



AUGUST 2020 NEWSLETTER

CONTENTS

1 FIRST PERSON

- Office Space, Commission Rates, and Gross Margin
- Will Housing Recover This Year?
- Lessons Learned From the 2020 Agent Rankings

6 BROKERAGE

- Bring Your "A" Game
- What One Charity Taught Me About Building a Relationship-Based Business

10 MARKET

- U.S. Home Prices End First Half of Year on Strong Note
- June ShowingTime ShowingIndex

14 VALUATIONS/MERGERS & ACQUISITIONS

- Market Volatility Boosts Valuation Activity
- Growing Your Business Through M&A

18 REGULATORY

- Supreme Court Rules CFPB's Structure Unconstitutional

20 GLOBAL

- Great Britain Market Bounces Back After Shutdown

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By REAL TRENDS

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COMPLIMENTS OF

BROKERAGE TRENDS

OFFICE SPACE, COMMISSION RATES AND GROSS MARGINS

As brokers adjust to life in a pandemic, decisions need to be made that will impact brokerage leaders. Here are some trends to watch.

By Steve Murray, president

During the pandemic and changing market, several trends have become more evident than ever to brokerage leaders. First, the need for office space for agents, while not going away, will shrink. How much brokerage firms cut back remains to be seen, but REAL Trends' clients are taking a hard stance towards keeping what they had before COVID-19 struck.

Secondly, the downward pressure on both commission rates and gross margins are driving brokerage firms to find new ways to build relationships with their agents and staff while also reducing costs for their businesses. As we've pointed out in prior studies, the retail commission rate is highly sensitive to the relationship between inventory of homes for sale and the number of real estate professionals. The fewer listings available to many real estate practitioners; the lower the retail commission rate.

GROSS MARGINS

Gross margins represent competition for real estate agents, particularly productive agents. The more competition, the lower the gross margin. This trend has been developing for over 35 years but has accelerated in the past three to five years. Many of the new entrants, like eXp, Fathom, HomeSmart, JP & Associates, Realty ONE Group and United Real Estate, offer low-cost alternatives to incumbent brokerage firms, none of which are immune to these low-cost firms. There are also dozens of locally operated, low-cost firms. Competition has never been so fierce.

The brokerage data we receive from our REAL Trends 500 brokerage rankings and other sources shows that these low-cost models are growing faster today than in years past. The data we have indicates that these low-cost firms have lower per-person productivity than incumbent firms and are attracting many lower producers. However, they are also getting some traction with higher producers recently. Furthermore, even these firms are working hard at building their own sense of culture in their businesses.

We've written before about two issues that should be considered. First, powerful firms such as Sears, IBM, General Motors and ABC/NBC/CBS networks did not suffer solely from new competition but from attitudes of dismissiveness, arrogance and distractedness. At this point in the structural change in brokerage firms, it does not pay for any traditional brokerage to view these new challengers as less-than. Just because something worked well in the past, doesn't mean it will continue to do so.

Second, a firm can't be all things to all people. You can't be Walmart and Nordstrom at the same time. Brokerage firms must pick a spot where they feel their resources, culture and market permits them to build a strong position. This is truer today than ever before.

CORE SERVICES

One factor separating traditional firms from others includes brokerages that operate core services such as mortgage, title, escrow, insurance and property management versus those that do not. In our valuation work we note that a larger and larger share of earnings for many brokerage firms are coming from one or more of these sources. This clear trend does favor medium to larger brokerage firms as they have the scale and resources to operate these core service activities. Smaller firms regardless of brand or model can build their businesses out to attract the partners needed to execute a strategy in this area. We do note that one related emerging trend is competing brokerage firms forming joint ventures to be able to gain the scale to compete in this area. ↗



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HOUSING MARKET

WILL WE RECOVER THIS YEAR?

Low inventory, cyclical slowdowns mean a housing market functioning below capacity.

By Steve Murray, president

Pending sales were up through May, June, and early July. The level of closings for June was nearly as high as they were in June 2019 in many markets. The surge, which started in early May, seems set to continue through at least the end of July and maybe into August.

Record-low interest rates are fueling much of this surge, along with some indications that families are also rearranging where they live. Reports from suburban realty firms and agents—as well as from leading firms in the ex-urban and rural property markets—show an increased level of activity. While much of this anecdotal, it's so widespread across the country as to give it credence. Much of the May-through-July surge can be credited to packing 90-120 days of buying activity into 60 days.

There will be a cyclical slowdown as autumn approaches. Reports from across markets indicate that listing inventory is down in most markets, below the level of last year when it was already low. Housing markets cannot function at full capacity when little inventory exists. Unless home builders can start adding 1 million or more new housing units a year, most markets will be faced with scarce inventory and rising prices—just when 20 million+ American workers and businesses are trying to reopen.

Economists from several sources, including NAR, Realtor.com and Zillow, believe that unit sales will not totally recover this year. A rough average of their forecasts indicates unit sales would be down 12%-15% from 2019 by the end of this year. Should they be on the mark, then sales in the fourth quarter will be softer than last year. ♣

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LESSONS LEARNED

2020 REAL TRENDS AGENT RANKINGS

By Steve Murray, president

We received over 14,600 applications from agents and teams for the 2020 edition of The REAL Trends + Tom Ferry The Thousand and America's Best Real Estate Professionals reports. To qualify, individual agents had to do at least 50 closed sides or \$20 million in closed sales volume, and for teams the minimum was 75 sides or \$30 million volume.

Collectively, these agents and teams closed 10.5% of all closed transactions and 16.5% of all closed volume while representing less than 1.5% of all Realtors® (members of the National Association of Realtors®) in the country.

