Chapter 2 Marketing

2.1 Definition and Terms

"Marketing" is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others.[1]

This definition is one of many, and it is a difficult term to define in a business sense because the word is used in so many ways.[2]

The philosophy that marketing strategies must be based on known consumer needs has come to be known as the marketing concept.[3]

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1 Kotler, Philip. Marketing Management, Analysis, Planing, Implementation, and Control, 9th edition, p. 9.

2 "Marketing" is a series of planning and management activities leading to transaction between a seller and a buyer - a process that makes it possible to sell goods or services to people who want to buy them. Keegan, W. & Moriarty, S. & Duncan, T. Marketing, 1992, p. 6.

3 This view, which began to win wide acceptance in the mid-1950s, seems so logical today that one wonders why marketers did not turn to it sooner. There are two reasons. First, marketing institutions were not sufficiently developed before 1950 to accept the marketing concept. Products were distributed and advertised on a mass-market basis; few were targeted to defined consumer segments according to their needs. The marketing concept requires a diversity of facilities for promoting and distributing products to smaller and more fragmented market segments. This diversity in marketing institutions did not exist before 1950, when the emphasis was on economics of scale in production and marketing.

2.1.1 Definition of Marketing of Real Estate

For the purpose of this thesis, the classic definition of marketing should be altered in order to adjust it to the nature of real estate, and it would be defined as follows.

"Marketing of Real Estate" is a social and managerial process by which individuals and groups obtain what they need and want through offering and exchanging land and creating, offering and exchanging buildings directly and indirectly to others.

In order to understand and analyze this definition, as well as the concept of this thesis the various terms will be defined in this chapter. Those terms are: *real estate market; market; needs, wants and demands; price; cost; satisfaction; value of real estate; market value of real estate; real estate appraisal;* and *sale and exchange.* One term will be defined in chapter 3: *real estate and real property.* Four terms will be defined in chapter 4: *profit; wages; interest;* and *rent.* Two terms will be defined in chapter 5: *tax,* and *tax shelters*. One term will be defined in chapter 6: *real estate association.* One term will be defined in chapter *7*: *direct and indirect exchange.* In light of the specific focus of this thesis - "marketing of real estate", other terms of the marketing theory will not be considered relevant.

2.2 The Real Estate Market

"Market" - A market is a place where man takes part in the barter and exchange of merchandise. At the beginning of human history, the market was always situated in the middle of a community, on a central street or square, where the producers of food, clothes, and other consumer goods would gather to sell their

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The second reason the marketing concept was not widely accepted until the 1950s is that before that time there was no economic necessity to do so. There was little purchasing power during the Depression to spar an interest in identifying customer needs. During World War II and immediately thereafter, scarcities where prevalent. There was no competitive pressure to adjust product offerings to customer needs. Manufacturers sold what they made. They did not have to worry about making only what they could sell. Assael, Henry. Marketing management, Strategy and Action, 1985, p. 9.

wares.[4] The term "market" originally meant a physical place where an exchange occurs - a fair, farmer's market, or bazaar, where people came together to sell and buy things.[5]

The desire to widen the borders of the local market was the main factor responsible for the development of the shipping industry and the search for new markets. Those markets enabled the purchase of goods that did not exist in the native country and the sale of goods that were in abundance. The development of railroad tracks and airports made a worldwide marketplace, existing in conjunction with the local markets. Modern communication such as the press, radio and television allow anybody and everybody to offer easily his goods and services to consumers the world over.

The Internet[6] is the largest marketing tool and it expends rapidly. This tool will be definitely the most important one in the next century.[7]

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4 "Market": A public place in a city or town, where provisions or cattle are exposed to sale; an appointed place for selling and buying at private sale, a distinguished from an auction. Webster's 1828 Dictionary, http://65.66.134.201/cgi-bin/webster/webster.exe?search_for_d:/inetpub/wwwroot/cgi-bin/webster/web1828=market

"Market": an open area, building, or event at which people gather to buy and sell goods or food. A marketplace is a place, usually in an open area, where goods or food is sold. Cambridge Dictionary Online, http://dictionary.cambridge.org/

A Market consists of all the potential customers sharing a particular need or wants who might be willing and able to engage in exchange to satisfy that need or want. Kotler, Philip. Marketing Management, Analysis, Planing, Implementation, and Control, 9th edition, p. 13.

A set of arrangement in which buyers and sellers are brought together through the price mechanism. The Appraisal of Real Estate, Appraisal Institute, 11th edition, p. 19.

5 Keegan, W, Moriarty, S, Duncan, T, Marketing, 1992, p. 7.

6 The World Wide Web is the latest stage in the hyper-accelerated evolution of the Internet and is responsible for its current popularity. The rapid rise to prominence of the Internet over the last few years, especially the World Wide Web, has left many with the idea that this is an invention of the 1990s. The Internet, however, celebrated its 26th anniversary in 1995. The Internet is ideal for real estate marketing in that it allows consumers to search worldwide for property listings. Power, Glan P., "The Internet: an essential tool", in Canadian Appraiser, Vol.: 40 Iss: 2 Summer 1996, pp: 43-46.

7 The World Wide Web is an on-line information service on the Internet. Since early 1995, the number of people with access to the web has grown from about 2 million to somewhere around

Market includes all potential consumers who need and want a certain product and are willing and able to give something of equal value in return. The term "market" relates also to a group of consumers who are interested in a specific product; i.e. the food market, the confection market, the sport car market, the youth market, the North American market, the employment market, etc.

The real estate market[8] also answers this general definition and it can be found in the real estate sections in the newspaper, radio and television. Today, it is also possible to find tens of thousands of web sites on the Internet that offer the entire scope of real estate assets all around the world.[9] There is land for building, offices and shops for purchase or rental, luxury apartments and less expensive ones. There are even sites where tenants seek partners to share the rent.

2.3 Needs, Wants, and Demands

At the forefront of marketing theory is the principle that man needs wants and demands certain products. Concerning the marketing of real estate, man *needs* a place to live and, sometimes, to work from. He *wants* a place, where he can entertain and rest, and *demands* real estate in a specific place, in the building style and size that he likes.

People have a "need" for a dwelling, and a real estate asset from which they can make a living. That need is an essential need, and is not a need created by a

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20 million. Martin, J Roger, "Marketing on the World Wide Web", in Commercial Investment Real Estate Journal [CIJ], Vol: 14, Iss: 5, Nov/Dec 1995, pp: 30-34.

8 "Real Estate Market": The potential buyers and sellers of real estate at the current time, and the current transaction activity for real estate. It includes markets for various property types, such as housing market, office market, condominium market, and land market.

9 Today's commercial real estate professionals have ample marketing options to get their names out. In addition to such methods as advertising and promotional efforts, direct mail, and destinations, brokers, can take steps that include networking at organization meetings, picking up leads from residential brokers, and taking their marketing endeavors international. With the advent of Internet marketing, conventional forms of advertising may diminish in importance. Today, visibility need not be limited to local or even national markets. Increasingly, newsletters have become an important direct mail tool for both large and small firms. McCloud, John, "Taking Marketing to the Next Level", in Commercial Investment Real Estate Journal [CIJ], Vol: 17, Iss:2, Mar/Apr 1998, pp: 42-44.

specific society or by marketing. The *desire* to be the owner of a vacation home is designed according to the culture and tradition of the society.

