Interview with Richard Swerdlow
Condo.com, Houses.com, Property.com

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Michael: Hey everyone. My name is Michael Cyger, and I'm the publisher of DomainSherpa.com, the Domain Name Authority, and the place where you can learn how to become a successful domain name entrepreneur directly from experts themselves. You know what we do here; we bring on a successful domain name investor, ask them how to share how they became successful, and then we motivate to do the same in your area of expertise. Then you can come back on the show, and give back to others the same way today's guest is going to do. The big question for this show is, "Once you build a successful lead generation website, how easy is it to replicate across other website properties?" Joining me to answer this question is Richard Swerdlow. Rich is the founder and CEO of Condo.com, Houses.com, and Property.com. These properties have becomes the world's largest marketplaces for real estate, with over thirty million properties for sell, rent, and vacation in the United States, and more in seventy plus countries around the world. Rich, welcome to the show.

Richard: Thanks, Mike. How are you? Thanks for having me.

Michael: My pleasure. Rich, you're a lawyer, a realtor, a real estate broker, a mortgage broker, a real estate developer as well as an entrepreneur. You've worn a lot of hats in your professional career. How do you classify what you do today? You know, if your kids were young today, what would you tell them that you do today?

Richard: So, I mean I think the overriding aspect all of those titles is that I'm an entrepreneur, and legal degree, and the real estate brokerage license, and the mortgage license was all really done to support my interest in creating companies, and new ventures. So, for my kids, first and foremost, I tell them they should be creators, and they should try to be proactive, and create something that they have a passion about. And, when you're passionate and you find something that you like to do, it's not work at all. And, I'm excited everyday about coming to work, and creating value, and creating new things, and I think that's the takeaway.

Michael: Alright. So, creator, and you like to build things. You like to start things. So, what I like to start every show with some statistics that help the audience understand what you've built. I mentioned you owned Condo.com, Houses.com, and Property.com. In your own words, what is the purpose of these websites?

Richard: So, by having the category defining domains in the real estate space, the purpose is to create liquidity, and what we call democratization of information related to real estate. The thought is to create the largest marketplaces in the world for all of those property types, whether it's condos, houses, and now property, which will be a umbrella site, which will have condos, houses, and commercial real estate asset classes as well. So, the idea was to create a marketplace that connects buyers, sellers, and rectors around the world.

Michael: Okay. Which of these sites serves the most unique visitors per month?

Richard: We started with Condo.com; that was the first site that we deployed. We launched in 2008. We're currently up to about 1.5 million visitors a month, around fifty-thousand uniques a day, and Houses.com is right behind it. Houses, we launched in January of this past year; it's gone from really no traffic, or real limited-type of traffic, to about a hundred and fifty-thousand visits. We anticipate, based upon the much larger keyword demand for the term 'houses' to grow somewhere between eight and ten million unique visits a month, and then Property is still in the womb. We anticipate launching Property sometime in the next two weeks now.

Michael: Wow! Those are some fantastic growth targets for Houses.com. I can't wait to see what Property.com does. So, in general, how do you monetize Condo.com, and Houses.com right now?

Richard: So, we aggregate property and inventory with a license real estate broker nationwide, and in about forty states, we're licensed. So, by the fortune of our licenses we are able to display multiple listings serviced property information. We're a licensed broker, and we have a full team that's dedicated to compliance, making sure follow the processes to display that data. We then, have a lot of partners that feed us listing inventory. So, all in all, we've got close to thirty million properties. We generate leads for real estate listings, which roll out to our own agents that go and serve as by-side real estate brokers. There are subcategory leads in the real estate space, moving mortgage, credit repair. Now, we're getting into the home improvement space. And then, the basic service of advertising impressions; we're serving close forty million ad impressions a month now. So, it's a combination of lead generation through multiple channels and types, and advertising.

Michael: Alright. Well, that's quite a full range of revenue generation opportunities there, because you've got primary leads; you've got all of the ancillary leads associated with those like, moving, the mortgage, the credit repair, like you said. And, then you've got advertising as a fallback.

Richard: Right.

Michael: That's fantastic. And, how much revenue do Condo.com, and Property.com - I'm sorry Property is not live. How much revenue do Condo.com and Houses.com generate this year?

Richard: So, we're a privately held company, so I don't want to get into specific details, but over five million dollars.

Michael: Excellent. I appreciate that. And so, as a personal investor, I like to ask other investors, how many other domain names do you own? And, what type of domain investments you've made? Do you only focus on these fantastic category killer domain names, or do you have other domain names that sort of feed into those as well?

Richard: Now, I personally own hundreds of domains, so I have been in the online space for a lot of years. We started our first online venture in '95, which was a wireless communications venture. So, I've accumulated a large portfolio. None of which are as good as the category domains we have in real estate space, but I've got them in a lot of different verticals, and they're waiting for me to have a little bit of free time to, you know, get into some other verticals.

Michael: Like most of our entrepreneurs that I have waiting for the free time, and may be waiting for a while.

Richard: Exactly.

Michael: And, do you own any other, you know, Condo.com can be thought of as a geo domain in some respects, because everybody's looking in their own specific geographic region. Do you own any geo domains that you used to feed into those, like, some major city, or minor city?

Richard: No, we've decided that it was the structure on these portals as used as our domains. So, we've got Miami.condo.com, La.condo.com, and they're all viewed as independent sites with their own unique page rank, and inventory, because there is unique content for all of those cities. That's how we've decided we were really just going to feed our root site Condo.com, and Houses.com, or Property.com, and work with sub-domains associated with those sites as apposed to having an independent sites linking in.