Here are a few trends we noted:

1. Co-listings. The types and kinds of associations that agents are forming among themselves are morphing quickly from what we defined as individual agents and teams. Many individual agents now co-list with other agents to gain business and to share the workload and marketing. Groups of agents and teams are forming their own networks to offer broader coverage or custom services while sharing the costs of marketing and operations.

2. Brokerage teams. There are teams that resemble brokerage firms and brokerage firms that now resemble teams. It's clear that there will be more

diversification among sales professionals than ever before. We also learned that brokerage firms and national networks are struggling with the challenge of using historic definitions of each model, just as we are.

3. New business models. One relatively new business model entrant, for example, is Side Inc. This brokerage platform provides back-office business solutions to high-producing teams and individuals, including being the broker of record, while also leaving their agent-team clients alone with their own brand and methods of marketing and providing service. They appear to be gaining some traction in the markets where they operate.

We're planning a wholesale review of how we do these rankings, in partnership with Tom Ferry and *The Wall Street Journal*, which will involve leaders from across the industry. This review will examine every part of the system, from classification, to collecting the data, verification and publication due to changes in the cross section of how agents and teams are formed and how they operate.

One other important factor we learned is that agents and teams want to be fairly classified and want a real verifiable ranking

service. While we may have thought it was important, we learned that is more important than ever before, as is the dissemination of that data. We are also working on new ways to present the data so that searches are easier. ▶

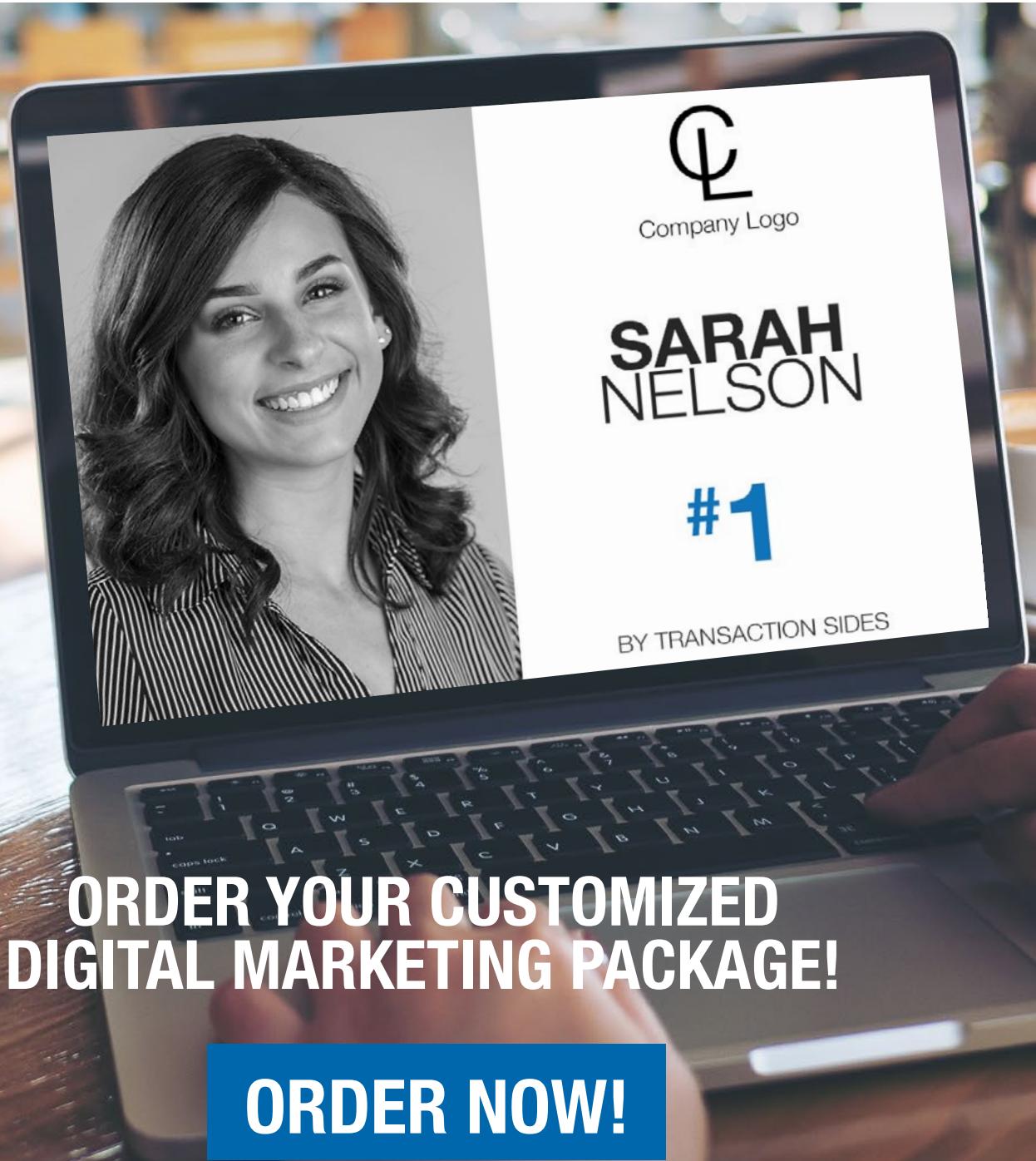




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BRING YOUR "A" GAME

IT'S THE NEW NORMAL

"Stop waiting for the storm to end and start learning to dance in the rain." – Vivian Greene

During a six-week period from mid-March to the end of April, Andrea Tuell sold 10 houses. This was a period when showings were either prohibited or limited in many markets due to COVID-19. Some described it as a lockdown. Andrea, as well as her buyers and sellers, were not going to wait for the storm to end. They learned to dance in the rain.

