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REAL Trends

The Trusted Source

Commentary

Future Observations

Will New Technology Negate the Use for a Real Estate Professional?

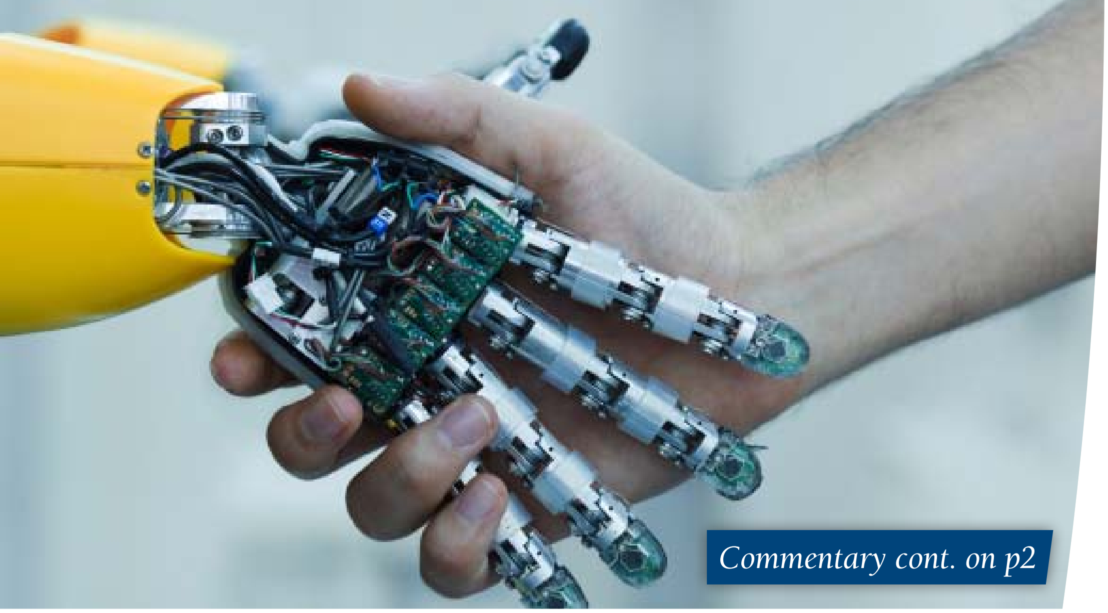
Maybe not, but there are tech products in the works that hope to shake things up.

Written by Steve Murray, REAL Trends publisher

At a conference, during a discussion about listing portals, a presenter offered the following two comments:

"We should never equate 'hits' with true customer service."

"I don't think any of us should feel comfortable turning over the first 'hello' with a customer to any party outside our firms."



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Trends in Valuations

Owners See Opportunity in Sales

Valuation, sale and merger activity is running at twice normal levels. Read on for more trends.

Written by Amy Broset, REAL Trends director of business analysis and Jaime O'Connell, REAL Trends real estate analyst

After a two-year run-up in units and sales volume, many markets appear to be leveling off. However, valuation, sale and merger activity is running at twice the normal levels. After surviving the downturn and seeing a return to solid profitability, many owners are seeing this as a prime time to either exit the industry or grow through acquisitions. Some of the items we have noted over the last year include:

- A fall in the percent of gross margin retained as agents hit their caps or move to the next split level;
- Decreased spending on occupancy as brokers have cut excess space to conserve;
- Agent counts on the rise;
- The end of the mortgage joint ventures under the new regulatory environment; and
- A corresponding rise in marketing service agreements.

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In the context of an overall discussion about e-commerce, we must remember that a great majority of housing consumers still value the relationship with a real estate agent—particularly when that agent is experienced, knowledgeable and cares about helping them.

The 2014 REAL *Trends*/HarrisInteractive study and the National Association of Realtors® research show that consumers value the service a competent agent brings to the table. When you think about marketing online, the importance of having customer inquiries come to you and your firm's people should be paramount.

The best firms give the listing agent a fair first shot at responding; then build systems to redirect the customer if the listing agent is unresponsive.

The Problem Begins Here

It doesn't end there, and this is where the problem begins. Most firms still do not have systems in place to ensure that customers' inquiries are answered in a timely and customer-service-friendly manner. Most firms are still struggling with the internal issues of how to do this without infringing on what agents think is their prerogative—to take all calls on their listings. Most firms honor this without charging the listing agent a fee. The best firms give the listing agent a fair first shot at responding; then build systems to redirect the customer if the listing agent is unresponsive. However, all of this is another story. Reread those concerns above and think about what you and your agents ought to be doing to answer them. That is the best place to start.

The Do-it-yourselfers

In the book "Game Changers," we examined how technology would soon enable customers to transact the purchase or sale of a home entirely online. We commented that the technologies necessary to do so were already available. The market is ripe for someone to piece it all together, from home search to closing, in one easy-to-use platform.

At the recent Tech Crunch Disrupt 2014 conference, a new firm named Allre announced that it had built this system. They also announced that they wanted to disrupt the real estate industry. The founders indicated that a seller can use available data to price his or her home, market it through portals, show the home, negotiate with buyers, link to a closing services firm (which they chose not to name), and link with a lender so as to facilitate a mortgage. The founders do admit that home inspections remain something that buyers and sellers will have to figure out on their own.

Technological advances are wonderful, and most consumers would agree that living has been made easier (perhaps) because of the Internet, mobile devices and access to the world of information and entertainment. Certainly Google and Amazon are two great examples of technology firms that are making things easier in many regards.

We believe the same is true in residential real estate. Listing portals and broker websites are a boon to consumers. Online processing and digital paperless transaction capabilities are wonderful advances for consumers and agents alike. As we have said before, someday someone will put a single platform together that enables buyers and sellers to bypass the use of agents and do it themselves.

Allre thinks between 10 to 15 percent of sellers and buyers already do this, and have for the past 30 years, without any of today's advanced technology to aid them. There will always be those who want to go this route, and it could be that Allre will play a large role in converting this ready-made audience to their system.