A "demand" is the relationship between price and quantity demanded for particular goods and services in particular circumstances. For each price the demand relationship tells the quantity the buyers want to buy at that corresponding price. The quantity the buyers want to buy at a particular price is called the "quantity demanded". The demand for a specific architectural design of a building, and the place and size of the asset, are the direct results of the person's financial capabilities and his desire to purchase.

Buyers are the people who want or need the product or service. The term "demand" refers to the willingness and ability of people to purchase the good or service in the market. The demand relationship expresses that willingness and ability for the whole range of prices. To say that a person has a demand for a particular product is to say that the person has money with which to buy and is willing to exchange the money for the goods. People will not demand what they do not want or need, but a want or a need unbacked by purchasing power is not a demand.

Similarly, it is not enough that the suppliers possess the good or the service. Supply also means willingness to sell. Most of us have experience living in the market economic system, and that makes economics seem like a common-sense field -- but sometimes that common-sense feel can be deceptive. People sometimes use the term "demand" ambiguously -- as if "demand" were the same thing as need. But it is not.

Need without purchasing power will not create effective demand in the marketplace. Economists sometimes stress this point by using the term "effective demand" in place of simple "demand."

Demand can be ambiguous in another way. We should not think of "demand" as a particular quantity -- because the quantity that people are willing and able to purchase will change when the price changes. Economics assumes that there is a systematic relationship between the price in the marketplace and the quantity that people are willing and able to buy. This relationship is called "the demand relationship" or, simply "demand." The quantity that people buy at each price is called the "quantity demanded" at that price. We think of the "demand relationship" as a relationship between the price and the quantity demanded.

It is important to distinguish between the demand relationship and the quantity demanded. This may seem like "splitting hairs," but not making the distinction between them causes a lot of confusion. The convention in economics is to use the word "demand" to mean the demand relationship and "quantity demanded" for the specific quantity that people are willing to purchase, when there could be confusion.

The law of demand is that at a higher price, the quantity demanded will be less, and it creates the "ceteris paribus".[10]

2.3.1 Price and Cost

There is a difference among the price of a specific real estate asset, its cost, its market value, and its worth or value, as far as the purchaser and seller are concerned.

"Price" - The price is the amount paid by the buyer to the seller for a specific asset. When Solomon pays Abraham the agreed price of $100,000 for his apartment, this price is a fact regardless of the market value or the value, which each party might put on it.

A price, once finalized, represents the amount a particular purchaser agrees to pay and a particular seller agrees to accept under the circumstances surrounding their transaction.[11]

"Cost" - The term cost is used in relation to production, i.e. the cost of a building is the price paid to purchase the plot, to the architects who prepare the plans, to the contractor who built the building etc. The act of predicting the total costs of labour, materials, capital, and professional fees required to construct a proposed project is known as "cost estimating in construction".

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[10] "Ceteris paribus" is a Latin phrase often used by economists, literally meaning "other things equal." Used in the context of an economic model, it means all the variables that might affect the equilibrium in the model are held constant unless we explicitly say otherwise.

[11] The Appraisal of Real Estate, Appraisal Institute, 11th edition, p. 19.

2.3.2 Cost and Satisfaction

Variable costs are costs that can be varied flexibly as conditions change. Labour costs are the variable costs. Fixed costs are the costs of the investment goods used by the firm, on the idea that these reflect a long-term commitment that can be recovered only by wearing them out in the production of goods and services for sale.

The idea here is that labour is a much more flexible resource than capital investment. People can change from one task to another flexibly, whether within the same firm or in a new job at another firm, while machinery tends to be designed for a very specific use. If it isn't used for that purpose, it can't produce anything at all. Thus, capital investment is much more of a commitment than hiring is.

In the 18th century this was clearly true. Over the past century, education and experience have become more important for labour, and have made labour more specialized, and increasing automatic control has made some machinery more flexible. So the differences between capital and labour are less than they once were, but all the same, it seems labour is still relatively more flexible than capital. It is this relative difference in flexibility that is expressed by the simplified distinction of long and short run. Of course, productivity and costs are inversely related, so the variable costs will change as the productivity of labour changes.

How does the consumer choose a real-estate product that answers his needs? When Joji has a job in a specific town, he probably purchases a dwelling place in the same vicinity, in the same city or in a nearby community, on the condition that he is assured accessible and inexpensive transportation to his place of work. These alternatives describe the factors considered by a person who is choosing the location of his home.

Suppose that Joji buys an apartment in a building that was built in the 19th century, in a skyscraper, in a building with a modern design, or in a neighborhood with young where there are community services for his children. These factors illustrate his decision based on satisfaction of his wants.

The guiding principle at the beginning of Joji's choice is the level of *value* and *satisfaction* achieved. *Value* is a subjective term that describes how Joji estimates that a specific apartment will answer all of his needs, wants and demands. If Joji wants to live near his place of work, then he must purchase a home in the center of town, and pay a large sum of money for this. In this case, Joji must give up on the purchase of other products and services that he needs and is interested in. By purchasing a less expensive apartment in a place farther from town, Joji can make available his resources to purchase other products and services. During the decision process Joji can best use the money available to him. *Satisfaction* is the supply of Joji's need to buy an apartment at the lowest possible cost.

Usually we measure the cost and the value at present time, especially if we intend to buy a product or an asset. In some occasions we purchase assets because we believe that it's price will increase in the future i.e. stamps or gold. This belief gives us the incentive to obtain it and it creates a value.

In other occasions we buy property because the profit is tax free, and that is considered as a value. Sometimes the desire to stay anonymous creates for us value, and drives us to purchase an asset that does not reveal the owner's identity. A convenient cash flow can make the whole difference for many buyers especially when we deal with purchasing plots that are considerable expensive.

2.3.3 The Theory of Supply and Demand

The theory of supply and demand is a theory of price and output in competitive markets.[12]

Adam Smith argued that each good or service has a "natural price." If the price (of beer, for example), were above the natural price, then more resources would be attracted into the trade (brewing, for example), and the price would return to its "natural" level. Conversely, if the price began below its "natural" level, then fewer resources would be attracted into the trade, and the price would return to its "natural" level.

The modern theory of supply and demand differs from Smith's theory. Economists have made some progress in the last 200 years, and great economists such as John

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[12] Essential Principles of Economics: A Hypermedia Text from The journal of Economic Education, http://william-king.www.drexel.edu/top/prin/txt/Ecotoc.html

Stuart Mill, Alfred Marshall and many others have played their part in the growth of the modern theory of supply and demand. Nevertheless, the theory of supply and demand is the modern expression of Smith's great insight about "the natural price."

Before about the 1850's most economists accepted the Labour Theory of Value as the theory of the "natural price." But there were some cases it did not apply to: international trade, for example. John Stuart Mill suggested, "supply and demand" solutions for prices in international trade. Other economists extended it to apply to prices in general.

Unlike the "natural price," a long-run theory only, the theory of supply and demand applies in the short run as well as the long.

Competitive markets work through an interaction of "supply and demand." Alfred Marshall compared the supply and demand sides to the two blades of scissors -- one won't cut by itself. You have to have both.