Similar stories from other top sales associates have flooded in from throughout the country. As a result, the real estate market survived and thrived in COVID-19 better than many expected. There are three key lessons offered here.

1. The Power of Mindset. The sheer determination and courage to find a way to get things done is a testament to the human spirit. Despite the limits placed on sales associates and their customers, many found a way to move from the life they have to the life they dream about. Meanwhile, others are still in hibernation, waiting for the storm to pass. Mindset is the key difference.

2. Virtual Viewing. All 10 of Andrea's contracts (six listings sold and four buyer sales) came after the buyers viewed the properties virtually. In each case, the buyers felt comfortable writing a contract subject to being able to physically inspect the property later.

This process may become the new normal.

According to the National Association of Realtors® 2019 Profile of Home Buyers and Sellers, buyers physically looked at 10 homes last year before they wrote a contract. With buyers now becoming more comfortable with virtual viewings, look for this number of physical showings to drop—potentially in half to five or six homes. More of the elimination process will be done online.

Coming out of COVID-19, buyers, sellers, real estate professionals and their associated service providers are more comfortable in the virtual environment than they were six months ago. They are using Zoom conferences to buy, sell, finance and close their transactions.

3. Bring Your "A" Game. Virtual viewing is only effective if the listing real estate agent presents the property in the best possible light. This includes staging, professional photography, video (sometimes including drone video), floor plans and detailed neighborhood information. All 10 of the properties Andrea sold had these marketing tools working for them. In all 10 cases, the listing agents brought their "A" Game. Listings that didn't

Today is the day to take action and help your brokerage thrive.

by Larry Kendall, author of *Ninja Selling*

have these tools were left sitting on the sidelines.

Prior to COVID-19, the market was so hot and the shortage of inventory so great that many real estate professionals would *cheap out* on their marketing. As one agent put it, "I can put this house on the market today and have multiple offers in 72 hours. Why should I spend money on staging, photography, video, floor plans, etc.?" Their question is answered in three ways:

1. You owe it to your seller to present their property professionally.
2. Potential sellers will see how you market and will want to list with you. Your next listing is embedded in this listing.
3. COVID-19 and virtual viewing have changed everything. Virtual viewing is now the new normal. Unless you bring your "A" Game, your listing will be overlooked. It won't make the finals. And you (and your seller) will be left standing in the rain. ☺





LESSONS LEARNED: A ROUNDUP OF ADVICE FOR BROKERAGE LEADERS

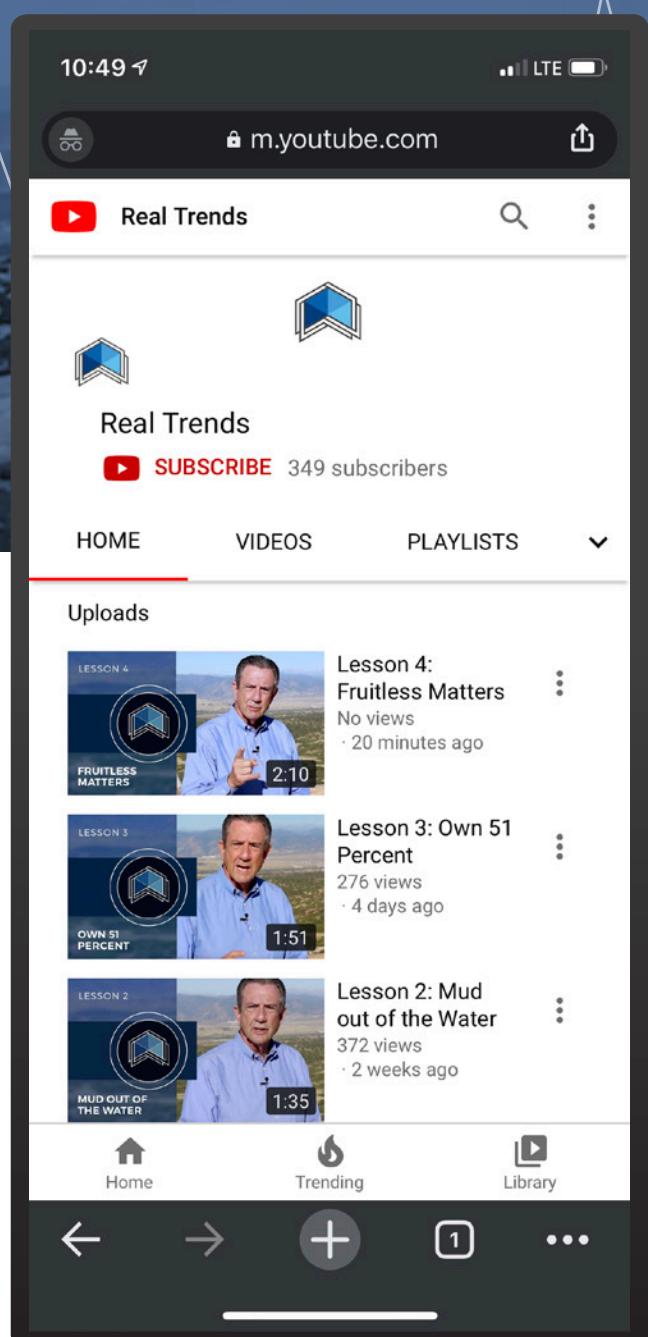
Steve Murray, president of REAL Trends, shares his top lessons learned from coaches, brokerage leaders and more in this series. You'll find great nuggets of information and takeaways to implement in your own business.

