

REAL Trends

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Commentary

Thoughts on 2015

From housing to brokerage priorities, here are REAL Trends' predictions for the New Year.

Written by Steve Murray, REAL Trends publisher

When it comes to the future of real estate, the industry is bright. The REAL Trends team speaks with brokers, industry experts and movers and shakers daily. Here's a round-up of predictions for 2015.

Housing

2015 will most likely see unit sales increase over 2014. Average prices will be up as well in most markets. Why?

Households are adding jobs, and although the percentage of working-age Americans with a full-time job are still at historic lows, jobs are up as are household incomes.

The country has received a tax cut of an estimated 75 to 80 billion dollars with the decline of oil prices. This extra money will not only enable increased savings towards downpayments, for instance, but will help build confidence among consumers.

The recent loosening of mortgage underwriting standards will enable more Millennial and Gen-X households to afford homes. Lower down payment requirements are a real plus in this regard.

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Assessment

Finding Great Leaders

Written by Terry Penza, director of network membership

Looking for leadership? Try this test to help you locate the right person. Gallup's Clifton Strengthsfinder Assessment identifies five strengths and dominant talents for the person taking the assessment. It also offers an action plan for those talents. A detailed 24-page report covers three main sections: awareness, application and achievement.

The assessment offers, "your personalized strengths insights which describe what makes you stand out from others with the same theme in their top five," and questions to answer to increase awareness. A more in-depth assessment can be ordered that identifies 34 areas. ■

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7501 Village Square Drive, Ste. 200
Castle Rock, CO 80108
Phone: 303-741-1000
FAX: 303-741-1070
E-mail: realtrends@realtrends.com
Web site: www.realtrends.com

Publisher:

Steve Murray – smurray@realtrends.com

Editor:

Tracey Velt – tvelt@realtrends.com

REAL Trends Team:

Amy Broset – abroset@realtrends.com

Deirdre LePera – dlepera@realtrends.com

Cade Madison – cmadison@realtrends.com

Jaime O'Connell – joconnell@realtrends.com

Terry Penza – tpenza@realtrends.com

Paul Salley – psalley@realtrends.com

Travis Saxton – tsaxton@realtrends.com

Daniele Stuft – dstuft@realtrends.com

Bryan Warrick – bwarrick@realtrends.com

Doniece Welch – dwelch@realtrends.com

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Commentary cont. from p1

The American economy will receive a huge boost from lower energy prices and the growth in jobs should accelerate. On the downside, exports will likely soften harming businesses that depend on them for growth. Further, the downside of the decline in energy prices is that businesses in the oil and gas patch will be negatively affected.

Look for mid- to high-unit-price increases (or better) and similar results in average prices. There are some areas like New York, San Francisco and Miami-Fort Lauderdale that will outperform in both units and prices due to their economies and the influx of foreign purchases.

Brokerage Priorities

REAL Trends consulting specializes in four areas:

1. Valuation, merger and acquisitions
2. Strategic and business planning
3. Brokerage technology assessment
4. Online marketing.

In every area, 2014 was a record year for us in the number of clients served.

Valuations are running at near double their historical rate.

Brokerage firms are using valuations not just for sales or mergers but also for business planning purposes. Some of our clients use them for bi-annual and succession planning. Many of these are the sale or purchase of minority interests, gifting of shares into trusts and for other personal reasons. Where in the past valuations were usually about a sale of a company, now they are used for a variety of purposes.

What we are learning is that brokerage leaders understand that they have assembled platforms of some exceptional technologies but have not been able to integrate them or create a strong plan for implementation.

The number of brokerage firms using our technology assessment services has exploded. What we are learning is that brokerage leaders understand that they have assembled platforms of some exceptional technologies but have not been able to integrate them or create a strong plan for implementation. There is a growing realization that having a platform that is integrated and having a plan of getting the tools into use by the agents is, in fact, a sustainable competitive advantage.

A part of this is how, when and where to spend monies in the online world. Again, what we have learned in working with brokerage firms is that they are quick to realize that there are ways to more effectively spend their money, and there are great ways to measure the effectiveness in this arena.

We think that many brokerage firms have grown comfortable in the market for housing sales, that the sky is not going to fall in the next year or two, and it is time to begin longer-term planning and begin to get efficient in the use of technology.

Slow and Steady for Brokerage Firm Growth

This year will mark 20 years since HFS (predecessor to Realty) acquired CENTURY 21 and began its march to become the largest residential real estate company in the world. It took 20 years and a few billion dollars to do so. Today, their total cash flow likely exceeds that of virtually all of their nationally branded competitors combined. RE/MAX and Keller Williams each took nearly 20 years after their founding to achieve measurable market shares in the United States and significant profitability along with it.

Blefari will step in as CEO of Berkshire Hathaway HomeServices replacing Earl Lee in that role. Earl had also served in that role for nearly 10 years. We are aware that there are other senior roles in the national and regional realty ranks that will be changing in the not-to-distant future.

This is a normal part of organizational progress. While the majority of privately owned realty firms have no discernable succession plan in place, the national firms (especially those who are publicly held) must plan for the future in this area. There are some great exceptions to this, such as with Long and Foster, Allen Tate, RE/MAX Alliance and the Howard Hanna Companies, where succession planning has been in place for years. However, an organization typically has either a succession plan as an ongoing part of its work, or it is setting itself up for a sale to other parties. There are few other options.



In fact, most successful residential brokerage firms of the past 30 years achieved substantial success only after years of re-investment and patient growth. While there are a few exceptions (i.e., @Properties, HomeSmart and Realty ONE Group) it is interesting to note that building a sustainable realty organization, whether national or local, takes time and patience.

We bring this up as a contrast to some of the fast growth, technology-driven firms that have captured the lion's share of attention in recent years. ZipRealty, Redfin, Zillow and Trulia are the most well known of this group. While they each brought fresh new approaches to the industry and have been led by highly capable leadership, each seems to be concerned with faster-than-average growth in a business that historically defies this trend. Each has been backed by investment capital that appears to be mostly interested in overturning the status quo in the industry and/or generating above market valuations.

We don't pretend to know how this all works out. It just seems that once the initial excitement has passed, investors will have to settle in and understand that it takes time, capital and execution by great leaders to create a truly substantial and valuable company in this industry.

Changing of the Guard

For those who missed it, Dave Liniger, founder of RE/MAX, has stepped back into the role of CEO of the organization with the announced retirement of Margaret Kelly who had held that role for over 10 years. Also on January 1, Gino

Lesson Learned

Agents don't much care what the leadership of the National Association of Realtors® or the national companies think when it comes to initiatives that both have underway with respect to portals and core standards. What they care about is how to grow their businesses effectively, whether they are individual agents or teams. In several studies that *REAL Trends* and others have done this past year, productive agents care about gaining more knowledge about growth, how to use technology more effectively and how to be more productive with their own time.

They also report that while they may be concerned about the future of the listing portals, many use them liberally to advance their own personal interests. At the same time, agents show that they use various channels to reach existing and potential clients. Among these channels, strangely enough, is direct mail. Studies done by NAR and *REAL Trends* also show that brokerage and agent websites are some of the best sources for leads, not the portals. Don't forget that Facebook and other forms of social media are now among the leading sources of leads for agents, and they know it.

Agents and brokerage firms may have changed the way they reach consumers and potential clients and customers, but they have not changed their understanding that the fundamentals of the brokerage business are still in reaching and communicating with people. ■

Rational Decision Making

Beware of Unintended Consequences

We must develop a process for big projects that incorporates rational and objective decision making in order to avoid economic insolvency and organizational instability.

Written by
Jeremy J. Conaway,
contributing editor

Next to what used to be an almost bucolic place to live called The Woodlands in the state of Texas there is an amazing transition going on. A good economy, great oil prices and an overwhelming need to be more efficient has created a mini-boom in the energy sector. A couple of years ago, the energy giant Exxon Mobil began a process to relocate more than 10,000 highly paid employees from Arlington, Virginia to The Woodlands. Since that time, a developmental miracle is unfolding in the form of some 20 new buildings totaling well over two million square feet of class A commercial space. State and local government are weighing with a host of new streets, highways and a new freeway that will be known as the Grand Parkway.

Every bit as spectacular as the end product is the process that has created it. Tens of thousands of engineers, craftsmen, operators and laborers have seamlessly collaborated to meet some of the tightest construction schedules ever undertaken. The project has enjoyed a number of organic benefits. Besides being a renowned energy provider, Exxon Mobil also has a reputation for undertaking giant projects and finishing them on time and budget. Capital has not been an issue. Those involved in the "Exxon effect" either started with money in the bank or iron tight investment and loan commitments. The so-called "Exxon Mobil Effect" is a textbook case of how to develop, how to be substantial and how to take advantage of years of solid experience in building big things. This will become a model for global-sized ventures.