Equilibrium of Supply and Demand - The interaction of supply and demand is understood as *equilibrium*. We may think of demand as a force tending to increase the price of a good, and of supply as a force tending to reduce the price. When the two forces balance one another, the price would neither rise nor fall but would be stable. This analogy leads us to think of the stable or natural price in a particular market as the "equilibrium" price.

This sort of equilibrium exists when the price is just high enough so that the quantity supplied just equals the quantity demanded. If we superimpose the demand curve and the supply curve in the same diagram, we can easily visualize this equilibrium price. It is the price at which the two curves cross. The corresponding quantity is the quantity that would be traded in market equilibrium.

Competition and Equilibrium - The price is in constant motion, up or down, except when quantity demanded is equal to quantity supplied. Put another way, it is the price toward which competition pushes the price. At equilibrium, there is no competition either to buy or to sell, because everyone can buy or sell however much they may wish, "at the going price". But whenever the market is away from equilibrium, competition will arise and tend to force it back. Competition eliminates itself, by forcing the market into equilibrium, in which there is no need to compete.

2.4 Value of Real Estate

Value is extrinsic to the commodity, goods, or services to witch it is ascribed. It is created in the minds of the individuals who constitute the market. Four interdependent economic factors create value: utility, scarcity, desire, and effective purchasing power.[13] A value of real estate is the result of the use that it has for people, nations and governments. Nevertheless, the value of a real estate asset is a subjective concept. There is a difference between the market value of a certain asset and the value of said asset in the eyes of the seller or the buyer.[14]

Sometimes, the seller is interested in the quick disposal of the real estate in question as a result of financial or legal difficulties, in which case he is willing to settle for a lower price than the market value. Abraham knows that the market value of the asset that he would like to sell is $100,000, but he requires cash in order to have surgery that could save his life.[15]

Paul hopes that he will recover from his illness, continue to live or get better and earn money in the future influences the value of the real estate he wishes to sell therefore, he will sell it for less than it is worth. Also, when someone is facing

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13 Utility is the ability of a product to satisfy a human want, need, or desire. Scarcity is the present or anticipated supply of an item relative to the demand for it. Desire is a purchaser wish for an item to satisfy human needs or individual wants beyond the essentials required to support life. Effective purchasing power is the ability of an individual or group to participate in a market. The Appraisal of Real Estate, Appraisal Institute, 11th edition, p. 28.

14 In par. 2.4 I defined *Value,* as a subjective term that describes how Joji estimates that a specific apartment will answer all of his needs, wants and preferences.

15 The sellers of a real estate property and his broker have two primary goals: to sell the property for as high a price as possible and as quickly as possible. While these are separate objects they are closely related through the listing price of the seller. The listing price affects how long it takes to find a buyer (i.e., Time on the Market = TOM) and TOM influences the price that results from the bargaining between the seller and the buyer. This leaves the seller and his agent with an important question: What is the optimal price to be asked for the property? Yavas, Abdullah. & Yang, Shiawee. "The Strategic Role of Listing Price in Marketing Real Estate: Theoty and Evidence", in Real Estate Economics, 23(3), Fall 1995, pp. 347-368.

bankruptcy or the loss of a business due to a cash flow deficit, he will sell his real estate for less than its value because at the same time, the real estate has a lower value than his business or his reputation.

When Joji has a building site upon which he cannot build because of planning restrictions or squatters and other nuisances, he may sell the asset at a lower price than its real value. Usually, one doesn't have the legal means to deal with the problem, the finances to pay the professionals or the emotional strength to invest his time and money in solving the problem.

In all of the above situations it is obvious that the value of the real estate is determined by the personal circumstances and priorities of the seller and not by its market value. In the same way, when a man is emotionally tied to his house, the value of the house increases above the real value, and sometimes he will not agree to sell the house even if the price received is 50% more than the market value.

Just as the seller might render the asset to be of a different value than that which the market determines, so might the buyer. Sometimes the buyer is willing to pay more than the market value for a certain asset since this specific asset meets his needs and he feels that he must have it.

When Nelu is interested in living in the same building his parents live in, he will pay more for the apartment than it is really worth on the market. When Reuven has a successful store which he wants to expand, he will be ready to spend more for the adjoining store than for a similar store which is not close by. When the buyer has knowledge that is not available to the general public, which means that in the future, the value of a certain asset will increase, he will be willing to pay more for the asset than its actual market value.

In these cases, the value of the asset is determined by the buyer's desire to live close to his parents, his desire to increase the size of his business, or by his hope that the value of the asset will shortly increase significantly.

The conclusion is that the value of an asset is a subjective concept for the buyer and seller alike. It is influenced by the market value, but also by personal factors and private, special needs which are not in the public domain and therefore, have no bearing on the market value of the asset.

2.5 Market Value of Real Estate

Market value is inherently a simple concept. It is an objective value created by the collective patterns of the market.[16] The definition of market value, however, is controversial.

"Market Value" - The market value of a specific asset is the sum that one can expect for the sale or rental of this asset. The market value is determined according to the statistics available regarding the sale or rental of *similar assets,* when the sale or rental is exposed to a *competitive market.*[17]

"Similar Asset" relates mainly to the *location* of the asset, its intended *use* and the *size* of the asset. However, the *age* of the asset, the *architectural style* of the asset, the *noise and nuisance* factor in the surroundings of the asset, the exposure of the asset to passersby, and any number of other factors can influence and determine the market value.

"Location" - There is no point in determining the market value of an apartment in Manhattan in order to determine the market value of an apartment in London, or even in another neighborhood with different features in the same city for that matter. An apartment in an exclusive neighborhood might cost twice that of a similar apartment that is located just 500 meters away in an underprivileged neighborhood.

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[16] Customers buy a seller's offering in order to satisfy three kinds of needs, some of which are conscious and some subliminal. The first is the need for the best possible *price*; this is clear-cut. The second set of needs includes such issues as superior performance, solid reliability, board variety, and ease of use. We call these *product needs*. The third set includes needs that are less tangible, such as up-to-date information provided by consultative selling, ready availability provided by strong distribution system, top-notch customer service, and reassurance provided by the image and reputation of the seller. We call these *non-product needs*. Cleland, Alan S. & Bruno, Albert V. The Market Value Process, Bridging Customer and Shareholder Value, 1996, p. 3.

[17] Current definition of market value reflect different schools of thought on five key points:

1. Cash/cash equivalent versus non-cash equivalent;
2. Real property rights versus real estate;
3. Price versus highest price;
4. Most probable price versus highest price;
5. Equilibrium value versus market price.

The Appraisal of Real Estate, Appraisal Institute, 11th edition, p. 20.

"Use" - There is no point in determining the market value of a store on the main street in Bucharest in order to determine the market value of a residential unit in the same building. A 20-m^2 store on a crowded and noisy street might cost twice that of a 100-m^2 apartment within the same building. On the other hand, a 20-m^2 store in a quiet neighborhood might cost 90% less than a 100-m^2 apartment on the same street.

"**Size**" - Knowing the size of a studio apartment with an area of 20-m^2 will not help to determine the market value of a private dwelling (house) of 200-m^2. A modest studio apartment could cost twice as much per 1-m^2 as a luxury residence.

