



5 things to know before choosing a geographic farm

If you have the capacity and commitment to be consistent with geographic farming, the rewards can be great

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One of the core foundations of building a successful real estate business is [geographic farming](#). Being the go-to agent for a specific neighborhood or area leads to consistent listing opportunities. What follows are the five things you need to know before you choose your first, or next, geographic farm.

1. Evaluate the total sales volume for the area or neighborhood

All neighborhoods are different. The first area we want to evaluate is whether there is enough total sales volume in the potential [farm area](#) to warrant our focus.

Start by doing a simple search in MLS of the trailing 12 months of sales volume. Once this information is gathered, there are a couple of areas we want to consider:

How many total sales were there in the past year?

In a typical market environment, you would see a turnover rate of between 8 percent and 10 percent per year for a neighborhood. For example, if there are 300 homes in the neighborhood you are considering, then an average turnover rate would be 24 to 30 homes sold in the previous year. We are looking for a neighborhood with at least an 8 percent turnover rate.

What is the average sales price?

A simple CMA of the data from the trailing 12-month sales will give you an average sales price. Depending on your goals, I prefer to [farm](#) a neighborhood that has a higher average sales price to my current average sales price for my business in the trailing 12 months. This gives you the ability to strategically increase the average sales price for your business.

2. Is there a dominant agent in this market?

We never want to shy away from competition, but choosing a farm area that has a dominant agent can present headwinds to gaining market share in that neighborhood or area.

My definition of an area that has a dominant agent is one where a single agent listed more than 20 percent of the homes listed for sale in the previous 12 months. Does the area you are considering have an agent that listed more than 20 percent of the listings taken in the past 12 months?

If there isn't a dominant agent, then we have a better likelihood that we can become the dominant agent for that neighborhood or area, and our evaluation can continue.

3. How much GCI (Gross Commission Income) is available in this farm area?

Although we looked at the turnover rate for the [neighborhood](#) earlier, the next step in the evaluation process is to gain a full picture of the opportunity in relation to the GCI available. This can be arrived at by multiplying the total sales volume for the area by your average commission rate.

For instance, utilizing the example 300 home neighborhood mentioned above, if there were 24 homes sold in the neighborhood you are considering, with an average sales price of \$400,000, then there was \$9,600,000 worth of sales volume in the previous year. If the prevailing listing side commission rate is 3 percent, then there is \$288,000 available on the listing side of the transactions for this neighborhood.

But this is not the entire view of the opportunity in this neighborhood. Many people overlook the fact that as you market to the neighborhood and become known as the expert for the neighborhood, you will have opportunity on the selling side as well. Factoring in both the listing side and the buying side GCI opportunity, this 300-home neighborhood would have a \$576,000 total gross commission opportunity.

Once the size of the GCI opportunity has been established, that leads right into question number four in this evaluation process.

4. What can you expect to make on the farm?

Once we've identified total gross commission potential for a [farm](#) area, the next step is to evaluate the expenses versus the potential revenue for you. It takes time for consistent marketing to create awareness and opportunity for you in the neighborhood.

I suggest committing to marketing to the farm area for one year to be able to accurately identify whether this is a profitable farm for you. I also suggest budgeting \$2 per household per month for marketing, or \$24 per household for the year. This marketing can involve direct mail that is delivered once a month or every other week during certain times of the year. It will also involve just listed/just sold campaigns and community events for the neighborhood.

If we are estimating \$24 per year for each household, and there are 300 homes in the neighborhood, then we can estimate our annual marketing expenses to farm this neighborhood will be approximately \$7,200 (300 x \$24).

If the average sales price in the neighborhood is \$400,000 and the average listing side commission rate is 3 percent, then the average gross commission for a sold home in the targeted farm area is \$12,000. For this example, if your commission split is 75 percent then your estimated net commission on an average listing in this farm would be \$9,000. So we can now conclude that we only need a minimum of one sold listing over the next year to be profitable.

If you are consistent in your direct mail, sponsored [community activities](#) and adding value to a farm with no dominant agent, then you should be able to gain a minimum 10 percent market share of the listings available in the coming year.

Based on that assumption and the example community utilized above, if there are 24 listings available in the neighborhood in the coming year, then you should expect to take a minimum of three listings taken and sold in the coming year (just over 10 percent).

Based on the average net commission of \$9,000 per listing sold, that would mean you estimate \$27,000 in net commission income versus our estimated \$7,200 estimated marketing expense. That is a 375 percent return on your money.

5. Do you have the capacity to focus on this farm area?

Are you willing to commit not only the money, but also the time and effort needed to farm this area? Do you have the time to commit to promoting and putting on quarterly neighborhood events like a food truck night, family photo day, or a movie night in the community park? Do you have the capacity and the support to create and send direct mail once a month or every other week?

This is the time to be real with yourself. The main reason farming efforts fail is a lack of consistency and commitment to executing on the farming marketing strategies needed for success.

Do you have the capacity and commitment to execute on the marketing plan for this neighborhood? If so, then you've found the next area for you to generate consistent listing opportunities.

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