

Defining a Trophy Property

by Bill Mundy, PhD, MAI

What is a “trophy property”? It is understandable when one reads Sotheby’s *International Realty Guide to Distinctive Properties* or the *Robb Report*, or even the *Wall Street Journal* advertising sections, where copywriters scream out “Trophy Property For Sale.” It is a catchy phrase, and who would not want to own a trophy property? But, what type of property would the buyer have? Just what is a trophy property?

A review of some key textbooks, such as the *Dictionary of Real Estate Appraisal*,¹ *The Appraisal of Real Estate*,² *Real Estate Investors Deskbook*,³ and *Modern Real Estate*,⁴ do not provide a definition. The National Auction Group, Inc., a firm specializing in the sale of trophy property, provides insight: “to qualify as a trophy property, the real estate must be unique, be in excess of one million dollars, be ideally located and be very desirable to people with resources.”⁵

So, how should a trophy property be defined? A good way to start is to look at some examples of properties that most people would agree are trophy properties. Rockefeller Center, in midtown Manhattan, New York City, on the East Coast and San Francisco’s Embarcadero Center on the West Coast are good examples of nonresidential, commercial “trophy” properties. Rockefeller Center, which encompasses 6 square blocks (11 acres) between Fifth and Seventh Avenues, was developed between 1929 and 1940 and contains eleven art deco commercial buildings. It sold in December 2000 for \$1.85 billion. The 50-year-old, 3-million-square foot, four-building Embarcadero property is located at the edge of San Francisco Bay and sold in May 1998 for \$1.22 billion.

Residential trophy properties are also of great interest, and there are some obvious examples. The Seattle metropolitan area community of Medina contains one of the more sophisticated and valuable (if cost is any proxy for value) residential properties. That property is the new residence of Microsoft founder, Bill Gates. This property boasts 5 acres with 500 feet of Lake Washington frontage, a fish hatchery, a 66,000-square-foot home containing 24 bathrooms and six kitchens, an assessed value of \$109.5 million, and an annual tax bill of \$1.076 million. Another recent example is the 1,600-acre estate of Errol Flynn’s wife

abstract

This article discusses and provides a definition for “trophy property.” It suggests that an appropriate definition is one that consists of quantifiable attributes such that a researcher can compare the relative quality of property in any particular land use category. Based on this comparison, only the very best properties achieve the “trophy” distinction and, consequently, the highest price.

1. Appraisal Institute, *Dictionary of Real Estate Appraisal*, 3rd ed. (Chicago: Appraisal Institute, 1993).

2. Appraisal Institute, *The Appraisal of Real Estate*, 12th ed. (Chicago: Appraisal Institute, 2001).

3. Alvin L. Arnold, *Real Estate Investors Deskbook* (Boston: Warren, Gorham & Lamont, 1982).

4. Charles H. Wurtzbaach and Mike E. Miles, eds., *Modern Real Estate*, 5th ed. (John Wiley & Sons, Inc., 1994).

5. <<http://www.national-auction.com>>.

“To weed out ordinary properties from extraordinary trophy properties, appraisers can use a marketing technique called segmentation.”

Patrice Wymore Flynn, on the island of Jamaica. The estate, which includes 2.5 miles of ocean frontage, was listed in the *Wall Street Journal* real estate section for an asking price of \$50 million.⁶

What are the commonalities among trophy properties? Location, while a multifaceted variable, is certainly important. Being near the 100% corner in a major vibrant metropolitan area adds significant value. Also, a waterfront location is important. Interestingly, the Gates residence does not have particularly good quality water frontage. On the other hand, it is located in one of the most, if not the most, affluent communities in the Seattle metropolitan area. If a good location means good access, then the Flynn residence in Jamaica certainly does not meet these criteria. In fact, many trophy properties are not well located from a convenience of access perspective. For example, many “trophy” ranches advertised for sale in Montana and Wyoming are not easily accessible. In fact, remoteness and inaccessibility are often key selling points. Therefore, the National Auction Group’s attribute of “ideal location” may be too subjective.

To weed out ordinary properties from extraordinary trophy properties, appraisers can use a marketing technique called segmentation. Kostler defines a market segment as “a large identifiable group within a market with similar wants, purchasing power, geographic location, buying attitudes or buying habits.”⁷ Appraisers can segment the property market into various land uses and property characteristics. The above examples discussed the commercial (office) and residential (owner-occupied) market segments. Real Estate Investment Trusts (REITs) have specialized into various market segments, such as the Equity Office Properties Trust REIT. The REITs seek out premier properties, ones that will retain their tenants and premium rents over the long

run. These properties are called Investment Grade Properties, distinguishing them from non-investment grade properties. There is one variable that typically defines an investment grade from a non-investment grade property and that is price. Because of a relatively limited supply and good demand for property with good tenants paying good rents, the price for these properties is at the top end of the price scale. Therefore, two variables that tend to distinguish a trophy property are quality (investment grade) and price.

Quality may vary, but generally higher prices are associated with higher quality, lower prices with poorer quality. There is no such price-unique relationship. Quality will give the “best of the best.” For the office building example, quality would include the architectural design, building materials used, design and materials used in the main lobby(s), mix and nature of complementary tenants (restaurants, office supplies, athletic facilities for example), and tenant common spaces, such as elevators and restrooms. This list of attributes can be used to differentiate one product from another on the quality variable. Therefore, it seems that quality is also a good variable to determine if a property is a trophy property.

Price can be a defining investment grade criterion. The difficulty is in determining what price. If one were to categorize a property within a similar land use category, a normal frequency distribution, the typical bell curve, would result. The left-hand side of the curve represents below average quality, the right side, above average quality property. If two standard deviations represent 95% of the distribution, then the right-hand tail represents the upper 2.5% of properties. This could then be used as a price criterion, the top 2.5% of the market.

The context in which we generally hear and see trophy property discussed is the marketplace when someone wants to sell or buy. Therefore, there is a marketability dimension for a trophy property. There must be very good demand. A good example of trophy property marketability is the Fish Ranch, which Craig McCaw⁸ purchased several years ago. This 4,500-acre property is located immediately south of Carmel, California, adjacent to the Pacific Ocean. It was originally listed for sale for \$7.5 million. The Save the Redwoods League made a full price offer for the property. Two other entities also wanted the

6. *Wall Street Journal*, 26 May 2000, W12.

7. Phillip Kostler, *Marketing Management*, 10th ed. (New Jersey: Prentice-Hall, 2000): 256.

8. McCaw Cellular was purchased by AT&T to become AT&T Cellular, making the McCaw brothers multi-billionaires.

property, Mr. McCaw and the Big Sur Land Trust. A bidding war ensued, and McCaw eventually purchased the property for \$11.5 million. This illustrates how a trophy property is going to “catch the eye” of many prospective buyers. The National Auction Group suggests the property must be unique. Uniqueness often can distinguish a property and increase demand. Uniqueness is a supply side variable. It suggests a one-of-a-kind property. Consequently, uniqueness suggests a limited supply. For example, there is only one Rockefeller Center and there are a limited number of ranches with world class rainbow trout fishing in the United States. Therefore, supply is limited. Demand is substantial. The issue is price.

Based on the above discussion of trophy property characteristics, a workable definition might state:

A trophy property is an investment grade property represented by value or price at the top 2.5 percentile of properties in its particular land use category and is distinguished by special high-quality attributes that will attract the financial resources, in cash, to purchase it.

This definition provides researchable criteria that can be used to quantitatively determine if a property meets a set of criteria or attributes that will allow it to be called a trophy property.

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