"**Age**" - The value of a new building cannot be determined according to the value of a building that is 100 years old. It might be that the new building would cost more than the old one and it may happen that the vintage is more expensive.

"**Architectural Style**" - One cannot use the price of a building that is built in a rather common style to determine the price of a building which has been planned by a well-known architect.

"Noise and Nuisance"- The price of an apartment that is exposed to noise from the main road or the smells of an industrial factory will not help in determining the price of an apartment in a quiet location surrounded by trees and gardens. The price of a store in a central bus station will be useless in determining the worth of a store in the heart of a residential neighborhood. The noise is a huge disadvantage for a dwelling, but at the same time, may be a great advantage for a store.

In the search for comparable market prices of similar types of assets, there is no identical asset since this does not exist in the realm of real estate. Two apartments of identical size in the same building are not identical assets. It is possible that one apartment is on the second floor and the other on the third floor. If there is no elevator in the building, it is foreseeable that the apartment on the second floor will be more expensive. In a building with an elevator, it is probable that the apartment on the third floor will be more expensive. Even if both of the apartments are on the same floor, they still are not entirely identical, since one faces the north and is colder in the summer and the other faces the south and is warmer in the winter. In these matters, real estate issues differ from moveable goods. There is no difference, for example, in the worth or value of one thousand television sets of the same specific model, produced by the same factory, during the same period of time.

"Competitive Market" - A competitive market is a market in which prices are set through negotiation among many sellers and many buyers, of their *own free will* and having no *special relationship* between them, which could influence the price agreed upon by them.

When there is a monopoly that creates a specific product or provides a specific service, it can set a price for the product or service, and then a free market does not exist. For example, Microsoft provides the operating system for almost all the PC's in the world, and therefore they are considered a monopoly that determines the price of operating systems.

In the marketing of plots for construction, the "Israeli Land Administration" could be defined as a monopoly. They determine the price of land for construction because most of the lands in Israel come under their management. They also determine the price of land by taking national and social factors into consideration and according to the regulations dictated by the interests of the government.

When law determines the price of real estate, a competitive market does not exist. For instance, in Israel, there is a law that determines the rate of rent for assets that have protected residents.[18]

"Own Free Will" - When the state or local authority assumes ownership of the asset, this is a forced sale and the seller is not selling of his own free will.

When one sells an asset as a result of a threat on his life or his business - he is not a seller of his own free will.

When one is forced to buy an asset and pay a price that is decided by the seller, then he is not a buyer of his own free will, and when the law dictates the real estate market and its prices, there is no competitive market. This situation can be found in countries where the government dictates the rental prices of apartment

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18 In Israel there exists two ways to rent assets by regular rent which ends on the date written in the contract, or protected rent which ends according to the instructions of the law of rental protection. Law determines the rate of rent for protected renters, and therefore, it is possible to state that a competitive market does not exist in this area.

dwellings. In countries where there is a totalitarian or socialist regime - a competitive market is not usually created, since there is no buyer or seller who is acting on their own free will.

"Special Relationship" - When a person sells an asset to a member of his family, to a partner, or to a person of influence, there exists a special relationship which may influence the price. Presumably, the same person would not sell the same asset at this same price to someone who is not a relative, partner or person of influence.

2.6 The Appraisal of Real Estate

Real estate appraisal is the discipline by which the value of real estate assets is appraised. It is based upon the expert opinion of a professional, in this case a real estate appraiser, and his goal is to reflect the monetary value of the rights to the real property. The function of a real estate appraiser is to gather data from the field from similar assets, to study the general economic data from the area, and to apply the theories of appraisal to these data.

Different scholars define real estate appraisal in several different ways, with no one definition being accepted by all. However, the differences between the definitions are negligible and the term can be defined, in general, as follows:

Real Estate Appraisal - *The optimum price*, which can be expected in exchange for the rights to a real estate asset on a *given date* after *reasonable exposure* in a *competitive market*, where the seller and the buyer act in *full awareness with no undue pressure.*[19]

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[19] "Real Estate Appraisal" - An estimate or opinion of value supported by factual information as of a certain date. Appraisal principles: Economic concepts used to explain the rationale and process of market behavior. Appraisal principles include anticipation, change, competition, substitution, and supply and demand. According to other school: The highest legitimate amount, on any given date, in cash or equal terms at which the rights to a specific asset will be sold, after a reasonable exposure on the competitive market, under all the acceptable conditions of a fair deal, in the interest of personal gain and free of any undue pressure.
"Appraisal" an act or instance of appraising; especially: a valuation of property by the estimate of an authorized person. Merriam-Webster's Collegiate Dictionary, http://www.m-w.com/
Synonyms: estimation, assessment, appreciation, valuation, evaluation.

The market value must be reached under "sterile" and stable market conditions. This factor is crucial where the unique and complicated nature of real estate is concerned. The conclusion is that "market value" is a result of objective statistics, based on the gathering of data from similar properties and on the conclusions of the researcher or the real estate appraiser who will apply the theory of appraisal to the data he has accumulated.

There is a similarity between the definition of "real estate appraisal" and "market value" mentioned above. It should be mentioned that in the process of appraising real estate, the market value is only one of the factors, albeit the most important one.

2.6.1 The Definition of the Appraisal of Real Estate

One may say that these definitions describe "value of real property" not appraisal. I would prefer the definition: "Appraisal is defined as the act or process of estimating value".[20] Nevertheless, in appraising the value of an asset, an opinion is needed based on the five conditions that appear in the definition of real estate appraisal -

a. The optimum price;
b. On a given date;
c. After reasonable exposure;
d. In a competitive market;
e. Where the seller and the buyer act in full awareness with no undue pressure.

A. "Optimum Price" - The concept of "optimum price" is based on the most probable selling price, which is a theoretical average price based on the data of previous deals. This attitude reflects the "The Sales Comparison Approach" and it uses statistic tools to figure the optimum price. Beside the sales comparison approach there is "The Cost Approach" that figures the cost of the plot, planning and legal fees, compulsory duties, cost of constructing, cost of financing etc. The third one is "The Income Capitalization Approach" that takes the future view instead of the past as the sales comparison approach.

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20 The Appraisal of Real Estate, 11th edition, Appraisal Institute, p. 11.

An appraiser should take in consideration all three approaches, and if he finds great differences among them, he should try to find the "Equilibrium Value".

B. "A Given Date" - The assessment estimates the value of an asset at a specific date, which is called "the determining date". This value is based upon a comparison with past deals. In the written assessment, the future tense is used - "will be sold", and indeed one of the definitions of value is: "...the present value of the future benefits".[21]

Theoretically, this contradiction is resolved if we apply the classic definition of value, which is "the acceptance of an outcome that matches the market data", because the market data is based on the past, even though the market behavior also takes the future into consideration. I use, "theoretically", because the present market value should be influenced by the expectations of the sellers and buyers for the change in the value of the assets in the near future. However, for the purpose of determining appraisals regarding changes in the prices of assets in the future, much expertise is needed and this is not in the realm of public knowledge that creates the market and fixes the prices of real estate deals.