Allre will likely raise a substantial sum of money to back its play (and may have already done so) because many in the investment community think that disrupting the residential industry would be a gold mine. As many others have already discovered, it is not that easy, but it will be interesting to watch.

Unless and until someone can make buying and selling a home as easy as getting a book from Amazon or ordering up a car from Uber, the likelihood is that the preponderance of buyers and sellers will still desire the assistance of a real estate agent.

No one knows what the technology/real estate interface will look like in 10 or even five years. You cannot just draw lines from the past and expect they will continue on the path forward. This industry, compared to others, remains relatively unscathed by the Internet thus far. The day-to-day interaction between agents and housing consumers has changed little. How people engage agents to buy and sell is remarkably as it was 20 years ago. The percentage of consumers using an agent and how they chose an agent remain quite similar compared to years' past. Whether a technology will come along that will truly change this remains to be seen. ■

Opportunity cont. from p1

Increase your Value

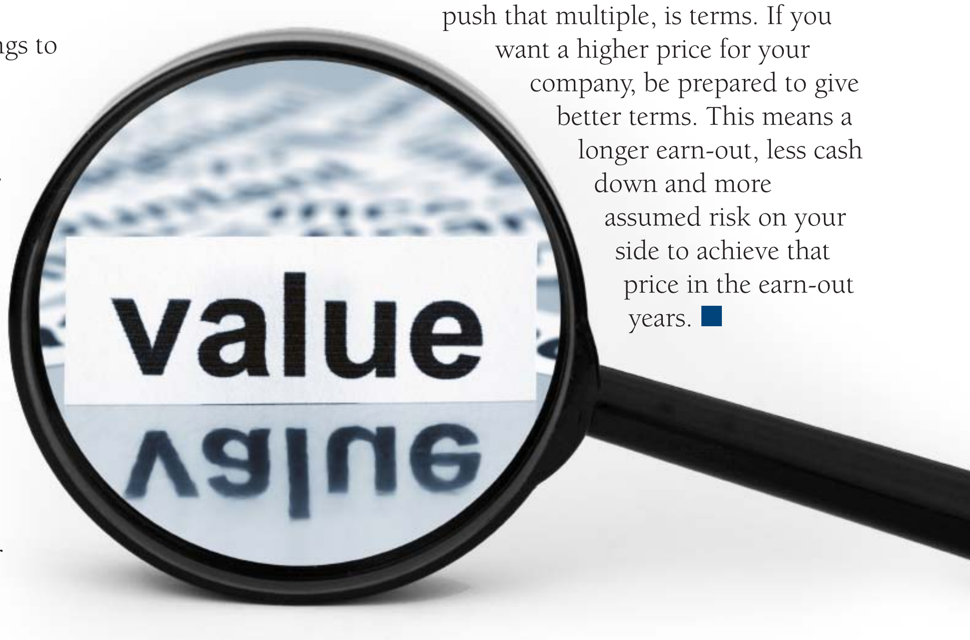
Given that information, what is the No. 1 thing you can do to increase the value of your firm? Increase your bottom line. Most valuations are based on a multiple of EBITDA, or earnings before interest, taxes, depreciation and amortization. Companies without substantial net income will be valued on a percentage of the gross margin, much less common in this environment.

In either case, beware of having too many commission plans as that can cut into your percent retained. Instead, offer standard plans and stick to them.

When the time to sell arrives, there are several things to consider that may increase your value to potential buyers:

- **Don't demand an all-cash deal at the time of sale.** All-cash deals reduce your value by up to 40 percent. A normal deal would be based on a percentage of cash at close, ranging from 60 to 70 percent for an outside purchaser, along with a two- to three-year earn-out on the remainder, based on the gross income of the company.
- **Keep long-term debt low.** Buyers rarely assume long-term debt, and when they do, the amount is deducted from your fair market value to arrive at net value. A three-month cash reserve is sufficient. The rest can be distributed or re-invested.
- **Be prepared to stay on for a year or two to assist with the transition.** If you are selling the entire company, even a leader that stays on as a figurehead only adds to the value of the company, as you are likely to have less agent breakage.
- **Most deals are done as an asset purchase.** Stock purchase deals tend to reduce the offering price due to the negative tax consequences to the buyer and the possible assumption of negative liabilities for past actions of the company.

The most important part of any sale, the one item that can push that multiple, is terms. If you want a higher price for your company, be prepared to give better terms. This means a longer earn-out, less cash down and more assumed risk on your side to achieve that price in the earn-out years. ■



4 Types of Change

Getting in Front of the Inevitable

Knowing the four types of change can put you in front of your competition.

Written by Larry Kendall, chairman emeritus of The Group, Inc. and author of Ninja Selling

Great coaches put their players in the best position to be successful. They size up the game, predict what will happen, and try to get in front of the inevitable. Great leaders do the same. The ability to anticipate and manage change is a critical leadership skill.

Often adjustments have to be made in the middle of a game because our predictions or our timing were off. Teams and organizations that can make the on-field or halftime adjustments are more successful.

The first step in being a change leader is recognizing the four types of change: cyclical, structural, exponential and incremental. We'll give a summary of each type and then explore each in depth in future articles.

- **Cyclical Change** is the one most discussed by the real estate industry and the media. We are in a cyclical industry. Knowing where we are in the market cycle is a critical skill. Real estate market cycles tend to be long, slow and predictable, as long as we watch the fundamentals. It is surprising how shocked people (especially the media) are when the market shifts direction or a bubble bursts. I teach market cycles in the College of Business at Colorado State University, and my students have to forecast real estate market cycles using the fundamentals. These 20-somethings were able accurately to predict every market bubble in the sand states—California, Nevada, Arizona and Florida. Why did our industry not see it coming? We will review the fundamentals and methodology of forecasting real estate cycles in the November 2014 issue of REAL *Trends* newsletter.

