QUANTUM
MANAGEMENT
SYSTEMS

White Paper

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Prepared by the

VELOCITY MARKETING/PRICING:
A Forward-Looking Approach

Abstract: It can be shown that the traditional approach to pricing residential property relies on guesswork and historical data that can be as much as six months old. As the residential real estate market is recognized as a seasonal one, traditional property pricing is targeting a market that has come and gone. Douglas M. Yeaman, Chief Executive Officer of Quantum Management Systems and an internationally recognized management consultant, conducted six years of research resulting in an approach to pricing and marketing residential property that predicts market activity. Called "Velocity Marketing," it provides a scientific approach and a formula for predicting property values.

HISTORY

IN THE EARLY 1990's, Douglas M. Yeaman, Chief Executive Officer of Quantum Management Systems an internationally recognized management consultant, realized that the traditional approach to pricing residential real estate relied on data that didn't reflect the ***then*** current market. Additionally, ***today*** many real estate agents have a "multiple offers and sell the first day" mind set to pricing. Although the approach to ***selling it quickly***, moved property quickly and is attributed to the real estate agent's "marketing expertise," Mr. Yeaman recognized that the traditional approach to pricing residential real estate was not always in the seller's best interest.

MR. YEAMAN BEGAN a research project that lasted six years. He meticulously tracked selling prices in a various national markets. More importantly, he tracked the number of homes listed, the number of homes under contract or sold versus the number of real buyers in the market place; and correlated the relationships between the listings, time on the market and ***real*** selling prices.

THE RESULT WAS a pricing formula that provides a "snapshot" of the current market and a way of predicting where the market was headed. Furthermore, it provides a seller with the choice of either pricing to sell quickly or pricing to allow the market to decide the value.

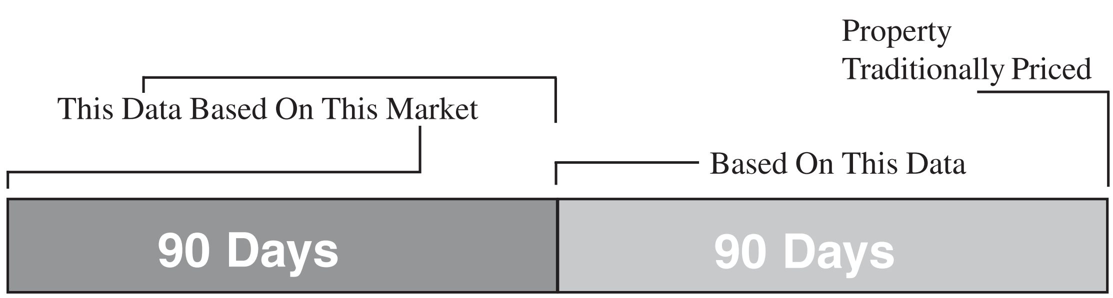
TRADITIONAL MARKETING

CURRENTLY, THE TRADITIONAL approach to pricing a piece of residential property involves some research and as much or more guesswork based up the level of experience the pricing agent has. Using computer programs or public records, an agent will develop a Comparative Market Analysis (CMA) based upon the following:

1. Active listings
2. Listings pending or under contract
3. Listings recently closed

CONSIDERATION IS GIVEN to the neighborhood, school district, similar home styles, the number of bedrooms and baths and other features. Weight is given to what listings are active but the focus is on the price of properties most recently closed. Agents representing buyers agents will look at that data to recommend what price to offer and listing agents will use the same data to advise a seller at what price to list.

THERE HAS ALWAYS been an intuitive sense within the industry that the data is not accurate. Most agents will use "gut-feeling" to adjust what the data suggests either up or down. In fact, as the following chart shows, that intuitive feeling is accurate.



THE OBVIOUS PROBLEM is that, even if a piece of property closed last month, it went under contract perhaps three months ago based upon data that was probably three months old. Also, both the buyer and the market are different at the moment of the current CMA than they were when the data was relevant. The most dramatic example is the real estate market in December as opposed to the market six months later in June.

VELOCITY MARKETING NOT ONLY provides the best possible pricing data, it gives an agent the ability to predict market direction.

A DIFFERENT APPROACH

MR. YEAMAN HAS CHANGED the way agents look at property pricing within his organization and his agents have recognized traditional pricing methods are not always in a client's best interest. Whether a client wishes to sell the next day and is heedless of "leaving money on the table" or is willing to let the market dictate the property's selling price, Velocity Marketing provides a choice. It gives the seller a choice of a price that is likely to sell today, in 30 days or in 60 days. It gives the agent an opportunity to market the property, the company and the agent.