The result is that there is a significant gap between the appraisal of the real property based on the present market value, and the appraisal of the real estate that estimates the value of the asset for the next five years or more. A person who knows how to estimate expected changes and is willing to invest in real estate based on that same estimate, will buy assets at the market value if he believes that its price will increase in the future. He will sell his real property at the market value if he believes the price will decrease.

C. "Reasonable Exposure" - In the appraisal of real estate it must be taken into consideration that the asset will likely be put up for sale or lease after it has been offered to the market in *accepted methods* for this type of asset within a *reasonable period.* For different methods of exposure there are different prices, and the price of reasonable exposure must be set according to the type of asset which is up for sale or rent, and its price.

"Accepted Methods" - The accepted methods of exposure of an asset for sale

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21 This attitude fits The Income Capitalization Approach.

change according to the environment and type of asset. At times it is acceptable to advertise an apartment for rent on signs hung on the front of the apartment in the neighborhood supermarket or on the bulletin board at the university. It is acceptable to advertise different assets on special bulletins in daily newspapers, or to run an international advertising campaign when selling a unique and expensive piece of real estate.

"Reasonable Period" - Advertisement by acceptable methods must continue for a reasonable period. This period should not be too short to allow the determination of an optimum price. Nor should it be a period long enough to allow a decrease in the rental price or a loss caused by interest paid by the seller resulting from debts or interest, which he should have received in exchange for the selling price. The reasonable period of time for assets offered for rent is between 1-3 months and the reasonable period of time for assets offered for sale is up to 6 months. Regarding assets that are in the construction process, the reasonable period is the entire construction period.

D. "Competitive Market" - A competitive market is a market in which prices are set through negotiation, among many sellers and many buyers, of their own free will, and having no special relationship between them which could influence the price agreed upon by them.[22]

E. "The Seller and the Buyer Act in Full Awareness with no Undue Pressure" - The assessment of real estate is determined by the assumption that the asset will be sold or rented when both sides are fully aware of the physical data, the design data, and all other data which may have legal implications. This assumption is based on the fact that the buyer and the seller receive legal advice, appraisal advice and engineering advice at the highest level. The reality is different, and most real estate deals are sealed because of "intuition" on both sides, advice from family members and other emotional considerations.

The real estate appraiser assumes that the seller will not act under any financial, legal or other pressures, which may cause him to accept a lower price than that which another seller could receive. It is also assumed that the buyer will not act under any pressure that will cause him to pay a higher price that another buyer

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22 See definition of "competitive market" in chapter 2.5.

would pay for the same asset. When a real estate assessor expects that pressure will be created upon a large group of sellers as a result of a financial depression or a flood on the market of this same type of asset, or he expects that pressure will be created as a result of a large demand for a specific type of asset, it is his obligation to include these facts along with the aforementioned economic data.[23]

2.6.2 Foundations of Appraisal

In addition to the basic parameters for appraisal of real estate, there are other parameters that a real estate appraiser must take into consideration if the type of asset, its legal status, or economic and governmental factors deem it necessary.

Man pursuits economic goals. The human action shapes the market, and it is necessary to analyze the factors that influence people's attitudes about value.

Anticipation - Value of the asset is also created by the profits and benefits expected in the future. In this respect it is customary to categorize yield properties such as offices, commercial centers, etc. as one group and carry out the assessment according to future rental rates expected for the economic life of these buildings. The value of this type of asset is a function of its potential rent yield that is influenced mainly by the cost of money; i.e. the interest that could be earned by long term deposits.[24]

Change - is the result of any factor that influences the value of the asset. These changes can be identified as follows:

An economic change - In a period of high inflation, when real estate maintains its "real value" but currency loses its buying power, the value of real estate will increase. In a period of monetary stability, when currency has an advantage over real estate, which is not fluid, the value of real estate may decrease.

A social change - The trend of buying apartments rather than renting can increase the price of the apartments for sale and decrease the rental rates of those for lease.

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[23] See the term "Own Free Will" in chapter 2.5.

[24] The value of owner-occupied residential property is based primarily on the expected future advantages, amenities, and pleasures of ownership and occupancy.

A coup d'etat - A revolution causing a change from an undemocratic government to a democratic government is likely to increase the value of real estate; i.e. after the exit of the USSR from Poland in 1989, a full democracy was established, and since that time the value of real estate in Poland has continually increased. A military coup, which creates a ruling generalissimo out of an "unsatisfied" colonel, will definitely decrease the value of real estate in the short term, because such a change indicates instability and economic insecurity. Even a change from a democratic regime to another, can sometimes cause a change in the value of real estate, i.e. in the case of South Africa, the end of the apartheid regime caused a drastic change in the value of the mansions owned by the white population.

A change in the economic system - A change from a socialist economic system to a capitalist system will likely increase the value of real estate, since this change creates or opens up the free market for the buying and selling of real estate assets, and also opens the market for foreign investments.

Remaining lifetime of a building is also a change that influences its value. The remaining lifetime is the period of time during which the building is expected to fall into irreparable disrepair by natural wear and tear, or be demolished at the owner's request. The change is the actual transformation of the building into just a piece of land. Remaining lifetime for a lessee the date of the end of the lease, at which time the possession of the asset returns to the owner. The change from the viewpoint of the lessor is the termination of the lease.

Supply and Demand - The value of a real estate asset is influenced by supply and demand, although not proportionally. "Supply" means, the quantity of a certain type of asset that is available for sale at a given price. "Demand" is the desire and ability to buy a certain type of asset at a given price. The interactive relationship between this supply and demand is what creates the market. Demand, at a rate exceeding 10% of the supply, for instance, can create a price increase of 20%, and demand that exceeds 25% of the supply, for instance, can create a price increase of almost 100%.

The same principle applies when the supply is greater than the demand, and when this is the case for a long period of time it can cause a reduction in the prices of the assets offered for sale or for rent. For instance, after the change in the apartheid regime in South Africa, mansions were offered for sale for only tens of thousands of dollars, whereas several years earlier the prices were in the millions of dollars. The economic value of these assets did not decrease significantly, however, many members of the white population decided to sell all of their property and leave the country. At the same time, there were no buyers for these mansions, as most of the black population did not have the monetary means to buy or live in these same houses.

Competition - The parameter of competition reflects one of the results of a "free market" and refers to the efforts of two or more potential buyers or those of two or more potential sellers to buy or sell a specific asset or a similar one. Competition among a number of sellers will probably decrease the price of said asset and affect the value of similar assets. Competition among a number of buyers will probably increase the price of said asset and affect the value of similar assets.

Substitution - When a number of similar assets are being for sale, the asset with the lowest price will have the highest demand. This concept stands as the basis for the main method used to appraise assets, which is the comparison method. The assumption is that the reasonable buyer will not pay a higher price for a particular asset than he would pay for another asset with similar characteristics. When a unique asset is on the market for sale, a potential buyer has no substitute asset, and therefore, there is no market value for this sort of asset. In this case the comparison method cannot be implemented and the appraiser should implement other methods.

Opportunity Cost - The cost of the option, which was not chosen. This parameter is closely associated to the principle of substitution. This parameter stands out in particular when checking the influence of the rate of yield, which is required by real estate assets in order to be attractive.