*Vertical of office buildings
along the river walk in
The Woodlands, Texas.*

Another Boom

There is another mini-boom occurring in the American real estate industry. We survived the market crash of 2006, the prime rate crisis of 2007 and the mortgage disaster of 2008. Now, the American real estate industry is enjoying one of its best moments in the last two decades. The industry is alive, healthy and excited about catching up with lost opportunities and ridding itself of annoying obsolescence. Many of the industry's issues of challenge are being addressed from agent centrality to transaction

management to putting forth a new consumer experience. Tens of millions of dollars are being committed to these efforts.

Bringing Everyone Together

Over the past quarter century the energy folks have created an impressive record of success in envisioning and completing big projects, gaining massive experience with success and producing impressive levels of return on investment and capital. Most impressive of all, the energy industry has demonstrated the ability to bring together diverse, conflicting and often historically combative sectors and meld them into impressing teams, initiatives and campaigns for the overall good of the industry.

The folks in the real estate industry are working hard to duplicate this record, but they are not quite there. The real estate industry landscape today is defined by a record number of would-be big projects, far too many of which are being proposed by entities and individuals with little or no experience in the matters that they seek to impact. It is being suggested by some experts that the real estate industry may be playing a bit out of its league and that the level of experience on its bench may not be sufficient to cover the commitment it seems to be making.

Over the next several months a wide range of industry and market leaders are going to be asked to make critical financial, political and operational decisions on matters that they will not fully understand by individuals who have little or no experience with big developments and who may have alternative agendas.

Both the near- and long-term responsibility for these decisions and "big projects will rest with those entrepreneurial

and elected owners and leaders who will have to make the hard decisions and stand behind the long-term financial responsibilities. This article is proposing that the process for considering and supporting big projects must be improved to incorporate a line of rational and objective decision making in order to avoid economic insolvency and organizational instability.

Are You Ready to Make the Big Decisions?

Hundreds of industry leaders and executives will be involved in making these critical decisions. For many of the projects in question, the participation of these folks will be the first application of rational and business-level thinking. If you are an active leader or influential in your marketplace or are responsible for one of the industry institutions that will be making these decisions, it is critical that you be as knowledgeable as possible with respect to industry's current events, dynamics, trends and directions before you undertake any consideration of a specific project.

Begin your decision-making journey with a clear and complete awareness that there is a tremendous level of movement, transition and change out there. The industry is moving quickly, and real change in the industry's operational platforms can be measured monthly. Just because you haven't seen something in your local marketplace doesn't mean that it isn't happening.

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Understand that there are some excellent projects being proposed and some that approach the definition of insanity. There are some projects that deserve your respect and earnest consideration and others that deserve your disdain. There are some that are being proposed by organizations with sound business implementation experience, planning expertise and experience with success and others that are merely trying to take advantage of the chaos that surrounds a moment of incredulous change and transition.

- **Start the decision-making process** by recalling Wayne Gretzky's classic quote; "Don't skate to where the puck is but rather to where it is going to be."

- **There are several major industry players that have game-changer potential** and who are waiting to make their game-changing moves. What appears to be an excellent opportunity can quickly become a trash card if it is inconsistent with the direction that the big guys take. Save your ammunition and hold your fire until the right time.
 - **Understand precisely what the proposed project entails.** What is the mission? What is the history and experience of those who came up with the idea? Is this the first project of its kind (several of the projects currently on the table meet this definition)? Beware of the “we will work it out” approach. These are placeholders. Exxon Mobil-level winners deal with predictive metrics, blueprints and precise business plans. Do not support those who want to design the blueprint as they are constructing the building.
 - **Who is going to have skin in the game?** Beware of job seekers and empire builders. It is fun to be a player on someone else’s dollar. Great hustlers seldom make it for the long run. It is those who must manage and guide the new development to find its place in the overall system that will provide that note of common sense.
 - **Keep in mind that the primary skill sets of an innovator is the ability** to associate, observe, network and experiment. Do you see those in the hearts and minds of those who seek your support? However, even these skills don’t make a long-term implementer, manager or administrator.
 - **When dealing with technology projects** it is commonplace to have actual developmental and operating costs double during development. Who created the financial projections? What experience have they had with such matters and projects exactly like this one?
 - **Be sure that the initial proposal includes a detailed marketing plan.** Technologists commonly discount the value of marketing believing that the genius of their inspiration will overwhelm all potential customers.
 - **Be prepared for the fact that most projects go through at least two iterations** and possibly three on their way to a successful implementation. The realities of a rapidly
- moving industry are almost always inconsistent with the best-laid plans of even the brightest visionaries. Stuff happens and projects almost always take more time and resources than originally anticipated.
- **What are the probable and possible unintended consequences** of the project? In a quickly transitioning environment, unintended consequences are the wild card. Great organizations plan to convert them into opportunities.
 - **Have those who have evolved these proposals explored “Black Swans”** that could impact the project?
 - **Beware of those who are simply trying to create a job.** Remember that the skills of innovation seldom transition into the skills of implementation or long-term management and/or advocacy.
 - **What role has risk management played in developing the project to data?** Risk management is an ingredient preferred by winners as opposed to a hustler’s love of risk assumption.
- The industry is moving into a new and unfamiliar space of which it has little or no experience. In order to effectively move into this new space, it must begin to practice a whole new level of decision-making, strategic architecture and resource allocation. Great process is the ultimate risk management technique.
- Finally, appreciate that the ultimate differentiating factor in the upcoming struggle may be the power to convene. What organization in the industry has the power and influence to bring the parties together? What organization can secure the necessary funding? What organization has demonstrated the ability to incorporate significant levels of transition and hardship and still bring their projects in on time and budget? What organization has a team of combat hardened veterans who understand both the ground and the players?
- Our industry has such an entity. Let’s use it to win this one. ■



Getting in Front of the Inevitable

Exponential Change

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

The ability to anticipate and manage change is a critical leadership skill. The first step in being a change leader is recognizing the four types of change: cyclical; structural; exponential and incremental. In this article, we'll focus on exponential change.

Exponential change is rapid, compounding change. The growth of Facebook and social media are examples as is the spread of an infectious disease or virus. Moore's Law states that computing power doubles every 18 months. How can leaders anticipate and exploit this type of rapid change?

Anticipate Exponential Change

MIT professor Peter Senge uses the example of a lily pond to describe exponential change. Imagine a lily pond that looks completely clear except for one lily pad that is hiding on the far side of the pond. Each day, the lilies double in number. On the 30th day, the pond is 100 percent full of lily pads. In visiting the pond every day, when would the average person notice a change in the pond? Dr. Senge says most people would not notice the change until the 28th day!

On the 28th day, the pond is 25 percent full of lilies and has enough critical mass that most people would notice it. The very next day the pond is half full and on the 30th day it is 100 percent complete. By the time most people recognize the change, it is too late to do anything about it. The media tend to report the change on the 28th, 29th or 30th day. If you are reading about it in the media, the smart money has already been there.

Can You Spot Change?

Do you know people who can see the changes on the 15th day and get there first? People who buy land at price per acre and sell it a year later at price per foot? As leaders, our job is to see the changes on the 15th day (or earlier) and move our organization into a position to get in front of the inevitable. We want to put our people in a position to be successful in order to catch the next wave.

As the great recession was starting, were you leading the change in your organization to line up bank foreclosure accounts, create foreclosure hotlines, and train your people for selling distressed properties that would occur a year later? As the great recession was bottoming out, were you reestablishing builder and relocation relationships and building listing inventory for the recovery? Spot the signals early, anticipate the change and lead your organization to exploit the inevitable.

Success

The leaders who are the best at spotting and leading change tend to have large perceptual maps (their worldview). How do you expand your perceptual map? There are three basic ways.

1. **People you meet.** Surround yourself with other thought leaders. Join a CEO mastermind group.
2. **Places you go.** Visit other markets and study what drives change in that market.
3. **Books you read.** Leaders are readers. Commit to reading the Top 10 best-selling business books listed in *The Wall Street Journal* as well as the trade publications.

Build your perceptual map and be a change leader. ■

**Spot the signals early,
anticipate the change and
lead your organization to
exploit the inevitable.**



Focus On: Todd Hetherington

CEO, CENTURY 21 New Millennium, Alexandria, Vir.

As CEO of NM Management Inc. in Alexandria, Virginia, Todd A. Hetherington focuses on core services and provides a complete range of real estate sales and service support to clients in Virginia, Maryland, and the District of Columbia. NM Management includes CENTURY 21® New Millennium, 1st County Mortgage Services, Bay County Title and Escrow, and Proactive Property Management. *REAL Trends* spoke to Hetherington about his company and the future of real estate:

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

Hetherington: I earned my Bachelor of Science degree from the United States Military Academy, West Point, N.Y. and Master of Engineering Administration from The George Washington University, Washington, D.C. Having completed active duty military service in 1990, I started a residential real estate company focused on providing relocation support to families at the various military installations in the National Capitol area. I joined the Century 21 franchise in 1994 and soon began to expand the residential company's service capabilities and revenue footprint. In 1998, I merged with other local brokers forming Century 21 New Millennium. Century 21 New Millennium earned the coveted CARTUS Broker Network's Masters Cup for exceptional performance in the areas of home marketing, inventory management, destination home finding, sales conversion, and service on CARTUS-related business.