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LESSONS LEARNED

WHAT ONE CHARITY TAUGHT ME ABOUT BUILDING A RELATIONSHIP-BASED BUSINESS

Leaders worth their salt understand how important it is to build relationships with those you want to lead. I learned this lesson firsthand while on assignment working with Doctors Without Borders/Médecins Sans Frontières (MSF). Working side-by-side in some intense scenarios, I came to truly appreciate what it means to lead with the heart.

Now, as I forge ahead building the future of my real estate lead-generation agency, these earlier lessons about leadership have come full circle. During a time when people need connection, helpfulness and human kindness more than ever, we all should take our cues from mission-driven organizations like MSF.

Here are the four big lessons that guide me as I build my relationship-based business:

1. Develop Ambassadors, Not Employees

Doctors Without Borders/Médecins Sans Frontières (MSF) is a dynamic movement propelled forward by people from all corners of the globe who share a common mission: To save lives and alleviate suffering by delivering medical care where it is needed the most. To achieve this mission, the medical personnel who work with MSF are not merely employees. They are ambassadors for MSF promoting its ideals and raising awareness about the organization.

By Bao Le, CEO of Baoss Digital

Going beyond simply providing some arbitrary number of leads, we understand that success is about boosting your confidence and feeling supported in your sales process.

Once real estate professionals experience this relationship-based approach, they become instant ambassadors. Ambassadors don't sit back and let life happen. They go out and close deals.

2. Go Where You Are Needed the Most

This simple, but powerful concept drove the founders of MSF. In May 1968, a group of young doctors decided to go where their medical

DOCTORS WITHOUT BORDERS/ MÉDECINS SANS FRONTIÈRES (MSF)

is a dynamic movement propelled forward by people from all corners of the globe who share a common mission: To save lives and alleviate suffering by delivering medical care where it is needed the most.

services were needed the most: To the victims of wars and disasters anywhere in the world.

The needs of buyers and sellers have shifted during the pandemic. However, smart real estate professionals who follow this principle have naturally shifted their focus to meet current needs. There is a good reason why agents are still closing deals within three months. It's because they trust the system and go where they're needed the most.

3. Let Transparency and Accountability Be Your Beacon

For a medical aid organization that relies on the financial support of donors, transparency and accountability are crucial. In the real estate lead-generation business, these values are just as important.

In a relationship-based business, fraud should never be an issue. When you put

trust at the core of how you lead, your value will shine through to your clients.

4. Get Creative With the Resources You Provide

Medical professionals working with MSF aren't afraid to get creative to find solutions out in the field. Providing medical aid without the institutional support of hospitals requires thinking outside the box. This is why so many institutions, like nursing homes, turned to MSF to help train staff during the COVID-19 pandemic.

Real estate leaders and professionals also need to get creative during this unprecedented time. Here are some ways real estate professionals have shifted their real estate businesses online:

- They email weekly videos about the state of their local market.
- They work with photographers to

create 3-D virtual home tours.

- They livestream open houses as virtual events.
- They send memorable gifts to clients (such as face masks and homemade hand sanitizer).
- They understand, especially in this climate, standing out is about more than simply following up on leads.
- They see opportunity where others see disappointment.

Doctors Without Borders/Médecins Sans Frontières is a unique organization with amazing professionals doing much needed work. But the lessons of leadership apply to every business in every industry. When leaders focus on building relationships, there's no limit to what we can do together.

Bao Le is a philanthropist, tech expert and CEO of Baoss Digital, which is a marketing agency for top real estate professionals. 



**DURING A TIME WHEN PEOPLE
NEED CONNECTION,
HELPFULNESS AND HUMAN
kindness more than ever, we all
should take our cues from
mission-driven organizations
like MSF.**

U.S. HOME PRICES END FIRST HALF OF YEAR ON STRONGER NOTE

Home prices across the United States rose in the first six months of the year at an annualized rate of 6.3 percent, according to Radian Home Price Index (HPI) data released by Red Bell Real Estate, LLC, a Radian Group Inc. company (NYSE: RDN).

The Radian HPI also rose 8.1 percent year-over-year (July 2019 to June 2020), which was slightly higher than the year-over-year increase of 7.8 percent recorded last month. The annualized increase represents a resumption of a general upward trend in annualized yearly gains. The Radian HPI is calculated based on the estimated values of more than 70 million unique addresses each month, covering all single-family property types and geographies.

“While there has been localized volatility in home prices during the pandemic, prices overall have remained quite resilient. After gains across the U.S. slowed in May, the first half of the year ended on an impressive

note, especially given the significant headwinds real estate transactions have faced,” noted Steve Gaenzler, SVP of Data and Analytics.

Nationally, the number of closed real estate sales was higher in the final week of June than in the same week of 2019. That marked the first time since the end of March that weekly counts of closings were higher in 2020 than 2019. Gaenzler added that “the recent surge in places where COVID cases are growing may alter the current path of strong home prices, but we didn’t see that result in the first half of the year.”

NATIONAL DATA AND TRENDS

- Median home price in the U.S. rose to \$256,740 in June
- Home prices rose an annualized 6.6 percent during the second quarter

Nationally, the median estimated price for single-family and condominium homes rose to \$256,740 in June from

the \$254,826 recorded in May. Across the U.S., home prices rose 6.6 percent in the second quarter, a slight increase over the first-quarter gain. Distressed sales in June 2020 represented 5.1 percent of all sales, with REO accounting for 4.4 percent of the distressed sales. This is a decrease from May, when distressed sales represented 6.0 percent of sales, with REO sales at 5.2 percent. While homeowner equity remains at or near record levels, distressed sales will likely increase in the coming months as national unemployment rates remain elevated.

