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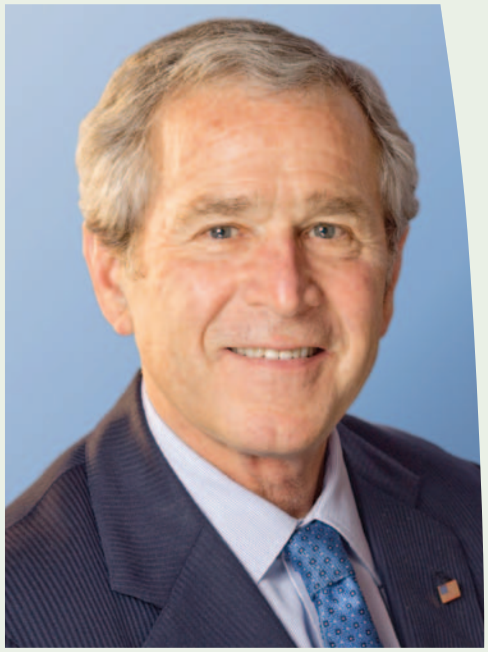
REAL Trends
The Trusted Source

Commentary

President Bush on Leadership

Lessons Learned



A casual chat revealed some secrets to leadership.

Written by Steve Murray, REAL Trends publisher

At the Gathering of Eagles, we were fortunate to have former President George W. Bush as our keynote speaker. In both a private CEO session and a general session, he was gracious, pleasant and answered our questions with passion.

What did we learn?

It is never too late to reinvent yourself, to tackle new frontiers and learn entirely new skills. Among other things, the President took up painting and, in less than six years, has amassed a collection of paintings by his own hand of world leaders that, by all commentators, show the marks of someone who has real talent. (See page 21 to view the President's paintings.) He joked that when he met with his painting teacher early on and was asked why he wanted to paint he replied that he felt there was a Rembrandt inside and it needed help to find its way out.

Commentary cont. on p2

INSIDE:

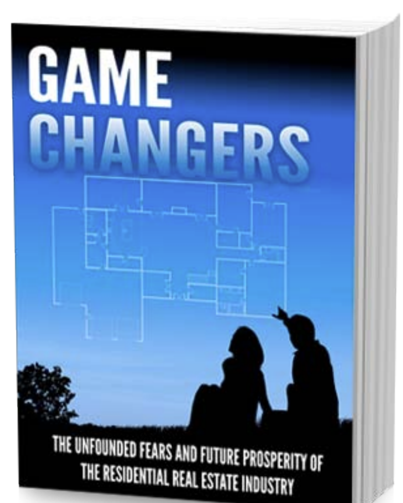
Available Now!

"Game Changers –The Unfounded Fears and Future Prosperity of the Residential Real Estate Industry"

New Book from REAL Trends

Authors Steve Murray, Lorne Wallace of Lone Wolf Real Estate Technologies and Lon Welsh of Your Castle Real Estate have written an exhaustively researched book addressing eight of the greatest fears of the residential industry. The book lays out the case for change and the forces opposed, along with implications and, most importantly, solutions to these challenges. From the decline of homeownership to the potential influence of the listing portals, this is a must-read for brokerage firms, sales agents, Association and MLS leadership.

Books may be ordered at Realtrends.com/Gamechangers, or by calling 303-741-1000. ■



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Commentary cont. from p1

Unconditional Support

To have the unconditional support of family and friends enables us to take risks that those without such support may not be able to take. For leaders of realty organizations, this leads to the thought that giving the people of your organization total support and the right to try new approaches is worthwhile. People who have strong support from those around them are more comfortable tackling large challenges than those who lack such support.

Control Your Reaction

No leaders can anticipate everything that is going to happen to their business, let alone their industry or the markets in which they operate. What a leader can control is his or her reaction to it. No one has perfect information all the time or even when it is most needed. How leaders react is what matters in these kinds of situations. Stay calm, communicate clearly and present a vision for the path ahead. Let people know what is expected and how they can participate in the planning of the future. Most importantly, be sure to have the most competent people you can find next to you. They can offer expertise in areas where the leader is not experienced. Listening to these advisors is critical.

Don't Bet Against the Future of America

Finally, it does not pay to bet against the future of America. From the President to leaders like Warren Buffett, there are many who look past the challenges of the present and have a strong faith that the future will be better than the past. Not in all ways and for all people, but for most and in the areas that count most. There have been many times in the past when an observer might think that this country was falling behind in many key areas. Somehow the spirit that pervades leaders in all walks of life and the entrepreneurial spirit that infuses many remains strong. ■


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Data

It is About the Transaction Not the Maginot Line

The battle over the data continues, but is it a worry?

Written by Jeremy J. Conaway, contributing editor

Over the past few years, the industry has been fully engaged in a battle over the ownership and control of listing data. Each month, the conflict has grown more combative and intense. Both lives and fortunes are being invested by industry players who are incorrectly being advised that listing data flow control and ownership will be the single most important factor in determining business success or failure moving forward. It is my opinion that such efforts are short sighted and fail to take into consideration the precious opportunities being lost. Time is being wasted. In the alternative, the obvious priority would involve searching for solutions to the more likely challenges to the traditional order of industry control and ownership.

The real estate industry appears to be caught in a similar quandary, except it has no Charles de Gaulle.

Upon close examination, both the leadership and the misguided direction of these efforts bring to mind the ill-conceived efforts that gave rise to France's Maginot line in the 1930's.

In terms of both lives lost and property destroyed, France suffered mightily at the hands of German forces during World War II. Fired by national pride, personal ego and a monumental lack of vision and military intelligence French leaders became obsessed about a concept known as the Maginot Line.

The Maginot Line theory involved the construction of a vast fortification system that ran along the French/German common border. The project was magnificent, but, unfortunately, incorporated engineering and military knowledge about such matters gained, not from a study of the future, but rather from a review of the effects and impact of WWI military strategy and tactics that had been developed during the late 19th century.

