most agents, such wonderment passes as quickly as thoughts of winning the lottery. Although some earn \$500,000 or more a year, few earn that much on one transaction. Thoughts like “I could never do that, or “I wasn’t born into that sphere of influence,” or “I don’t travel in the right circles,” or “I don’t know the right people” snatch away the dream. Such self-defeating beliefs can keep agents stuck in the classic story about the outsider looking in.

I confess. I have felt like an outsider. I was able to break out of that “story” and succeed in luxury real estate because when I started this career at age twenty-one, I didn’t know “it couldn’t be done.” I was lucky. No one told me anything was impossible, so I believed I could succeed—and did! The firm I started in my college dorm room grew to become one of the most respected real estate companies on Cape Cod. During more than three decades in this business, I have been involved in nearly every record-breaking residential sale on Cape Cod, either as agent or coach to the agent involved.

Many agents not only have negative perceptions of what they can sell and accomplish, but they take an extra step. They surround themselves with people who only too willingly reinforce the notion that success in high-end real estate won't work for them.

UNDERSTAND THE MINDSET

You'll find that this book helps you understand the mindset you need to succeed in this stratum of the real estate business. It also provides specific techniques and plans of action to launch you on the path to being a luxury real estate expert.

Just as important as adjusting your own mindset is understanding the mindsets of those individuals you desire to serve. To assist you, Chapter 2 pinpoints the four categories of wealthy individuals—WANNAs, KINDAs, REALLYs and SUPERs—and how they think. As important as adjusting your own mindset, we must also understand the mindset of the high net worth individuals we desire to serve.

In addition, Chapter 4 explains ways to find high-end buyers and sellers, and how to provide useful information these individuals crave. Becoming a primary source for them builds the perception of you as a market expert in your chosen high-end niche.

Your next step is to become a trusted advisor to the wealthy—one who's called on time and again for expert advice about the market. You can assist them as they monitor their positions of wealth and make the necessary plans to maintain, preserve, and conserve that wealth. This will put you at the epicenter of the sphere of experts they access for various aspects of their financial lives. Your ultimate goal? Preeminence in the field of luxury real estate.

WHAT'S YOUR PRICE RANGE?

Let's say luxury real estate is defined as the top 10% of the market. (Look for more on definitions in Chapter 1.) Do luxury real estate specialists exclude listings or sales below a certain price level? Should you pass them on or refer out properties that don't meet that definition?

My philosophy has always been to treat *all* potential clients like a million dollars, regardless of the price range of their properties. Throughout my 36-year career, I have never discriminated based

on the price of a listing or a particular buyer. The following story illustrates why.

IT STARTED WITH A SALE UNDER \$150,000

A couple on the young side of middle age walked into our office one day. New to the area, they'd heard about our Village and all its amenities. They wanted to look at the available homes. At the time it was possible to find homes in the Village for under \$200,000. Soon the couple purchased a home for \$131,500—not a luxury transaction by most people's definition. We soon discovered they were holding out on us in terms of their financial power.

That same year, they decided to buy a condo for one of their parents and closed on their selected choice for \$290,000—still not a luxury property but getting better.

After enjoying the ambience and charm of the Village for not even a year, they decided to buy a waterfront home for \$859,000 that showed signs of age and disrepair. While this property was approaching the category of "luxury," the dwelling itself was in such poor condition, they razed it and had a highly regarded architect design a beautiful new home. They began constructing it using the highest standards.

When the home was nearing completion, a disagreement with a neighbor ensued over the refuse company noisily emptying the construction dumpster in predawn hours. The next day, the owners decided this wasn't the neighborhood for them, and they began looking at other properties.

In short order, they bought a waterfront home that anyone would define as "luxury" at \$3,475,000. Even though it was in perfect condition, they made major renovations. About the same time, my agency sold the new house they never moved into for \$1,600,000.

After several years living in this home, they decided to buy another in a waterfront town some distance away and sold their latest home for \$4,450,000. Before long, the purchaser of that home decided to move on, and our agency sold the home again for \$5,198,000.

The new buyers enjoyed the home for several years, then decided the location wasn't for them. Our agency helped them find and pur-

chase a nearby property for \$12,500,000 that required extensive modernization and renovation.

This entire chain of transactions that began with a couple who some assume had modest means, purchasing a non-luxury home for \$131,500. Wealthy people don't always tip their hand right off. See how this purchase multiplied into multimillion-dollar sales?