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

Hetherington: I learned it's all about the people. I realized that I shouldn't hire people who thought they were hot stuff in the business, those who sold lots of houses or managed somewhere else, unless I was sure they would fit with our culture. I also realized that sometimes bringing in people from outside of real estate is a good thing. For example, we've brought in several managers from the military and corporate America. It's the people from the military, corporate America, business consultants and franchise sales folks who know how to meet deadlines and meet quota.

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

Hetherington: Finding the right leaders to head up our branches is the biggest challenge we have. The problem is that most people in this industry think you must be brought up in the industry to lead a branch. We've had better success finding people outside the industry to lead branches.

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?

Hetherington: The turning point for us was in 1998 when we assembled a merger of the top four regional Century 21 offices. That gave us a better footprint to service the military community. What changed our trajectory was hiring folks that get it, not just those who had charisma but those who have the ability to motivate people. ■



NOW YOU KNOW: 9 Factors Influencing the 2015 Market

What's going on in the mortgage market? HSH.com highlights nine trends that will influence markets in the New Year:

- | | | |
|-------------------------------|---|---------------------------------------|
| 1. Mortgage rates should firm | 5. FHA is back in black | 8. Home-price gains steady |
| 2. Fed tries normalcy | 6. The Debt Forgiveness Act of 2007 may be extended | 9. Home equity borrowing may increase |
| 3. New closing cost forms | 7. Home sales should increase | |
| 4. Credit standards ease | | |

For details and the full analysis:

[CLICK HERE](#)

REAL Trends

HOUSING MARKET REPORT



Another Month on the Upswing

The REAL Trends Housing Market Report for November 2014 shows that housing sales decreased -0.4 percent from the same month a year ago. The annual rate of new and existing home sales for November 2014 was 5.253 million units down from a rate of 5.272 million in November 2013.

Housing prices rose an average of 5.6 percent from November 2013, continuing the slow decline of year over year price increases in housing sales. Price increases have now settled to a mid-single-digit growth rate for the past five months.

"The November housing data indicates that, while housing sales slipped again, the average price continues to move upward. There are few factors to explain why the annualized sales rate slipped from the prior month and from the prior year," says Steve Murray, editor of the REAL Trends Housing Market Report. "Mortgage rates continue to be attractive and both employment and incomes are up from a year ago. The lack of affordability and the tightness of mortgage credit continues to be a drag on an otherwise healthy housing market," Murray added.

Housing unit sales for November 2014 increased 1.9 percent in the South, the best performance in all regions. Northeast sales were down 1.8 percent, the Midwest region saw unit sales decreases of 5.2 percent, and the Western region saw unit sales increase by 1.5 percent.

The average price of homes sold in November 2014 in the South region increased by 7.4 percent, the best result in the nation. The Midwestern region saw average prices increase 7.3 percent, average prices in the Western region were up 4.8 percent, and the Northeast had an average price increase of 1.8 percent.

"It seems that the market has once again reached a level that will not improve dramatically without changes in underwriting requirements."

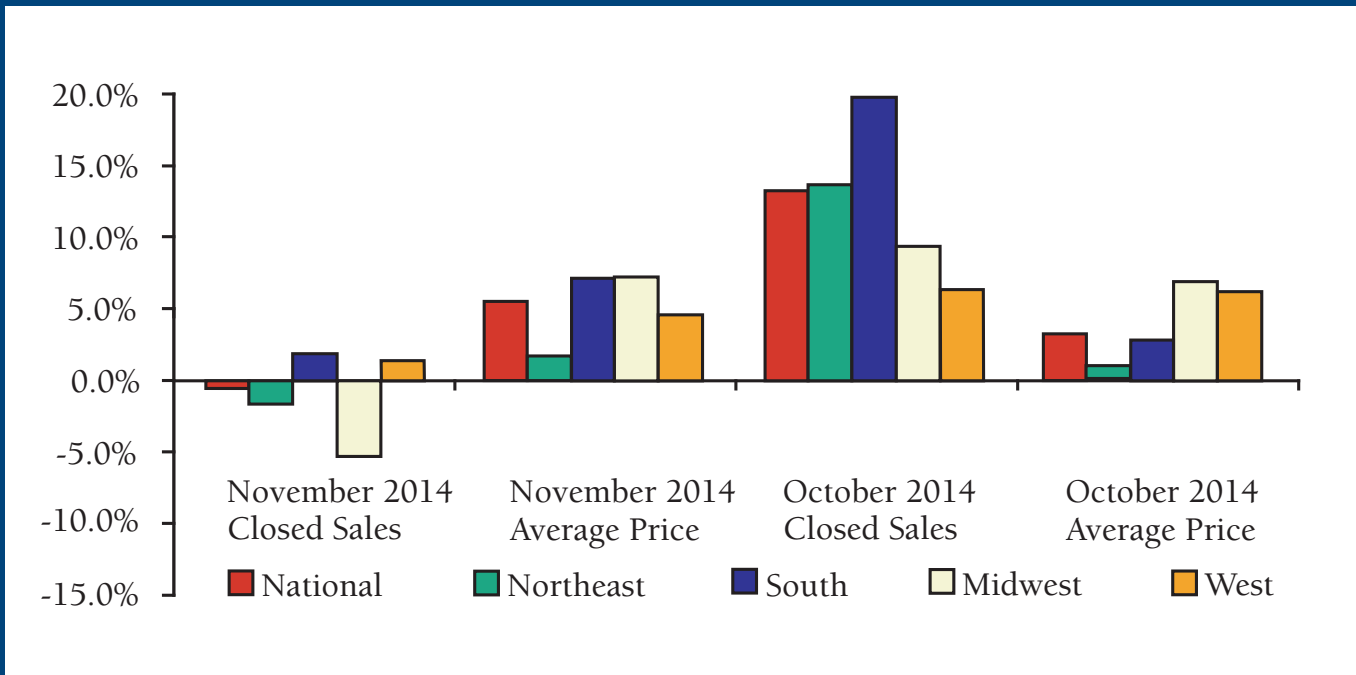
– Steve Murray

"It seems that the market has once again reached a level that will not improve dramatically without changes in underwriting requirements," says Murray. "While the recent announcements of changes to these requirements are positive for the long term, they will not affect the short-term level of housing sales." ■

REAL Trends November/October Housing Market Report

(Versus same month a year ago)

	November 2014 Closed Sales	November 2014 Average Price	October 2014 Closed Sales	October 2014 Average Price
National	-0.4%	+5.6%	+9.3%	+2.4%
Regional Report				
Northeast	-1.8%	+1.8%	+9.6%	+1.0%
South	+1.9%	+7.4%	+13.8%	+2.0%
Midwest	-5.2%	+7.3%	+6.6%	+4.9%
West	+1.5%	+4.8%	+4.5%	+4.4%



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German Banks Compete for New Lendees

With 2015 shaping up to be just as competitive as 2014, several big lenders are taking steps to gain an edge on the competition.

Written by Charles Kingston, editor, REFIRE

One of the key reasons cited in Germany for the non-existence of a residential housing price bubble is the moderation with which German banks have been extending finance for property investment. The Deutsche Bundesbank's oft-cited fears that property may be up to 25 percent overvalued in certain quarters in the larger German cities are frequently allayed by critics who point to the low interest rate environment, long-term lock-ins of loans at these fixed low rates, and the higher level of equity that many German buyers have been stumping up to realise the dream of owning their own roof and four walls.

At REFIRE, we've been following the German domestic housing market as part of our brief for the last 10 years. We witnessed the demise of the 100%-plus financiers such as ING, GMAC-RFC and a Deutsche Bank subsidiary muscling in on what looked like an emerging lucrative sector back in 2006 when the privatisation mania in Germany was beginning to take hold. This was just prior to the global financial crash.

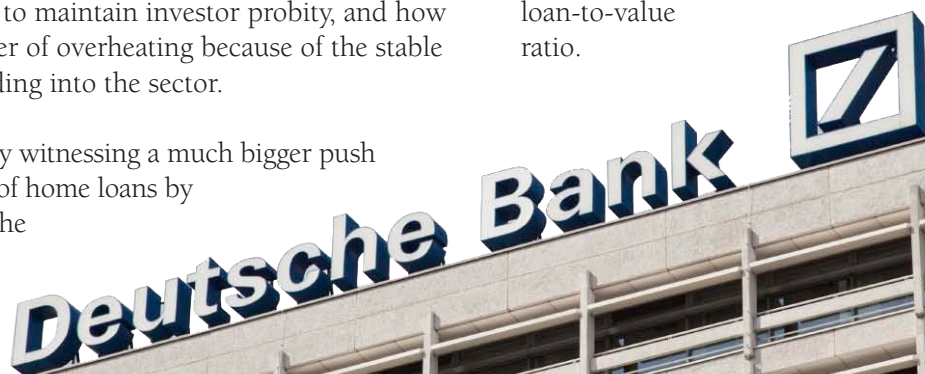
Since then we've largely been hearing the moral tale of sound German financing practices, the need for high levels of personal equity to maintain investor probity, and how there is little danger of overheating because of the stable levels of bank lending into the sector.

