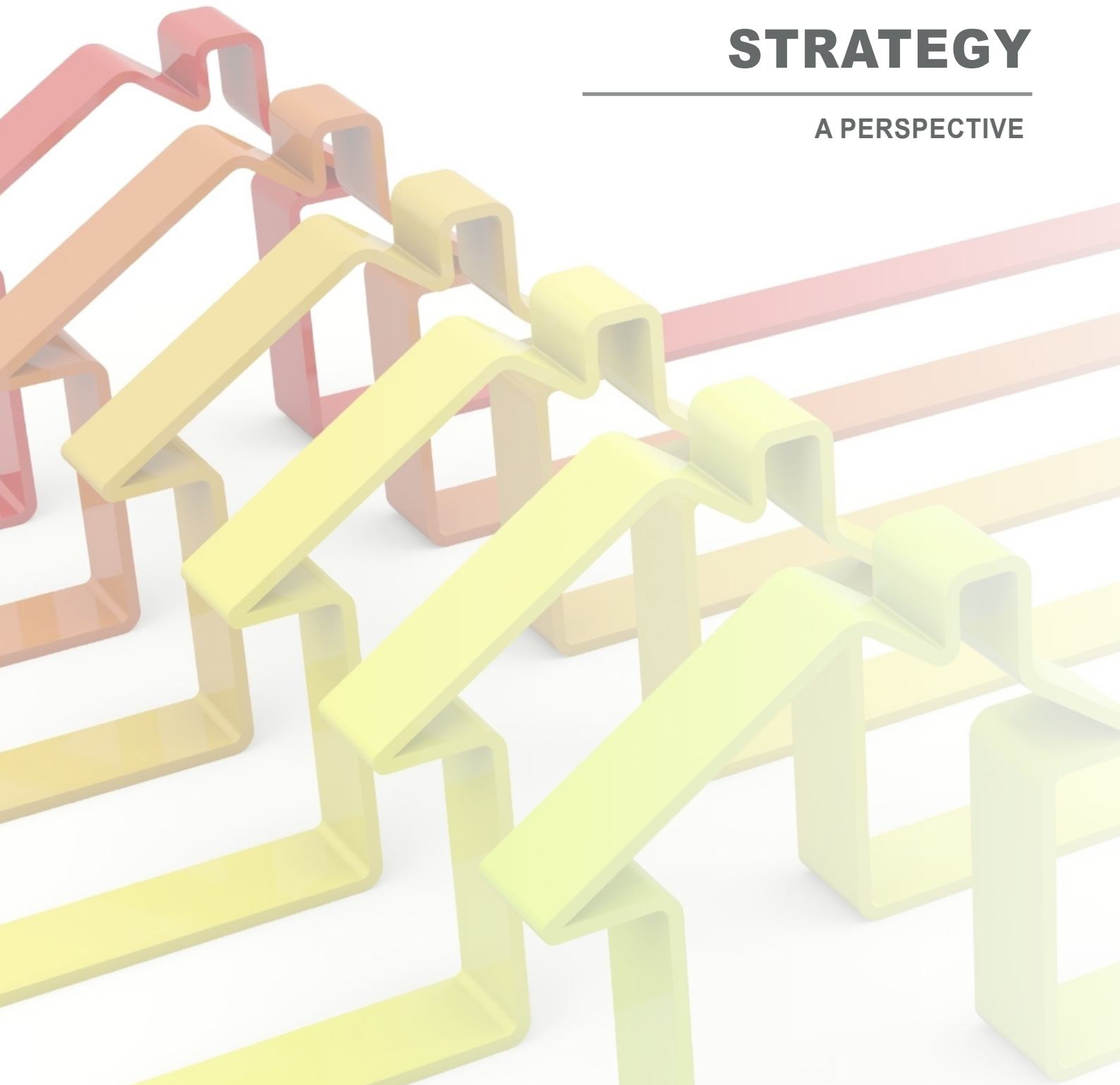


# **PROPERTY DEVELOPMENT SERIES 6 SALES AND MARKETING STRATEGY**

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A PERSPECTIVE



# Property Development Series 6

## Sales and Marketing Strategy

For most professional development and project managers, the importance of sales and marketing is often overlooked or commonly completed outsourced with inadequate emphasis on this crucial stage of the development process. We consider this an unwise approach, which is why we at STM Developments both develop, project manage and sell as a Licensed Master Estate Agent – this will ensure that we “own” the whole development process and keep the most important activities under direct control. Think from the perspective of the developer – everything that he/she has done to date in securing a town planning approval, detail designing and value engineering the project and selecting the optimal procurement method, is premised on the basis that they can equal or better their initial feasibility analysis numbers. All these efforts are on the cost side of the equation. To me personally, I have always considered cost in development projects as almost like a fixed cost for a fixed GFA. One can build an apartment at \$2,400/sqm, but some may cost \$3,000/sqm or much more. There is no secret, regardless of how hard you squeeze your builder or consultants. What you pay is what you get. A \$2,400/sqm apartment is always inferior in quality to a \$3,000/sqm one – construction costs cannot differ by more than 10% assuming we make a comparable analysis. That 10% mainly lies in the quality of the sub-contractors and supplier relationships, assumptions on project timing and the builder’s preferred margin and overhead assumptions – again the same philosophy – what you pay is what you get.

What becomes more interesting is the sales side of the equation – as with any product or service in the world, how much one charge is normally not in sole direct relationship with its technical quality or capability. Perception and sentiment probably counts more, and probably more so in real estate. A Gaggenau branded kitchen in one suburb may command a higher incremental apartment sales price than another location, even though the additional cost of supplying and installing that brand may be the same in both locations. Do we have to specify 2-pac for all joinery and reconstituted stone for kitchen benchtops? Can we install splits instead of ducted air conditioning? This

is where developers make their money from customer insight and appropriateness of design – “knowing where to spend the money” and avoiding personal emotions and preferences influencing the design outcome. This draws us to a very important point – quality is in the eye of the beholder - the target market. Getting inside the minds of the target market and knowing what your customers really need, want and value is probably the most invaluable piece of intellectual property any developer can acquire, more than any other government, architect or builder relationship.