Many agents would have jumped into this chain of sales at the \$3 million mark. In fact, some tried but were unsuccessful. The people came to know and trust us, so they weren't motivated to change.

They could just as easily have been a couple who could only afford a \$200,000 property when they first visited. After all, being able to purchase a \$200,000 second home puts you at the top of the income/net worth strata. Many of our clients began as purchasers in the lower end of the price scale and moved up as their financial situation grew.

THE DECISION IS YOURS

You can specialize in a certain price range or go with my philosophy to treat everyone like a million dollars regardless of their price range. I prefer to list and sell homes in all ranges so I can "pay the bills," and when the mega-sales come along, I bank all the fees. If I can be successful doing this, so can you.

Welcome to the world of luxury real estate and learning how to make it yours. Let's begin.



LUXURY REAL ESTATE DEFINED

IF YOU ASK PEOPLE TO DEFINE "LUXURY" REAL ESTATE, YOU'LL GET many different answers. A number of people may say \$1 million and above, but in some markets, \$1 million would be the price of a starter home. Others may think "luxury" pricing begins at \$10 million. Depending on the market and location, either of these answers could be correct.

In the Hamptons outside of Manhattan, or in Hawaii or parts of California, the definition of luxury could begin at \$5 million. On Cape Cod, it starts at \$1 million. How perfect; I love round numbers.

In some places, people may believe that only homes over a certain size or in certain locations, such as on the water or a mountainside, qualify as luxury real estate. In other places, homes without wheels might fit that qualification!

Another way to define luxury real estate is to add a zero to the average price of properties you're currently listing or selling.

My two preferred ways to define luxury real estate for any market are these:

- (1) top 20% of listings, or
- (2) top 10% in actual sales calculated by price.

Here’s an example of the first way. In my market—Cape Cod, Massachusetts—3,317 homes are listed for sale at the time of this writing. Now, 20% of 3,317 is 664, so the top 20% of listings would mean the top 664 homes listed from lowest to highest price. In this case, any property priced at \$1,100,000 would be qualified as luxury.

Alternatively, the top 10% of 2,627 actual sales from the previous 12 months are calculated the same way and result in an approximate cutoff point of \$700,000.

In a stronger market where the supply and demand is more equally balanced, these two numbers—\$1,100,000 and \$700,000—are often closer together. However, for use throughout this book, let’s define “luxury” real estate as the second option—the top 10% of sales in any given market.

Certain publications and web sites that feature “luxury” homes maintain minimum prices for properties they list. These may or may not coincide with your chosen definition, so first establish a standard in your own business. Use a definition that’s appropriate for your markets and can provide you with a cutoff number.

WHY DETERMINE A CUTOFF NUMBER?

But you may be asking this question: Why determine a cutoff number if you adopt my philosophy and treat everyone like a million-dollar buyer regardless of the price point? Because devoting a higher level of marketing to properties that qualify as “luxury” is justified, given the higher expectation of the seller and the fee you stand to earn.

Be aware, of course, that no matter how you define “luxury” real estate, the number of individuals who can buy or sell these properties is limited. Obviously, \$1,000,000-dollar-and-up properties aren’t as plentiful as \$200,000 homes. The good news? High-end buyers often own two or more homes, making it worth your while to cultivate lasting relationships with them.

DISADVANTAGES OF HIGH-END REAL ESTATE

If you specialize in high-end versus low-end real estate, your fees are higher but most likely the number of transactions you complete

is smaller. Plus if you list and sell dozens of lesser-priced homes, it’s not as painful when one transaction fails.

On the other hand, if a \$5 million sale falls apart, many months of hard work can be lost. To make matters worse, you might not have a significant number of other transactions in the pipeline to make up the shortfall.

If you’re in a seasonal or second-home market such as Cape Cod, it’s important to understand that someone purchasing a property as a second home—even for the lowest price available in your market—is probably in the top 5% of income earners. As with the couple in the Introduction, these buyers tend to upgrade regularly, so keeping them as clients for life is highly desirable. Yet doing so takes focused time and effort.

Seasonality in any location can lead to longer marketing periods. In markets such as Cape Cod or Florida, for example, properties are more likely to sell at certain times of the year. Cape Cod buyers come out in early spring and autumn. In Florida, an uptick of buyers usually occurs during the winter months. Therefore, if a property comes on the market outside the prime season, you can be looking at a longer sales cycle than for lower-priced properties. This fact—combined with the need to produce elaborate brochures, web sites, and advertising—means that high-end real estate can be expensive to list and market. (Refer to the discussion on the need for long listing contracts in Chapter 7.)