Michael: Alright. Great to know that strategy. So, let's figure out how you got here, Rich. Prior to Condo.com, which was actually had an entity of US Condo Exchange, you founded a company that you mentioned just a moment ago, called Everything Wireless. What was that business?

Richard: So, in '93, and it's getting to be quite a long time ago, there was an, you know, the wireless, which was then referred to as cellular - the cellular phone - business was our flatulence business. And, it seemed like there was a giant opportunity that was going to happen globally as more and more people started to use digital handset and phones became smaller. So, we founded a business. It started out as a retail-based operation, where we had kiosks that sold cell phones and accessories. The shopping developer that we had three stores in, one day, called us up and tried to renegotiate the lease. At that point, we realized that we can no longer be subject to the whim of a developer because, you know, when you've got a five-hundred square foot kiosk, you're not really carrying much weight with that developer. We decided we were going to go into the catalog business; the quick catalog business. And then, ultimately the web business, which was a way to control our own destiny. So, we started out with a company called Cell Works, which then became Cellular Works, and then ultimately it became Everything Wireless as the term 'cellular' got updated as phones became digital and the term 'PCS' and 'wireless' became pervasive. We grew the print catalogue business and eCommerce business to about a hundred-million in revenues, and we sold it to federated department stores in 1999. Federated, at the time, was doing well up above a lot of consumer electronics place, and we anticipated going public with them, and then the window shut in, sort of, early 2000 as a lot of the doc com businesses couldn't sustain their operations and, you know, we got wrapped up in it.

Michael: So, did you actually sell your business to Federated before the melt down?

Richard: Yeah, we sold it. Actually, Federated went and they acquired a company called Finger Hut. Finger Hut was one of the largest print cataloguers at the time.

Michael: I remember it.

Richard: But, the truth is, they acquired them for their logistics in the distribution. Federated owned, and I believe still owns, Burdines department stores and Bloomingdales, and in 1998/1999, they were trying to figure out what this whole eCommerce thing was, and how they were going to capitalize on it. So, they realized they needed to buy a company that endues, or fulfillments, and they could ship products from an eCommerce perspective. So, they acquired Finger Hut. Finger Hut in turn, acquired us along with something call Pro Flowers, and a couple of other eCommerce plays. We were going to be their consumer electronics play. So, they acquired us. Thankfully I took a portion of the proceeds in cash. A lot was in paper. There a couple of his on a paper perspective. Me and my partners were very, very rich. Unfortunately, the paper is not worth much today, but anyway it was a good ride, and now we're on to the next chapter.

Michael: Alright. And so, what did you learn from that online retailing, and paper catalogue business, that you've taken away from the experience?

Richard: You know, that first business was very much products oriented. So, when you look at the income statement of a company that's a products driven business, you've got inventory. And, I remember walking through the warehouse, and we had tens of millions of dollars worth of inventory; and, a lot of the inventory, whether it was cell phone cases or batteries it had a life cycle. And, as new phone came out, I remember thinking how terrible it was that we had all this inventory of old phone cases that were no longer going to be in demand. So, I made it a point, when we set out for the next venture that I'm in now, was that we're going to be in the information business. Because in the information business, it's very much like a software business...

Michael: Rich, I think…

Richard: Once you build the business you've got a profit margin, and you're reselling information. So, I determined that I didn't really want to be in the inventory, with you know the physical goods business where you needed to ship and you needed a warehouse, and you had a diminished value of inventory. I'd rather be in the information business, where you can continue to resell information. And, that's the business we're in now.

Michael: Okay. You logged off there for just a moment, but I think I got the general take of it that you didn't want inventory that's got a life cycle that would expire at some point, and may not be worth as much. And, you wanted to be in the information business, which can continue to refresh, and in which you can sell to multiple people.

Richard: Exactly. And, you need less people. The worlds changed. When you're in the information business, and you're a distributor of information like we are, you need a lot less people. So, we've very focused in this venture, you know, particularly since we acquired Condo and Condos. And, after I read the book, "The Four Hour Work Week", which I'm sure a lot of your audience has read, had a big impact in terms of the ability to outsource a lot of core functions. But the point is, to keep overhead low, and when you're in the inventory or products business, you need a buyer who is buying inventory. You need a much bigger returns in the accounting department. And, you just need a much larger overhead, or physical infrastructure. When you're in the information business, you don't need such a infrastructure or inplace overhead.

Michael: Yeah. Makes sense. And, then what did you do after the sale of Everything Wireless, in about 2000, before you had the idea for US Condo Exchange in 2005?

Richard: So, we sold that business in 2000. I took a little bit of time off to take a break. When you're an entrepreneur, you're 24/7, 365, and you're never sleeping until you think about, or till you are able to repay your investors, and have a successful exit. So, I took a little bit of time. Then, I joined the family real estate development business. At the time, my dad was building data centers. In the year 2001/2002, the trend to build very large centralized hosting facilities was in play, and we built probably a million square feet of data center facilities in South Florida; we built big hosting facilities for Exitis. Exitis eventually went bankrupt, and Cable and Wireless pulled all their assets. We built a big data center for Telephonica, and one for Bell Self. And, my experience dealing with the wireless telecom providers meant everything wireless; I was able to part way into relationships, and secure leases, and help build data centers. Once that business came to an end, as a developer, and we're opportunity developers, we migrated into building residential and Condos became the, sort of, hot topic, whether they were condo conversions or new built condos, around the year 2004. And, we started to build lots, and lots of condos. And, while driving to a condo site in Daytona with another guy who is a partner of mine now, we sold billboard after billboard of what looked like a girl in high heels by a pool with a drink, promoting a pre-construction condo. And, it seemed to us that when you started to see billboards, and the magazines became bloated with condo ads, and you didn't really know what was being sold, that there was going to be a bubble, and we needed to create a marketplace to eventually create liquidity in that bubble.