REGIONAL DATA AND TRENDS

- First-Half 2020 results are positive for all Regions
- Midwest and West are strongest Regions; Northeast and Southwest are weakest

In the first half of 2020, all six of the Regional indices recorded positive home price appreciation rates in excess of 4.5

“THE FIRST HALF OF THE YEAR ENDED ON AN IMPRESSIVE NOTE, ESPECIALLY GIVEN THE SIGNIFICANT HEADWINDS REAL ESTATE TRANSACTIONS HAVE FACED.”

STEVE GAENZLER, SVP OF DATA AND ANALYTICS

NATIONALLY, THE NUMBER OF CLOSED REAL ESTATE SALES WAS HIGHER IN THE FINAL WEEK OF JUNE THAN IN THE SAME WEEK OF 2019.

THAT MARKED THE FIRST TIME SINCE THE END OF MARCH THAT WEEKLY COUNTS OF CLOSINGS WERE HIGHER IN 2020 THAN 2019.

percent (annualized). While home price appreciation slowed earlier in the second quarter, a stronger June propelled the Regions higher for the quarter and half-year. Months of Supply, which helps measure the balance between supply and demand by taking the current month's active and under contract listings and dividing them by last month's sales, stood at 4.04 months of supply in June. This was down from 4.51 months in June of last year, and also decreased from May. Declining months of supply often result in more price competition and price stability.

The Northeast recorded the slowest rate of appreciation in the first half of the year. While Connecticut continues to lag the other states in the Region, New Hampshire and Maine have experienced increasingly strong home-price momentum in 2020.

In the South, home prices in Louisiana are largely unchanged since the beginning of 2020, while Tennessee and Georgia have recorded the strongest

appreciation rates. Florida, the largest state in the Region, continues to perform weaker than other states.

Utah and Washington have helped make the West the second-best performing region in the first half of the year. California has underperformed seven of the 11 Regional states but has performed better than Nevada, Hawaii and Wyoming.

The Midwest Region continues to record the highest rates of home price appreciation in the country. Fueled by demand for lower, or more affordably priced markets, Indiana, Minnesota and Missouri have driven the Region higher. Within the Midwest, Illinois has been the weakest large-state performer.

METROPOLITAN AREA DATA AND TRENDS

- Metro areas end quarter on strong note
- 70 percent of largest Core-Based Statistical Areas (CBSAs) had stronger Q2 than Q1

All of the 20 largest metro areas in the U.S recorded positive price appreciation in the second quarter and first half of 2020. A total of 14 of the 20-largest CBSAs had stronger second-quarter price appreciation rates than those recorded in the first quarter of 2020. Of the six metros recording a weaker second quarter as compared to the first, three were in California (Los Angeles, San Diego, San Francisco) and the remaining three were in the Mid-Atlantic Region (Washington, DC; Baltimore, MD; New York, NY).

The weakest large metros in the first half of 2020, based on annualized growth, included Baltimore (+3.0 percent), Washington, D.C. (+3.3 percent), Boston (+3.3 percent), and Miami (+3.3 percent). The strongest included Minneapolis, Seattle, and Phoenix, which all had greater than 7 percent annualized home price appreciation in the first half of the year. ▶

WHILE HOMEOWNER EQUITY REMAINS AT OR NEAR RECORD LEVELS, DISTRESSED SALES WILL LIKELY INCREASE IN THE COMING MONTHS AS NATIONAL UNEMPLOYMENT RATES REMAIN ELEVATED.



NATIONWIDE SURGE IN JUNE HOME BUYER ACTIVITY CONTINUES HISTORIC TURNAROUND

Buyer Demand Jumps in all Regions for the Second Consecutive Month

KEY POINTS:

- Showing traffic rose 50.1 percent year over year nationwide in June
- For the second consecutive month, all four regions tracked by the ShowingTime Showing Index® reported year-over-year gains, led by the Northeast's 66.9 percent jump, followed by a 48 percent upswing in the West, a 40.2 percent climb in the Midwest and a 39.6 percent gain in the South
- ShowingTime users continued to leverage virtual showing options in June, with more than 52,000 showings conducted entirely online through ShowingTime to date

Home buyers were out in droves nationwide in June resulting in the second consecutive month of surging home showing activity, with agents seeing 50 percent more showings per listing according to data from the ShowingTime Showing Index.

June's 50.1 percent year-over-year jump in nationwide buyer traffic resembled that typically seen in the spring, as agents and buyers made up for pandemic-induced lost time by continuing to leverage historically low mortgage rates and newly available virtual showing technology. Since May, ShowingTime has facilitated more than 52,000 home showings hosted virtually, a number expected to grow throughout the summer.

"In June, we saw the full effect of the rebound in the intensity of buyer traffic in the US," said ShowingTime Chief Analytics Officer Daniil Cherkasskiy. "The Showing Index tracks the average number of showings per listing, and while the absolute number of showings increased between 13 percent and 15 percent, a substantial increase, the number of showable listings decreased by 23 percent. Thus, the average listing is receiving 50 percent more appointments, concentrated in the first two weeks of the listing's market time. This unprecedented surge is amplified by the increasing shift of soft interactions between market participants to technology tools, leading to greater efficiency, shorter turnaround times and a larger number of appointments scheduled."

The Northeast saw the largest jump in year over year showing activity, with a 66.9 percent increase in June. The West Region's

48 percent boost came next, followed by an increase in the Midwest of 40.2 percent and in the South of 39.6 percent.

In June, ShowingTime LIVE Video, which enables agents and their buyers to use the ShowingTime mobile app to take part in live, interactive video showings, continued to expand into markets across North America. Since it was first made available in select markets in May, ShowingTime LIVE Video has become a popular option for agents to conduct virtual showings for buyers, who participate from the comfort of their own homes.