Besides the additional marketing expense, luxury properties take a long time to show because they’re bigger and more detailed than non-luxury ones. It can take an entire day to show only two or three high-end properties. And although transactions for luxury homes tend to stay together until closing, they may take months or sometimes years to arrange. When a high-end sale falls through, the time you’ve invested can be impossible to make up.

BENEFITS OF THE LUXURY MARKET:

GREAT HOUSES, HIGH FEES, COOL PEOPLE

Despite the downsides, the benefits of being a luxury real estate specialist outweigh having many transaction eggs in one basket.

For one, financing can be easier because many times buyers pay cash. Even if they’re obtaining a loan, they typically only make one phone call to their private banker to secure it, giving the transaction every appearance of being a cash deal.

Also, high-end transactions rarely fall apart. Wealthy individuals tend to be more in tune with the buying process because they’re buying their second or third residence. Having been through this many times before, they’re experienced buyers.

GREAT HOUSES

I’ve observed that luxury homes have one of two emotional “tugs” buyers use to justify their purchases. For some, buying a luxury home is a just representation of their success and a reward for their achievements. For others, owning a great house in a spectacular location pulls their families together, especially important if family members have drifted apart over the years.

Buyers who can afford a great house are obviously successful. If they didn’t inherit wealth, they got to this point by working hard and sacrificing a good deal of family time—missing their children’s plays and sports games, family dinners, and so on.

Purchasing a great house often enables these buyers to recapture time they’ve lost getting to where they were able to afford it. They might say something like, “I need to pull my family together again, and this property is the magnet to do just that.”

EMOTIONAL REWARDS FOR ALL

While I was at a buyer’s house for which he paid \$3 or \$4 million, the new owner told me, “You know what? The funniest thing happened. My son came for the weekend and he stayed for six weeks. And he’s talking about getting a job here next summer. This is the best investment I’ve ever made.”

How striking! Caught up in the emotion of his son getting a job and staying the whole summer, this buyer’s heartfelt conclusion was, “Why didn’t we buy a house here sooner?”

And that’s the exciting part of the business for me. I feel rewarded seeing the smile on people’s faces when that occurs. Sometimes, they weren’t aware that could be an outcome when they first looked for a luxury home.

Every morning, I wake up in my own home situated on five acres with a distant river view. I look around with pride at my surroundings and think back to the modest home on a quarter acre that was my childhood residence.

Later in the day, I go on an appointment at a 12,000-square-foot home that has elevators, 15 baths, tiled garage floors, and electronics that cost more than my entire property. Returning to my home on those days allows me to rediscover the concept of relativity. More often than not, I undertake another expensive project.

I find it a special treat to see many incredible examples of craftsmanship as well as original artwork I once saw through heavy eyelids in slideshows during art history class. More than once, I have come home and wanted to tear my house apart and start over. But then I remember, I’ve created a happy home that I can afford. Although I’m not as rich as my clients, I realize I do have great wealth!

HIGH FEES

What benefit do most agents expect to gain by selling luxury real estate? Obviously, it’s earning higher fees than for non-luxury homes.

I won’t mention specific fees, but I assure you that, as a rule, selling fees for high-end homes tend to be larger—much larger—than most. Although many agents make \$500,000 a year selling real estate, few have made \$500,000 on one transaction. Holding that half-million-dollar commission check is exciting, I can assure you—if for no other reason than the well-earned extreme sense of accomplishment that far exceeds the dollar amount.

Many luxury real estate professionals agree that it is no harder to sell a \$5 million property than it is to sell one valued at one tenth that amount. For all transactions, the trick is to get the listing, find the right buyer, and negotiate the best transaction.

The actual selling part, though, can be easier with high-end real estate. I have found that decisions to buy a high-end home can be made impulsively, and occasionally after only one or two showings. Also, I can assure you I’ve never had to measure closets, investigate the BTU output of the furnace, or chase down the R factor of the bulkhead doors in a multimillion-dollar home.