Balance - The value of a real estate asset is created and sustained when different parameters, partially complimentary and partially opposing, are to be found in a balanced situation. This parameter points out that a change in one of the fundamental appraisal factors of an asset does not necessarily produce a change in the value of the asset. For example, a luxury villa built with very high building standards, but in an unattractive residential neighborhood, will not "return" the cost that was invested in its construction.

Contribution - The value of a portion of an asset is judged by its contribution to the overall value of the asset. When evaluating an increase in the value of an asset as a result of the change in building rights; i.e. an increase in the number of apartments allowed on the land, then the value of the building rights of the additional apartments decreases due to the additional crowding and the loss of the use and enjoyment of the yard area around the building.

Surplus Productivity - The net income remaining after construction, capital and entrepreneurial costs. This parameter is the basis of the "subtracted value", approach that is used to estimate the value of a plot of land by subtracting the construction and entrepreneurial costs from the value of a building.

Conformity - The value of the asset is created and maintained when the nature of the asset matches the demands of the market. A swimming pool in a private home with a large yard will "create" the value of a mansion. An underground parking facility will maintain the value of an office building in a neighborhood that will be lacking in ample parking spaces in the coming few years.

Externalities - External economic changes may have either a positive or negative influence on the value of a real estate asset. Because of the unique immovable nature of real estate, its value is influenced by external changes such as shifts in government, war, and peace agreements with former enemies. In a democracy, shifts in government are part and parcel of the system and therefore, the influence will be minor and contingent upon the economic worldview of the elected leader.

A shift from a totalitarian regime to a democracy will almost certainly bring an increase in the prices of real estate. However, if the current parliament is deposed along with the leader it has chosen, or the president is deposed and the government is taken over by army generals, this will almost certainly cause a significant decrease in the prices of real estate.

Tension along the borders with a neighboring country will cause a decrease in the prices of real estate and a drawn out war will cause their total collapse although a peace treaty will bring a renewed increase in the prices. This for example, is how the "Oslo Accords" caused a sharp rise in the prices of land in Israel. After the election of Benjamin Netanyahu, the peace process and the negotiations for the establishment of a Palestinian state came to a halt and a cooling off process began in the real estate market in Israel which of course caused the prices to fall.

2.6.3 The Role of Appraisal of Real Estate

A real estate appraisal has various roles in the modern economy. Someone who wishes to sell a real estate asset, as well as one who intends to purchase a property, may consult an appraiser regarding the price. A board of directors may determine strategic planning for the next decade based upon an appraisal, which evaluates the current value and intends to evaluate the foreseen value of various real estate assets.

The purchase of most real estate is financed by loans. The loaning body is willing to offer its financing based upon the value of the asset that is mortgaged to secure the loan. Both parties are in need of the services of an appraiser in order to establish the basic value of the asset that directly influences the amount of the loan.

When a building is damaged, an appraisal is vital in order to establish the compensation that should be paid by the insurance company or the person who caused the damage.

Real estate taxation is generally based upon its value. Property tax is calculated directly from the market value of the assessed property. Income tax and land appreciation tax are imposed on the profit of the real estate seller, and the market value of the real estate was sold can become a factor in the assessment. Betterment tax (also known as a re-zoning levy) is based upon the increasing market value of the real estate that has been re-zoned.

The tax assessor should base his assessment upon an appraisal, and the tax assessee that wishes to oppose this assessment must rely on a professional opinion of an appraiser. Thus, it should be in the court ruling regarding the assessment. When the services of a real estate appraiser are sought, the purpose of the appraisal must be defined at the outset, as it is possible to determine a different value on the same asset depending on the purposes of the asset.

The analysis of different factors in the appraisal of the value of real estate is contingent upon a number of principles and the significant influence of the value of the real estate must be known before identifying how this will be reflected in the appraisal of a specific asset.

2.7 Sale and Exchange

There are four ways by which a person can obtain products goods and real estate. The first method is self-production. A person can supply his own food by agriculture and shepherding however, it is almost impossible to implement this via the purchase of real estate assets, as almost all land is under private, municipal or government ownership. Although, it is possible to settle land that is located in an isolated area with no owners and maintenance of tens of years could possibly serve to achieve ownership for the maintaining party. It is also possible to purchase land and build on the land independently. In this case, it is possible to refer to the real estate asset as an asset that is partially purchased and partially produced independently. Independent work does not have a market and is not marketable.

Another way to obtain a product is to steal it and this method is nearly impossible to implement in real estate. However, it is possible to forge the ownership registration and to sell the real estate before the forgery is discovered. This is not a popular method since there is much care taken in the management of real estate registration. In addition, an invader on a piece of real estate can be considered as someone who steals real estate. As long as the invasion continues, the invader profits from the economic benefit resulting from the use of the land. If the invasion continues for a period of decades, the invader may receive legal protection from eviction and in that case, the economic value of the real estate increases with regard to said invader. Since these methods are difficult to implement and it is difficult for the offender to hide, there is a limited amount of cases found where real estate is obtained in this way.

The third way to obtain a product is through charity. This method is also not appropriate for the purchase of real estate although sometimes it is possible to live in a home for a limited period of time without paying rent. In this way, a homeless person can live for a limited period of time in a shelter that belongs to a church or charitable organization whose purpose is to assist the lower class population. It may be considered obtaining a real estate asset by charity when a church or other charitable organization inherits a property via the will of a deceased.

The fourth way to obtain a product is through exchange or barter. This method is implemented through obtaining liquid and real estate assets. The price of the real estate may be paid by currency or by exchange of goods, services or other real estate. The exchange of real estate for services associated with said real estate could provide the opportunity for a tax shelter.[25] The need for marketing is created when a person is able to and is interested in giving something in exchange for the real estate.

2.7.1 The Barter

The term "barter" can be used to refer to payment in currency, when the barter of a product or real estate occurs for money. However, for the purpose of this thesis, there is significance in the differentiation between exchanging real estate for another real estate and selling a part of a plot in return for construction services on the same plot.[26] Therefore, I will limit the term "exchange" to be used to describe a payment in currency. The term "barter" will be used to describe a payment for real estate by exchanging it with another real estate or selling a part of a plot in return for construction on the same plot.

Professor Kotler uses 5 conditions in order to facilitate exchange - and the intention is also for the exchange of products for money.[27]

In reality, barter is the most primitive form of doing business for mankind. The caveman exchanged zebra leather for meat or fruit gathered by his friends. The

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25 On the difference between exchange and barter see chapter 7.

26 ibid..

27 "Exchange" is the act of obtaining a desired product from someone by offering something in return For exchange potential to exist, five conditions must be satisfied:

1. The existence of two or more interested parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each party believes it is appropriate or desirable to deal with the other party.

Kotler, Philip. Marketing Management, Analysis, Planing, Implementation, and Control, 9th edition, p. 11.

farmer brings the wheat that he gathered to market, and exchanges it for fish that the fisherman brings, or clothes from the seamstress. This way became difficult when the buyer of the donkey wanted to pay with 10 bags of flour and the seller of the donkey only needed two bags of flour and enough lamb for his family's festive dinner and wool for knitting. Both sides of the deal had to find the seller of lamb and the seller of wool who were interested in the leftover 8 bags of flour from the original deal. This type of exchange is called "natural market".