The events surrounding the decision to build the Maginot Line offer an even more compelling and relevant lesson. Three specific leaders were influential at that time. Charles de Gaulle recommended that France adopt offensive, rather than defensive, military strategies. Marshall Petain, who had come to fame as a WWI general and argued that France should build a long line of fortifications along the entire French/German border, which would be both long and deep into France. Andre Maginot, the Minister of War, supported Petain. The results of this debate are self-evident.

The Maginot Line's place in history was sealed not by the fact that it protected France from a German invasion at the onset of World War II, but by the fact that the French leaders had completely missed the technological development and tactical advances required to create a new tactic called a "blitzkrieg." In committing this colossal error and investing its human and financial resources through the Maginot strategy, the French leadership lent assistance to the enemy's cause.

Similarities With Real Estate

The real estate industry appears to be caught in a similar quandary, except it has no Charles de Gaulle. The traditional leadership element is advocating the creation of defense systems that use outdated strategies to protect the status quo. There is no evidence that the decisions being made by this group have had the benefit of any study regarding the trends and forces that are creating the industry's tomorrow. In other words, it appears as though they are being guided by pride and ego rather than reasoned sense and research.

The listing data wars are nothing more than a red herring, something that distracts attention from the real issue. At best it will ultimately, at a ridiculous cost, resolve the ownership issues and even then without the clarity necessary to exert complete control. At such point, those who own or control the data will end up selling the data to those who require it. It is just the nature of business. With a bit of luck, such an arrangement will last long enough to repay a portion of the cost of defense.

Follow the Money

If those in control of the present dynamic are looking for more relevant historical references, they might consider "follow the money." The time at which both the money and all of the pieces come together is the transaction. It is the transaction that creates consumer satisfaction. It is the transaction that determines brokerage, lender and title profitability. It is the transaction that offers regulators the perfect spot to launch a devastating ambush.

The Transaction

The current transaction is an unsatisfying process for all involved. Consumers emerge sensing that they have just played a role in an awful movie. Lenders can only hope that their interests were protected through a last minute flurry of changes and modifications. Brokers and their representative agents have once again been unable to enhance their value proposition. The closing team walks away from yet another "close miss."

It is the transaction that offers regulators the perfect spot to launch a devastating ambush.

Reforming the Transaction

I recently became a member of a team dedicated to reforming and re-engineering the transactional process. This multidisciplinary group has come to the conclusion that the best starting point for this work will be to focus on the consumer experience in the closing transaction. Starting at the end of the process is sometimes the best way to go. This approach was made almost automatic upon learning that the probable sources of regulatory engagement will come from the consumer perspective.

The objective of this new project is to create a more positive, convenient, predictable and transparent experience for the consumer in the real estate transaction process. The more specific objectives will be to create both an improved consumer experience and more efficient transitional process that seeks to incorporate both appropriate technologies and obvious connectivity to benefit lenders, brokerages and those responsible for the final closing.

Only through this process can the industry ultimately exercise a meaningful participation that both promotes consumer satisfaction, advocates brokerage profitability and provides some ability to impact and influence regulatory interdiction. These must be the objectives that we work together to achieve.

The industry's current path of destruction and disruption may well create a few heroes and, in all likelihood, an even greater number of those left behind. It will be nothing more than a delay on the road to the inevitable. Let's focus on what counts not what annoys. We can do this! ■

Fears for the Future

Game Changers?

Some of the challenges we didn't cover in the book.

Written by Steve Murray, REAL Trends publisher

In the newly released book, "Game Changers—The Unfounded Fears and Future Prosperity of the Residential Real Estate Industry," authors Lon Welsh, Lorne Wallace and Steve Murray covered eight separate fears (see sidebar, "8 Fears Covered in the 'Game Changers' Book') that top the most frequently discussed in the industry.

Yes, it is possible that one or more of the changes described in "Game Changers" will have a huge impact on the realty business. Two that we did not go into in depth are the regulatory impact on core services and the potential for severely limited profit opportunity for realty firms in the future and the potential franchising or network growth of teams. Of course, these could have a measurable impact on the ability of brokerage firms to thrive in the future.

It occurs to us however that most of the changes identified in "Game Changers" change things for realty firms at the margin of their businesses and that the foundational structures are seemingly holding strong. While changes at the margin are not nearly as newsworthy as some major trends that some commentators focus on, seemingly small changes at the margin can affect the attractiveness of a realty business to new entrants or investors.

Each chapter of "Game Changers" covers the reasons for the fear, the forces supporting and resisting the changes that may occur, the implications for participants should the change occur and possible solutions to the threat. There are also chapters and book summaries that make it easy to consider these various challenges and the solutions.

The research that went into Game Changers included surveys of the 6,000 highest producing agents and teams in the U.S., the 1,350 most productive brokerage firms, a consumer study commissioned with HarrisInteractive of 1,000 recent buyers and sellers and in person interviews with over 50 industry leaders including those from brokerage, MLS, association and nearly 20 top agents or teams. ■

"If you found a way to survive the last 10 years, the likelihood is that you will find a way to survive the next 10 years."
—Lon Welsh, Co-author, *Game Changers*

8 Fears Covered in the "Game Changers" Book

1. The growing disparity between counselors and facilitators among agents and brokers, between those make this a professional career and those who have not done so
2. The threat that listing portals will eventually dominate the relationship with housing consumer
3. The possibility that the independent contractor agreement will be substantially altered or abolished
4. The decline in the average commission rate and the gross margin
5. The advent of online ratings and reviews
6. Technology enabling the do-it-yourselfers ability to end-run agents
7. The consolidation of the MLSs and associations
8. The homeownership rate continues to fall.

The Value We Add

As leaders, a key responsibility is to build up the belief system of our people.

Written by Larry Kendall, author of Ninja Selling and Eric Thompson, president of The Group, Inc.

In the challenging environment that our agents face every day, we add value by building their belief in real estate as a career. If our agents ever find themselves asking 'Why am I doing this?,' we need to be there with the answers. The good news is there are many tools that can help us do that.

The "National Association of Realtors® annual Profile of Home Buyers and Sellers" is one of those tools. It is full of incredibly valuable and insightful information from surveys of close to 9,000 people who recently completed a real estate transaction.