We're now certainly witnessing a much bigger push into the provision of home loans by German banks as the downside of low

interest rates means fixed-income investments are much less attractive. According to Barkow Consulting, the margin on mortgages averages 1.2 percent compared to less than 1 percent on government bonds, hence the banks are shifting resources to grab a bigger share of one segment that's doing well, although overall the mortgage lending market surprisingly seems to be actually shrinking.

According to the Bundesbank, sector lending to homebuyers was €168bn for the first 10 months of 2014, down 0.4 percent in value terms from a year ago, but up 2 percent in value terms from a year earlier. So what's really happening is what Germans like to call a Verdrängungswettbewerb wherever more competitors compete for a larger share of a fixed pie. With 2015 shaping up to be just as competitive as 2015, several big lenders are taking steps to gain an edge on the competition.

Deutsche Postbank, which is part of Germany's largest bank Deutsche Bank, is doubling its number of home loan advisers to 600 and creating a borrower-friendly website where customers can apply for a home loan. It plans to reduce rates to attract new customers, offering a 10-year mortgage with a rate of 1.5-percent fixed for 10 years, on a 60 percent loan-to-value ratio.



Rival Commerzbank, with more than 12 percent market share, is also making a big thrust into more home lending by aggressively targeting its existing customers with loyalty discounts and other preferred customer benefits, including the option of getting approval for government subsidies for energy-saving improvement while still in the loan application process. Commerzbank is offering 1.3 percent fixed for a 10-year, €100,000 loan.

compared to 17.4 percent in France and 20.5 percent in Spain. The evidence is that Germans really are taking less risk, stumping up more equity and paying off principal faster than in the past, at interest rates fixed for longer periods.

It is little wonder then, if this reflects the emerging model in Europe's biggest housing market, that a fundamental sea-change may be underway that will see Germany emerge from a nation of renters to one where owner occupiers start approaching levels seen in neighbouring European countries. It may take a while, but it's moving in that direction.

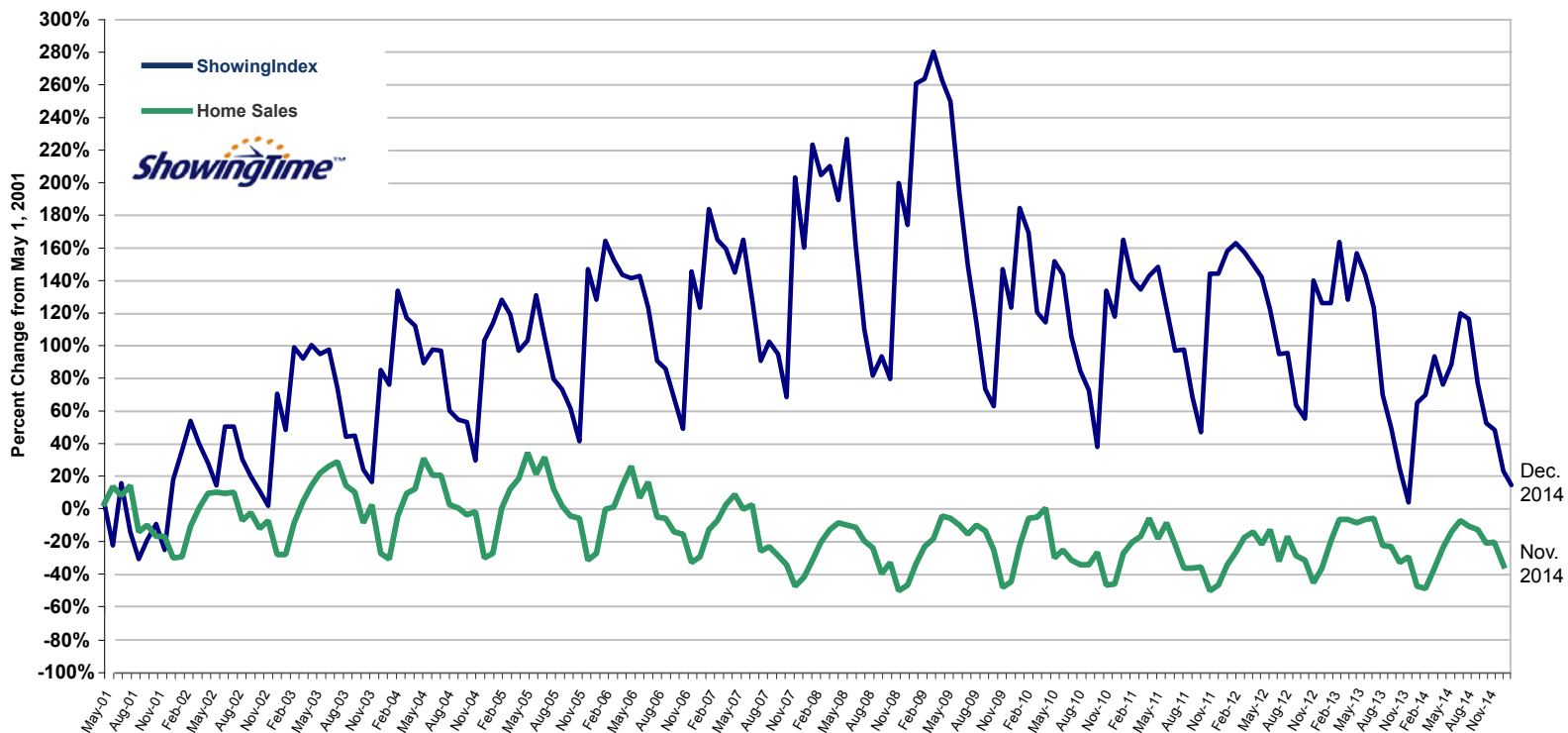
As we head into the new year, Germany's DIFI Index on financing sentiment, managed jointly by property adviser JLL and the ZEW (Centre for European Economic Research) reached a new all-time high, despite what the latest report describes as "remarkable in view of current tensions in the overall economic situation... and where almost all German economic indicators for the current year have been adjusted downwards." Financing conditions for all sectors—office, retail and logistics—have improved strongly over the past six months, boosted by expansive monetary policies and Germany's good showing in the recent bank stress tests.

For these researchers, the prognosis for 2015 is clear: Germany's biggest cities are heading for a further year of real estate price rises, particularly in the office and residential sectors. All the lights seem to have turned green. ■



Other banks, including ING-DiBa, are actively looking at reducing rates in cities where competition from other banks is highest, and where prices have risen the highest, such as in the biggest seven cities. And still, if the figures from the European Central Bank are to be believed, the share that Germans who take out mortgages spend from their household income on loan repayments is 12.8 percent,

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 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.

The Millennial American Dream

Feds Mystified: Why Do Millennials Still Live at Home?

We'll give you a hint: it isn't jobs, student debt or housing.

Written by Michael Shedlock, investment advisor representative and JJ Abodeely, CAIA director/portfolio manager, Sitka Pacific Capital Management LLC

A comprehensive analysis of the market requires a holistic view. Understanding where we are and where we are going, particularly during transitions, means looking beneath the surface of recent market performance, corporate results or news headlines.

Let's elaborate demographics. You've probably read about the aging of society and declining worker-to-retiree ratios, and the likely impact on deficits, debt, inflation and asset markets. Here, let's look at the other end of the spectrum—household formation, the current state of the Millennial generation and the large impact that subtle cultural changes can have on economic and market outcomes.