This situation created the need for an "item" which had a constant value and relatively low weight, in order to pay for the remaining goods that had been exchanged. These qualities are present in rare metals and even in salt,[28] which were used for a long period as a means of payment. Three millennia ago the Greeks invented the coin, a precious metal of a standard and recognized weight, upon which was stamped the image of the leader.[29] In this way the "monetary market" was initiated, and seemingly the end of the natural market. Today, the natural market is enjoying a renaissance for the following two reasons -

a. Countries usually put a burden on the import of products from other countries, in barter exchanges with their native products, the reason being to encourage local industry and to sustain reserves of foreign exchange.
b. In a barter deal, product is exchanged for another product or service and many times a monetary value for the products exchanged are not determined. This creates an opportunity for tax shelters.

In order that a deal between two or more sides will succeed, each party must receive the product or real estate he needs, is interested in and prefers, and it must satisfy the needs of each party, which is to provide satisfaction and meet his preferences. The purpose of the marketing theory is to analyze the needs, wants and preferences of each party and to assign a relative or constant value for each of these needs.

I have mentioned before that sometimes we buy property because the profit is tax free, and that is considered as value to us. Sometimes a convenient cash flow can

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28 In Canada the first pioneers used beaver pelts as "currency" for exchange of goods.

29 Kadman, Leo. & Kindler, Arie. Coins in Jewish and Other Nations Throughout the Ages, Dvir, 1963, pp. 5-16.

make the whole difference for many buyers especially when we deal with purchasing plots that are considerably expensive and such a convenient cash flow has a great value. Sometimes the desire to stay anonymous creates for us the major part of the value, and drives us to purchase an asset that does not reveal the owner's identity. This thesis will show how to take advantage of these sorts of values and use them as the main strategy of marketing methods.

In order to continue the analysis of the theory of real estate specific marketing methods, I will clarify in advance the distinguishing essence of real estate from other products; it's *nature*[30] and special *role*[31] in the life of mankind.

2.7.2 Sales Management

"Sales management" is the planning, organization, direction, recruitment, training, and motivation of the sales-force within a planned marketing strategy. It includes setting sales objectives and evaluating the results obtained by the sales-force. In very large markets, such as the USA, there might be a hierarchy of sales managers and district managers reporting to regional managers, who in turn, report to a national sales manager.[32]

2.8 The Target Customer

Three elements play a role in the marketing process: customers, distributors, and facilitators. In order to find the target customers, one should know who constitutes the market segment, what do the target customer buy, why, how, when, and where he does it.

Knowing who constitutes the market segment is not simply a matter of knowing who uses a product. For instance, in the decision to purchase a house for the family, the son may be the initiator, the daughter may have an influence upon the family, the wife may be the decider, and the husband may be the purchasing agent

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30 See paragraph 3.2

31 See paragraph 3.3

32 Pallister, John; Isa, Alan. Editors, A Dictionary of Business, Oxford University Press, Compiled by Market House Books.

And the whole family is the user.

The son may read in a magazine that they can save money and decrease tax liability by deducting the interest paid for the loan. Although the daughter as an architect may influence the process, she may not be the key decision-maker. The mother, by virtue of her position in the business and in the family, may make the final decision about which house to purchase. The father may have good negotiation skills, and he may be the purchasing agent. Thus, he will go to different real estate brokers in order to buy a similar house at the best possible price.

An individual may handle more than one of these purchasing functions and may even be responsible for all of them. A marketer must recognize that different people have different influences on the purchase decision, and these factors must be taken into account in crafting a marketing strategy.

It is important to know which products target customers tend to purchase and why they do so. For instance a 200 m^2 house in the country is common and popular. Lately some families built a similar house with additional basement for the use of their grown children. By focusing on needs rather than on products, a contractor is able to gain a significant share in the house customers market.

Knowledge of when, where, and how purchases are made is also useful.

A real estate broker, whose target customers tend to rent apartments in August before the beginning of the school season, may send its mailings at the July. A contractor may set up his desk in a businessman convention so that every attendant must pass the desk on his way to the lecture. A real estate agency that knows that customers prefer to finance the perches with mortgage may invite a mortgage bank representative to participate the desk.

Four major types of factors influence consumer-buying behavior: cultural, social, personal, and psychological.

Cultural factors have the broadest influence, because they constitute a stable set of values, perceptions, preferences, and behaviors that have been learned by the consumer throughout life.

Social factors - A consumer may interact with several individuals on a daily basis, and the influence of these people constitutes the social factors that impact the buying process. Social factors include reference groups - the formal or informal social groups against which consumers compare themselves. Typically, the most influential reference group is the family. In this case, family includes the people who raised the consumer as well as the consumer's spouse and children.

Personal factors include individual characteristics that, when taken in aggregate, distinguish the individual from others of the same social group and culture. These include age, life-cycle stage, occupation, economic circumstances, and lifestyle.

Psychological factors are the ways in which human thinking and thought patterns influence buying decisions. Consumers are influenced, for example, by their motivation to fulfill a need, i.e. to buy a house instead renting it in order to fulfill the psychological need for owning own shelter, property and territory.

2.8.1 Market Segments

The aim of marketing is to meet needs profitably. An entrepreneur must therefore define which and whose needs he can satisfy. For example, the house market consists of people who put different values on the house location, size, planning style, cost, and public transportation. No single house can satisfy all these needs in a superior fashion. Because of such variables, the entrepreneur must identify the different preference groups, or segments, of customers and decide which group he can target profitably.

Segments can be divided into even smaller groups, called niches. A niche is defined as a small target group that has special requirements. For example, a mortgage bank may specialize in serving not only house buyers but also house buyers with high income that purchase an expensive house. It is more likely that larger contractors will serve the larger market segments and ignore niches. As a result, smaller contractors typically emerge that are intimately familiar with a particular niche and specialize in serving its needs.

Some contractors may try to serve "segments of one". They attempt to adapt their offer to each individual customer. For example, serving individual customers is possible with the rich and famous movie actors who need a unique house designed by a famous architect in a classic style or with pop singers who need a unique post modern design. Even mass marketing companies, particularly large retailers and catalog houses compile comprehensive data on individual customers and are able to customize their offerings and communications.

If the broker shows the buyer the wrong house because you did not understand the family's true needs and financial status, the buyer may raise objections that are difficult to overcome. Their motivations as buyers should be kept in mind.[33]

2.9 Advertising

Advertising is a paid announcement to persuade or inform members of the public.[34] Outside the theoretical world of perfect competition, advertising of goods and services is necessary to ensure that potential buyers are informed and helps to make markets function efficiently. However, advertising can create or increase barriers to entry into an industry and enhance product differentiation.

Proponents of heavy advertising expenditure argue that it provides a signaling mechanism whereby high-quality producers publicly demonstrate their commitment to their product something they would do only if they genuinely believed that it had a long-term future.

Others point out that consumers may have little choice in a concentrated industry but to bear the cost of unnecessary advertising that serves only to keep out new entrants. Although 'own brand' products in supermarkets (which are not

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33 Shenkel, M. William. Marketing real estate, third edition, Prentice Hall Career & Technology, p. 40.