Many agents eyeing the high-end market ask: “Do I have to cut my fee or charge a lower fee on a multimillion-dollar home sale?” Not necessarily. High-end sellers know that with luxury properties the stakes are higher and expenses greater, and the expertise is more valuable and therefore costly. (Look for a discussion on fee preservation in Chapter 19: The Three Negotiation Strategies You Need in the High End.)

COOL PEOPLE

Odds are, those who can afford one or more multimillion-dollar homes have an interesting story and are unique individuals. I can think of no other career in which I could have interacted with such high-caliber professionals or corporate chieftains when in my late twenties. It can be both astounding and inspirational to hear their success stories—one never the same as another.

Let me remind you here of the need for both confidentiality and discretion in dealing with high net worth individuals. For that reason, you’ll find my stories about my clients general in nature and their names fictitious except in rare instances.

From the standpoint of learning and personal growth, I’ve found the value of interacting with super successful buyers and sellers of luxury real estate goes beyond measure.

One example involves a man who was among the wealthiest in our small town. Every town has one, and many people may conjure an image of Mr. Potter, the crotchety old businessman in the 1946 movie, *It’s a Wonderful Life*.

At the time I was beginning my career, this man—patriarch of a huge family—was referred to as Grandpa John, Uncle John, or simply John. I called him Mr. Smith (not his real name) and knew him to

possess both the business acumen of Mr. Potter and the heart of the movie’s hero, George Bailey.

I mostly visited Mr. Smith when, in the early days of my career, I felt discouraged and ready to give up my life as a real estate agent. It did, after all, take more than one year for me to sell my first home. And it certainly wasn’t in the luxury category by any definition.

Reportedly, Mr. Smith had no more than an eighth-grade education and had worked in land clearing and landscaping. He was so old, he made his first trip to our town in a horse and carriage and grew up experiencing the hardships of the Great Depression firsthand.

During tough economic times, many of his customers couldn’t afford to pay him, so they gave him house lots in the subdivisions he worked in.

In part because of this arrangement, he became the largest property owner in town over time. His holdings eventually included scores of houses, hotels, mall properties, and more.

The time I spent talking with Mr. Smith proved to be better than any time I could have spent in an MBA program. He taught me the value of one’s word and a handshake; he warned me of the “evils” of overextending with leverage in real estate, and much more.

During my three-plus-decades career, our country has had three major economic downturns, including the current low point starting in 2008. Yet the advice I received from Mr. Smith has stood the test of time.

Among his gems of advice that I’ve followed:

- ◆ Don’t get cocky.
- ◆ Don’t depend on excessive debt.
- ◆ Make a plan to pay off your real estate.
- ◆ Live within your means.

In large part, these constitute the basic reasons my real estate career has survived each of the downturns we’ve experienced.

WORDS FROM THE WISE

In addition to my “schooling” with Mr. Smith, I have had the privilege of interacting with CEOs of Fortune 500 companies as well as other accomplished individuals. Each occasion has been an incredible learning experience.

I have long held the opinion that if executives in major corporations feel confident enough to commit several million dollars to buying a vacation home, their companies might be good ones to invest in. I have rarely gone wrong when I’ve made my investment decisions this way.

That said, I have NEVER received insider information about any company. The surest way to end a relationship with a corporate executive is to ask for some. On the other hand, my theory is that (with minor yet notable exceptions), if executives have limited confidence in their companies’ ability to thrive, they wouldn’t be buying second homes in the luxury market.

2

LIFESTYLES OF THE RICH AND FAMOUS

F. SCOTT FITZGERALD WROTE THAT “THE RICH ARE DIFFERENT than you and me.” The more you work with high-end individuals, the more you learn that is an absolute understatement.

Here’s an example. After a recent showing, I drove a potential buyer back to his own residence. As I pulled into the driveway, I could see exterior painting work in progress: tarps, ladders, and workers sanding and priming the trim preparing it for new paint.

In our conversation, the owner mentioned how he researched the different brands of paint, who manufactures them, and even how they’re manufactured. After settling on what he thought was a perfect brand, he got in touch with the CEO of the selected paint company who assigned a factory rep to advise him on the exterior painting of the house. The factory rep actually visited his house, coached the painters, and oversaw the preparation and the application of the new paint, including application thickness, temperature conditions, and humidity during the time the paint would be applied.

This may seem obsessive, but it indicates how wealthy people have precise expectations and high standards—and expect them to be met. They’re willing to pay the price and expend the effort to make sure fulfillment of their needs reaches that high standard of quality.