- **Structural Change** occurs when the rules change. Think of technology. Cassette tapes replace vinyl records. CDs replace cassettes. iTunes replaces CDs. Think of market disrupters Apple iTunes and Amazon replacing Borders Books & Music. Redbox and Netflix replace Blockbuster. Whenever there is structural change, the old market doesn't come back. The market morphs into a new market. In real estate, market disrupters Realty Executives and RE/MAX changed the rules on agent compensation by popularizing the 100 percent commission concept. A change in government policy or regulation can quickly change the rules of the game.

- **Exponential Change** is rapid change. The growth of Facebook and social media are examples of exponential change. Another example is the spread of an infectious disease or virus. We don't often have examples of exponential change in the real estate industry, although some of us remember the prime interest rate going from 8 to 20 percent in just a few months in the early 1980s.

Companies that adopt the focus and discipline of incremental change, and its compounding effect tend to dominate markets.

- **Incremental Change** is slow but powerful change. The changes are so slight they are hardly noticeable, but they are consistent and relentless with a compounding effect. The Japanese call it Kaizen, every day getting better, a relentless commitment to improvement. It's a marathon, not a sprint. A marathon runner can't properly train for a marathon the night before. He or she trains each day, hardly noticing any change in stamina or speed. Yet, the training impact is compounding over the months of training. The marathon runner arrives at the starting line with a different body than when he or she started. Companies that adopt the focus and discipline of incremental change, and its compounding effect tend to dominate markets.

All four types of change require visionary, fearless and disciplined leadership in order to assess and exploit the change. In the next few issues, we'll explore each of these four changes in depth, and discover how to use them to get in front of the inevitable. ■

How The Little Guy Can Beat The Giant Portals

The secret to survival before the "Zulia" deal closes sometime next year—and after—is for local agents to work their local databases harder and smarter than ever before.

by Dan Gooder Richard, founder and president, Gooder Group

We've been hearing from our customers about the proposed Zillow/Trulia merger. Who can blame them for being concerned?

As Bloomberg quoted Steve Murray of REAL *Trends*, "Zillow has locked up the absolutely dominate position in online real estate in the United States."

When No. 1 gobbles up No. 2 to control nearly 50 to 70 percent of the online lead market, there is cause for consternation. Traffic stats vary. For August 2014, comScore, which tracks online visitors in the real estate category, reported Zillow got 43 percent of 95.8 million monthly visitors, Trulia pulled in 25 percent (combined 68 percent), Realtor.com attracted 19 percent, Homes.com 9 percent and Redfin about 5 percent of total traffic.

On September 1, the top 15 most popular real estate websites ranked by eBizMBA reported estimated unique monthly visitors at 123 million and Zillow received 29.3 percent, Trulia 18.7 percent (combined 48 percent), Yahoo!Homes 16.3 percent, Realtor.com 14.6 percent and Redfin 4.9 percent. The remaining 10 had 16.2 percent of estimated visitors combined. Which ever way you count visitors, clearly Zillow/Trulia will be the giant that captures most of the property search leads out there.

What's The Little Guy To Do?

The answer lies in a comment by Zillow CEO Spencer Rascoff in an interview with RE/MAX's Dave Liniger after the Zillow/Trulia announcement in July. Rascoff noted that out of the $12 billion a year agents spend on property advertising and marketing, only 4 percent is spent with Zillow/Trulia in online advertising. As Rascoff pointed out, 96 percent of agent marketing is spent elsewhere, and mostly offline. (REAL *Trends* estimates the real estate marketing pie at $6 billion annually, according to *The Wall Street Journal.)*

How can the little guy beat the giant portals to prospects? The one-word answer is: pre-leads.

The secret to survival before the "Zulia" deal closes sometime next year—and after—is for local agents to work their local databases harder and smarter than ever before. Pre-leads are early-stage local people who need a lightning-quick response to their inquiry from a local agent to buy or sell, as contrasted with a virtual website visitor.

Where Do Agents Find Pre-leads?
Pre-leads are simply past clients, sphere and local prospects that agents already know, or want to know, in the case of expireds, FSBOs and targeted farms. Connecting intelligently to all three local databases simultaneously is the key. When agents work their postal database, where people live (address, city, state, zip) and their email database, where people communicate (via email), and their social networks (where people share viral referrals) the little guy can beat the giant portals every time to pre-leads. These are the local people who are most likely to buy and sell with an agent.