Michael: And, you didn't know any other marketplace at the time that helped condo owners, condo developers, and individuals connect together.

Richard: No, there wasn't. In a real estate is a very much local business. And, up until this condo phenomenon, it was localized. And, you could not create a centralized marketplace for real estate. But, in the condo environment; in Condos essentially a widget. It's a box in the sky; often time being sold just on a price per square foot of the same floor plans. And, with this condo pre-construction phenomenon that took place, people were buying condos before the building were built. That's how the buildings were getting financed; with what was called pre-sales. So, a guy in Russia was buying twenty unit in Dubai. A guy in Miami was buying in Panama. And, you had this marketplace that became global essentially overnight. And, we realized that was now going to a local brokerage shops, needed to become a centralized marketplace, where eventually people were to look for liquidity, and we set out to create what is not like a Hotels.com or Cars.com. It was nothing like it for Condos at the time.

Michael: And, your idea was actually a condo exchange. Sort of like a marketplace, like Nasdaq or something to just be traded as a commodity.

Richard: Exactly. We thought that because of the commoditization of this real estate asset class that we could make a marketplace very much like an institutionalized stock exchange. We called one of the business US Condo Exchange or US Condex, which was the domain address that we had. And, we built the business around it. And, the primary business when we launched was to go and sell developers advertising. So, there we a lot of big budgets being spent on magazines and our thought was to go out and we had an outbound sales team of probably thirty people calling on major developers in all the major markets. And, the only reason we became licensed as a real estate broker was to put some other inventory on the site, so that when traffic came to the site, there were other things to look at. And, it was really, at that time, we backed into the licensing, and the way we now display listings in lots of markets. But, the primary objective was to sell advertising. And, it took us a little bit of time to realize when you're out selling advertising, the first thing is that business is very difficult to scale. So, month to month you couldn't project how many developers were going to actually stay in business and pay their bills; how many wanted to continue to advertise; and, the more advertising clients you had, the more customer service people you need. The advertisers never fully satisfied because, either you were generating too many leads, not enough leads; they wanted stuff for free and it became clear that it wasn't a scalable model. And then, one day we turned around and said, 'Wow! Look at all the traffic that we have to these sites. Why are we fighting, and you know, trying to get to the right decision maker to sell advertising, and dealing with receivables and bad debt. Why don't we monetize the inbound traffic and start to put partnerships in place that would pay us per click, or per lead, or otherwise automate the monetization of traffic?

Michael: So, how long did it take you, selling advertising, to realize you'd didn't want to run a business with that type of business model? That you wanted to switch it.

Richard: We're probably three years into building a platform, scaling the business, hiring a lot of people. And, you know, we wasted a lot of money unfortunately. But, you have to keep moving forward, and I'm a firm believer that there's, you know, no mistakes; you get to where you are from the lessons you've learned, and you know, the key to success is to not stop. Too often, entrepreneurs or people will fail at a particular point in their business, and they'll stop. They key is to learn and to continue to move forward, and you know, the opposite of failure is perseverance. You just have to continue to persevere. And, we figured out the model, and how it works. And, that's, you know, what happened to us. And, now we're really in the traffic monetization business.

Michael: Right. Yeah. In a lot of the text circles that I associate with, it's called a pivot, in which used too much. But, you basically take the same business that you're using, and you just point it in a different direction. You head off in that direction. So, when you decided that advertising was not a scalable business mall that you wanted to be in, like much like it was in the wireless business where you had a lot of overhead; you had support teams; you had inventory; you had, you know, forklift operators, things like that. You didn't want to necessarily have a whole team of sales people to go out there and do this. None of the back office support. You wanted to be able to more cost effectively deal with these potential customers. And, you found that selling off per lead basis was easier to run a business than in the advertising sales business model.

Richard: Yeah. When you are either selling per lead, or per click, it's performance based. And, we saw that the US real estate industry, particularly in the residential space, was slowly starting to understand performance-based marketing.

Michael: Right.

Richard: And, it needs to be a win-win. If you're selling flat fee advertising, in certain months, if the developer gets too many leads, then you've sold too cheap. If they don't get enough, then you've taken advantage. So, when it's performance based, per lead, it's a very simple formula. The developer says, okay, this is the percentage of leads that converted to sales. This how much gross profit I make per sale. And therefore, there's how much I can pay per lead. And, the market pretty quickly finds a equilibrium in terms of what a click, or what a lead is wroth. And, that's the beauty of the web.

Michael: Okay. I want to ask you another question about that. But, I want to back up for a second and ask you; you know, you had this idea, this vision for a condo exchange where you can list all the condos available in one location, and then work with developers at the time to advertise their upcoming developments. Why couldn't developers do this multiple listing service, or on you know, VRBO.com, or some other website?

Richard: They could, except, well, you know, a couple things. The multiple listing services, traditionally, we closed to consumers. So, the only way you access a multiple listing service - and certain of those boards and things have changed in the past five or six years since we got into the Armant real estate space -, but as a consumer you could not access the multiple listing service to search for property. Developer pre-construction inventory, in many real estate boards, was not allowed to place into the MOS, because it was pre-construction; it wasn't existing yet. So, we really needed to create a new alternative, and when we started, you know, we had a lot of very cool technology. We were really one of the first companies out there to have - it's you know, now people know it as - Google Maps. But, when we first started it was called Key Hole. Google actually acquired a company called Key Hole, which did the fly-in, you know, you pick a location on a map, and you fly in and you see the location. We had these fly-in Key Hole tools back in

2005, which was very cutting edge, and you just could not get the same technology experience using the MOS, or what was then available online real estate experience.