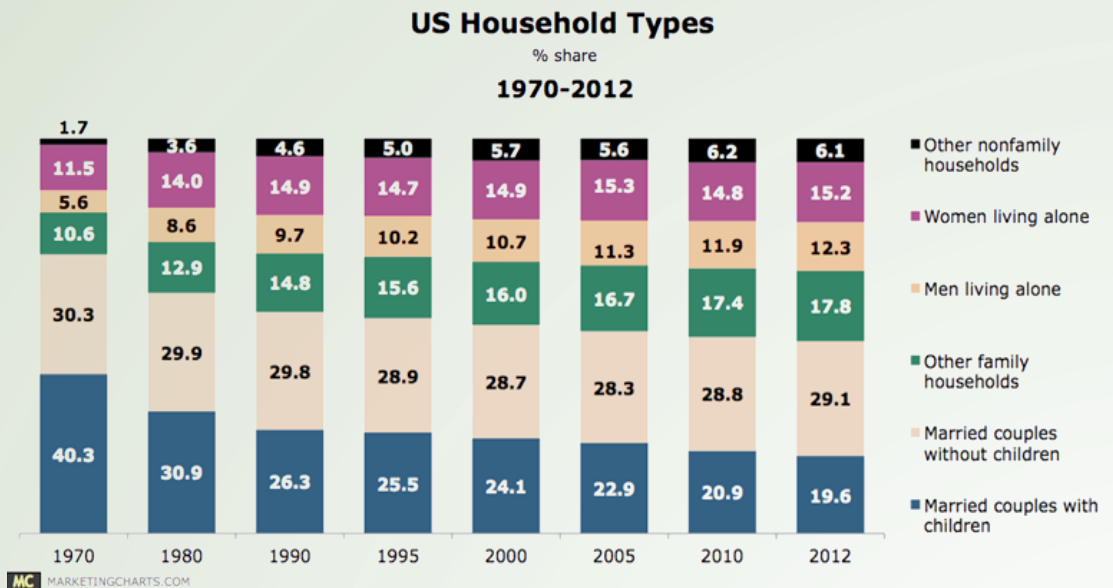


Source: <http://www.cnn.com/interactive/2011/05/living/infographic.boomer/>

Although the above infographic is a few years old, it does a good job of categorizing the major American generational groups. The Millennials are now in their 20s and 30s and their behavior as a group has profound consequences for how economic growth will play out in the years ahead and how the shifting nature of those economic decisions will affect markets going forward.

The Millennials are sometimes called the Peter Pan generation because of their tendency to delay some of the traditional rites of passage into adulthood like moving out, getting married and/or having children. This, along with other cultural factors, has dramatically altered the make-up of U.S. households over the last several decades with married couples living with children now comprising less than 20 percent of all U.S. households, down from more than 40 percent in 1970.

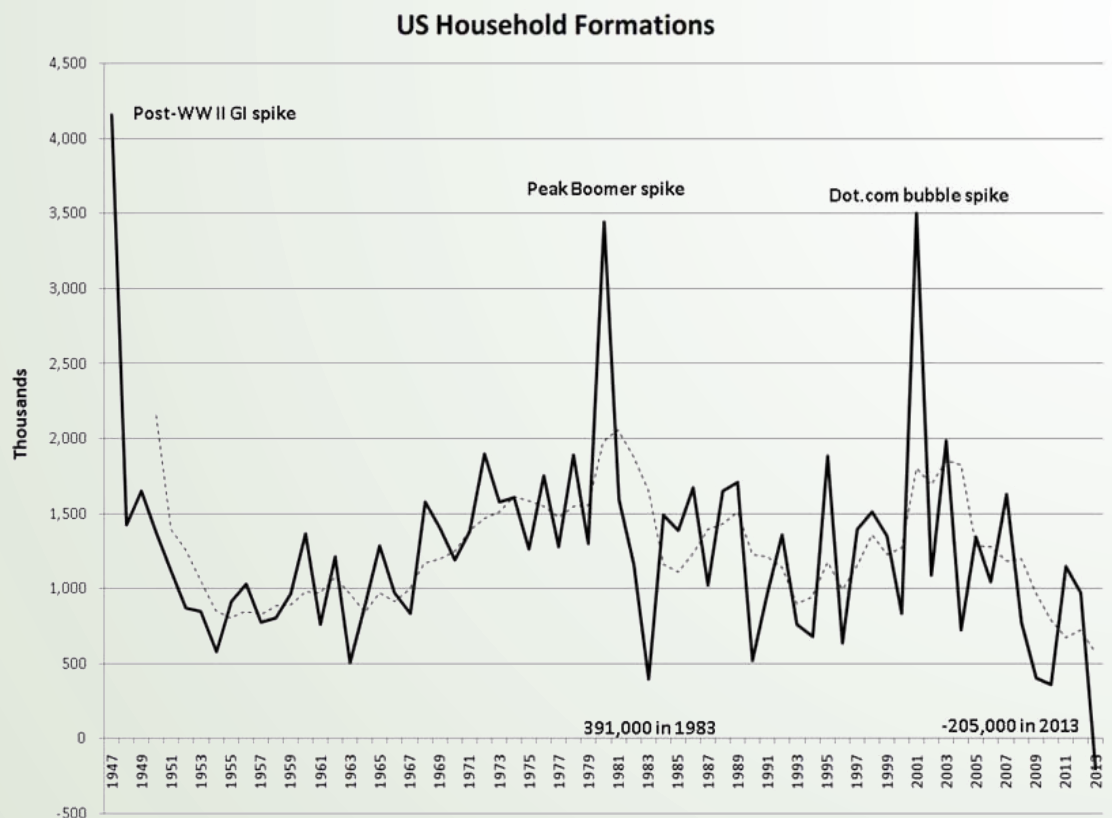
However, it is not just the make-up of U.S. households that is dramatically changing; it is also the number of household formations. Household formation involves a complicated series of decisions including, for example, whether to move out of, or back into, a parent's home, whether to live alone or with roommates, and whether to get married to or form a partnership with another individual. The chart below



shows the number of new household formations since 1947, and the latest data for 2013 shows a decline in the number of households formed for the first time in the post-war era. When we smooth the data (dotted line) there is an unmistakable downward trend over time.

Demand for housing units drives capital spending and employment in several key sectors of the economy.

Household formations are very important to economic growth for several reasons. The most obvious is that increasing numbers of households translates into demand for new housing units, whether single-family homes, condominiums or apartments. Demand for housing units drives capital spending and employment in several key sectors of the economy. However household formation also drives other types of consumer spending vital to the economy, from durable goods, such as washing machines and refrigerators to retail merchandise, such as furniture and home goods to services, such as utilities, telecommunications.



The decisions that impact household formation are made as a result of numerous cultural and economic factors. For example, Millennials are more ethnically diverse than previous generations, with the correspondingly different attitudes towards multi-generational households.

Additionally, Millennials' attitudes toward the traditional notions of the American Dream are different from generations before them. In general, they are much more likely to prefer living alone and in urban settings until much later in life. Today, over 30 percent of households are comprised of individuals living alone versus just 16 percent in 1970.

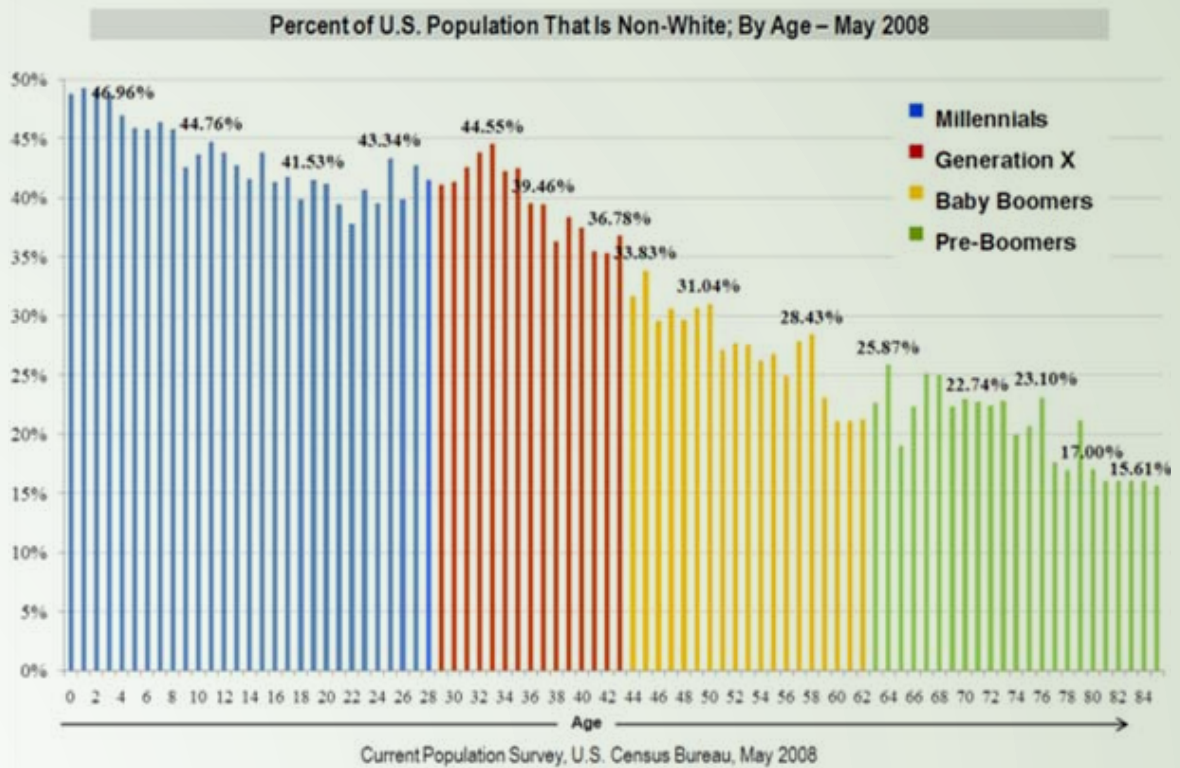
Yet, despite these strong cultural factors, it is the economic factors that are likely driving the significant reduction in household formation in the United States. These economic factors begin with employment and incomes—having a job that pays enough to allow one to establish his or her own residence.

