

HOW TODAY'S HIGHLY AFFLUENT
U.S. CONSUMER SELECTS LUXURY REAL ESTATE
ASSOCIATES AND BROKERAGES

JULY, 2011

A RESEARCH STUDY BROUGHT TO YOU BY



IN COOPERATION WITH

Harrison Group

LUXURY HOMES FROM LEADING REAL ESTATE COMPANIES OF THE WORLD®

"We know consumers will tell us what they want.
It's just a matter of asking the right questions
of the right people. The true professionals then
deliver on those preferences."

– Paul Boomsma, President Luxury Portfolio International™

LUXURY PORTFOLIO INTERNATIONAL™

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AUTHORITATIVE RESEARCH

We are pleased to bring you this white paper as part of our continuing focus on providing customers, agents and brokers with the most up-to-date and current thinking on what it takes to create win-win scenarios in the luxury real estate market. Luxury Portfolio International™ is an authority in tracking luxury trends through LuxeTrends®, the Luxury Portfolio Magazine and the Luxury Portfolio Blog. We believe in examining every aspect of the affluent consumer with a laser focus to ensure we are creating the very best opportunities in the market. This focused study helps us understand today's continually evolving and dynamic consumer. So by pulling back the curtain to investigate the true science in real estate and marketing, we ensure we have the metrics and can approach every transaction from the most informed position possible.

In our latest endeavor, we have tapped Harrison Group Inc., experts in understanding high net worth Americans, to produce this valuable document. Our research, fielded among 1,060 members of the American Express Ambassadors Network™, focuses on an upscale subgroup of U.S. buyers and sellers of high-end real estate valued at one million dollars or more (\$1MM+). Nearly one in three of these consumers have household incomes of at least \$300,000, nine in 10 have a college degree (with over 40% holding an graduate/advanced degree), and 60% live on either west (30%) or northeast coasts (30%). The research reveals the top elements that high net worth consumers deem important in the selection of a luxury real estate agent and agency. Additionally, we bring you select insights from the *Survey of Affluence and Wealth in America*,¹ which is produced annually by American Express Publishing and Harrison Group.

TODAY'S LUXURY REAL ESTATE CONSUMER

Finding Opportunity in a Changed Economy

It would be an understatement to say that times have changed. And with changing times comes a need to check in with our customers and evaluate their temperaments, mindsets and marketplace sensibilities. In late 2010, we did just that. Our research reveals that high net worth customers currently in the real estate market are defined by their resourcefulness, their commitment to finding real value in the marketplace (across all categories in which they are connected), and their desire to engage with a demonstrated authority on the luxury real estate market. Because high net worth individuals are also savvy and sophisticated, by conducting their own research online on domestic and international markets, real estate agents need to be able to serve as a resource by having both a global perspective and an even greater store of research and information at their fingertips to share with this already knowledgeable consumer group.

Resourcefulness and Self-Reliance Dominate the Customer Mindset

The Great Recession has brought changes for everyone, including the affluent and wealthy. The most important, permanent adjustment has been their adoption of a new sense of resourcefulness and self-reliance. According to the *Survey of Affluence and Wealth in America*, 75% of affluent consumers report that the recession has made them more resourceful, 83% say they are more fiscally responsible, and 68% believe they are much smarter shoppers.

¹ Survey interviews among households with discretionary income of \$100,000+

Today's Customer is Committed to Quality and Value

While affluent and wealthy consumers are searching for value, they have not traded down in their notions of, and demand for, quality – in both product and service. “Their expectations about, and their desires for quality, craftsmanship, and service have not diminished. Meanwhile, their expectations that purchases be thoughtful and meaningful have risen.”² For luxury real estate, this means they are seeking superb quality, as well as amenities and/or features that address the needs of the most important of their relationships, their families – all at a price that is perceived as fair.