Each year, when this publication is released, we're especially curious about two numbers—how many customers use a real estate agent (as opposed to going it on their own) and how many customers pick that agent based on a personal relationship (as opposed to picking a stranger). The numbers for 2013 are 88 percent and 64 percent respectively.

The Customer Still Finds Agents Valuable

What's interesting, and also counterintuitive, is that those numbers have basically stayed the same and even increased slightly over the last 10 to 15 years. Even in the age of the Internet and open access to information, the customer still finds value in the real estate agent and picks an agent that they know, like and trust.

Why is this? Why do they need professionals like us? Why haven't we gone the way of the stock broker and travel agent? There are four key reasons:

1. **Complexity.** The real estate transaction continues to be more and more complex. Appraisals, lending guidelines, inspections, changing values, multiple offers, title issues, etc. are all very difficult for the layperson to understand.
2. **Risk.** Because the real estate transaction is relatively large compared to any other transaction, the cost of a mistake can be big. A 10 percent mistake on a $300,000 home makes a significant impact.
3. **Emotion.** Buying or selling a home is one of the top five most emotional experiences in a person's lifetime second only to events like having a child, getting married and losing a loved one.
4. **Frequency.** The latest NAR research shows that the average person buys a new home every nine years.

So, the consumer faces something called the real estate transaction that is incredibly complex, fraught with risk and highly emotional. The last time they did it was nine years ago, and the game has completely changed since then!

Be mindful and proud of the value we add. The customer needs us more than they ever have before. Remind your people that they offer meaningful and significant value! ■

"Even in the age of the Internet and open access to information, the customer still finds value in the real estate agent"

Focus On: Marilyn Eiland and Mark Woodroof

Partners, Better Homes and Gardens Real Estate Gary Greene

Written by Tracey C. Velt, editor

With 21 offices and 800 sales associates, partners Marilyn Eiland and Mark Woodroof are careful to create a culture that inspires. REAL *Trends* interviewed Eiland and Woodroof. Here's what they had to say:

REAL *Trends:* Tell us about your path into real estate.

Woodroof: I've been involved in residential real estate brokerage and management since 1985. I served in a variety of leadership roles. I started in Houston and then moved to Atlanta in 1986, affording me the opportunity to work with real estate professionals in many different markets around the country. Upon returning to Houston in 1990, I was responsible for supporting brokerage operations in both the Houston and Dallas-Fort Worth Metroplex. In 1993, I joined ERA Franchise Systems where I was responsible for sales and service across Texas, Oklahoma, Arkansas and Louisiana. In 1996, I associated with Gary Greene, Realtors, Better Homes and Gardens where I was responsible for the company's business development activities.

In March 2000, I became a principal in Prudential Gary Greene, Realtors®. This new entity was formed with partners Marilyn Eiland and Bill McIlwain by acquiring the residential assets of Gary Greene, Realtors®, Better Homes and Gardens and four Prudential affiliates. Today, Marilyn Eiland and I are the sole partners and the company has grown to 21 offices located throughout the greater Houston area. On June 27, 2012, the firm reunited with their former franchise, Better Homes and Gardens Real Estate, which is now part of the Realogy Group Franchise.

I have been actively involved with the Houston Association of Realtors® since 1991, serving as its chairman in 1999. I have also been active with both the state and national associations serving on numerous committees. I currently serve as a director of the National Association of Realtors.

Eiland: I have been active in the real estate profession since 1972. My involvement in management and training began in l978, when I joined Gary Greene Realtors® Better Homes and Gardens as their training director. Over the years, I broadened my role and responsibilities with the company and ultimately became the general manager.

I served as a director for both the Houston Association of Realtors® and the Texas Association of Realtors and was the 1990 President of the Texas Chapter of CRB. In March 2000, I became president and partner in Prudential Gary Greene, Realtors.

In 2005, Governor Rick Perry commissioned me a "Yellow Rose of Texas." The firm grew over the decade and in 2011, was ranked No. 1 in Houston in sales and dollar volume by the *Houston Business Journal*.

REAL *Trends:* What was the biggest challenge you faced professionally when building your brokerage?

Eiland and Woodroof: After 14 years together, the biggest challenge was recognizing that everyone was not a good fit for our company and vision. We could not be all things to all people: agents, clients, staff and managers. At one point, we finally recognized that it wouldn't work and to be successful we needed to understand who we were and more importantly who we were not. We had to ask better questions and be more attentive to the way we hired and retained sales associates.

REAL *Trends:* Tell me one lesson learned when building your brokerage.

> **We gain consensus on any number of things. The lesson we learned is that, while that's a good thing and you should do it, at the end of the day someone has to make the call.**