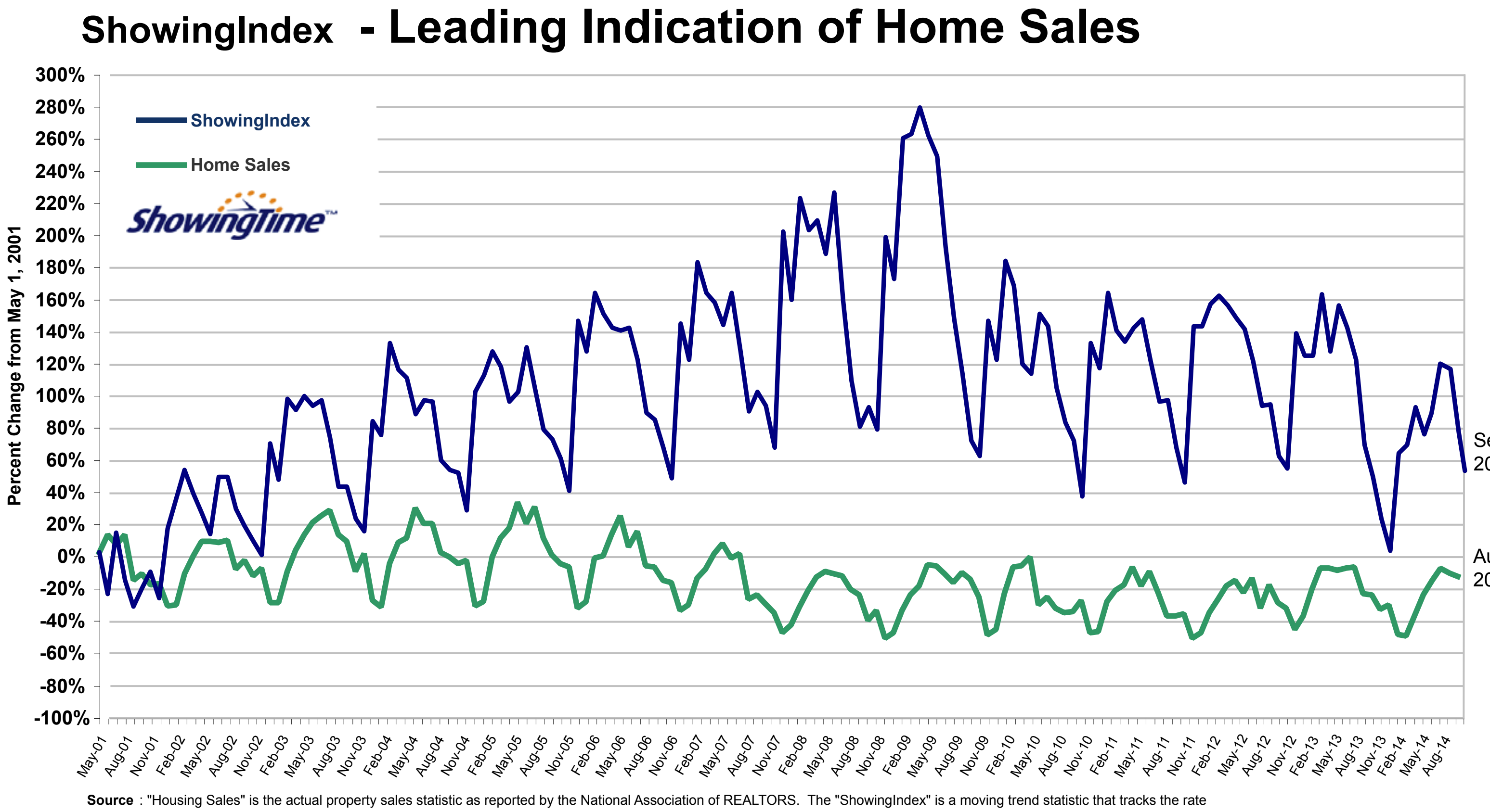
The essential technique is to fish upstream because that is where the fish are hungriest. The secret is to connect with local prospects before and after they click on the listing portals to see homes for sale. And, click they will. Don't get me wrong. Refreshing a database with new buyer prospects is certainly smart, and, after all, some buyer prospects will have a home to sell too. Capturing buyers from home search registrations is what the advertising portals do best—just like the duty desk captured calls from classified advertising back in the day.

Focus on People, Not Property
Capturing early-stage prospects, or pre-leads, will be even more valuable to the most successful rainmakers tomorrow as the advertising portals siphon off more buyer search leads.

After all, generating hyperlocal pre-leads is what the little guy does best. How? The little guy has local fingers on the smartphone and local shoes on the street to help local sellers learn the true value of their homes and help local buyers negotiate for the dream homes they saw online.

Nobody engages local prospects better than the little guy. Nobody guides buyers and sellers every step of the way through closing better than the little guy. No listing portal can compete with that personal relationship. To specialize in people—not property—successful real estate agents must work the only target that is truly valuable: the customer.

Simply put, agents must focus on local pre-leads who rise out of the people they already know. Work your postal database, your email database and your social networks together, and you'll catch a boatload of local pre-leads before the giant portals get a chance to sell the leads back to you. ■



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 of showing appointment requests from the websites of more than 60 real estate companies throughout the U.S. 40 of the companies are Top 100 companies as reported by REAL *Trends*.

Focus On: Bo Menkiti

Founder and CEO, Keller Williams Capital Properties, Washington, D.C.

Written by Tracey C. Velt, editor

With three offices and more than 530 sales associates, Menkiti is focused on strengthening neighborhoods through the strategic development, management and sale of real estate in urban markets.

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

Menkiti: I'm a graduate of Harvard University. Prior to forming The Menkiti Group and Keller Williams Capital Properties, I served as chief operating officer of College Summit, a national non-profit organization dedicated to increasing the college enrollment rate of low-income students. In this capacity, I oversaw the organization's successful growth into a multi-site national organization.

My work was featured in David Bornstein's book on social entrepreneurs "How to Change the World," and in Stephen Goldsmith's "The Power of Social Innovation." I was awarded The National Association of Realtors "30 under 30" award in 2006. In addition, both the Menkiti Group and Keller Williams Capital Properties have been recognized by *Inc. Magazine* as being among the fastest growing private companies in the nation and in 2012, the Initiative for Competitive Inner City (ICIC) honored the Menkiti Group as the fastest growing inner city business in D.C. and as one of the top 10 fastest growing inner city businesses in America.

Now, I serve as the founder and CEO of The Menkiti Group, a real estate services company dedicated to transforming lives and communities in the Washington, D.C. area. I am also CEO and founding partner of Keller Williams Capital Properties.

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

Menkiti: I'm sure there are lots of things I would do differently with my brokerage if I could do it all again. I learned the power of dominating a hyper-local market. That helped us go forward. When we first opened we were first in Washington, D.C., no one knew who we were or what we were. We started on Capitol Hill with a couple of agents who had good market share, and we were able to establish a significant presence there. It allowed us to expand. We've tried to keep that same focus. We want to build off the momentum of one market to launch into another. It's easier to build off something solid than leap into a new market.

We learned to look at associates as business partners and business people, rather than as sales fiduciaries of the organization. We are all entrepreneurs in business together.

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

Menkiti: One of our biggest challenges has been staying connected to our sales associates, managers and customers as we've grown. We started with five people in 2006 and grew from that original collaboration steadily until 2009; then explosively in 2010. One of the challenges has been sustaining those close relationships and engaging with associates at scale.

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?