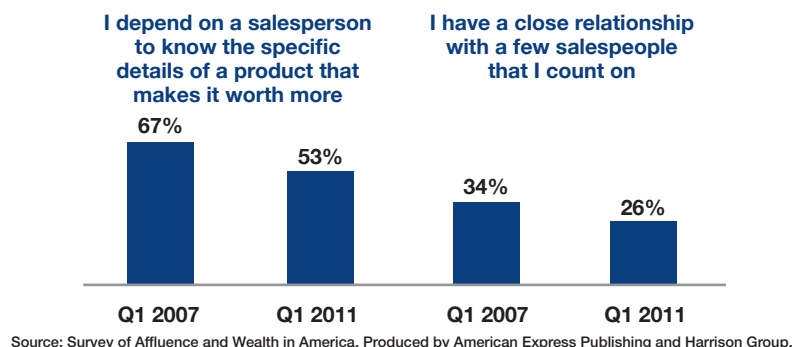
In fact, over the course of the past few years, the value equation has developed into what Harrison Group coined ‘purchase profiteering’.³ If consumers believe there are discounts available in the short-term that may not exist for the long-term, the purchase becomes profitable now, even as dollars are expended. In other words, the affluent and wealthy don’t just want to feel that they are receiving a discount on their real estate purchases; they want to feel like they have made an immediate profit.

...EXPECTATIONS ABOUT QUALITY, CRAFTSMANSHIP AND SERVICE HAVE NOT DIMINISHED. MEANWHILE, EXPECTATIONS THAT PURCHASES BE THOUGHTFUL AND MEANINGFUL HAVE RISEN²

SALESMANSHIP AND THE DETAILS OF DISTINCTION

Dependence on the Salesperson is Shrinking

As consumer savviness and self-sufficiency have risen, their reliance on and view of salespeople have diminished. The growing access to internet research has empowered consumers to quickly find information which previously resided only with industry experts. This is simply the new reality for salespersons across nearly all industries. According to the *Survey of Affluence and Wealthy in America*, affluent consumers report that they believe in their own abilities to search for the facts; nearly nine-in-ten feel that they can often get to the facts faster on their own, via the Internet, than if they turned to company representatives. Further, the trend line shows fewer and fewer consumers depending on salespeople:



² Jim Taylor, Stephen Kraus and Doug Harrison: *Selling to the New Elite: Discover the Secret to Winning Over Your Wealthiest Prospects* (New York: AMACOM, 2010), 3.

³ 2011 Luxury Summit Executive Summary, published by American Express Publishing and Harrison Group

While these data may feel daunting, even in this context there is a huge opportunity for real estate salespeople to win clients and bolster market share through superior service. In fact, real estate agents must continue to strive to enhance their salesmanship to become go-to, reliable resources to help their individual customers decide on what is *genuinely* the best product for them personally. More than ever, real estate agents need to be able to address the savvy luxury consumer's research capabilities by bringing more knowledge and insight to the table than the consumer can find on his own via a quick Google search.

Furthermore, agents must be able to use this knowledge to speak to the details of distinction that matter most to a particular customer. The best website in the world will not be able to uncover a customer's interest and passions and then demonstrate the way a brand delivers on those passions.⁴ Only an exceptionally service-minded salesperson can fill this vital role.

LEADING FACTORS IN AGENT AND AGENCY SELECTION

Proven Experience, Performance and Reputation Are Key

When selecting an agent to work with, three types of characteristics were revealed in this research: personal and professional attributes including 1) reputation, 2) a demonstrated track record of performance, including insights into the market and the ability to reach a large network of either buyers or sellers, and 3) the ability to market high-end properties in high-end ways. As shown in the following table, it is notable that "trust," as an extremely important factor, is valued by 56% - nearly 20 points less than "reputation for performance" when selecting a real estate agent. This presents both a challenge and an opportunity for agents: a challenge in so far as not being able to assume that clients will stay with an agent even when "trust" has been established, and an opportunity in so far as consumers being open to establishing new relationships based on an agent's stellar, performance-based reputation.

Not only can agents not be complacent in assuming their existing clients will stay with them as a matter of course, but agents should rethink the notion of trust altogether. That is building and creating trust should not be an end goal in and of itself. Trust must be organically created through reliable and consistent performance across all metrics that matter. Performance is the new trust.

How important is each of the following when selecting an agent to work with?	\$1MM+ Real Estate Market Participants	
	% Extremely Important	% Extremely/Very Important (NET)
Personal/Professional Attributes (NET)	86	97
Has a reputation of performance in the market	74	91
Is someone you know/trust	56	80
Has a strong track record in the high-end/luxury real estate space	58	87
Demonstrated Ability (NET)	84	96
Has a thorough understanding of the high-end/luxury real estate space	68	92
Has the ability to represent your listings in other places online (outside of the agent's website)	63	87
Is able to demonstrate that they can reach successful consumers outside of your market	58	82
Attractive Marketing Communication (NET)	67	92
Can represent your property on an elegant/attractive website	59	83
Is able to represent properties with high-end elegant materials	49	80

⁴ 2011 Luxury Summit Executive Summary by American Express Publishing and Harrison Group, Inc.