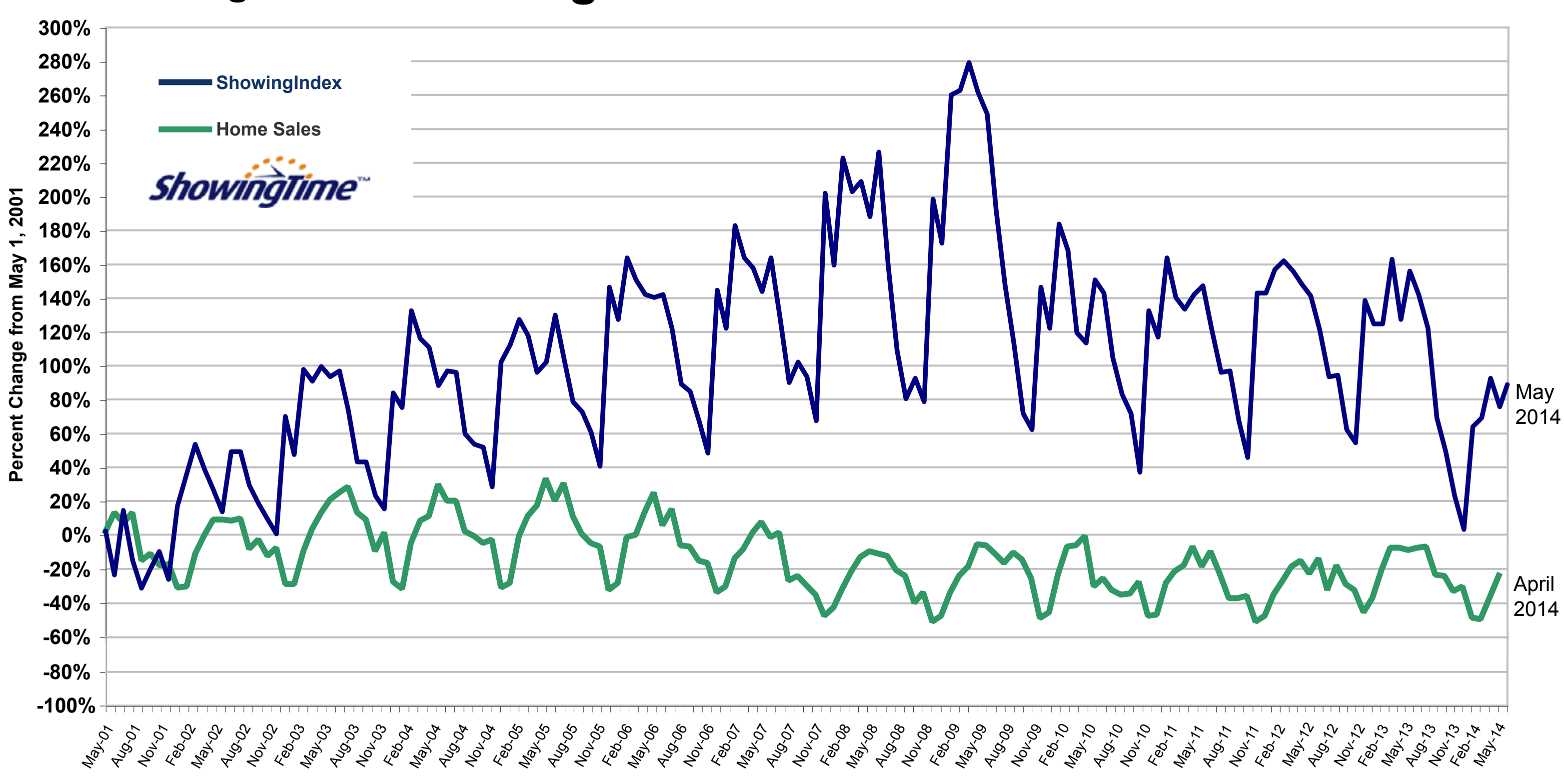
Eiland and Woodroof: After you've done it for so long, you tend to think nothing you come up with is all that unique. I would say that the lesson learned is that we're now a very collaborative organization, and we solicit input from people. We gain consensus on any number of things. The lesson we learned is that, while that's a good thing and you should do it, at the end of the day someone has to make the call. You must trust your gut judgment. The sooner you make that call, the better the result.

REAL *Trends:* Based on your experience, what is the one thing you did with your brokerage that changed the trajectory of your business? What was the turning point from success to major success?

Eiland and Woodroof: Our whole company has been built on the idea that culture and people matter. Even a mediocre plan well executed is better than no plan. Leadership matters and we've tried to find the best leaders, not just managers, but leaders. We're a decentralized operation, and we want our managers to be leaders.

We've surrounded ourselves with great people. As partners (Eiland and Woodroof), we've been fortunate that we think the same. Partnerships are a hard thing. We've recently gone with the Better Homes and Gardens brand. That brand speaks to us. Gary Greene is a 50-year-old Houston brand and this new branding will speak to the next generation. The relationship gives us opportunities that we didn't have before. ■

ShowingIndex - Leading Indication of Home Sales



Source : "Housing Sales" is the actual property sales statistic as reported by the National Association of REALTORS. The "ShowingIndex" is a moving trend statistic that tracks the rate

REAL*Trends*

HOUSING MARKET REPORT

VIEW the VIDEO

Housing Sales Decline in April

Even though home sales decreased on a year over year basis, the average price of homes sold continued to increase.

The REAL Trends Housing Market Report for April 2014 shows that housing sales declined by 6.1 percent from the same month a year ago. This is the worst result since the recovery began in September 2011. The annual rate of new and existing home sales for April 2014 was 5.372 million units down significantly from 5.719 million units sold in April 2013.

Even though home sales decreased on a year over year basis, the average price of homes sold continued to increase with prices up 7.3 percent in April 2014 compared to April 2013, another strong showing.

"April 2014 sales of new and existing homes reflected the decline in the affordability rate in most regions and the lack of inventory," said Steve Murray, editor of the REAL *Trends* Housing Market Report.

Housing unit sales for April 2014 decreased 8.4 percent in the Midwest, the worst showing among regional results. The West region saw a decrease of 7.3 percent, the Northeast saw a decline of 5.8 percent and the South had the smallest decline at 4.2 percent

The average price of homes sold in April 2014 increased 7.3 percent across the country, a strong showing despite the across the board decline in home sales. The West region had the best results with the average price of homes sold increasing 9.7 percent followed by the Midwest region with an increase of 7.8 percent. The South region saw prices increase 7.1 percent and the Northeast region average prices rose 3.0 percent.