Michael: Gotcha. Did you switch to a cost per click, or cost per lead business model before or after you purchased Condo.com and Condos.com?

Richard: It was after.

Michael: Okay.

Richard: It's interesting; I'll tell you how we got to those domains. When we were US Condo Exchange, there were, we were trying through a capital raise and the model at that time was still, for the most part, focused on advertising sales. And a local entrepreneur that was successful in actually selling Hotels.com, and his partner came to look at the business. And, their comments were, 'We're interested. We like the business. But, we understand the power of category domains. We understand that you will spend one-tenth of the marketing calls when you own the category, like they did with Hotel and Hotels.com. And therefore, if we're going to become partners in your business, you need to own both Condo-singular and Condos-plural. And, you need the plural so that you're not letting others cypher off the traffic and the marketing spin that you've got". So, we went down the road. There guys were very sophisticated, and they understood how to built an online brand. And, they had done so, and they both made a lot of money in the hotel space. And, we went down and negotiated an arrangement, and for whatever reason, in hindsight obviously, it makes a lot of sense now, but for whatever reason at the eleventh hour the negotiations went south, and they didn't close with us. And, I was at that point where I had to come up with the money to close on both Condo-singular, Condos-plural domain. And, I remember it was very nerve wracking, because they're expensive domains. And, you know, thankfully my wife really pushed me, and said, "If you really want to be the, sort of, leader in the space, you need to own those two domains. And, you'll only regret things that you don't do". So, we wired the funds; we owned those two domains. It was very nerve wracking. And then, essentially over night - I mean, yeah, it took a couple of months - but, the entire nature of the business in terms of the ability to do business development partnerships when you call up and you introduce yourself as Condo.com as apposed to US Condex, the person you're dealing with takes you much more seriously, and the level of people you can deal with, whether it's media companies; just taking a brand and your value proposition seriously. We grew traffic much more rapidly, and when we started to build traffic around those categories, we then started to monetize that traffic on the performance basis, like you inquired about on the per click, per lead basis.

Michael: Okay. You just gave me a ton of information. I'm going to dig in, because I love all of the details, and everything that happens in a transaction. How you did a deal, and it's amazing. And, I just want to point out, a point that so many guests have said the exact same thing about owning a category domain name when you call up somebody and you want to get a call, it comes with much more authority, when you call up saying you're from Condo.com rather than some company name they never heard of.

Richard: Yup.

Michael: But, let me back up for a second. So, we talked about the investors who wanted to be in. They understood that the market would benefit by owning a category killer generic domain name. They wanted to be in. They backed out at the eleventh hour, which you hear a lot of times in deals, and it's not surprising, and I don't really care what the details are because there could be a million different scenarios why somebody would back out of this type of deal. But, what I am interested in is the two domain names, Condo.com and Condos.com, were they two separate owners at the time that you had negotiated with?

Richard: They were. Condo singular was owned by a condo lawyer; an attorney that focused on condominium law. He had owned it for many years; he was in Seattle. And, Condos plural was owned by a domainer that was a little more cagey. At the end of the day, he did the deal and he closed with me. So, you know, it's all good, and I thank him, but he was more of a domainer that really understood what he had, and he, I think, had flipped a bunch of other domains. Whereas Condo singular was an end user that, you know, had it for his condo business.

Michael: So, when you did the negotiation, Rich, did you negotiate based only on the other domain name closing at the same time? You know, did you give yourself an out at the time?

Richard: I did. It was a really money op. There was really money op, we had them under option. So, I had the ability to, you know, back away, and we were forfeited some option money on them. But, the condition to the third party investment company coming in was closing on both of those assets, both domains.

Michael: Alright. So, tell me how that option worked. How did you contact the owner of Condo.com and Condos.com, put money down, and then negotiate the price? How did that work out?

Richard: You know, just the old fashioned way. You find out; you look; you go to Who Is; you find out who the owner is; you send a bunch of e-mails. You communicate that you're a credible business person, and eventually when, you know, you get to the close enough on the price, they'll either engage with you, and we just, you know, figured out what the price was. I know I need a little bit of time to build the domain out. And, you know, to close on both the domains and the purchase price. So, we negotiated some money that those guys would narrowly not see, and they had the right to take the domain back if we didn't close. And, keep all the option proceeds. So, really it was a win-win.

Michael: Okay. So, it was basically a deposit. You agree to the price. You put down a deposit, which would give you exclusivity till the close.

Richard: Yup.

Michael: And, then you had to come up with the rest of the money at the close in order to close the deal, otherwise they keep the domain name and deposit.

Richard: Correct.

Michael: Okay. I understand. And so, you know, since this was a few years ago, Richard, are you willing or able to say what the purchase price of either of those two domain names were?

Richard: I'm not. They were over seven digits. I'll say that.

Michael: Together, they were both over seven figures.

Richard: Yup.

Michael: Okay. That is quite a, you know, from my entrepreneurial experience, that is quite an investment to make. You know, knowing that having a category defining domain name is going to help your business enormously, there's a big difference between putting down seven figures on a couple domain names, and hoping that it's going to drive more traffic.

Richard: Well, if you had the seven digits was for the combined price, not for each.

Michael: Right.

Richard: So, we looked at it as prepaid marketing. And, that you can't reproduce the [Questionable:31:40] to the extent you can't put content behind it. And, you've got a reason why the search engines want to direct traffic there. Because it's a domain; it's one syllable, two syllables; it's got inventory behind it. What is that worth it? You know, continues to pay dividends from a marketing and traffic perspective that if you built another brand it would cost you tens of millions of dollars in brand building, in SEM, and that's how we look at it.