Specializing in High-End Real Estate is Key

About three-in-four consumers in the \$1,000,000+ home market say that the number of \$1,000,000+ sales that an agent has secured is a characteristic that would distinguish that agent as among the very best in the field. Further, six-out-of-ten consumers say that an agent who specializes in luxury real estate is important to them. Luxury Portfolio International's website, LuxuryPortfolio.com, helps its agents meet this criterion as more than 80% of its property listings are priced at \$1MM or more.

Luxury Portfolio International's Property Listings



Other, related characteristics that distinguish an agent as a "top agent" include reputation in the community (86%), reputation with colleagues (77%), length of time past sales have taken (72%) and number of homes currently being listed with an agent (59%). With the exception of reputation, note that all of these characteristics are "hard" data – readily proven through indisputable metrics. This too, is a reflection of the high degree of resourcefulness buyers and sellers bring to today's high-end real estate market.

Characteristics That Distinguish Top Real Estate Agents From Others	\$1MM+ Real Estate Market Participants
Reputation in your community	86
Reputation with their colleagues/peers	77
Total number of homes sold	76
Total number of homes valued at \$1,000,000 or higher sold	74
Amount of time past sales took	72
Number of years in the the real estate business	71
Total number of homes valued at \$1,000,000 currently selling	65
Total number of homes currently selling	59
Industry awards or recognition	41

REACHING THE CUSTOMER

Key Marketing and Advertising Channels

Affluent consumers are certainly savvy enough to know that when an agent is affiliated with a strong organization (with “strength” not being a proxy for the size of the organization), opportunities for greater reach are increased – whether they are looking to buy or sell. And in fact, when asked about the qualities of an organization that they would like their own agent to be affiliated with, the most popular response was “is part of a strong network,” cited by 82% of high-end market customers. They want to be afforded the highest possible service with the lowest amount of risk, which is something that stronger organizations can offer to high-end consumers.

Desired Characteristics of the Company with which Agent is Affiliated (% Extremely/Very Important)	\$1MM+ Real Estate Market Participants
Marketing Efforts (Net)	93
Is part of a strong network	82
Has a strong Internet presence	77
Is frequently in the top returns on search engines	76
Has a popular Internet site	70
Promotes your property on YouTube	18
Is affiliated with an auction house	11
Advertising Efforts (Net)	65
Advertises in newspapers	47
Advertises in magazines	41
Has it's own dedicated magazine	24
Advertises on TV	21
Company Recognition (Net)	52
Is nationally known (operates throughout N. America)	46
Is internationally known (operates throughout N. America, Europe and Asia)	31

As part of their resourcefulness, the Internet is their go-to source for research and market knowledge, yet when it comes to advertising 68% of affluent and wealthy consumers pay greater attention to print advertising than digital, and the same amount also find print advertising to be more engaging than digital ads.⁵ Since the affluent and wealthy still find print highly relevant, a balance of elegant execution of information delivered both in print (newspapers and magazines) and in strategic digital placements is highly advised.

About one-quarter of affluent and wealthy consumers say that it is desirable for their agent’s company to have their own dedicated real estate magazine. In a nod to their resourcefulness, consumers want to see industry trend information, along with tips from real-estate insiders. Additionally, 53% want relevant lifestyle content like summaries of lifestyle and living trends among people similar to them, or tips and trends on home and interior design. *Luxury Portfolio* is positioned to deliver on these consumer desires through the *Luxury Portfolio Magazine*. This publication caters to the luxury real estate audience by representing the “lifestyle” of luxury including trends in living and design and features articles on high-end properties.

Valuable Features in Dedicated Real Estate Magazines	\$1MM+ Real Estate Market Participants
Summary of trends in high-end real estate	58
Trends in lifestyle and design	53
Summary of lifestyle and living trends among people similar to you	38
Home and interior design tips and trends	37
Advice and/or tips from real estate agents	48

⁵ Survey of Affluence and Wealth in America, Q1 2011 by American Express Publishing and Harrison Group

Global Organization

While an agent's affiliation with a nationally known/operated brand is seen as important, one-third of the affluent and wealthy have a strong interest in having an agency represent them that has global representation, and company recognition is important to more than half of high-end real estate consumers. Also critical is an agency's track record of selling internationally to demonstrate their international abilities to prospective clients.