"We're pleased to continue helping agents meet pent-up client demand with innovations designed to keep showings going, safely and efficiently," said ShowingTime President Michael Lane. "The feedback we've received so far for ShowingTime LIVE Video has been very positive. We're looking forward to expanding its availability in markets throughout North America in the weeks and months to come."

The ShowingTime Showing Index, the first of its kind in the residential real estate industry, is compiled using data from property showings scheduled across the country on listings using ShowingTime products and services, providing a benchmark to track buyer demand. ShowingTime facilitates more than five million showings each month. Released monthly, the Showing Index tracks the average number of appointments received on active listings during the month. Local MLS indices are also available for select markets and are distributed to MLS and association leadership.

"In June, we saw the full effect of the rebound in the intensity of buyer traffic in the US."
– ShowingTime Chief Analytics Officer Daniil Cherkasskiy

ShowingTime® Showing Index – June 2020

The ShowingTime Showing Index tracks the average number of buyer showings on active residential properties on a monthly basis, a highly reliable indicator of current and future demand trends.



Methodology: The ShowingTime Showing Index® measures showing traffic per residential property for sale by agents and brokers utilizing ShowingTime solutions for property-access management. A higher number means that an average home receives more buyer visits in a given month. All index values are scaled relative to initial index value set to 100 for January 2014.

ABOUT SHOWINGTIME

ShowingTime is the residential real estate industry's leading showing management and market stats technology provider, with more than 1.2 million active listings subscribed to its services. Its showing products and services simplify the appointment

scheduling process for real estate professionals, buyers and sellers, resulting in more showings, more feedback and more efficient sales. Its MarketStats division provides interactive tools and easy-to-read market reports for MLSs, associations, brokers, agents and other real estate

companies, as well as a recruiting tool for brokers. ShowingTime products are used in 370 MLSs representing one million real estate professionals across the U.S. and Canada. For more information, contact us at research@showingtime.com. ▶

VALUATIONS UPDATE

MARKET VOLATILITY BOOSTS VALUATION ACTIVITY

The latest on brokerage firm values and valuation activity. | *By Scott Wright*

The volume of brokerage valuations we perform at REAL Trends ebbs and flows based on a variety of factors. One factor that we can consistently count on to boost our pipeline is market volatility. Since residential real estate is inherently volatile, I'm referring to larger, more unpredictable structural occurrences—events that jolt us to the core.

The COVID-19 global pandemic is such an event, and it has definitely jolted broker-owners to the core. In the early stages of the pandemic, firms were in survival mode. With commerce ground to a halt amidst the shelter-in-place orders, valuations were the last thing on anyone's mind. Rallying the troops and adjusting to the new reality took precedent.

SLOWDOWN IN MARCH THROUGH MAY

As a result, March, April and May were relatively slow on the valuations front. Now that restrictions have been lifted and business regained some sense of normalcy, we've experienced a large influx of requests for valuations. Interestingly, we're finding that this influx is more than just pent-up demand, it's a result of an awakening of sorts for many broker-owners.

The reasons for a valuation remain diverse. Succession/estate planning, business planning, divorce, partnership disputes and consideration of sale are among the more common reasons. It's the latter where we're seeing this awakening.

With acquisitions a completely normal facet of the real estate brokerage circle of life, valuations for the purpose of a sale have always been the most common reason. Nothing exposes the need for or brings out the urgency of selling than a market event like what we're experiencing now.

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FINANCIALLY DISTRESSED SELLERS IN THE MINORITY

You may think this refers to the financially distressed seller in dire straits. In some cases, this type of market occurrence exposes firms that may not have been performing well pre-pandemic, with the current state of affairs forcing a quick sale as their only way of survival. Yes, we're seeing these types of sellers. Interestingly, this seller is the minority.

Most sellers we're currently dealing with are struggling psychologically more so than financially. The economic concerns and uncertainties spawned by the pandemic have stoked memories of the not-too-far-removed Great Recession, and they want out.

Fortunately for most sellers, buyers abound. For nearly every new seller awoken by this pandemic are buyers who are embracing this environment as an opportunity to grow via acquisition. The good news for sellers is that valuation multiples have not fallen off a cliff.

We continue to keep a close eye on the factors that affect marketability, and, to this point, there's only been a modest softening of multiples. The biggest pandemic-related changes we're seeing to valuations and acquisitions are the terms. Terms shifted and are now a little more favorable to the buyer in order to allow for flexibility should there be extreme volatility in the housing market. As long as sellers are amenable to earn-out flexibility, deals are to be had.

Scott Wright is vice president of REAL Trends and handles valuations, mergers and acquisitions. ▶





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TALK ABOUT
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**THE MARKET
IS CHANGING!**



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VALUATIONS

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LET'S TALK!

For more information, please call Scott Wright at 303-741-1000
or via email at swright@realtrends.com
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3 THINGS TO CONSIDER

GROWING YOUR BUSINESS THROUGH M&A

By Rich DeNicola, Chief Operating Officer, Realogy Expansion Brands (Better Homes and Gardens® Real Estate and ERA® Real Estate)

Growth is the name of the game when running a real estate brokerage. Owners have a few avenues to grow their business—organic recruiting, training to increase per-agent productivity, and expanding beyond brokerage into ancillary services are a few popular examples. One of the more efficient ways to grow is through mergers and acquisitions (M&A).

Most broker/owners dedicate time in their week to recruiting agents. While essential, it should not come at the expense of an M&A strategy. The cost of recruiting one agent at a time could be detrimental to the ability to dedicate resources to pursuing M&A opportunities that could yield agent growth of tens or even hundreds of agents in one transaction.