Menkiti: We collaborated with talent early on. I made the conscious decision to partner with four folks in the industry. These were four people whom I respected, but had different strengths than I did. We chose that collaboration route from the beginning.

A fundamental belief and approach is that we collaborate with top talent. Going through the exercise makes it more difficult to build, but in the end it's more powerful.

It's been interesting to have the opportunity to grow so quickly and be part of this industry at such an interesting time. Our mission is to transform lives and communities through real estate. We keep that front and center, and it's made an impact. ■

Market News

REAL *Trends*

HOUSING MARKET REPORT

VIEW the VIDEO

August Home Sales Decrease; Prices Rise

The REAL Trends Housing Market Report for August 2014 shows that housing sales decreased 5.2 percent from the same month a year ago. The annual rate of new and existing home sales for August 2014 was 6.002 million units down from a rate of 6.334 million in August 2013.

Housing prices rose an average of 4.1 percent from August 2013, a slight decrease from the previous month. Price increases have now settled to a mid-single digit growth rate for the past four months.

Sluggishness in the general economy is impacting housing sales

"The August housing data show that sluggishness in the general economy with lower than expected job growth, stagnant household income and tight credit conditions are taking the expected toll on housing sales," said Steve Murray, editor of the REAL *Trends* Housing Market Report.

Housing unit sales for August 2014 decreased 1.4 percent in the South, the best performance in all regions. Midwest unit sales were off 4.4 percent, the Western region saw sales decrease 5.6 percent, and the Northeast saw sales units decrease by 13.8 percent.

The average price of homes sold in August 2014 in the Midwest region increased by 6.6 percent the best result in the nation. The Western region saw average prices increase 5.8 percent, average prices in the South were up 5.3 percent and the Northeast had an average price increase of 2.4 percent.

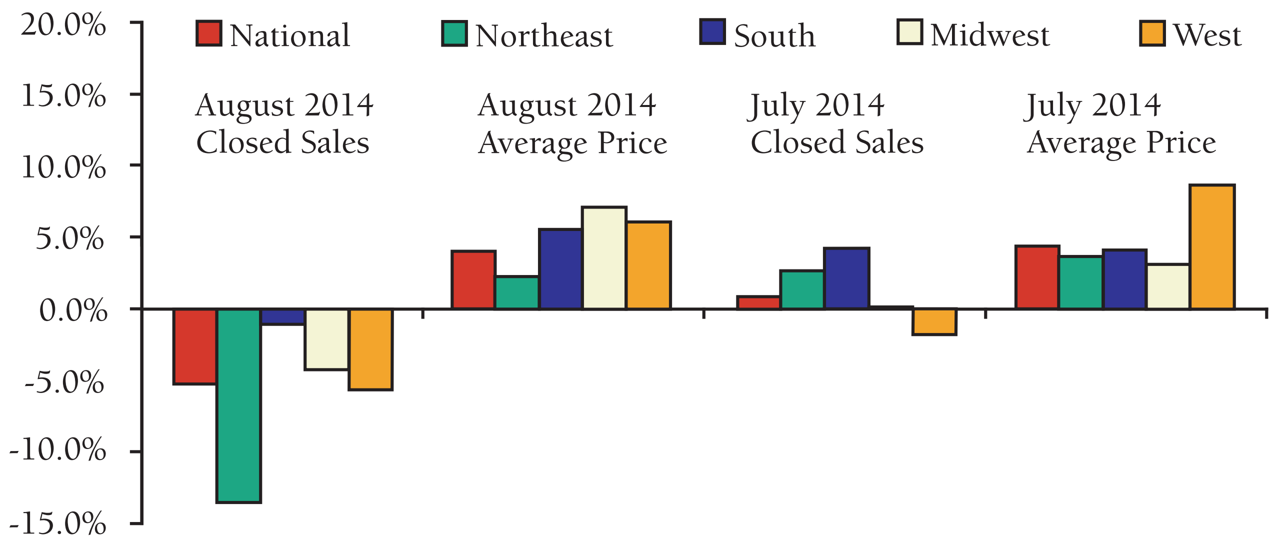
In many jurisdictions the percent of first-time homebuyers as a percent of all buyers remains significantly below the rate for prior years.

"Rising prices have driven many investors from the market, and while foreign purchases remain strong, first-time home buyers are still absent from the market. In fact, in many jurisdictions the percent of first-time homebuyers as a percent of all buyers remains significantly below the rate for prior years. Unless and until this is remedied, housing sales will likely remain flat to negative," said Murray. ■

REAL *Trends* August/July Housing Market Report

(Versus same month a year ago)

	August 2014 Closed Sales	August 2014 Average Price	July 2014 Closed Sales	July 2014 Average Price
National	-5.2%	+4.1%	+1.1%	+4.6%
Regional Report				
Northeast	-13.8%	+2.4%	+2.6%	+3.9%
South	-1.4%	+5.3%	+4.4%	+4.2%
Midwest	-4.4%	+6.6%	+0.1%	+2.9%
West	-5.6%	+5.8%	-4.1%	+8.3%



Fannie Mae Housing Survey

What Fannie Mae's New Forecast Could Mean for Homeowners

By Matthew Frankel, Motley Fool

Recently, mortgage giant Fannie Mae revised its forecast for the U.S. housing market, and the news is not too good. Basically, thanks to a weak first half of 2014, Fannie now thinks total home sales will actually be lower in 2014 than they were in 2013, and that 2015 won't be much better.

While this makes sense, because a lot of catalysts that drove sales last year are no longer there, what could this mean for the U.S. real estate market going forward? And what if the negative trends become even worse?

A Weak 2014 So Far

Home sales have been lagging in 2014 for a few reasons. First of all, the year got off to a rough start because of the brutally cold winter weather during the first few months. And even as the weather thawed, the market didn't pick up quite as much as experts thought it would.