The only process that influences the sales side of the project is the sales and marketing stage and more importantly, how it integrates with the rest of the design and construction process. Conduct any type of sensitivity analysis on a project, and you will soon discover that the most sensitive variable in the feasibility analysis is the assumed sales or lease rate. For a recent 80 apartment project feasibility that we did, a small 5% increase in sales rate resulted in an incremental 17% return on equity, or more than \$2mil in monetary amount. As most developers will know, in good times, similar to what Australia has experienced in the past 5 years, this small 5% increase in sales price could easily be absorbed, especially that actual pre-sales may formally commence at least 12 months after raw land acquisition.

If we consider a 15% increase in sales price assumption, which is totally reasonable for some parts of Sydney and Melbourne over the past few years, we have more than doubled our ROE and net profit margin, assuming all other variables remain the same! True, in a hot market, construction costs may escalate slightly, but there is still a huge buffer. Do not even mention some parts of Asia or China where annual price growth have rocketed more than 40% a year! Hence, from a developer’s point of view, it is always important to monitor the market and keep sales and marketing on top of the team’s priority list.

We will not go into the details of how a project is best marketed and sold or leased, as each project will differ vastly depending on

target market, location, prevailing market conditions and timing constraints. There is not normally a “perfect” marketing strategy, nor is there the “best” agent to work with. What is more important is appreciation of several key issues from the perspective of the developer:

1. How to integrate sales and marketing input into the design process
2. What information comprises a good comprehensive marketing package
3. How to gather that critical consumer insight to make informed decisions about how to design and market your project
4. What type of marketing strategy and distribution channel works best for which situation
5. The need and importance for a brand and theme for all your projects

### **Sales and Marketing Integration**

We typically characterize the role of a good marketing and sales manager as twofold – one as a strategic marketing advisor, and the other as a master agent and executing timely sales. The former will be involved in the design process from town planning stage.

At town planning stage, they will review the layouts, interface with neighbours and elevation designs and determine if they will suit the target market and locality. Do we need a master bedroom downstairs, do we definitely need a double lock-up garage, how many bathrooms are optimal, do we need large and low maintenance outdoor spaces. For a commercial development, what is the ideal column grid and perimeter to core distance, will typical workstation modules work, do we need raised floors, ideal clear ceiling height, availability of tenant amenities and common areas, how wide the retail shopfront should be. They will research the competition and understand exactly what sold well, and what didn’t and why. They may act as undercover buyers and investigate recent sales records and talk to other listing agents to obtain intelligence. They may even quietly test the market to a trusted database of buyers with the proposed design to determine marketability. Their role is to ensure the design and layouts are sellable and can minimize the extent of Council re-submissions at a later stage.