Michael: Yeah. Definitely. And so, how did you determine that the value was in the millions and not in the hundreds of thousands? You know, how did you personally make that call? Did you know people in the industry that you bounced off again? Did you just realize how much the marketing would be over the first number of years? What did you do to, sort of, suck the values out of those domain names in your mind?

Richard: Well, Condo and Condos, at that point, I was somewhat unsophisticated in buying category domains. And, even though I'm a lawyer, and I did, you know, a bunch of research, I'm a business guy. There is no hard and fast way to determine what it's worth, except this is what I looked at. I looked at real estate market. It's not like I'm selling widgets that are worth a dollar or two dollars. The assets that we're selling are each worth ten, twenty, two-hundred grand is the average price. There are condos all day long, over the world, they're trading for ten million dollars. So, if you're a real estate developer, and you've got a single building, your sell out of a single building may be well over two-hundred million dollars. So, to have a domain that's the category defining domain in a market where the widgets are trading for two-hundred thousand a pop, how long could it be? And, it was more about getting to a purchase price where the sellers would agree to sell me as apposed to really understanding. And, it was more important to get dawn then to save every last dollar. And, the way I look at it, if I'm wrong, how wrong can I be? Okay, maybe a hundred, two-hundred, three-hundred thousand wrong, but if I'm right, then it won't matter at the end of the day if I overpaid by a couple hundred grand.

Michael: Sure. I understand that. Did you pull together all your money and buy them out right from the two individuals? Or, did you somehow finance them over time?

Richard: Unfortunately, I used all my money. And, at the time, whatever, you know, thank God, I've had some success in those, and whatever, I've had a good fortune in life. But, at the time, it was nerve wracking to spend that much money on domains, but then, the stock market and the world sort of crashed in 2007/2008, and when I looked at some of my contemporaries, and people who had lost fifty, sixty, eighty percent in the market, and I now all of a sudden had these assets that, I believed, were only going up in value; it seemed to me like it was a good bed. And, thankfully I didn't have my money with an investment advisor at a large investment house, where out of their control, my portfolio would have been down, like I said, sixty, seventy, eighty percent. And, here it was in domains that will, God willing, continue to pay dividends.

Michael: Yeah. Alright. And so, before we move on from Condo and Condos.com, in the negotiation phase, where you had to deal with domain investors, and knowing that every single great property on the web is owned by somebody. So, if somebody was in your situation, and they were trying to buy an asset like Condos.com or Condo.com, and they had to deal with the domain investor, what tactics would you say, would you recommend that they use in trying to negotiate that deal?

Richard: Look. An end user buyer is someone that's going to build a business around the domain, I believe has a much great chance of success of buying whatever domain it is than someone that just wants to, you know, buy it and then hold it and sell it to another end user. So, from our perspective, we never wanted to buy it to flip it and make a quick fifty or two-hundred thousand bucks. We wanted to build a business, and we came at it because we had a platform already in place, and a vision, and an operating model. So, I believe that, if you have a business that can utilize the domain in your existing business, or a business model, someone that owns that domain is going to be interesting in selling it to you if you communicate that story, and you can leave him in for a piece of action. You know, Rich [More To Traffic] made a really good point when he said, Look. Instead of owning a hundred percent of all these domains. I'd like to partner with a lot of entrepreneurs, and take my five, ten percent in lots of different businesses where there's a subject matter expert building a business, and getting the most value out of that domain.

Michael: Yeah. And, when you bought Condo and Condos.com, did you actually leave those previous owners in for a portion of the assets?

Richard: No, fortunately I did not have to with those negotiations. And, it was a, just straight out purchase, and that was it.

Michael: But, a lot of times the domain investors will look at somebody coming to the like yourself, an entrepreneur or business owner, and say, they're willing to pay more for it because they have a real business. Did you find that they had unreasonable expectation to the price tag that they, you knew, threw out for either of those domains?

Richard: Yeah, I mean, the prices, but who's to say what's unrealistic. I believe that in the future it's going to be very difficult to buy a category domain. You know, there are not that many of them, particularly in the high price point the way it is. I don't think you can buy Hotels.com today. You can't buy Cars.com, or Apartments.com. So, for us to own the categories that we have, and to own Condo and Condos, you know, fortunately, I took a very long term approach to it. And, I wasn't worried about the potential for actually overpaying it. And, I think if you can secure a candid [QUESTION 38:35.3] today in that business, it's well worth it.

Michael: Okay. So, after you bought Condo.com and Condos.com in 2007, what was your first order of business? You had your technology assets over here with US Condo Exchange; you had these fantastic domain names. What did you do to bring those two together?

Richard: Well, you know, we didn't do much. The platform was in place. We put the new domains on the site; did a bunch of three one redirects, and, you know, technically did things to do to preserve the page traffic we had built up over time with the old domain. We made sure that, from a technical standpoint, a server standpoint, there everything worked fine. And, then learn about the business to coordinate as much as possible. And, got fortunately, the key thing is to have real good people. You don't have to have a lot of people, but you need to have good people on your team. So, I've got a fantastic, you know, small, a core management team. Particularly my chief operating officer, who's now a partner in the business, and some other key guys on the team, that we got together and we said, Okay. Let's automate and stream as much as possible, and get rid of as much unnecessary overhead, and grow the business that way. And, really look at it from a conservative entrepreneurship perspective.

Michael: Makes sense. And, how did you decide whether to use Condo.com or Condos.com as the primary URL of your business?

Richard: Right. It wasn't too scientific at the time. And, I liked Condo because it was singular and it was shorter than the two; it was a five letter domain. Half the time people refer to us Condos, so I'm not sure which is better, which is worse. Quite frankly, both of the sites redirect to Condo singular, so we get the traffic benefit to for people going to the plural. So, there wasn't too much science. Perhaps, I should have looked at where there was more keyword demand. I think there's actually more keyword demand in the plural. But, we're out as the singular right now.