There were two big catalysts last year driving home sales that aren't present anymore. First, for the first half of 2013, mortgage rates were ridiculously low. The 30-year rate dipped to just above 3.3 percent at one point, and rates remained below 3.75 percent until summer. Now, even though rates are still very low on a historical basis, at around 4.1 percent, they are not the magnetic draw they once were.

Secondly, homes are simply much more expensive now. No matter how low your mortgage rate is, if the home is too expensive, you can't buy it. Period.

Since bottoming in 2012, U.S. home values have risen by more than 25 percent on average, and popped by nearly 14 percent during 2013 alone.

Sure, existing home sales have picked up recently, but don't read too much into that data. Home sales are *very* seasonal, with about half of all sales taking place in the summer months, according to realtor.com. So, it's to be expected that existing home sales will rise during the summer; the most recent data says existing home sales rose by 2.4 percent from June to July.

However, a more telling statistic is the year-over-year change, and sales are indeed down by 4.3% from last July's levels. Also, the inventory of homes on the market is up 5.8% year over year to its highest level in almost two years.

Why Are Builders Optimistic?

Despite the downward revisions in the forecast, home builders are surprisingly confident. In fact, the most recent data shows they are the most confident they've been so far this year.

They seem to believe that low mortgage rates and job growth will lead to strong sales and higher prices over the coming months. Some builders are even reporting a noticeable increase in the number of serious buyers coming into the market.

However, the builders still have to contend with the higher prices and the potential of rising mortgage rates. Plus, the very tight credit standards right now could make it tough for a lot of "serious buyers" to obtain a mortgage.

The Laws of Supply and Demand Could Make a Big Impact

My natural instinct is to say that rising inventories combined with lower projected home sales could cause a dip in U.S. home values.

Forecast cont. on p13

FHA Fees Are Holding Back First-Time Homebuyers

Written by Richard A. Smith, chairman, chief executive officer, and president, Realogy Holdings Corp

Perhaps the biggest and most surprising challenge faced by today's aspiring homeowners comes from the FHA, the very agency created to help them.

In recent testimony before Congress, Federal Reserve Chairwoman Janet Yellen confirmed what many aspiring homebuyers have known for several years. "It has now become the case that any borrower without a pretty pristine credit rating finds it awfully hard to get a mortgage," she said.

Lenders aren't the only ones acting in a risk-averse manner. Well-intentioned but outdated federal policies are keeping America's housing sector from achieving a full recovery.

In recent years, the Federal Housing Administration, which has been charged with supporting first-time homebuyers since the Great Depression, has raised its fees to levels that are pricing many creditworthy Americans out of the market. That's bad for the American dream and for the economy. What our economy needs now are fewer barriers to first-time homeownership — not more.

First-time home purchases are now at historic lows. They have accounted for only 28 percent of existing home sales year-to-date, according to the National Association of Realtors. That's 6 percentage points below the five-year average and well below the long-term benchmark of 40 percent. This dearth of first-time purchasers has materially contributed to the lowest level of homeownership in nearly 20 years.

A number of factors have contributed to the drop in first-time purchases. For one, the economic slowdown has been especially tough on 24- to 35-year-olds — an age group that traditionally comprises a significant share of first-time buyers. Many of today's recent college graduates are facing crushing levels of student debt. The post-crisis trend toward stricter underwriting standards has also made mortgages harder to come by.

But perhaps the biggest and most surprising challenge faced by today's aspiring homeowners comes from the FHA, the very agency created to help them.

Among other things, the agency provides mortgage insurance to first-time buyers. Borrowers support the agency's insurance fund through up-front charges and monthly premiums. If a buyer defaults, the FHA repays the lender with money from the fund. This affordable mortgage insurance has helped more than 34 million Americans purchase homes since the 1930s.

But in recent years, the agency has been more of a barrier than facilitator for many of first-time buyers. The FHA raised its fees to cover a wave of defaults in the wake of the financial crisis. This was a necessary step. However, premiums are still at crisis levels years later. For many would-be homeowners, it's just too much.

As recently as 2010, monthly premiums for an FHA-insured mortgage totaled .55 percent of the loan amount. Today, it's 1.35 percent, a 145 percent increase that translates into an additional $120 on a monthly mortgage payment for a $180,000 loan. The up-front fee that borrowers pay to the FHA has also risen dramatically, from 1 percent of the loan amount to 1.75 percent.

These changes are pushing potential buyers at the margin out of the market. According to the National Association of Realtors, the FHA's higher mortgage premiums pushed 1.5 million renters over a sustainable debt-to-income level to qualify for a home loan in 2013.

This year, the FHA is on track to help around 450,000 first-time homebuyers, according to the agency's most recent report to Congress. History suggests that this number is a full 33 percent lower than it should be. In the five-year period between 2009 and 2013, for instance, the FHA helped about 690,000 first-time homebuyers annually. A new approach to lending policy will be necessary if the U.S. economy is to benefit from a resurgence in first-time home purchases.

To start, the FHA must adjust its policies to reflect today's realities — not the cash-strapped days of the financial crisis. Last year alone, the agency's mortgage insurance fund increased in value by $15 billion. The FHA can afford to reduce monthly premiums to pre-crisis levels.

One revenue-neutral solution would shift a portion of today's monthly insurance fee into the up-front premium. By enabling borrowers to finance their mortgage insurance over the life of a loan, the FHA could improve affordability for consumers without eliminating revenue. Federal officials could also eliminate the requirement that buyers pay for mortgage insurance for the entire life of their loan and drop it when the borrower reaches 20 percent equity — just as it is done in the conforming market.

Moreover, the time is right for the FHA to return to providing insurance on mortgages for condominiums, a significant part of the market for young buyers. Fifteen years ago, the FHA supported the purchase of nearly 100,000 condos. In the past 12 months, the agency has supported just 17,000 condo purchases.

The FHA knows that first-time purchases are declining. In fact, the agency recently launched "Homeowners Armed with Knowledge," a pilot program for pre-purchase counseling that targets first-time buyers. While this is a good first step, it will take more than homeowner education to solve this problem.