At detailed design stage, the devil is in the detail. What quality of finishes and materials are non-negotiable, and what are optional? This will provide guidance to the architect on designing and documenting the project. Key questions will be more detailed in nature but have an impact on layouts and costs - how many ovens do we need, is a walk-in pantry valued, do we need a bathtub, what de-

sign theme or style should the property have that will distinguish it from other competing projects, how much and what type of storage space is necessary, it is worth investing in higher quality appliances and bathroom fittings.

There are some good guiding questions that you as the developer can ask your sales manager or the external agent that will instigate or force some thinking and provide overall design guidance to the team. The answers to these questions will be used as a checklist when reviewing proposed detailed designs.

1. For the project of this nature, scale and location, what are the top five attributes that the target buyers will look for and value? These attributes may be – deeper bedrooms, 900mm wide cooktops and lots of bench space, solid timber flooring, large ceiling heights or low maintenance outdoor areas. For example, we find that Chinese buyers are much more drawn by the kitchen layout and design, much more than bathroom amenities, such as bathtubs, heated towel rails etc. They like lots of storage everywhere and in the bathroom and value quality materials and lots of bathrooms over usable outdoor space or designed landscaping.

2. Similar to 1, what are the top five attributes to avoid in the design that will deter buyer interest?

3. What would be the one headline standout design feature that you would deploy to market this project to the intended target market? Which rendering would you use as the poster picture for this project?

4. Provide 5 adjectives or adjective phrases that you would use to describe this project. Punchy sharp word or words that characteristics this particular project. It is not a test of one’s vocabulary and does not need to be complex intriguing words. It can be as simple as “tranquil, simple, design-driven, extravagant, opulent, functional, convenient, unique, home away from home, peace of mind etc. But the words must be specific and not generic.

5. Clearly define the target market profile with a vivid detailed description of the buyer profile – age, marital status, lifestyle, hobbies, social background, culture, what they do on weekdays, weekends and holidays etc. This may be a stereotypical description, but it does provide vivid visualization of how the buyer will be using the space, what they value and where the design should focus on.

The answers to the above questions can be formalized in the form of a marketing design brief document to the architect be-

fore commencing detailed design, so that all parties are clear on the issues to address. This brief will be used to review all future design proposals to ensure alignment. The brief will provide good imaginative scope for a good architect to create something special, whilst meeting market expectations. This is what you pay an Architect for and they love performance based criteria and guidance, in lieu of prescriptive advice.

This brief can also function as a brief to the graphic designer when designing the sales brochures so that the final document can look, feel and read more tailored and meaningful, and not generic, as are so many sales brochures we read through today. Depending on the brief, a creative team will think - perhaps there could be something unique and special about the format of the sales collateral – do we always need a thick bi-fold portrait print? For those who know Melbourne well, I do not recall how many times I have seen the images of laneway cafes, graffiti-walled restaurants and boutique bookshops in sales brochures for a variety of projects. The image of Crown Casino always shows up in any apartment project within 2km from the city. Whilst this may appeal to the developer himself and to international Chinese tourists or can be cut out and picture-framed as a decoration item for your home, does it really appeal to the target market? What underlies that buyer's final decision to sign the reservation form – is it the vivid imagination of Crown Casino and laneway cafes, or something else? What is the intended target market, I may ask?

### **Marketing Information Collation**

You may have heard the phrase - presentation is everything. And yes, whilst it may not really be everything, it does say a lot about your style, professional attitude and brand to both buyers and business partners and consultants. In our other role as estate agents, we have seen a lot of projects with incomplete or unprofessional presented marketing information, which always leads to numerous follow up questions and sometimes frustration amongst selling agents. It also expends your own time answering those numerous enquiries. In our view, a comprehensive set of marketing information will include:

- Sales Brochure(s) in all required languages
- Level Plans and Floor Plans
- Contract of Sale and Vendor Statement
- Price List with detailed area schedules
- Schedule of all estimated outgoings and stamp duty estimates
- Detailed technical specifications

- Rental Appraisal Letters and Depreciation Estimate Schedules
  - Sales Guidelines incorporating particular information for the selling agent – completion date, team profile, selling points of the project
  - Clear details on opening times, address of display suites and contact number (if any)
  - Link to any promotional videos, news articles or papers
- The agent can then use this information or email to buyers as required and strategically.