Michael: Okay. And, did you notice an immediate uptick in visitors which you switched over the domain names on the website?

Richard: Yeah. Because there was natural type in traffic, and there were no ads, so it took a little bit of time, but for sure, we saw pretty rapid growth traffic.

Michael: And, would you contribute that growth traffic primarily to having a five letter category killer domain name? You know, it was easier for people who came to the site to come back because they could remember it, and you had more type in?

Richard: Yeah, I think it was a couple things. Obviously, the age of the domain. So, we had been out in the market; we've been building this business now for a couple of years. So, the search engines cache a lot of pages. So the more inventory or property listings on the pages; the more cached pages; age of the domain. The fact that the domain is in URL, you know, the name of the company is the URL.

Michael: Right.

Richard: So, a variety of reasons why we did grow in traffic.

Michael: Okay. And then, so you switched the business model from advertising to cost per click and cost per action. Do you still need a sales team and go out, and work with these real estate developers, and sell them a contract of cost per click? Or, did you, sort of, do the Google model and wait for people to come to you, and sign up?

Richard: Yeah, it's the Google model. And, you know, I love Google. Google is a very good partner of ours, and Google AdSense is a great network. And, there are other, you know, higher performing networks that are focused on real estate vertical, but at the end of the day we don't really need a big sales team to populate ad zones. We're a publisher, and myself and another guy in here did the business development, and we make one deal, we get a million property listings, and you get paid per click, or per sign up, and you don't need to speak to that many different players. And, when you have the category, it will start providing.

Michael: Definitely.

Richard: Because you control the top of servers, people find you.

Michael: And so, what you're doing, Rich, and what your partner is doing to sell the deals, is that primarily for undeveloped properties, or are you getting individual properties into the system as well?

Richard: Both. It's, you know, we want every property type on Condo.com and Houses.com, and now Property.com. So, whether its property for sale, property for rent, vacation properties, timeshare, auction, foreclosures, we're able to, again as publisher, showcase that inventory to the largest audience of real estate; you know, buyers and renters on the web. And then, provide leads, or clicks, or impressions to those advertisers as needed.

Michael: I read somewhere online where you said that after Condo.com became profitable, you looked at the marketplace and realized that Condos were only a fraction of all sales.

Richard: That's right. Condos account, today, for about ten percent of the overall housing market. So, if there are, you know, I'm not sure this year, because the market's still down, but let's say it's a five million unit housing market in the United States. Every year, five million units trade hands; five-hundred-thousand of which were condos. So, condos accounted for around ten percent of the market. So, we realized that we were doing quite a bit of work in terms of our licensing and in terms of everything that we were doing, was focused on a smaller percentage of the market. So, we set out about two years ago to try to find another domain in the single family space that we could web into our, you know, present infrastructure, and our investment goes to single family space. And, that's how we got to Houses.com.

Michael: And, did you buy House.com, the singular, as well as you did with Condos?

Richard: We did not. But, from a vernacular perspective, it feels like the term Condo will overwrite, can interact by itself, where people search. Whereas house, we thought plural was, by far, the better term to have. And, you know, there's a TV show called House, which is a little confusing. So, for sure, the keyword demand is around the term houses. Houses for sale; houses for rent; houses in Miami; houses in new york.

Michael: Definitely. And then, did you do the same process? You did a Who Is lookup; you found the owner; you found the owner; you sent them an e-mail; you told them you were interested in the domain name; you negotiated the price.

Richard: Yeah, this was a longer negotiation; it took some time. Sophisticated seller who had sold onto other domains, so we had to, and he knew the value of the asset. And, you know, we negotiated. Had to communicate the fact that we were going to make it a big success. And, we were able to close in December of last year. And, the fact that were in a down market, and I think the real estate market is only going to get better over the next decade, were glad we were able to close now in the down market.

Michael: Yeah. And, was that an outright purchase as well? Was it financed? Did you give the previous owner a share of the domain name going forward?

Richard: There's a small participating interest with the seller.

Michael: Okay. And, that one you were able to finance through the profits of Condo.com?

Richard: There was a portion of cash being paid and/or ability to finance.

Michael: Great. And, can I ask you how much you paid for that? That was a recent sale, so you might not be interested?

Richard: Yeah. On that we're under nondisclosures. I can't disclose it, but it was an expensive domain. But, again, we think that based upon the traffic and the business model that were building behind it that the value of the price of the domain will be insignificant when it comes time to liquidate the investment.

Michael: Okay. And, so other domain developers get an idea. Are you, you know, without going into specifics of the deal because I understand that you've got a nondisclosure as part of the agreement. What can other developers who want to buy a domain name, and the domain investor - the previous owner - may want a share of something going forward, what percentage might the domain investor think is necessary in order to do a deal like that, or what would you think is a fair percentage?

Richard: I mean, I think, the end user, in my opinion, obviously is the builder of the business. I believe that the execution of actually building a business that generate sustainable revenues that will be able to be sold at some point for a multiple [QUESTION 48:40.3] is significantly more important to the equation than someone that registered the domain, acquired the domain. So, there's a lot more costs; a lot more grade power at work, and the process that goes into building the business, so we try to give as little as possible obviously. So, you start at one percent, and you know I mean, I don't think a domain developer or a builder of a business wants to both, pay for a domain; and the domainer, good for them, they've been able to secure a good asset, but should you have to pay what is, you know, potentially market price, or what the domainer thinks is a good price and pay a percentage of the business after you've invested, you know, potentially millions of dollars in development costs and time. So, I think it's a balance that you have to find. So, obviously you want to start as low as possible. And, you know, just like buying a car, until the guy [QUESTION 49:49] does what he has to do [QUESTION 49:52] I think you've found the bottom of the price, or the average that you can share. So, it's just negotiation.