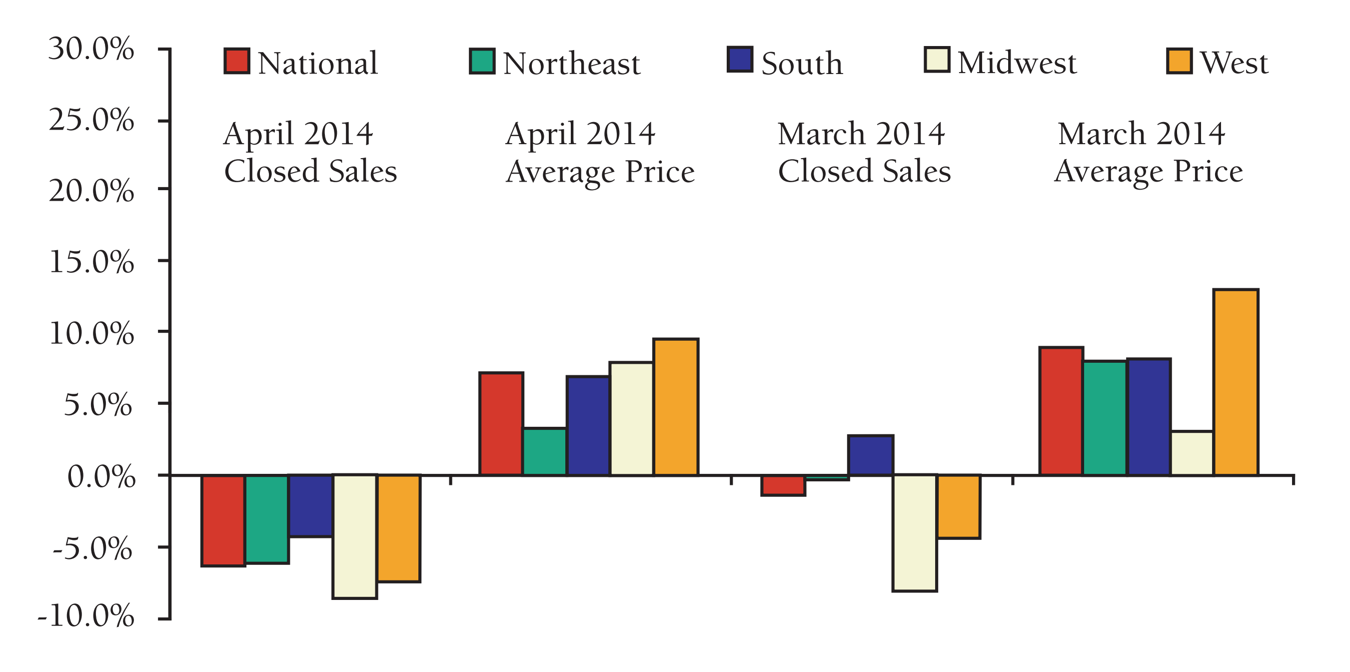
"We appear to have reached a plateau that, absent employment increases, income growth or looser underwriting standards, there is no impetus to drive housing sales higher," — Steve Murray

"We appear to have reached a plateau that, absent employment increases, income growth or looser underwriting standards, there is no impetus to drive housing sales higher," said Murray. "It is clear that the negative equity is also an overhang on the market. We also believe that given historical norms for home buying as a percent of households we are at or near the expected level of housing sales." ■

REAL *Trends* April/March Housing Market Report

(Versus same month a year ago)

	April 2014 Closed Sales	April 2014 Average Price	March 2014 Closed Sales	March 2014 Average Price
National	-6.1%	+7.3%	-1.5%	+8.8%
Regional Report				
Northeast	-5.8%	+3.0%	-0.2%	+7.8%
South	-4.2%	+7.1%	+2.8%	+7.9%
Midwest	-8.4%	+7.8%	-7.7%	+2.9%
West	-7.3%	+9.7%	-4.3%	+12.8%



Where Does the Housing Market Go From Here?

First-time buyers just aren't buying.

Written by Steve Murray, REAL Trends publisher

Regardless of which housing barometers you follow, housing sales have been stagnant on a unit basis for six months now. While prices continue to rise, that is more of a reflection of limited inventory than it is of strong demand. While many are blaming the rise in prices and mortgage rates (and these have impacted sales), we think the true culprit is elsewhere.

During the run up, starting in September 2011, the percentage of sales to investors and foreign buyers was much larger as a percentage of the total than ever before. The percentage of first-time homebuyers, aged 18-35, was at a recent historical low. Now that prices have risen, investor purchases have slid. The number of foreign buyers has stayed relatively intact. First-time homebuyers as a percentage of all buyers remains well below its long-time historical average. Thus, the flattening of housing sales is more a function of the lack of demand from first-time buyers than it is from rising prices and mortgage rates. After all, mortgage rates remain near historical lows and prices are still not where they were (outside of a few markets) back 10 years ago.

First-time Buyers Can't Afford Homes

At the core of the problem is the inability for first-time homebuyers to buy their first home. This inability to purchase is not reflected in a lack of desire to do so as numerous studies show that young families want to own a home as much as their parents and grandparents did. It is not a lack of desire.

It is a lack of the incomes and down payments to purchase and the inability to meet the new underwriting guidelines that are thwarting the ability of first-time homebuyers to enter homeownership. It is the anemic job market for those aged 18-35, and the lack of incomes that is likely causing the slowdown in housing sales.

Lack of Inventory an Issue

One more factor that is affecting housing sales is the lack of inventory. What we hear is more anecdotal than provable, but agents and brokers tell us of sellers not wanting to market their homes because they cannot see anything in the market they want to buy. Should that be the case, then there is a real structural issue with housing sales that goes beyond prices and rates. Sellers, knowing how strong the markets are (see related article in this issue) want to sell, to move to a new house or different neighborhood, but can't find housing that fits what they desire. Instead of selling, they wait. It becomes a closed loop—I can't find what I want so I won't sell now because if I sell quickly I have no place to go. If this is true then the industry is faced with a market that we truly have not seen before.

The rise in prices, which lowers the number of homes with negative equity, will help as will the long-awaited increase in new home building.

The rise in prices, which lowers the number of homes with negative equity, will help as will the long-awaited increase in new home building. However, these are longer-term measures and won't cause an immediate fix.

Consider This

One other thing to consider—for years our research has shown that approximately 5 percent of all households purchase a home each year. We adjusted this when the National Association of Realtors® came out with revisions to their home sales indices, and the number ended up slightly above 4 percent. With about 123 million households in the country, at this time, that would equate to approximately 4.92 million annual home sales. That is just about where we are now. ■

Home Sellers on Price

The Sky is the Limit

Home prices are hitting record highs.

Written by Diana Olick, CNBC's real estate consultant and author of the Realty Check second of CNBC.com

Home prices are moving so far, so fast, that at least 1,000 local housing markets have hit all-time price highs, according to Zillow. It should come as no surprise, therefore, that potential home sellers are giddy with value.