Our research found that one-third stated that their agents had successfully marketed their properties internationally, and 36% are extremely or very interested in receiving an introductory and personalized correspondence from a global source about their property. In fact, eight-in-ten agree it would make them more likely to select an agent if they received a personalized letter from such an international company. Luxury Portfolio International's Luxe Introductions' letters provide just such a service, whereby agents can have customized letters sent to their prospective or existing client on their behalf.

EMPOWERING SELLERS

Internet Presence, High Visibility Print and Reporting Tools are Key

Affluent and wealthy consumers are well versed in using the Internet, so it should come as no surprise that 71% say that it is critical for their listings to appear in Google search results. Forty-eight percent wish to see placements in *Unique Homes* and 47% in the *Wall Street Journal*, 38% say representation in the *duPont Registry* is important. In addition to appearing in these media outlets, consumers are interested in receiving personalized reports showing where their property is being marketed. More than one-third also want to see statistics that demonstrate the popularity of their agency's website.

The right Internet tracking and reporting tools make a difference for sellers. Today's increasingly tech-savvy customers want proof points of progress displayed through sophisticated metrics, such as what Luxury Portfolio International's™ "LuxeAnalytics" program provides to agents. Specifically, in order of importance, luxury real estate sellers want to know the number of:

- Inquiries made to the agent about the property
- People who have viewed the property on the agent's website, and
- People who have viewed the property on other websites:

The bottom line? Good reporting on all marketing channels is key. For example, Luxury Portfolio International™ is the only luxury real estate program that gives agents the ability to report on comprehensive listing metrics – from inquiries and views down to which city, state, country a visitor came from and even what language or currency they use. This level of reporting allows for better insight into those who are browsing their listings online.

Salient Reporting Metrics

% Extremely/Very Important



CONCLUSIONS

First and foremost, the luxury real estate consumer demands that an agent be reputable amongst his or her peers. Agents must be knowledgeable about their market, have a track record of selling \$1MM+ homes and be supported by an agency with global reach. In addition, while the luxury consumer is seeking agency websites that are as elegant as the properties they represent, they also want to see that such websites are popular, have a strong presence of luxury market share, proven Internet presence and tracking statistics. More than ever, too, savvy sellers are looking for excellent reporting on web traffic and searches.

While the Internet is paramount, printed material is still vital for advertising purposes and must be elegant. Advertising in local newspapers is imperative, but specific national papers are highly regarded, too. Magazine advertising is still considered appropriate, as well; as is a designated agency magazine where the affluent and wealthy expect to find real estate tips and home design trends.

Of course, the affluent and wealthy still demand high quality and craftsmanship in the homes that they buy. But due to the changed economic times, they view all marketplace decisions through the lens of resourcefulness.

Overall, in an era where consumers increasingly rely on their own abilities and search for information on the Internet, an agent representing high-end real estate must be a docent – a true authority on the luxury real estate marketplace - in every respect - to sell to this increasingly sophisticated, knowledgeable and selective consumer. By becoming a true real estate expert and addressing property distinctions that speak to a customer's interests and passions, they will not only win business but market share, as well.

LUXURY PORTFOLIO - WHO WE ARE

Luxury Portfolio International™ is the luxury face of Leading Real Estate Companies of the World®, the largest global network of premier locally branded companies dominated by many of the world's most powerful independent luxury brokerages. Launched in 2005, Luxury Portfolio International today markets over 25,000 luxury homes to over 1.2 million high-net-worth visitors annually. By presenting a gallery of the finest luxury properties and brokerages worldwide, our brand is recognized throughout the world as the luxury standard of excellence.

In addition, we are unmatched in the global arena, with properties in over 45 states and 25 countries, website visitors from over 200 countries/territories every month, site translation in nine languages, conversion to multiple currencies and a total inventory of available properties totaling almost \$36.5 billion. The 200 brokerages of Luxury Portfolio International™ represent the luxury segment of Leading Real Estate Companies of the World®, the premier global real estate organization encompassing 550 firms, 4,600 offices and 140,000 associates producing \$225 billion in annual home sales. Based in the United States with an office in London, Luxury Portfolio International™ is backed by the experience of the most respected and recognized experts in luxury real estate in markets worldwide. This group's experience spans many decades in the highly affluent residential market.

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