Michael: Understood. Alright. And then, was your idea to take the infrastructure, the technology platform that you already had built with Condo.com, and basically just replicate it over at Houses.com?

Richard: You know, very much so. With the exception of the primary property type, and the much larger search domains for Houses as apposed to Condos, we were able to, we closed on the domain in December of 2010. And, we launched Houses.com as the full blown site with over five million properties on January 11th, 2011. So, literally we did weeks of closing, rep our site out, and you know, getting optimized and having traffic.

Michael: And, did the bulk of those initial listings that you had come from the multiple listing service?

Richard: Well, it was a combination of partners. So, you know, there's a big set of our in place inventory that we were able to open up and use on the new site.

Michael: So, you had Condo.com; you replicated it into Houses.com. Did you see the same type of spike in traffic as a result of the domain name initially, and have you seen it grow since January?

Richard: Yeah, we have. This is a much more organized grow for us. It started as a understanding now of some of the key ways to optimize. So, you know, we've got about it a little bit different. But, the answer is yes. We've seen traffic grow significantly. I think it takes a good twelve to eighteen months before you can fully optimize a domain and get the traffic, and more, it will take two or three years before we fully appreciate the benefit of the category domain, and what we've done from a traffic perspective. So, it doesn't happen overnight. And, you really need to patient, and at the traffic conference, I sat on the panel with the fellas that acquired Candy.com, and they echoed the same sentiment. They said that it took them a year, or more, before they started to really see the traffic, and page rank of the search engines.

Michael: Yes, I was there. And, I do recall them saying the exact same thing. So, that's a good takeaway item, that even if you buy a category killer domain name, it may take some time to optimize it, and get it to its full potential. On July 1st, 2011, just a few months ago, Rick Schwartz posted on Twitter, "Property.com and Properties.com agreement to sell at four million dollars cash plus equity stake in new company said to close within sixty days". And then, just two week later, Rick posted, "Property.com and Properties.com closes via Escrow.com. Transaction took three weeks from start to finish. Initiated via LinkedIn contact." Is that the way you contacted Rick initially?

Richard: You know, Rick is great. He is the domain king, and I believe, I'm not sure how right I am about Rick, but I've been sort of back and forth with Rick for the past few years, and he may not recall, but I reached out to him for a little bit of, you know, domain advice when we only had Condo and Condos, at the time. And, he provided some good advice. And, I recall that he had previously sold Property and Properties to some other developers. And, for whatever reason, that didn't work out. And, you know, having done the Houses.com deal, and had seen two large online commercial portals just get together. Two companies in the online commercial space; one's called CoStar; one's called LoopNet. And, they're both subscription based. They are the eight-hundred pound gorillas in the space. CoStar acquired LoopNet for eight-hundred-million dollars, and it seemed to me there was an opportunity for third web portal that would have a large commercial focus. So, I connected with Rick again, and we made a deal happen. And thankfully it worked out well. And, Rick's a great partner so far.

Michael: And, was it a four-million-dollar transaction?

Richard: Now, again, I'm under a nondisclosure. I love Rick, and so I'm not going to disclose, or talk about it, but I can say that it was a purchased price with a participating interest. I'm glad Rick is in the business with me, and I hope Rick makes, you know, twenty-million plus by being a partner of ours.

Michael: Alright. Fair enough. I appreciate you letting me ask that question, Rich. So, when we were at Traffic, I heard you on the panel, and I believe that Rick might have chimed in during the time and said that the entire negotiation between you and Rick took place over e-mail. Do I remember that correctly?

Richard: Yeah, it's true. It was just back and forth with me, Rick, and because I'm an attorney I was able to, you know, create drafts and work with Rick's lawyer. And, at the end of the day it has to be win-win. There was no, you know, trickery. And, it's not like I can potentially take advantage of Rick, and

Rick knew we were serious about the businesses we were building, and he saw that we invested a lot a bit of money; a lot of money and time into building our platform, and I think he looked at it and said, you know, this is a partner that I'd like to have in the space. I think they can do good things with the domains. And, we were able to close, I think Rick, like he said it was sixty days. He went on vacation, and we'll launch the sites now here in the next two weeks.

Michael: Fantastic. And, was there any seller financing involved in this deal, that you can say?

Richard: Nope.

Michael: Alright. And so, we talked about the equity stake that you had that you gave the previous owners of Houses.com. You said there was an equity stake here as well. In both of these equity stakes, I have a question for other domain investors. Do you recommend; let me ask you what you did. Did you create a legal entity, like an LLC, where you only have that asset, and you only give equity stake as part of that legal entity, or was it maintained as just he has an equity stake in just the domain name itself?

Richard: No. As a seller, a sophisticated seller, they're going to want an interest in the operating company that is going to create the real value. So, the domain ownership is one thing; whatever the domain is worth, but the enterprise that owns the domain is really where the value is. So, unless the domain seller is unsophisticated and he's willing to take an equity interest just from the domain, I think anyone that goes out to acquire an asset and uses the equity carrot as a sweetener on a transaction is going to end up giving up equity in an operating business, or the operating entity.

Michael: Gotcha. And, do you keep your operating entity of Property and Properties.com separate from Houses.com, separate from Condo and Condos.com?

Richard: Yes. In this instance we did.

Michael: Okay. Great. And so, you will be launching Property.com? You've chose to use Property instead of Properties.com as the main URL?

Richard: Yes, we're using Property. We're glad both, the singular and plural, you know, from a fansive perspective. But, we'll be launching and branding as the singular.

