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Movin' On Down

Competition Among Top Firms Heats Up In Still Solid Sector For High-End Real Estate

By **BEN CASSELMAN**
 August 3, 2007; Page W8

There's a new piece of ammunition in one of luxury real estate's fiercest battles: a \$34,000 trailer in Goleta, Calif.

The home is for sale through Sotheby's International Realty, a brokerage better known for oceanfront estates and country manors. The company has greatly expanded since it was sold off by its auction house parent three years ago. New Sotheby's Realty franchises in places like North Carolina and Colorado are marketing dozens of big-ticket properties, but they're also taking on many less luxurious ones. One new franchise in northern Idaho, for example, is listing a small three-bedroom house for \$139,500 and a double-wide manufactured home for \$38,000. (The listing boasts of "newer" appliances.)



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The company's venture into the land of carpools and doublewides has been the source of much delight among agents at its chief competitor,

Christie's Great Estates, some of whom email each other, especially about downscale Sotheby's properties. Norman "Pete" Callaway, a former Sotheby's broker who is now with Christie's, keeps a photo of a rival listing -- a hot dog stand -- in his desk drawer. "They've lost that high-end credibility," he says.

Executives at Sotheby's Realty -- which retains an affiliation with Sotheby's auction house -- say the company is still a luxury brokerage, and point to its more than 800 U.S. properties listed for \$5 million or more. But they also say they are casting a wider net -- targeting customers who can afford a \$10 million mansion as well as their children, their friends, and those who aspire to buy such properties in the future.



Eric Grigorian / Polaris

Sotheby's International Realty has expanded its offerings: A trailer home in Goleta, Calif., is listed for \$34,000

year, even as overall volume fell 1.4%, according to the Connecticut Association of Realtors.

The changes at Sotheby's Realty come amid increased competition at real estate's high end, which has generally weathered the downturn better than the mid-range and low-end, where credit is drying up. The wealthy can still borrow with relative ease, or pay cash. In Connecticut, for example, sales over \$500,000 rose 4.5% in the first quarter of the year compared to the same period last

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With business still good, small boutique firms are now vying for top listings with national players such as Coldwell Banker and Re/Max, as well as Luxury Portfolio, a network of independent firms. The five U.S. properties on the market for \$100 million or more are being brokered by six different companies.

Most luxury listings don't have such eye-popping price tags, of course. The average asking price of a Christie's property is \$5.4 million, according to the company, and nearly all its listings are for \$1 million or more. The average asking price for a Sotheby's Realty property is \$1.6 million, and about 60% of its properties are listed for under \$1 million.

Sotheby's auction house sold its real estate division to Cendant Corp. in 2004 for \$100 million. The new owners got the 17 existing realty offices and, more importantly, the right to use the Sotheby's name and branding for as much as a century. (The auction house earns a nominal licensing fee based on sales made under its name; last year, those royalties totaled \$2.6 million, according to securities filings.) Cendant later spun off its real estate group as Realogy, which was itself bought by private-equity firm Apollo Management late last year for \$6.7 billion. The new owners abandoned the old affiliate system and adopted a franchise model, under which all offices use the corporate logo on all of their listings.

The new model has brought a wider range of listings. Of the more than 17,000 U.S. properties listed for sale on Sotheby's Web site recently, more than a thousand were less than \$250,000. Some were undeveloped land or preconstruction offers, but others weren't: a \$74,900 boarded-up house in Chicago; a three-bedroom Florida condo in pre-foreclosure for \$139,000; a \$137,000 studio condo in Malden, Mass., billed as a "great chance to own instead of rent."

"We like to market the best properties in every price range," says Kathryn Korte, a Sotheby's Realty's chief executive.

Owners of tony estates, however, don't always want to be lumped in with studios and starter homes. Last fall, when Kailas Rao wanted to sell his \$11.9 million mansion in Milwaukee, he says he looked for a company that focused on the high-end and didn't give out "mixed signals." He chose Christie's. "You have to understand who the customer is," he says. (Sotheby's Realty executives say they consistently target connoisseurs of the good life, regardless of their means.)

High-end real-estate is a singular niche. Brokers often become celebrities in their own right. Stephen Shapiro and Kurt Rappaport, the agents behind the \$165 million Beverly Hills mansion that is currently the country's priciest listing, briefly starred in their own reality series on VH1. New York broker Dolly Lenz, whose deals include a \$45 million sale in the Hamptons, posed for a magazine spread lying atop a piano and dressed in a black dress and a fur stole.

The big-tent strategy by Sotheby's Realty angered many of the company's longtime affiliates, who feared the brand would be watered-down. "The joke amongst ourselves was, 'Gee, this is sort of like Wal-Mart buying Tiffany,'" says Jack Turpin, whose New Jersey brokerage had been part of the network since 1978. Mr. Turpin's firm was one of many to leave Sotheby's after the sale; about two dozen later signed on with Christie's. Sotheby's Realty executives say some former affiliates found the "paradigm shift" difficult.



Christie's stays at the high end: an Eastville, Va. property is listed for \$41,750,000.

Christie's listings show the company's different approach. While it has far fewer listings than its rival -- about 4,000 on its Web site -- 95% of them are for \$1 million or more. Christie's affiliates sometimes have low-end properties, too, but they don't get tagged with the auction house's name, as is the case with Sotheby's franchisees, because Christie's limits which listings can be advertised under the Great Estates banner. Chief executive Kay Coughlin says the company makes sure its rules are followed. "We do catch things that we don't approve of and advise the broker that this is not appropriate," she says.

Real estate developer Richard Kurtz says he had no hesitation about using Sotheby's when he was looking for someone to sell more than \$100 million worth of property in Alpine, N.J. "It has a panache to it." But other sellers have become wary. When financial manager Tony Toner was picking a broker to sell a client's 130-acre Virginia Beach property, he gave the nearly \$42 million listing to Christie's, in large

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A Sotheby's offering in Santa Barbara, Calif., for \$39,500,000.

part because of its exclusive focus on top-end properties. "In the \$2 [million] to \$10 million range, I would have had no trouble going with Sotheby's," Mr. Toner says. But in more expensive properties, "Christie's had them beat."

William Ruprecht, chief executive of Sotheby's auction house, says he knows that Sotheby's Realty is listing properties that aren't "the perfect expression of the Sotheby's brand," but says he is comfortable with the way Realogy is using his company's name. "We have one of the premier brands in the world and we are very protective of it," Mr. Ruprecht says.

Write to Ben Casselman at ben.casselman@wsj.com

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