Getting this right for both small and large projects is important, as it will save previous time for your agent to pursue the sale for you, rather than having to come back to you for answers. This will reduce the trustworthiness and credibility of the agent in front of the buyer, and hence may vital cost you sales in the end! Whilst online portals will provide an up-to-date status of the sales progress, distributing price list updates whenever a sale is confirmed will also keep your team well informed of progress.

### **Consumer Insight**

Gaining valuable consumer insight for each project cannot be understated. Over the course of our past careers, we have seen many well design, delivered and marketed projects fail do to mis-alignment with consumer expectations (both in terms of product design and price point) or poor definition of the target market.

The property industry is well known for private networks, connectivity with other partners, formation of alliances and referrals and market information can be easily and quickly spread if you have the right channels. However, this is different from insights – information that is fed into you to form subjective propositions and assumptions. It is the manifestation of this insight which makes or breaks your project.

Firstly, let us define what type of insight is typically essential to a developer for any particular project. The developer will want to know what is the optimal configuration (2 beds, 3 beds, how many baths), maximum price point that the consumer will be willing to pay regardless for the particular product in this location, future supply and demand in the for my type of product, what interior design, layout and features are sought after in the area, will my product be an investment product or have an owner occupier focus.

There are some ways to gather this insight

- Talking with numerous other local and overseas agents, consultants, valuers or fellow developers. Talk to a combination of local suburb agents and national brandname agents
- Undercover buyer to seek out nearby competing project documents, layouts, specifications and price list and sales progress and success level
- Published statistics from trusted sources such as RPData, Residex, Deloitte Access Economics, REIAustralia, property magazines statistics or government (ABS)
- Interviewing clients from your estate agency database (if applicable)

We have a distinct advantage in being both a developer and licensed estate agent. Being extremely close to the market from day to day interacting with clients and prospects, and having the technical capability to deliver successfully is always a powerful combination. This ensures that one adopts a market-backed approach to development, in combination with a professional design-driven approach, which tends to be based on individual past experience and personal preferences. It will ensure that one selects development projects in an objective manner backed by qualitative and some quantitative market evidence on demand and supply.\

### **Marketing Distribution Channels**

We begin by defining the key property sales channels, followed by a generic analysis of what strategy works best for which situation. Remember that this is a generic discussion, and each project will need to be assessed on its own merits and circumstances.

1. International Project with or without channel agents – predominantly targeting overseas buyers due to size, location and price point. The strategy may be to launch the project via an exclusive principal agent with an international footprint, and via international road shows and exhibitions, followed by select local and overseas channel agents at a later stage
2. Local Wholesale with or without channel agents – same as above, but targeting the local market more and usually for larger scale projects with a more tight timeframe
3. Local Retail – adopted for only retail direct sales and marketing with client database, online and print advertising and onsite display suite with an exclusive master agent. This may be followed by third party channel sales once sales thresholds for bank financing are met

Determining the best distribution strategy will depend on the target market preferences, characteristics and the prevailing market economic conditions. There will also be staging and release strategies to launch the project to the public for each of the above channels. Some common strategies include database eDM marketing, exclusive VIP off market launches, VIP registrations, open public launch parties or events, or staged releases and quotas for channel agents.

Timing of the sales period is also important to note. If a developer has a strict and short timeframe to secure a pre-required number of sales to allow construction commencement, marketing may need to start very early, or there will need to be a strong push from the developer's perspective (either via strong agent and buyer incentives, or via a competitive price point). Incentives may include rental guarantees, furniture inclusions, free stamp duty and FIRB fees, appliances and flooring upgrades, free blinds and whitegoods, cash rebate at settlement, or a flexi-bonus, which give the agent flexibility to deploy as necessary, or even pure agent bonuses.

The table below attempts to summarize which strategy works for what type of project.