The housing sector is on the mend, but outdated government policy — along with a struggling economic recovery — is keeping the aspiring first-time buyer on the sidelines. The opportunity is in plain sight, and the time for action is now.

Richard A. Smith is chairman, chief executive officer, and president of Realogy Holdings Corp. A member of the Business Roundtable, he serves on the housing commission of the Bipartisan Policy Center and the policy advisory board of the Harvard Joint Center for Housing Studies.

The article originally appeared on AmericanBanker.com and is reprinted with permission. ■

Forecast cont. from p11

This is especially true if confident home builders continue to add even more homes to the market.

Basic laws of supply and demand say that when you provide more inventory of a product than people are willing to buy, prices will go down until the market reaches equilibrium. And at the current pace of sales, it would take a half month longer to sell the inventory that's currently on the market.

While prospective buyers certainly wouldn't mind if home prices came back down, it could be rough for the economic recovery. Because homes have regained so much of their lost value, many homebuyers once again have positive equity in their homes. And if prices were to decline, millions of U.S. homeowners could once again find themselves underwater, which would be a very bad thing.

What negative equity does is eliminate options. If you owe more than your home is worth, you can't sell it unless you want to come out of pocket to make up the difference. And, when times get tough, homeowners with equity in their homes are more likely to do anything they can to make their payments and keep their home. Being underwater can make letting the home go into foreclosure seem like a better option.

With inventory already high, the market doesn't need a new influx of foreclosures, nor does it need a lot more people to be "stuck" in their homes at a time when the market could really use more buyers. If prices begin to drop, this could start a dangerous cycle of price drops.

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Are You Harvesting Your Own Digital Disrupters?

Written by Jeremy J. Conaway, contributing editor

Two events in the last month gave rise to the focus of this month's article. The first involves a millennium generation attorney who is practicing law with a firm that represents large clients in the financial services industry. The second involves a Generation X female executive who, by any definition, qualifies to be called a digitally native CEO and has recently assumed a new position with a major brokerage firm.

What both of these individuals and situations have in common is that they are engaged in industries that are being heavily impacted by digital disruption (law and real estate) and they are, by culture and training, driven to make things better wherever they are and with whatever they are doing. They are also making significant career course changes based upon the failure of their civic or boomer generation employers to acknowledge their desire to be collaborative within their respective organizations. Despite the formidable amount of business (including real estate) literature that has been given over to the subject during the past two years, digital disruption remains a relatively obscure concept for most industry executives, managers and workers. While such a lack of knowledge might not normally have major consequences, in this day and age unawareness will be cataclysmic.

Both of the firms above were trained in digital disruption, yet both lost valuable members of their teams to a lack of action. What happened? Both approached the principals of their respective firms and indicated their concerns and observations that the firm was not keeping pace with current developments in their industry. Both called attention to the fact that the attorneys and agents over which they had supervisory responsibility were not confident of the firm's ability to meet ongoing challenges. Both knew that such matters were not within their area of responsibility. Both have now moved to firms that are tackling the challenges of digital disruption head on. Both of their former firms have lost individuals who would have been key to their future success.

Head Stuck in Sand?

How does this happen? One would suspect that arrogance and fear played a role. Beyond such simplistic observations, how is it that so many brokerages across the country are meeting the digital disruption challenge by sticking their heads into the ground and engaging in denial?

Digital disruption isn't a black swan that sneaks up on an industry overnight. Rather, it is a magnetic force whose origins can almost always be traced back a number of years. It attaches itself to unnecessary friction between consumers and businesses caused by redundancy, broken trust, limited access, waste and unnecessary complexity.

Don't Panic, Transform

The solution to digital disruption isn't panic or denial. Your digitally empowered competitors depend upon such responses in their efforts to overwhelm your market position. The solution to digital disruption is digital transformation. Digital transformation is the process through which the brokerage first undertakes to understand how digital disruption impacts the brokerages' consumer experience and, next, moves to cover the disruption with a countervailing force.

Digital transformation is a result of brokerages working to adapt to the assault of disruptive technologies that affect agent and consumer behavior. As disruptive technologies become a permanent fixture in the real estate transaction, brokerages must update their legacy technology strategies and service packages to mirror how the marketplace is evolving. The need to do so is no longer optional. The following brokerage best practices represent the foundation of this process.

- The brokerage must instigate efforts to understand how today's consumer has changed over the past few years. The brokerage must understand and appreciate how the events of 2005 through 2010 impacted the industry itself and, of equal importance, how this same period impacted consumers, especially those in the younger generations.

- A second step is for the brokerage to gain a proficient understanding relative to the difference between the traditional real estate consumer and today's digital empowered consumer. It isn't just a matter of technical skills; rather it is an entirely new attitude and mindset brought on by the power of information.

- The next step might be to understand better just how different the digital consumer experience is from the traditional one. Digital disruption is not about fusion. Digital disruption is more often about convergence. Two trends or forces collide to create something that is essentially new. In most cases, any similarities between the new and the old exist only in the traditionalist's mind. Digital disruption creates new dynamics, new operating methodologies and new emotional and psychological reactions.

- Continuing on, it is critical for the brokerage, staff and agents to work collaboratively to map out a plan for digital transformation. The transformation of the brokerage will require whole new areas of knowledge and competency. Digital strategists and digitally native brokerage executives are carving out new areas of power, influence and sustainable profitability. These are not new tricks for old dogs but rather new tricks for new dogs. Traditional entities must respond by recruiting these new dogs and giving them the space and power to do their magic without a constant referral back to the "way we have always done it."

The solution to digital disruption isn't panic or denial. Your digitally empowered competitors depend upon such responses in their efforts to overwhelm your market position.

- Finally, the traditional brokerage must recognize that much of its solution lies within its organization. Many real estate brokerages have individuals who either have the answers or are developing the answers right under the broker's nose. It is remarkable how few brokers and brokerage executives are looking internally for solutions.