As the blue line in the chart below demonstrates, those under age 35 have the lowest level of participation in the workforce in at least 35 years. As the red line demonstrates, the group also has much lower levels of employment than they have historically.

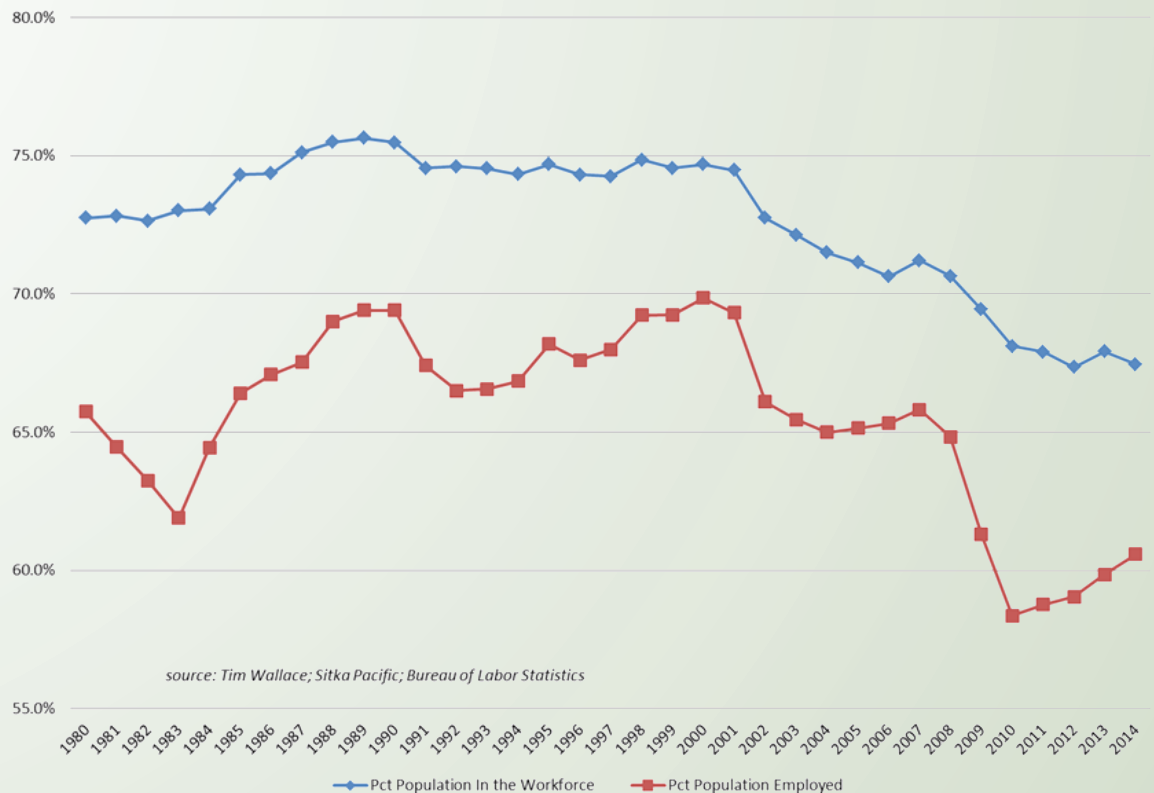


Not only do more Millennials have fewer jobs than previous generations in the peak household formation years, but even if they do have jobs, they are more likely to be lower paying than in previous generations.

The Millennial Generation is the Most Diverse in American History



Percentage Breakdown of the 16-34 Population in the Workforce and Employed



As a group, the young adults in our society who would otherwise be in their peak years for household formation are making no more on an inflation-adjusted basis, and often less, than they have in almost 50 years. Since 2000, the inflation-adjusted income of these young cohorts has fallen steadily. This should be shocking to those who believe in the importance of economic opportunity for a society's progress.

As always, the challenge is not just understanding where we've been, but objectively analyzing where we are likely heading. In other words, are the factors that have reduced

employment and driven declines in real incomes for 20-30 year olds, thereby dramatically slowing household formations and with it true sustainable economic progress temporary or here to stay?

Some would argue, for example, that the huge increase in those attending colleges will be a net benefit to the Millennials as those who attend some, or graduate from, college tend to earn more money. This line of thinking may even suggest the commensurate surge in student loan debt represents "a good investment" made by the Millennials, which will enhance future earnings power.

While on an individual basis this may be true in many cases, on an economy-wide level it may not be.

For example, structural changes in the economy are dramatically altering the value of certain types of degrees that previously resulted in good paying jobs. Those jobs have since been replaced or reduced by global competition, automation or other advancements.

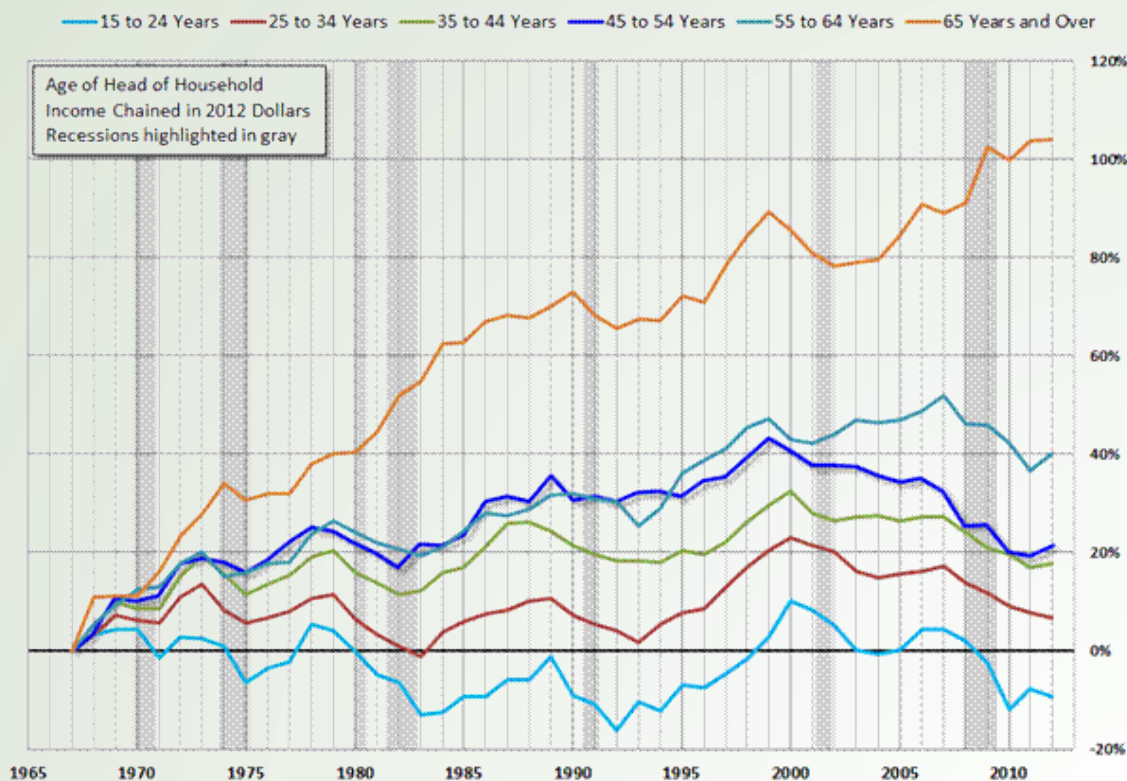
At the same time, the proliferation of the accreditation of, and attendance at, four-year colleges has arguably reduced the quality and value of a degree, especially as a college degree has become a less scarce good. In microeconomic terms, the supply of college graduates has gone up while the demand for their skills may be declining, which leads to a decline in the value of a college degree in general.

As evidence, a study by the Institute for College Access and Success found that over 37 percent of recent graduates are working in jobs that do not require a degree. While the unemployment rate among young college graduates is around 7.7 percent, a broader measure including those who are working fewer hours than they wanted, were not working but still looking for work, or had given up looking for work, stood at 18.3 percent.

Of course, there is also a cost to this surge in college education and that is a commensurate surge in student loan debt, which now stands at over \$1 trillion, up over 500 percent in just over a decade.