Michael: Great. Knowing what you know now about buying category defining domain names, three times, and using the same technology, you know, to sort of morph them in the different areas; knowing what you know now about this development, if you could go back in time, what would you do differently, Rich?

Richard: I would have bought a lot more domains. I was in the space so early, before, I'll venture to guess - a lot of the people that, you know, look at your webcast. I was literally online in '95 building websites with the first guys to build a website for AT&T, for their eCommerce product data, an Internet phone called the Pocket Phone. So, really, in 1995/1996 websites. So, I know, that I could have bought a lot of really good domains on cheap, back in those years. So, in hindsight, maybe I should have done that, but you just have to go forward, and the end of the day, like I started off our conversation, I like building businesses and creating. So, you never know, sort of, about these things until you're in it, and here we are. We've built these businesses, and we've gone out and tried to create real value around these categories.

Michael: Yeah. Okay. And so, we talked about the business model earlier where you were advertising, and you still do advertising, but you sell leads on a cost per click, or a cost per lead basis, but I think you also mentioned that you have real estate brokerages in multiple states on Condo.com. Is that the case, where you actually have your own brokerage in some states, and so you have agents in those states that you find all the leads to, and you take a commission of that sale?

Richard: We're a licensed broker, and we operate as a brokerage. So, you know, we look at the value per lead. And, one of the ways we generate a value per lead is through real estate brokerage commissions.

Michael: And, it is it only in some states that you run a brokerage, Rich? Or is it throughout the United States?

Richard: We're in majority of markets, and I think we're licensed in thirty-five, or forty states. And, it's, you know, a challenge - the licensing - but, the licensing has also created some barriers to entry from competitors. And at the end of the day, we are trying to create a lot of value for the buyers. So, we move out the leads in real time. We've built some intellectual property, which allows us to route leads in real time to our agents around the country. And, you know, that's part of our core, I think.

Michael: So, if I was a realtor, I could contact you and become an agent of your brokerage in the state, if you were operating in that state?

Richard: Correct.

Michael: So, for anyone that owns a geo domain name, Rich, like Seattle.com, or PalmBeach.com; maybe it's a city, you know, maybe it's a large county, it seems like starting a brokerage would make sense so that they could have agents underneath them. Would you recommend that they start a real estate brokerage, or just partner with a brokerage that exists in that space who wants to be the exclusive for that real estate section?

Richard: Yeah, I think it's a geo domain. There are so many different channels, or verticals, whether it's employment, or real estate, and I'm not sure what the best way to go is. It would seem that we're causing traffic is for multiple verticals, and by partnering with a real estate partner and a job, or employment partner, or a auto partner, or a hotel and travel partner, may make the most sense, as apposed to doing it all on their own. That's just my opinion, is to get the best partner in each of the verticals; put those on the site, and act as a publisher.

Michael: Okay. You understand, probably better than any other domain name investor watching this show, that real estate is cyclical. How do you personally look at the cyclical nature of real estate, and how does that influence your domain name investing strategies?

Richard: So, fortunately, the browsing of the Internet is not really cyclical. So, traffic, even though there may be less people closing on real estate deals in a down market and the price per transaction may go down, there's an increase in number of people that are using the Internet to search for real estate. And, today I saw that the seven-billionth person was born in the world, so, by being in the business that, either sells or rents shelter, and food and shelter, are things that just never go away. We increase operations a lot. We do it in now from a long-term perspective, and just because the prices are down, there's still going to be traffic; there's still going to be people that are renting or that need moving quotes, or need, you know, home security systems; or need, their credit fixed; or, are looking for deals. So, we continue to be bullish in the down real estate market, particularly because we were able to acquire these domains and build the business, and become profitable in what's potentially the worst real estate market in the past hundred years. So, we think as the market corrects, we'll only be a better and better resource to, you know, buyers and renters around the world.

Michael: Let's leave the audience with an action item about lead generations, since it seems like so much of your business is focused on lead generations. How do you recommend solving the chicken and egg problems of buyers and sellers? You know, you need enough people to our website visiting that are buying in order to show the sellers that their going to have some sort of lead flow. But, you also want to have the sellers on the marketplace before the buyers show up. How do you recommend solving that for other people that are buying domain names in their own area of expertise?

Richard: I think you need the inventory first on your site. The inventory is the affiliates, and someone that has a lead that can be monetized. Because you don't want to spend money, that's for SEM or SEO, and have people come to the site, and there not be anything for them to do; there not be a lead generation opportunity. So, my belief is so he should have the partnerships in place, so you can monetize traffic. And then, you know, both of those partnerships come to advertise leads anyway, whether it's a moving partner. So, I think you need that before you have the traffic, which is I think your question; is that before you start to generate traffic you should have the partnerships in place so that you're monetizing to the highest possible revenue per visit, or revenue per thousand visits.

Michael: Great advice. If you have a follow up question please post it in the comments below, and we'll ask Rich to come back and answer as many as he can. If you want to follow Rich, he's on Twitter, I believe, you have a handle. What's your handle on Twitter, Rich?

Richard: It's CondoKing, but I'm not a Twitter guy.

Michael: Oh, you're not?

Richard: I'm not doing much. You can send me an e-mail direct to Rich@condo.com if anyone has a question or a domain they want to partner with, or something else they wanna talk about.

Michael: Richard Swerdlow, founder and CEO of Condos.com, Condo.com, Houses.com, Properties.com and Property.com. Thank you for taking the time, coming onto today's show, and being a Domain Sherpa for other entrepreneurs and investors.

Richard: Thank you for having me.

Michael: Thank you all for watching. We'll see you next time.

Watch the full video at:
http://www.domainsherpa.com/richard-swerdlow