"I even hear them say that prices are skyrocketing," said Jeremy Cunningham, a northern Virginia real estate agent with Redfin, a real estate brokerage. "When you ask them what their data source is or where they're getting their information, it's more of a vibe."

Forty percent of sellers surveyed by Redfin said they are planning on pricing their homes above market value when they list in the second quarter of this year; that's up from 33 percent at the beginning of the year. Redfin polled 1,128 active home sellers across 25 U.S. cities.

Confidence is behind it all. Fifty-two percent said they were confident that now is a good time to sell, versus just 37.5 percent three months ago. This, conversely, as sales of existing homes were lower in March by 7.5 percent from a year ago, according to the National Association of Realtors.

Another survey of 1,000 homeowners and renters by mortgage giant Fannie Mae found that those who say it is a good time to buy a house held steady in April at 69 percent, but those who say it is a good time to sell increased 4 percentage points from the previous level.

Mortgage Rates Fall but Big Banks Doing Less

As investors flee the stock market and rush to the relative safety of bonds, consumers are seeing at least one benefit: Lower mortgage rates. The average rate on the 30-year fixed conforming loan ($417,000 or less) dropped from 4.5 percent to 4.375 percent for most borrowers and as low as 4.25 percent for those with the highest credit scores, according to Mortgage News Daily.

"We have a broad-based flight to safety in multiple asset classes and on a global scale. Domestic bond markets have only been a supporting player in that drama, but the past six days have been enough to bring rates to their lowest levels in over a month," said Matthew Graham, chief operating officer of Mortgage News Daily.

Still, lower rates don't seem to be helping some of the biggest players in the mortgage business. On Friday morning, Wells Fargo and JPMorgan Chase, which control nearly one-third of the mortgage market today, reported that their origination volumes plummeted in the first quarter of this year. Wells funded $36 billion in home loans, down 67 percent year over year, and JPMorgan's originations fell 68 percent in dollar volume.

Higher rates have plagued the mortgage market since last summer, when the average rate on the 30-year fixed went from 3.5 percent to 4.5 percent. After a refinance boom throughout much of 2012 and 2013, that market dried up.

Applications to refinance a mortgage were down 70 percent last week from a year ago, according to the Mortgage Bankers Association. Applications to purchase a home were down 14 percent. Total mortgage originations in February hit their lowest level in 14 years, according to Black Knight Financial Services.

"The problem is, even though rates are now falling again, so many people have already refied in the last 2½ years. If someone is sitting at even 4.5 percent, [he or she is] not going to refi even if rates go to 4 percent. If you have a $200,000 mortgage, and rates only move a half percentage point, it's not in your interest to refinance," said Paul Muolo of Inside Mortgage Finance.

Is This a Monetary Blip?

The question now is, will rates continue to fall, or is this a momentary blip?

"They're still in the same fairly narrow 4.25-4.5 percent range that has characterized most of 2014," said Graham. "We'd need to see another day or two like (Thursday) to be able to say something different is happening."

Most had expected rates to surge higher by now, due to the so-called taper by the Federal Reserve, but so far they have not. As part of the taper, the Fed has been reducing the amount of agency mortgage-backed securities it buys."Safe-haven buying has outpaced the Fed's QE3 taper, which is why mortgage rates have stayed low. We saw a similar pattern after the end of the first two QE programs, too. Mortgage rates should remain low so long as inflation rates stay low," said Dan Green, publisher of TheMortgageReports.com.

Green added that mortgage rates remain subject to event risks, be they economic or geopolitical. "Rates could cross 5 percent easily between now and June, or fall into the 3s."

Shifting Strategies

While the big banks see their mortgage business fall off, some are shifting strategies.

"They purposely are shedding market share. They seem more than willing to cede business to nonbanks like Quicken," said Muolo, who points out that the banks can make more money on servicing rights, especially on today's better-quality loans. "They're not losing a whole lot of sleep over losing market share in the mortgage business."

Big banks are originating more jumbo loans (loans with balances higher than $417,000), which, given today's tight underwriting, are a very safe bet. Of the 20,000 jumbo loans originated and then securitized since 2010, just two are 60 days past due, according to Fitch Ratings.

"What a lot of banks are telling me now is 'I never want to service a defaulted loan again, which means I won't originate a loan that does default. I'm keeping my credit scores above 700,'" said Paul Miller, a bank analyst at FBR Capital Markets.

Homebuyers Face Spring Sticker Shock

Wells Fargo recently announced it would offer loans to borrowers with FICO credit scores as low as 600, but only as FHA loans, those backed with government insurance. These loans are fixed rate and are underwritten extremely carefully. Miller said he expects they will be a minuscule share of the overall market.

While lower mortgage rates may not do much to juice the refinance market, they could help some potential homebuyers get off the fence and into a home. The housing recovery, however, continues to be plagued by historically low inventory. That, more than rates is keeping sales low and shrinking affordability, by pushing prices ever higher. ■

Market Trends

Why Millennials are Hurting the Real Estate Recovery

Four reasons young Americans are staying out of the housing market.

By Amy Hoak, writer for The Wall Street Journal MarketWatch

First-time homebuyers haven't been much help in the housing recovery, but it isn't because young adults stopped aspiring to become homeowners.

"Though they see a tough road to affording Homeownership, younger renters [those between the ages of 18 and 39] still are very likely to say that it's in their future plans," wrote Sarah Shahdad, strategic planning analyst with Fannie Mae, commenting recently on Fannie Mae's National Housing Survey. "The vast majority still plan to own someday; about half plan to buy a home the next time they move."

It's just that, right now, economic realities and life decisions are getting in the way. And those obstacles have repercussions for the broader housing market, because the lack of young buyers is one significant reason the housing recovery hasn't been stronger.

Lack of savings, big debts, dented credit scores: To sellers and lenders, many millennials look like lousy candidates to buy a home.

Lack of savings, less-than-perfect credit and stifling loads of student-loan debt are continuing to hold young adults back from homeownership, Shahdad and others say. Societal trends also play a role in why they're not buying, as people are waiting longer to get married and have children—life events that tend to spur home purchases.