Distribution Strategy	Typical Project Description
International Project Launch	These will be larger scale mixed use projects in prime locations very close to the CBD or major business centres. Most of these projects are larger scale and high density in nature and some are landmarks in the local area. These can be apartments or major land releases. Marketing will revolve around proximity to CBD and major landmarks, long term transportation planning, schools and universities, on site premium facilities and the prestige of design and materials. With this category, there is a strong element of “follow wind” from Asian buyers and developers need to be adjust quickly to ever evolving buyer “trends”.
Local Wholesale Launch	These will also be medium scale projects, but not necessarily in prime locations. Building height will be medium rise and typically located close to suburban centres, universities or new townships. Larger scale townhouse and house and land projects in upcoming areas will also fall into this category. Marketing will revolve around future capital growth potential, rental returns and proximity to transportation and retail and commercial town centres, and also some onsite facilities
Local Retail	These will be the smaller scale and boutique projects in all suburban locations, and typically be targeted at the owner occupier and local investor mum and dad market. Building height will not exceed 4 levels and location can be anywhere. Buyers will mainly be local surrounding residents, investors, first home buyers or downsizers depending on location. Marketing will revolve around lifestyle amenities, access to transport, local schools and parklands, and good quality but functional designs and minimal onsite facilities.

### Branding and Project Theme

Branding is one of the most important aspects of any business, large or small, retail or B2B. An effective brand strategy gives you a major edge in increasingly competitive markets. But what exactly does “branding” mean? How does it affect a small business like yours? Simply put, your brand is your promise to your customer. It tells them what they can expect from your products and services, and it differentiates your offering from your competitors. Your brand is derived from who you are, who you want to be and who people perceive you to be.

In a project driven industry like property, corporate brand value is built through continual project reputation, success and track record. How will people remember this project? Having a strong project design theme will contribute to building a brand in the long term. What we mean by project theme is that there is an underlying story behind all aspects of the project and which neatly resonates and aligns with each other. This includes project logo and name, interior design, choice of materials, layouts affecting lifestyle and habits, marketing collateral design, key sales message, construction stage communications and handover collateral design. All of these elements must align to the specified theme.

One may be tempted to think that this concept and approach only applies to large scale projects. Obviously, with more resources and scale, every large project should and does have its own theme and brand. But

you would be surprised that even for smaller projects, the power of branding is even stronger, particularly given that many smaller scale projects do not conventionally pay attention to branding at all!

More importantly, a strong theme sends out a clear message to the market – this is our project, this is the character of our design and this is what you get in the end. It is a unique market proposition that customers value and distinguishes your project from the many other competing projects.

Many successful development companies around the world have built a strong brand with lasting value. Here we are talking about two brand levels – branding at a project level, and also branding at a corporate level. Building a brand does not necessarily have to imply premium or high end value. A mass market brand can work equally as well. In Australia, Meriton are known for creating mass market residential products appealing to a broad audience. Stockland are branded with creating well-designed large master planned communities, appealing to the young family home buyers and the astute investor.

Whatever the strategy, developing a strong brand which the public can associate with will establish your mark as a future industry force. Branding starts when you establish your business, not when you are a mature business, by when it is only too late.



**STM Developments**

# YOUR TRUSTED AUSTRALIAN DEVELOPMENT PARTNER

## OUR CAPABILITIES



### SITE ACQUISITION

Solid pre-acquisition due diligence and sourcing of the best on and off market development sites is the first step to a successful project.



### PROJECT FEASIBILITY

Thorough market research, detailed risk assessment and a robust project feasibility analysis will provide comfort for a successful acquisition.



### DEVELOPMENT MANAGEMENT

Leading and managing all project consultants and stakeholders and securing the best planning approval is a crucial first step in the development process.



### PROJECT MANAGEMENT & FINANCING

Disciplined project management, design and documentation management and cost control within feasibility limits will ensure projects are completed on time and to budget.



### INVESTOR REPRESENTATION

On larger scale joint ventures or projects, negotiating development agreements, undertake commercial and technical due diligence and representing investors throughout the project will ensure their interest and risks are managed.

## ABOUT US

**STM Developments is a property development & advisory business based in Melbourne, Australia.**

We work alongside developers and investors, providing site acquisition, feasibility analysis and project management services for residential and commercial projects. We initiate and participate in property development joint ventures as project proponent. We also act as investors' independent representatives as their point of contact for their co-investment projects and joint ventures.

Founder and Managing Director Simon Lee has more than 17 years of professional experience in all major facets of the development industry in Australia. He has successfully designed, led and managed major commercial, retail, mixed use and residential projects in Hong Kong and Australia ranging in value from \$4 million to \$20 billion. Simon is also an occasional guest lecturer and tutor at the Faculty of Architecture University of Melbourne.

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