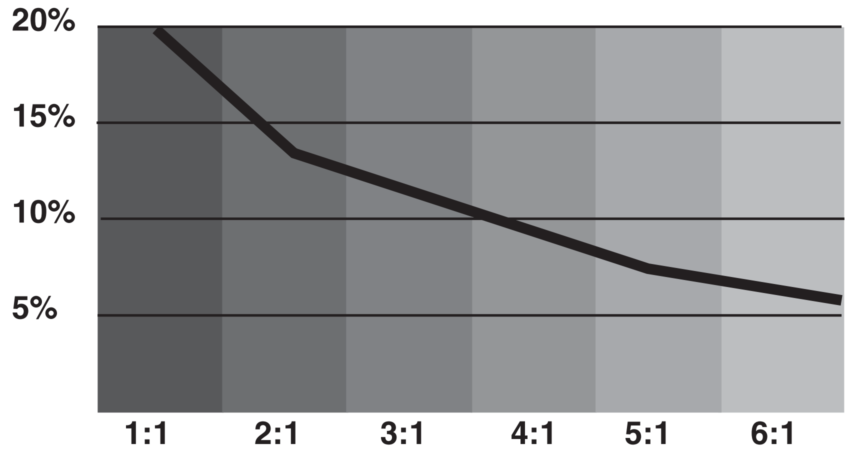
VELOCITY MARKETING BEGINS with using the traditional approach to identify a likely listing price. Then, the market is examined for properties that ***demographically*** profile within that price plus or minus 10 percent. Then, within those parameters, active listings and pending (s) or under contract properties are counted.

1. Pending or under contract listings indicate the number of active buyers.

2. Active listings indicate the number of sellers active in the market.(The actual method for calculating that is proprietary to Yeaman/Quantum Management Systems, Inc..)

Those two numbers provide a buyer/seller ratio that can be applied to the formula developed by Mr. Yeaman. The below chart approximates that formula.

ANNUAL RATE OF APPRECIATION



BUYER/SELLER RATIO

THE FORMULA PREDICTS the velocity at which property is ***turning over***. This is very similar to what a traditional economist would do in looking at any commodity or ***shelf life*** of any inventory. The more ***turnover (number of turns),*** the more ***pressure*** on the price of the property i.e. appreciation. This allows agents to provide clients with a "snapshot" of current market values and validate upcoming fast or slow markets. As is indicated in the following case study, this information is critical in relationship to the time frame dictated by the seller's need to sell. The slope of the curve has been established through empirical research over time. It appears to be valid under almost ***all*** other conditions and factors; and Yeaman believes this is because it describes the buyers attitudes toward the future purchase and therefore more accurately the market. It also appears to be occurring in almost ***real time.***

A CASE STUDY

A PROPERTY IN HIGHLAND PARK, on the north shore of Chicago in a prime real estate area, came on the market. A real estate company in competition with Prudential Preferred Properties advised the seller to list the home at $869,000 based on a traditional CMA.

A VELOCITY MARKETING ANALYSIS revealed that, at that time, the market “snapshot” revealed a 1:1 ratio that indicated strong market appreciation. The Prudential Preferred Properties agent recommended a listing price of $979,000.

THE SELLER chose to list the property at the recommended $979,000; although, he stated he felt the Prudential Preferred Properties agent was attempting to “buy” the listing and had *serious* doubts.

THE PROPERTY SOLD in three weeks for $965,000. Needless to say, the seller is a believer and is a constant source of referrals to the agent he once doubted.

THE PROFILE OF THE PROPERTY is essential to the analysis. You must carefully profile property to fit a very specific demography. This geo-demographic profiling is essential. You are not comparing, therefor, properties to properties, but buyers of this property to similar properties that these buyers would buy. This geo-demographic profiling is based on lifestyle, such as, travel time, distances to schools and shopping etc.

CONTRARY TO CONTEMPORARY THOUGHT, there is only one real buyer for the property...that is the buyer who buys it. Others compete and therefor drive the price up or down. This is referred to as the ***property specific buyer population.*** It is always very small and the key to marketing a property, is to target this population and capture the greatest number in the shortest possible time. This population is targeted on the basis of lifestyle and needs. *(Nothing being said here is to suggest that race, ethnicity or religion plays any role whatsoever in this type of analysis. Prudential Prefered Properties Agents are with this, directed,* ***that those will not be allowed or tolerated as a consideration****.)*

IN ORDER TO KNOW THE SCALE OF THAT TIME, it is necessary to know their size, their term on the market and where they are. These three factors insure that they will get the best price for their home, ‘ceteris paribus’.

CONCLUSION

THE TRADITIONAL APPROACH to pricing residential property is not always accurate or in the best interest of the client. This has been validated by the consumer sometimes paying more than or less than traditional lenders think it should be. When what they pay is more, loans are hard to come by, but the property very often continues to appreciate well past the lenders peg points, and when it is too low it results in the banks buying back a lot of property through foreclosure at rates that cost the lenders a too much. Thanks to the research and data developed by Mr. Yeaman, there is another approach. It is an approach that takes the guesswork and gut-feeling out of the process and bases decisions on verifiable data.

THE CLEAR BENEFIT of Velocity Marketing is that it gives agents an opportunity to market property under conditions where the existing market levels price, maximizing seller equity. The goal of Prudential Preferred Properties is to have the opportunity to either pre-market the listing two weeks ahead of any public expose or price the property in such a way that, when it goes public, two weeks pass before the first offer.

IT IS THE ONLY marketing system that operates in the best interests of the client under market conditions that are realistic at the time decisions are being made.