For now, the absence of young adults from the housing market continues to put a dent in the homeownership rate, which dropped to 64.8% in the first quarter, compared with 65.2% in the fourth quarter of 2013, according to U.S. Census statistics. The rate was as high as 69.2% in the fourth quarter of 2004. For those younger than 35, the rate has fallen noticeably faster. It slipped to 36.2% in the first quarter, from 36.8% in the fourth. The homeownership rate for this group was as high as 43.6% in the second quarter of 2004.

"The [25 to 35] age cohort…probably has had the hardest time recovering from the Great Recession," said Rick Sharga, executive vice president of Auction.com, an online real estate marketplace. "For the time being, we're likely to see a higher percentage of households formed being rental households," and overall homeownership rates are likely to continue to decline somewhat—perhaps even down to 62 percent—before bottoming out and climbing back up, he added.

While some industry watchers have suggested a shift in attitudes away from homeownership, Sharga and others say it's too soon to know whether people truly have a waning interest in owning homes. One thing's for sure: Young people have plenty of hurdles to becoming homeowners.

"What we do know that is circumstances have changed hugely for young people," said Jed Kolko, chief economist of Trulia, a real estate website. "Changing attitudes alone would not account for the big drop in homeownership and young people living with their parents."

The following are key reasons first-time buyers are sitting on the sidelines—for now.

Unemployment and Low Savings

The unemployment rate for 18-to-29-year-olds was 9.1% in April, which rises to 15.5% if you include those who have given up looking for work, according to Generation Opportunity, a national, nonpartisan youth advocacy organization. The unemployment rate was 6.3% in April for all ages.

Forget that without a job it's just about impossible to get a mortgage. (It's also hard to rent: Twenty-nine percent of adults younger than 35 live with their parents, according to Gallup poll results released earlier this year.) A slow start to earnings also means a slow start to saving.

The majority of younger renters report having insufficient assets to cover a 5% down payment plus closing costs on a typical starter home

"The majority of younger renters report having insufficient assets to cover a 5% down payment plus closing costs on a typical starter home," Shahdad wrote.

Low Credit Scores

Millennials also have the lowest credit scores, according to a report by Experian. Their average VantageScore credit score for millennials is 628, compared with 735 for the Greatest Generation, 700 for baby boomers and 653 for Generation X. (VantageScore is a scoring model developed by the three national credit reporting agencies: Equifax, Experian and TransUnion.) Young adults tend to have a high utilization rate on their credit cards, an average debt of $23,332 and high incidences of late payments.

While a mediocre credit score might not have mattered all that much 10 years ago, it takes higher scores to obtain a mortgage today. Improving a score takes time.

Student Debt

People with student loan debt also have more education, which should pay off in higher incomes in the future and make them great mortgage applicants, said Trulia's Kolko. But when they're first starting out, having more student loan debt makes it harder to get a mortgage, and paying loan installments each month makes it more difficult to save for a down payment.

In 2012, 1.3 million students who graduated from four-year colleges (or 71%) had student loan debt, up from 1.1 million in 2008 and 900,000 in 2004, according to the Institute for College Access & Success, a nonprofit independent research and policy organization. Graduating seniors with student loans had average debt levels of $29,400 in 2012, up 25% from $23,450 in 2008.

And new mortgage regulations, set into motion by the Dodd-Frank Act, require that borrowers have no more than a 43% debt-to-income ratio (with debt encompassing monthly housing costs and debt payments, including those on student loans). That ceiling may also restrict first-time buyers, some say.

Delaying Marriage and Family

The median age of first marriage is about 27 for women and 29 for men, according to the U.S. Census Bureau. In 1950, it was about 21 for women and 24 for men.

Meanwhile, the average age of first-time mothers was 25.8 years old in 2012, according to the Centers for Disease Control & Prevention. The average age was 21.4 in 1970. While first-birth rates declined for women in their teens and 20s in 2012, they rose for women between the ages of 30 and 39, the data show.

"Because people are marrying and having kids at an older age, many young people might spend more years renting apartments and living in cities, before moving to the suburbs," Kolko said. ■

2014 Gathering of Eagles

Top 10 Tech Takeaways

Find out what valuable tips were shared by amazing real estate tech minds.

Written by Travis Saxton, REAL Trends manager of technology and marketing

When it comes to technology, many brokers and sales associates' eyes glaze over. With so many choices and so many ways to go about building a back-office system, the subject can get confusing. At this year's Gathering of Eagles, we assembled some of the top tech leaders along with leaders in other areas to break the subject of technology down into manageable chunks. Here are the top 10 nuggets of information:

1. **Technology needs to work for you, not be work.** We all know that technology can offer a competitive advantage. When installing a new plan, ask yourself whether the plan truly fits your overall goals. Does it make your agents' job easier or more difficult?
2. **Technology is the future.** A great information nugget from President George W. Bush during the keynote speech applies to tech. People still matter, however, those who adopt and innovate around technology will gain an edge.
3. **There is a moat between technology companies and their consumers.** An interesting finding that surfaced was the dynamic between the technology companies and their clients. Many programmers and technically minded folks love change and want to continually develop the next best thing. That is in stark contrast with what most sales associates and brokers want. Change can be difficult for them. Finding that middle ground can be complicated.
4. **Agent adoption of technology is a huge issue.** The best companies achieve the highest adoption rates by mandating that technology is used and making the technology integrated with agents' habits and tasks. Sales associates have to use it to get their jobs done. Make your tech show up on the 1099; that way agents will want to adopt it.
5. **Brokers chase the shiny penny.** We asked a tech panel how broker-owners sift through a pile of shiny pennies to reach the one gold coin when they are presented with new technology solutions. The answer was very practical. No. 1: Find if it fits your company's goal and direction. No. 2: Be prepared for some of those new risks to fail. With great risk comes great reward.
6. **Don't be afraid to fall forward.** The folks at dotloop adopt a concept called failing forward. They encourage risk taking and as long as they succeed more than they fail, they are moving in a forward direction. Try the impossible.
7. **Find a seamless, easy to use CRM.** In order for a CRM to be effective and impact your business, it has to meet the following criteria. First, it has to be seamlessly integrated with e-mail, phone, calendar and all the tools agents use in their daily lives. Next, it has to be smart and take some of the guesswork out of the equation for the agent. It must be easy to use.
8. **The number of technology options is not going to decline!** In fact, technology options may only get more complicated. If you are having trouble navigating and determining what is or isn't a good fit for your firm, reach out to the REAL *Trends* Tech Team.
9. **Mobile is king in the next five years.** Did you know that more than 30 percent of the REAL *Trends* 500 do not have a mobile-optimized website? An even larger percentage of those brokers do not have mobile apps. Nearly one third of all visits to real estate websites are through a mobile device, so don't further the message that brokers are not cutting edge and give the listing portals power by not having a mobile presence of your own.
10. **Think outside the box.** What if tech companies charged per agent based on those who adopt the platform, rather than just charge per agent. This is an interesting idea that is going to be slowly trickling into our industry. Why pay for the agents who don't use it? ■