Median Real Household Income Growth By Age Bracket

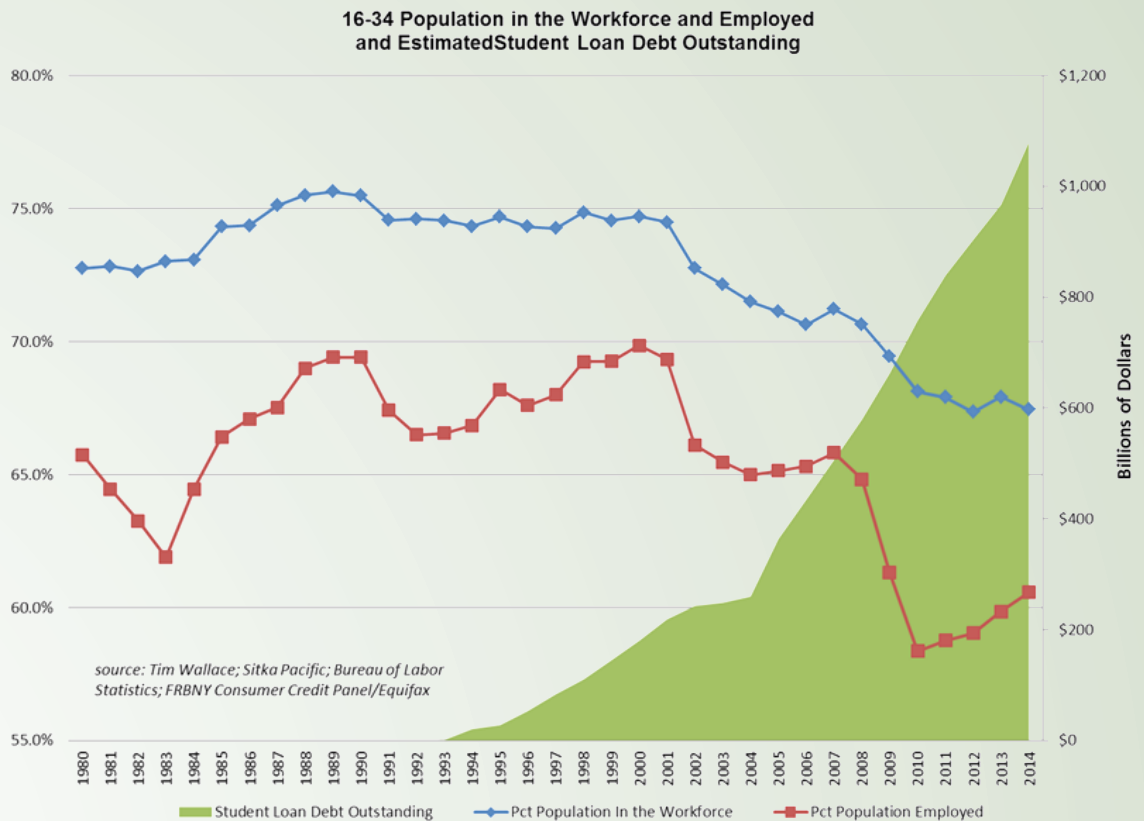
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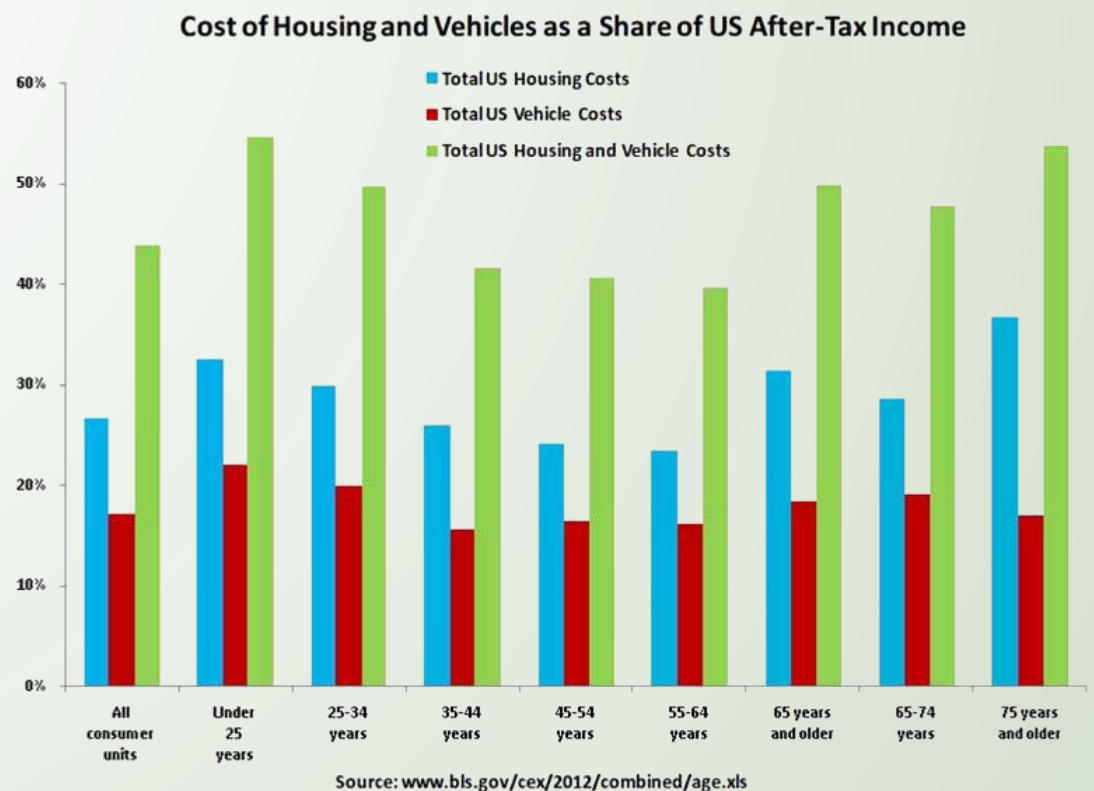
The details of the surge in student loan debt are staggering, disturbing, and somewhat beyond the scope of this piece.

The basic fact is that among 2012 graduates at public colleges nationwide, 66 percent had loans and owed an average of \$25,500; at nonprofit colleges, 75 percent had loans and owed an average of \$32,300; while at for-profit colleges, 88 percent had loans and owed an average of \$39,950. This says nothing of the students who take out loans to attend college and never graduate.

This mountain of student debt ensures a larger share of future Millennials' income will go to debt service, thereby impeding future spending on housing, retail sales and pretty much everything else. Furthermore, this is coming at a time when the cost of housing and vehicles alone is over 50 percent of after-tax income for those under 35.



This is another reason that while a greater percentage of Millennials are attending college than any other generation before it. Millennials have earned the moniker the Boomerang generation for their tendency to move back in with their parents after college.



The bottom line is that sorry employment prospects for the vast majority of Millennials are preventing an important swath of society from forming households while real incomes are not keeping up with real house prices.

Ground Zero: The Housing Market

The bottom line is that sorry employment prospects for the vast majority of Millennials are preventing an important swath of society from forming households while real incomes are not keeping up with real house prices. As we covered in our July 2013 piece, “Real Estate Echo Bubble,” low supply coupled with low rates and high demand from institutional investors has rapidly driven prices up, further reducing affordability and demand from many buyers. This is especially true for the Millennials, many of whom are would-be first-time homebuyers.

In data from a recent study from the National Association of Realtors®, it becomes apparent that the housing market is ground zero of the deceleration in Millennial household formation.

First-time buyers accounted for 26 percent of home purchases in January 2014. This is down from 27 percent in December and 30 percent a year ago, making it the lowest level for first-time buyers since October 2008. This group of buyers should normally be closer to 40 percent of the market (*Update: in November 2014 the figure has risen to 31 percent, still well below historical norms*). An NAR survey showed that, of the first-time buyers who said it was difficult to save for a down payment, 54 percent said student loans made it tough to save money.

While overall prices have remained firm, existing home sales have softened from a 5.38 million seasonally-adjusted

annual rate at its recent peak in July 2013 to just 4.62 million in January 2014 (*Update: they stand at 4.93 million in November 2014*). Today, amid ongoing limited inventory, there is mounting evidence that the housing market is decelerating and price declines are ahead. In January 2014, sales of homes under \$250,000 (65 percent of the national market) actually declined 10.7 percent year over year.

Bringing it All Home

Most investors do not understand how much the growth of household formation is decelerating. Even those looking at the data assume we are experiencing a cyclical decline as opposed to a secular change. Given trends in employment, real incomes, debt service, and housing affordability, the outlook for Millennials does not support a housing growth cycle. For a growing majority of Millennials under age 35, the cost of housing as a share of disposable income is prohibitive to forming households.

Economists and housing bulls have yet to recognize and internalize how relatively poorer Millennials are than previous generations with respect to their capacity to secure paid employment and after-tax incomes and purchasing power to be able to afford to sustain a typical U.S. household and the traditional economic effects that has.

Most analysts, from the peak Boomer age cohort, are erring in extrapolating their own once-in-history demographic effects on housing, asset prices, employment, wages, and economic growth since the 1970s-2000s. ■



Technology and Consumer Expectations

Online House Shopping is Addictive!

A recent study shows how buyers are using online technology during the home-buying process.

by Travis Saxton, REAL Trends technology and marketing manager

It's safe to say we're all a touch (well, maybe a little more than a touch!) addicted to our technology. Homebuyers are no different.