RIPE FOR CONSOLIDATION

Our industry is ripe for consolidation. There are approximately 89,000 real estate brokerages in the United States. The average owner is about 60 years old, many of whom have no succession plan. Margin pressures have increased dramatically over the last five years, and the cost of operating a

brokerage has become a burden for many owners. The time and cost investment to stay current with the basic needs of a brokerage—marketing, recruiting, training, technology, data, and risk management are pricing people out of the desire to continue to own and operate. The importance of economies of scale has never been more apparent.

It's also important to look at how COVID-19 might impact our industry. So far, the market has rebounded nicely and the Paycheck Protection Program and the Economic Injury Disaster Loan Advance sustained many brokerages through the initial tough times. But, as we move forward, a period of consolidation seems inevitable.

If you've thought about an M&A, make no mistake, it requires effort and there are many factors to consider. Here are three I think are the most important:

- 1. ROI:** Are the terms and valuation acceptable to generate the right types of returns?

The cost of recruiting one agent at a time could be detrimental to the ability to dedicate resources to pursuing M&A opportunities that could yield agent growth of tens or even hundreds of agents in one transaction.



- 2. Culture:** This is critical for success. How similar (or dissimilar are the organizations)? Are there synergies that can make the transaction even more cost effective?
- 3. Teamwork:** Do you have the right support team in place to manage through all the details involved?

DOES THE DEAL MAKE SENSE FINANCIALLY?

Let's look at the math behind M&A opportunities. A brokerage generating \$2M GCI and netting 5% annually earns profits of \$100K. Assuming a 3X multiple, the valuation of the brokerage would be \$300K. If you're looking at M&A as a strategy, consider the potential return on investment, assuming steady-state volume post-closing. Dividing annual profits of \$100K by acquisition costs of \$300K yields a 33% return on investment. How many other places can a brokerage owner find a potential 33% annual return on investment?

HOW ALIGNED ARE YOU FROM A CULTURAL STANDPOINT?

These deals are often complex, and we stress the importance of having a cultural fit on both sides for the working relationships to be optimal. Just as our brokers aligned with our brands because of shared philosophies and values, companies that come together should have similar mindsets to enhance synergies. These values may include community involvement, a spirit of collaboration, a family

atmosphere, or a shared belief in the importance of training, to name a few.

DO YOU HAVE THE RIGHT TEAM IN PLACE?

Having a strong support team is critical to success—attorneys and accountants with substantial M&A transaction experience can help troubleshoot. Executing flawlessly on the transition and announcement to agents is imperative. Having a team behind you with knowledge of real estate brokerage M&A transactions can be a tremendous help.

As COO of Realogy Expansion Brands, I'm fortunate to have a team of experts behind me. We train our franchise sales teams to be well-versed in the art of brokerage M&A. We deploy them to identify opportunities for our franchisees, and they coach them through the process. Our franchisee networks also often lend advice to one another to help each other be more successful. Our operations teams have led hundreds of transitions, developing experience critical to executing the process flawlessly.

Managing through a merger or acquisition will always present its challenges. But with the right planning, team, and attitude, it can be one of the most beneficial things you can do to grow your business. ▶

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SUPREME COURT RULES THAT THE CFPB'S STRUCTURE IS UNCONSTITUTIONAL

The U.S. Supreme Court ruled that the Consumer Financial Protection Bureau's (CFPB) single-director leadership structure violates the separation of powers clause in the U.S. Constitution.

By Sue Johnson, strategic alliance consultant

In *Seila Law v. CFPB*, a California-based law firm that provides debt-relief services to consumers, was under investigation by the CFPB for possible violations of telemarketing sales rules. Seila Law challenged the CFPB's civil investigative demand, arguing that the Bureau's structure is unconstitutional because its single director can only be removed by the President "for cause" instead of "at will" (for any reason).

The U.S. District Court ruled that the

removal restriction of the CFPB director did not violate the Constitution, and the Ninth Circuit Court of Appeals affirmed the district court's decision. Seila Law appealed to the Supreme Court.

The two questions before the Court were:

- Whether the provision in Dodd-Frank that only allows the President to remove the CFPB director "for cause" (for inefficiency, neglect of duty or malfeasance) violates the

separation of powers clause in the Constitution – in other words, whether it improperly impinges on the President's authority to ensure that the laws of the United States are faithfully executed.

- If the provision is unconstitutional, whether the entire CFPB structure is unconstitutional or whether the removal provision can be severed from the remainder of Dodd-Frank while leaving the CFPB in place.

THE COURT AGREED WITH SEILA LAW
 and found that the CFPB's leadership by a single individual removable only "for cause" violates the separation of powers clause of the Constitution.



A NEW PRESIDENT can immediately replace the CFPB director: If President Trump wins re-election, current CFPB Director Kathy Kraninger can serve out her five-year term through 2023 unless Trump chooses to remove her. If Joe Biden is elected, he will not need to wait until the expiration of Kraninger's current term to appoint his own director.

THE DECISION

In a 5-4 decision written by Chief Justice John Roberts, the Court agreed with Seila Law and found that the CFPB's leadership by a single individual removable only "for cause" violates the separation of powers clause of the Constitution. The Court stopped short of invalidating the entire Bureau but mandated that the President will be able to remove the director without cause.

"The CFPB's single-director structure... [vests] significant governmental power in the hands of a single individual accountable to no one," Roberts wrote. "The Director is neither elected by the people nor meaningfully controlled (through the threat of removal) by someone who is. The Director does not even depend on Congress for annual appropriations... Yet the Director may unilaterally, without meaningful supervision, issue final regulations, oversee adjudications, set enforcement priorities, initiate prosecutions, and determine what penalties to impose on private parties. With no colleagues to persuade, and no boss or electorate looking over her shoulder, the Director may dictate and enforce policy for a vital segment of the economy affecting millions of Americans."