DID YOU KNOW?

53 percent of real estate professionals are currently managing contacts using basic methods such as spreadsheets or pen and paper. In addition, some 51 percent of prospective CRM buyers are looking to replace their current real estate CRM solution. To see the entire study: CLICK HERE

Tech Marketing

The Importance of a Unified Brand

Are all of your agents branding themselves consistently and in line with the brokerage when it comes to social media?

Written by Travis Saxton, REAL Trends manager of technology and marketing

Very few industries can say they operate as ours, where the independent contractor has significant control and can move from company to company with few repercussions. This creates a challenging dynamic for real estate firms when trying to control their branding and marketing.

Too many times our tech team enters a market only to find the marketing for a brokerage firm is inconsistent. To give you an example, we recently analyzed a firm that is the No. 1 firm in its market based on market share and various other metrics. However, this was not the perception amongst the three areas that mattered most—consumers, their own agents and outside agents. How's that for negative?

Inconsistent Branding

One of the main factors contributing to this was that their branding was all over the place. Many of the top-producing agents and teams had their own marketing and branding. Unfortunately, this branding was differentt from the brokerage's branding. When we looked at some of the offline marketing, it was apparent this brokerage's competition was not doing the same. The competitor had unified its marketing as we viewed 30 to 40 pages that were distinctly branded with the brokerage colors with only slight variations for each agent's personality. In reality, the client we were working with had just as many pages, but you could not tell. What kind of message is that sending to consumers in your market?

Training, education and marketing 101 are necessary. Sometimes having an outside agency (like REAL *Trends*) put the problem into perspective can also assist in aligning your goals with your agent's goals. You can run on parallel paths to a common goal with your agents when it comes to your marketing and branding.

The Takeaway

Our takeaway from this topic: In order to achieve a unified vision, be sure to wow your agents with the quality of your own marketing. The surest way to a disjointed effort is to fail to give your agents consistency in their marketing. You should have numerous branded templates for e-mail, offline marketing, fliers and postcards. This makes it easy for your agents to access those marketing materials and distribute them to their spheres.

The surest way to a disjointed effort is to fail to give agents consistency in their marketing.

Sometimes it pays to have a dedicated marketing professional at your firm who can offer these services to your agents and handle all the heavy lifting. To increase your ROI, you must unify your marketing and market perception. This will certainly help your recruiting efforts, as well. ■

New Study!

How Brokers Select and Use Transaction Systems

New study helps brokers measure the impact of transaction systems.

Transaction systems or transactional management systems have been around in some form or another for more than 15 years. These solutions have evolved from manual processes to cloud-based solutions. In addition, specific elements of the real estate transaction have been included in transaction management solutions in an attempt to create a comprehensive, seamless process.

Because of these explosive changes, REAL *Trends* collaborated with dotloop to produce an in-depth study and analysis on how brokers select and use transaction systems. The substance of our REAL *Trends* Special Report was derived from research collected and analyzed through a national broker survey.

The overall goal of this project was to:

1. Understand the deployment of transaction systems by brokers and transaction system adoption by agents.
2. Identify the benefits brokers saw from the deployment of transaction systems.
3. Measure the impact of transaction systems upon agent productivity and effectiveness.

Since our Special Report is quite extensive, I selected one of the report topics—important benefits of a transaction system—to share with you.

Important Benefits of a Transaction System

Many of the brokers who responded to our survey have a broad experience with their transaction systems, and they are in a unique position to identify the benefits their company has gained from using such a system. The No. 1 benefit was improved agent productivity and efficiency. The other primary benefits were simplicity of use and reduction of liability and greater protection of transaction information.

To receive a full copy of this report, please email techtouch@realtrends.com. ■

2014 Gathering of Eagles

It's Always a Good Time

Former President George W. Bush shared insights into what makes a good leader.

Having former President George W. Bush as our keynote speaker at this year's Gathering was a highlight of the 27 years we have been having this conference. He shared with our guests some important insights into leadership issues that struck home. This is from an individual who was in a position where leadership mattered most.

At the 2014 REAL Trends Gathering of Eagles, guests enjoyed a reception and a tour of the Presidential Library in Dallas. The event was sponsored by Lone Wolf Real Estate Technologies.

Former President George W. Bush took up painting in his retirement. Here is just one example of his original artwork featuring world leaders that is displayed in the Presidential Library.

2015 GATHERING OF EAGLES • DENVER, CO

Our focus going forward will be on having other great leaders from outside the industry, as we have for the past three years. There is much to be learned from those who operate in different spheres, and we will continue to invite them to share. Next year's Gathering will feature two tremendous experts on leadership. Patrick Lencioni, CEO of The Table Group and the editor of nearly a dozen books on leadership and organizational effectiveness, will provide us with a two-and-half hour deep dive into these topics. Peyton Manning, four-time NFL MVP, will provide insights into leadership and the challenges he faces as a football leader.

The 2015 Gathering of Eagles will be held April 29 through May 1, 2015 at the Four Seasons Hotel in Denver. Attendance is limited to 300 attendees, due to the size of the hotel. Registration will open July 1, 2014. Should you have an interest in attending, please register as soon as possible. ■