A recent independent poll commissioned by Discover Home Loans shows 89 percent of homebuyers use some form of online technology to help them with the home-buying process. In fact, 76 percent of buyers interviewed say technology makes them a smarter homebuyer and 69 percent said it makes them more confident.

A Better Buyer

Buyers who use technology during the home-buying process feel smarter, more confident and more satisfied.

- Almost half of all homebuyers (47 percent) report that using technology helped them save money.
- As many as 92 percent of those surveyed say that technology helped save time.
- A significant amount of buyers (90 percent) report an overall positive experience.

Technology Use is Addictive

While it's no surprise that nine out of 10 buyers (89 percent) use online resources during the home-buying process, two-thirds say looking at online property listings has reached the point of becoming addictive.

The top three ways people use online resources in the home-buying process are:

- Eighty-three percent look at real estate listings.
- Seventy-two percent use online maps to explore neighborhoods
- Seventy-one percent use email, apps or websites to submit documents to lenders.

Among those who look at online listings, 78 percent say they spend time at work looking at properties. Nearly all (93 percent) of technology users surveyed say technology allows them to do things remotely that they otherwise would have to do in person.

“Buyers are clearly looking to play a larger role in the home-buying process and turning to the latest technologies to find the information they need,” says TJ Freeborn, senior manager of customer experience at Discover Home Loans.

“Technology is a great resource for buyers because it gives them access to online property listings and allows them to preview homes. They may also find reviews on real estate agents and mortgage lenders. It's truly changing the home-buying process, and the result is a more confident, informed buyer.”

The Impact of Technology on Agents

While the real estate agent's role remains critical, technology has become more important to buyers, and more integrated into the work of both real estate agents and buyers in the home-buying process. Understanding the more informed and confident homebuyer is essential for an effective real estate agent-buyer relationship.

- The real estate agent's role is still critical, as 83 percent of respondents reported working with real estate agents to buy their homes.
- Seventy-four percent of homebuyers feel it's important for their real estate agents to be tech savvy. In fact, most (82 percent) say that their agent is tech savvy.
- In communicating with agents, nearly all (98 percent) communicate via phone calls.
- Of buyers working with agents, 42 percent surveyed say that they did most of the work to find properties initially.

The national survey of 1,003 recent homebuyers was commissioned by Discover Home Loans and conducted by Versta Research, an independent survey research firm (<http://www.verstaresearch.com>), September 5 to September 17, 2014. The sample was carefully balanced and weighted using AHS (American Housing Survey) and NAR (National Association of Realtors®) data to ensure an accurate representation of homebuyers by region, age, marital status and first-time vs. repeat homebuyer status. ■

Agents Rely on Print to Get Web Traffic

WebsiteBox survey respondents spend \$500+ annually on postcards, signs and fliers that steer customers to websites.

In this era of online marketing, why are business cards, fliers, postcards and lawn signs still essential tools of real-estate sales campaigns, even though there isn't overwhelming evidence for a return on investment (ROI)?

Print-marketing tools appear to produce fewer sales leads than online marketing, according to the results of a November 2014 WebsiteBox survey of 369 real estate professionals in the United States and Canada.

"But, print marketing continues to be popular because agents intuit—correctly—that print drives local traffic to websites, and delivers sales leads to email inboxes," said Peyman Aleagha, chief executive and founder of WebsiteBox, a provider of do-it-all websites for real estate professionals.

It's no surprise then that 99 percent of survey respondents said they include website addresses in their print marketing. Use of social media information—Facebook or Pinterest, for example—was reported by 54 percent of respondents.

While they continue to rely on print, respondents said that only 13 percent of their sales leads come from traditional print promotion versus 21 percent of leads that originate from online marketing. This seeming contradiction may result from misunderstanding in how print can work in concert with online marketing, according to Aleagha, and that less than half (42 percent) of respondents calculate the ROI for their print marketing.

On the other hand, it might not matter: The survey found that 60 percent of real estate sales leads come from good old-fashioned referrals.



are business cards, fliers, postcards, lawn signs and letterhead.

Despite saving on design costs, 60 percent of respondents reported that they typically spent more than \$500 annually on print promotion. A sizable majority—80 percent—said they felt they should be spending even more.

What would these respondents print if they had a bigger print marketing budget? More postcards, naturally, along with branded presentation folders, promotional coffee mugs, key chains and flash drives, according to the survey.

Free Advice, Low-Cost Tools

WebsiteBox's free e-book, "Real Estate Print Marketing for the Digital Age," has information for those who want to integrate traditional marketing and advertising with digital promotion. ■

For more information

[CLICK HERE](#)

"Print marketing continues to be popular because agents intuit—correctly—that print drives local traffic to websites, and delivers sales leads to email inboxes."

— Peyman Aleagha, Websitebox

Real Estate Print Marketing is Changing

66%

of REALTORS® design their own print pieces. They use Adobe Photoshop, Microsoft Word, VistaPrint and other DIY tools.



80%

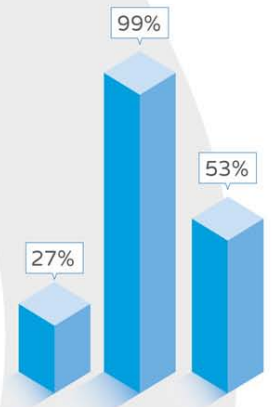
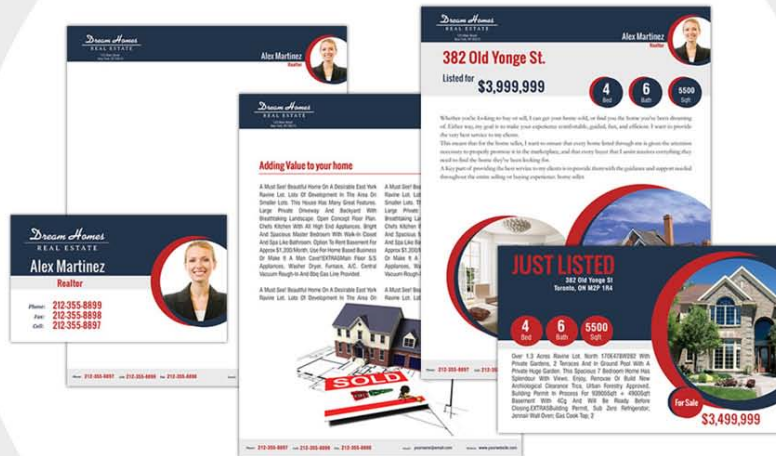
of REALTORS® believe they should spend more on print marketing

Majority spend over

\$500
per year



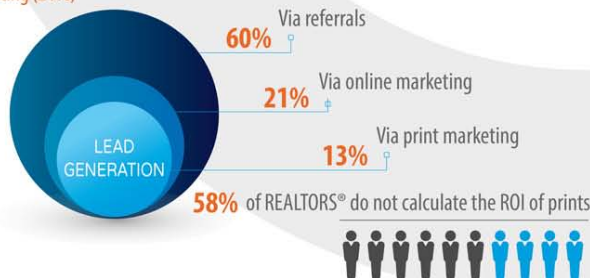
If they had a bigger print budget they would spend it on promotional items



They are combining print with digital

- 99% include their website on print materials
- 53% include social media links
- 27% include QR codes

When it comes to print as a lead generation source, print (13%) still lags behind referrals (60%) and online marketing (21%)



Top 5 marketing pieces that REALTORS® printed in the last year:

- Business cards
- Flyers
- Postcards
- Lawn signs
- Letterheads

3 Things REALTORS® can do to make sure their marketing is up to date for the digital age

1

Use print marketing to drive highly targeted LOCAL traffic to your website and social media channels.

2

Measure the ROI of your print marketing pieces by including unique URLs, tracking phone numbers and QR codes.

3

Save time by using technology tools that automate data entry of listings and your contact database.

2015 Gathering of Eagles

The Last Word on Leadership

One part of the REAL Trends Gathering of Eagles (GOE) program that excites us the most is that Patrick Lencioni, author of nine books on leadership and organization, is going to lead a two-and-a-half-hour workshop on building a healthy organization. This is not just a speech, but an actual work session on the methods and approaches for a business leader to establish a strong performance-based culture.

Nothing is more important to a brokerage firm than the establishment of a strong culture. Our studies in 2006 (People Still Matter) and again in 2013 (Against All Odds), along with our annual studies of brokerage performance show that leadership and building a strong culture are the most important attributes of a growing profitable realty company. While brand, business model and service packages are important, nothing is as important as culture.

We are particularly excited to have one of the world's foremost consultants on this issue with us. If you don't want to attend to meet and enjoy the interaction with Peyton Manning, come to learn from Lencioni.

One last note on the Gathering, we can only have 300 people attend, and have only 105 spots left.

I encourage you to attend. This will be a special time for learning some valuable lessons.



Peyton Manning



Patrick Lencioni

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2015