This last issue returns the story to its point of beginning. What happened to the attorney and executive whose adventures inspired this article? The attorney is with a new firm that, as a condition of his employment, has created a strategic management committee that includes young lawyers. The highly productive, spectacularly talented, former agent has been named CEO of a new 450-agent office that is working to create the perfect consumer experience. We can do this; we have to do this! ■

4 Hot Real Estate Tech Trends

We breakdown two of the top four real estate tech trends and how they may impact your brokerage.

by Travis Saxton, REAL Trends technology and marketing manager and Cade Madison, REAL Trends technology strategist

There are so many hot topics buzzing around the real estate world that it's easy to get confused. The REAL *Trends* technology consulting team picked four tech trends that have the potential to impact the real estate industry—agent adoption, integrations, instant gratification and video. We'll breakdown the trends and help you figure out how to offer easy-to-use and cutting-edge tools and technology that will help your agents and their consumers.

Trend No. 1: Agent Adoption

This is a hot topic for both brokerages and technology companies. From a brokerage perspective, the tools provided are only useful if agents use all or most of the functions. As you approach each technology, it is important to take a step back and see things from an end-goal perspective. What would you like each service to accomplish? Change your thinking from, "I want to use a CRM because everything is in one system," to "I want to use a CRM to automate each step of the buying process, therefore, helping my clients in a more constant fashion."

A technology company obviously wants its product to be adopted. There are many ways technology companies are striving to increase agent adoption and increase the industry average from 10 or 20 percent to upwards of 80 percent.

Here are eight strategies that help increase agent adoption:

1. **Gamification.** This is the strategy of turning your system into a game. It may seem silly, but it's productive. Some ideas for doing that are to offer rewards for productive activities and to display leader boards.

2. **Incentivize**. Consider rewarding agents who win competitions within the CRM for specific revenue-producing tasks, such as loading contacts, logging in and sending emails.

3. **Training.** Constant progressive training and reminders in the systems are necessary. Consider a video library of key tactics along with tutorials both online and in the office.

4. **Acknowledgement.** Don't overlook the small victories. Celebrate them and tell the agents about them in training sessions and via email—preferably from the system.

5. **Management Use.** One of the best ways to get agents to adopt the technologies is to lead by example. If management uses the system to post events, send emails and track and interface with the agents; then the agents will want to use the system.

6. **Automation.** Automation can simplify complex processes. Use automation to break down tasks to make them simple and have each task trigger other events. An example is to create a checkbox that triggers a fully developed email marketing campaign.

7. **Marketing Materials.** Don't rely on the agents to produce marketing materials using the system. Some will, but the majority won't no matter how simple it is to create an email. Instead, create high quality, ready to go, personally branded marketing pieces. If you do just one thing, consider a company newsletter.

8. **Email/Calendar/Contact Sync.** This may be the most important thing to have—the ability for your CRM to automatically sync all contacts, email and calendar items. Imagine if your agents could just add a contact in their phones (not in a separate app or webpage) and it automatically posts to the CRM. Or, their CRM automatically syncs with calendar reminders. This is often overlooked but is critical to get agents to adopt this technology.

Trend No. 2: Instant Gratification

As a society, our patience is dwindling. Why wait when technology can get you there instantly? Potential customers are no different—they don't want to wait. We had a total of 67 companies participate in a secret shopper study with more than 1,200 lead forms submitted for our 2013 Online Performance Study. We discovered that 45 percent of all leads received no response, and 23 percent followed up with a phone call from the original lead submission. The average phone response time was eight hours and 10 minutes. The average email response time was eight hours and 34 minutes from submission. This is completely unacceptable. Clients will go elsewhere if you don't get back to them.

As a society, our patience is dwindling. Why wait when technology can get you there instantly?

Thankfully, there are technologies in place to address this issue.

Live chat and live chat-to-text are both software programs that reach customers while you're away from your phone or computer. Live chat services will staff the live chat for you and be available for initiating chats with the traffic on your website to answer questions or at least appear available as you are gone. Live chat to text is an alternative to this. It appears as a chat window but transfers to your phone via text so you can be reached. You answer this, not a system.

We've also seen a few automated emails appear as if they are not automated. We heard a story of one person who uses video email to touch buyer or seller leads as they arrive. He films the same script but with different weather in the background to appear accessible when he may not be at that moment. So, if a lead comes in on a snowy December day, the agent will send the snow shot.

In part two of this two-part series, we will cover the last two tech trends in detail. ■

2015 Gathering of Eagles • April 29–May 1, 2015

Can't-miss Workshop on Building Culture

If you don't attend this year's Gathering of Eagles, you'll miss this hands-on, business-essential workshop.

You have to love a guy who writes books with titles such as, "The Five Temptations of a CEO," "Death by Meeting" and "Politics, Silos and Turf Wars." They are powerfully written and easily understood. However, it's the message that counts.

Lencioni is about building healthy organizations. As a writer and consultant to businesses throughout the world, his message is consistent—the success of any organization is tied directly to the health of its culture. His last book, "The Advantage," documents how to build a healthy culture and how it impacts growth, productivity and profit.

We are excited that Lencioni will be leading a two-and-a-half-hour workshop at the 2015 Gathering of Eagles on the topic of Building a Healthy Organization—more than just a speech, it's an interactive learning experience for all leaders.

Partick Lencioni

The Thousand and America's Best Real Estate Agents

Outstanding Agents

The ranking of REAL *Trends* Americas' Best Real Estate Agents has grown from less than 6,500 agents two years ago to more than 9,500 agents who were verified and ranked for 2013.

This year, we added the ability to search the rankings by name, city, state and company name. In the years to come, we will continue to enhance the rankings with additional features so that these top-performing agents and teams can get the recognition they deserve.

The minimum level of sales for individuals is 50 closed sides or $20 million in closed volume. For teams, the minimum level of sales is 75 closed sides or $30 million in volume.

Should you know of anyone who qualifies and did not get ranked this year, please tell them to contact us at realtrends.com/best-real-estate-agents-america, or call us at 303-741-1000.