The Court's conservative justices (Samuel Alito, Neil Gorsuch, Clarence Thomas, and Brett Kavanaugh) joined the opinion holding the removal provision to be unconstitutional, with all four liberal justices (Ruth Bader Ginsburg, Elena Kagan, Sonia Sotomayor, and Stephen Breyer) dissenting.

After finding the CFPB's leadership structure to be unconstitutional, the Court decided that the removal

provision could be severed from the rest of the statute without striking down the entire statutory framework governing the Bureau. The CFPB can continue to operate, Roberts concluded, "but its Director...must be removable by the President" for any reason. In this ruling on severability, Roberts lost two of the conservative justices (Thomas and Gorsuch), but prevailed because all four liberal justices concurred.

THE IMPLICATIONS

Here are just some of the implications of the Court's decision in *Seila Law*:

- **A new President can immediately replace the CFPB director:** If President Trump wins re-election, current CFPB Director Kathy Kraninger can serve out her five-year term through 2023 unless Trump chooses to remove her. If Joe Biden is elected, he will not need to wait until the expiration of Kraninger's current term to appoint his own director.
- **Impact on pending CFPB enforcement actions:** One question raised by the ruling is whether companies can challenge pending enforcement actions brought under a director who was unconstitutionally insulated from removal, and, if so, whether a succeeding director ratified that action. While the CFPB announced on July 7 that it was ratifying "the large majority of its existing regulations" in light of the *Seila Law* decision, it said it "is considering whether ratifications of certain other legally significant actions by the Bureau, such as pending enforcement actions, are appropriate. Where that is the case, the Bureau is making such ratifications separately."

- **Potential impact on the Federal Housing Finance Authority (FHFA):** The FHFA (which oversees Fannie Mae and Freddie Mac) also is run by a single director (currently Trump nominee Mark Calabria) who is insulated from removal by the President except for "inefficiency, neglect of duty, or malfeasance in office"—the same standard that applied to the CFPB director.

Shortly after its *Seila Law* ruling, the Supreme Court agreed to hear the case of *Collins v. Mnuchin*, in which the FHFA structure was declared unconstitutional by the Fifth Circuit Court of Appeals because its single director may be removed only for cause. Chief Justice Roberts did not indicate how the Court would rule on FHFA constitutionality in his *Seila Law* opinion, but he did reference the dispute. The FHFA is "essentially a companion of the CFPB, established in response to the same financial crisis" and "a source of ongoing controversy", he said. However, he also noted that it does not engage in regulatory or enforcement authority "remotely comparable" to that exercised by the CFPB. The Court likely will hear oral arguments in *Collins v. Mnuchin* as early as October and is expected to issue a ruling in early 2021.

Sue Johnson is the former executive director of RESPRO, the Real Estate Services Providers Council Inc. She retired in 2015 and is now a strategic alliance consultant. 

GREAT BRITAIN REAL ESTATE MARKET

POST-LOCKDOWN BOUNCE BACK

Will the post-lockdown bounce back in real estate sustain itself?

By Peter Gilmour, chief foreign correspondent

With real estate unexpectedly allowed to open on May 13, following government-issued guidance on how property transactions can safely proceed, an immediate spike in activity was seen by the two foremost property portals in Britain—Rightmove and Zoopla.

Rightmove data revealed that pent-up demand translated into the market's best week outside of London with buyers flooding back after lockdown. Since the market opened, Rightmove had 5.2 million site visits, 4% higher than the same period in 2019. The average asking price of homes coming onto the market was up by nearly 2% to \$425,000 compared to March, before the lockdown was imposed.

A RESILIENT MARKET

The statistics indicate far more resilience in the market than had been expected with no signs of panic selling or even a significant drop in prices. Rightmove recorded 10 of their busiest traffic days in June and browsing led to an increase of 40% over levels seen in March with consumers emailing or calling agents from the site. Compared to last year, new sales were down 94% when the

market was closed but improved to being down by just 36% for the three weeks after the market opened.

Rightmove also found that buyers are agreeing to pay prices closer to the asking price than at the beginning of the year. In the first three weeks after lockdown, offers were being accepted, on average, at 97.7% of the last advertised price. Completed data from the Land Registry Office for February 2020 showed an average price of 96.6% were accepted at the last advertised price. This indicates that sales after the market opened in May are stable and on a slight upward trend.

NEW WOULD-BE BUYERS

Zoopla reports a similar increase in activity with average asking prices on agreed sales in June 2020 up 6% for from June 2019. They report that the rebound in housing demand is not solely due to returning pent-up demand, but COVID-19 has brought a new group of would-be buyers to the market.

A recent DataLoft Homemover survey revealed that just under half of buyers' requirements have changed since lockdown. Some 30% of buyers said

that a garden has become much more important. Space to work from home and internet speeds also increased in importance reflecting on the expectation that working from home will become more regular.

LONDON SLOW TO RECOVER

Sales in London have been slow to recover and, in June, were still 25% lower than March 2020. The average asking price discount during lockdown was 6.5%—reduced to 5.5% by mid-June. Predictions are that London prices will fall by 5% in prime markets this year, but it would appear as this decline is already priced in.

The bounce back may be short-lived. Richard Donnell, director of research at Zoopla commented, "No one truly knows what the economic impact of COVID-19 is going to be. The housing market is purely an expression of the economy and we need to be cautious about predicting activity in the second half of the year."

Peter Gilmour is REAL Trends chief foreign correspondent and Chairman Emeritus and co-founder of RE/MAX of Southern Africa. ▶

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York cityscape panorama.