34 "Advertising" is a communication that is paid for by an identified sponsor with the object of promoting ideas, goods, or services. It is intended to persuade and sometimes to inform. The two basic aspects of advertising are the message and the medium. The media that carry advertising range from the press, television, cinema, radio, and posters to company logos on apparel. Advertising creates awareness of a product, extensive advertising creates confidence in the product, and good advertising creates a desire to buy the product. Advertising is a part of an organization's total marketing communications program i.e. its promotion mix. Pallister, John; Isa, Alan. Editors, A Dictionary of Business, Oxford University Press, Compiled by Market House Books.

advertised) have not replaced advertised brands it could be explained by the power of advertisers to manipulate consumer psychology.[35]

The largest single expense of a real estate office is advertising. The advertising program includes classified ads, which are the least expensive but most effective way to advertise housing, display advertising, billboards, and certain institutional advertisements that build the right image and advance the firm's reputation. Add to this group, radio, television and certain other advertising specialties such as handouts and company-prepared brochures.[36]

2.9.1 Methods of Advertising Real Estate

The conventional methods of advertising real estate for sale or to let are announcements in the printed press, advertisements in radio and television, and special sites in the Internet. Some sellers prefer to use the services of real estate brokers. When we deal with selling many apartments or commercial space, one can apply the "pull strategy" and the "push strategy" besides the conventional methods of advertising real estate.

The pull strategy is a strategy that requires high spending on advertising and consumer promotion to build up consumer demand for a product. If the strategy is successful, consumers will ask their retailers for the product, the retailers will ask the wholesalers, and the wholesalers will ask the producers. This strategy can be applied in real estate marketing by creating a prestigious image to a new neighborhood. Selling few houses or offices to celebrities for a reduced price can create such an image. The next step requires advertising the new neighborhood that is "in".

The push strategy is a strategy that makes use of a company's sales-force and trade promotion activities to create consumer demand for a product. The producer promotes the product to wholesalers, the wholesalers promote it to retailers, and the retailers promote it to consumers. This strategy can be applied in real estate

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35 Bannock, Graham; Baxter, R. E.; Davis, Evan. Editors, The Penguin Dictionary of Economics.

36 Shenkel, M. William. Marketing real estate, third edition, Prentice Hall Career & Technology, p. 116.

marketing by wrapping a common real estate with a middle class fantasy. Selling apartments in a hotel called "time sharing" is a good example. The customer pays $10,000 per one week of "time sharing" for life, and as a matter of fact he buys a small apartment for $520,000 that is worth 25% of that price. That kind of sale takes place in a hotel where the potential customers are asked to spend a weekend as guests of the seller. They find themselves surrounded by a group of salesman, mature gentleman and young stewardess, whose goal is to fulfill the customers' middle class dream.

Another strategy of marketing real estate is the "club whisper". This strategy can be applied in marketing of real estate for members of a union or a club. This kind of advertising is based on cheaper prices for "members only" or for a secret unique "tax shelter". It does not consume a large budget for advertising announcements because it is based on a rumor that is whispered to "best friends".

"There are only 50 apartments to be sold for that unreasonable price", you receive a message from your best friend, "and as you know there are more than a thousand members in our union. The chairman bought already the first apartment, and I bought one yesterday."

2.9.2 The Modern Trend - the Internet

The Internet is quickly becoming the place where customers first look to buy products and services.[37] Amazon, the biggest worldwide bookstore, is a virtual one that exists only six years. The real estate brokerage industry is no exception. Whether relocating across town or across the country, individuals are shopping more and more over the Internet. It is the fastest and least expensive information source available. It is becoming increasingly more important that brokerage firms remain competitive by offering their properties on the Net.

E-commerce is undeniably a significant current and future venue for doing business. With multi-million American adults on the Web it was inevitable that

[37] According to the Q1 2001 ITU Telecommunication Indicators Update from the International Telecommunications Union, there were 214 countries connected to the internet worldwide in 2000 -- a jump from the 60 countries that were connected in 1993. http://www.emarketer.com/estatnews/estats/eglobal/20010420_global_usage_itu.htm

businesses would begin to sell their products and services in this low cost environment. Because of the anonymity of the Web, it is no longer necessary to do business under the traditional framework. Instead, even small firms with a single employee can be represented on the Web the same as a Fortune 500 company.

In the real estate brokerage industry, buyers and sellers are already searching for relocation help through several websites that provide mortgage calculators and information on the quality of school districts, neighborhoods, shopping and parks. In order to succeed in today's e-commerce society, firms must not only anticipate consumer demand, but inform their customers of their products/services through both online and offline channels.

There is a growth in the use of web pages in the real estate brokerage industry. In January 1995, there were approximately 100 real estate websites that offered properties for sale. By the end of 1996, the figure had risen up to approximately 8,000 sites. Some of the sites involved the home pages of single properties while others included listings of over 500,000 properties. While complete marketing and purchasing information was initially lacking in the majority of the sites, this is rapidly becoming the minority of the listings. In 1996, the National Association of Realtors estimated that of the 2 million homes for sale in the United States, only a few thousand were listed on the Web. In 1999, approximately 9% of all web pages on the Internet are associated with real estate.[38]

The results of this electronic revolution are a mixed bag for consumers with greater convenience for potential buyers coupled with a great deal of additional information to examine.

The use of Real Estate Library[39] allows for reference information on home buying and financing including locating a reputable agent. If customers are interested in selling their home, they can see which realtors and news vehicles do the best job at online selling. If customers wish to list privately, they can offer the property on

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38 Michael T. Bond, Michael J. Seiler, Vicky L. Seiler, Ben Blake. Uses of websites of effective real estate marketing, in Journal of Real Estate Portfolio Management, Boston; Apr-Jun 2000, Vol. 6.

39 See the real estate library at http://www.relibrary.com

national selling services such as the owners.com and homebytes.com.[40]

The development of the Internet has caused local real estate brokers to become providers of vast amounts of information. "Full-service" real estate listing services allow prospective buyers to examine their potential new communities. They can learn about shopping, schools, parks, entertainment, transportation, governance, and even crime and police statistics.

The long-run impacts of these and many other changes occurring in real estate brokerage are already being felt.[41] Existing, well-designed real estate websites are generating significant traffic. They allow consumers to shop at their own pace and learn a great deal before they begin any onsite visits. Agents now have a means of promoting themselves and their listings. Moreover, sellers can now easily see other homes in their area and have much more information with which to choose an appropriate broker. For these reasons, it is vitally important for real estate brokerage firms to keep up with the competition by marketing themselves and their properties over the Internet.

2.10 Conclusions

Marketing is a new field in economy, existing merely 100 years. It developed at the end of the 19th century as a result of the industrial revolution that brought the over productivity phenomenon in the human history.

Although, marketing is a new field it has significantly changed within such a short period of time. One may say that the marketing abstract thinking has to be the most flexible one in the economic science in order to adjust to the rapid changes in true life. As a result of those rapid changes marketing scholars should be aware of the new marketing methods all over the globe and in the various sorts of markets in order to describe those developments in lectures, essays and books.

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[40] see http://www.owners.com, and http://www.homebytes.com/index.cfm?flashtype=flashed

[41] The National Association of Realtors http://www.realtor.com releases a free virtual magazine - The Voice of Real Estate at http://nar.REALTOR.com/home.htm that contain articles and resources about real estate in United States.