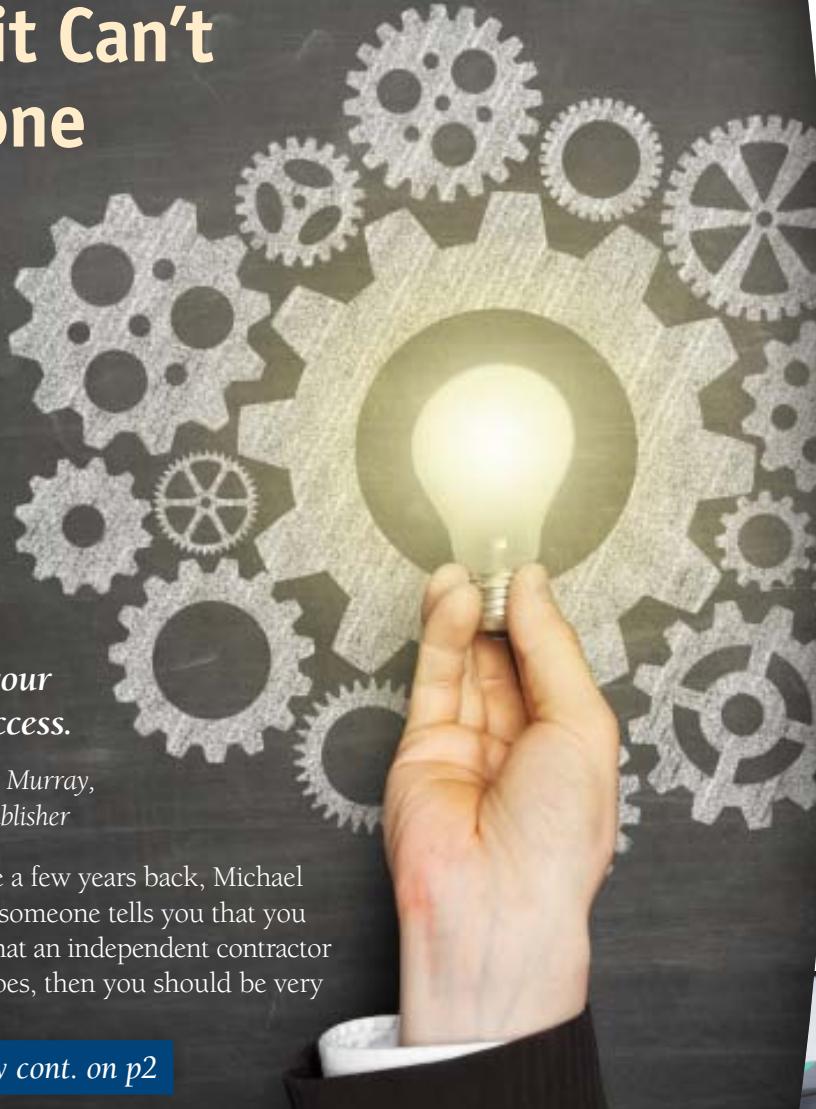


REAL Trends

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Commentary

Conventional Wisdom Says it Can't be Done



Setting up your team for success.

Written by Steve Murray,
REAL Trends publisher

At a conference a few years back, Michael Staver said, "If someone tells you that you can't control what an independent contractor in real estate does, then you should be very

Commentary cont. on p2

INSIDE: •

- p3 A Different Look at the 2015 Housing Market
- p3 ShowingIndex
- p4 Agent Productivity
- p6 The Importance of Property Management
- p9 Incremental Change
- p10 Featured Leader: John P. Horning
- p11 REAL Trends Housing Market Report: Housing Sales Soar in December
- p13 How Does Your CRM Impact an Agent's Sphere?



Market Influencers

How Will Oil Price Drop Affect Housing?

According to many sources, oil price drops can be good for housing. But, there are some downsides. Here's our analysis.

Written by Steve Murray,
REAL Trends publisher

If you've been to the pump lately, you've surely had sticker shock in a good way. Another positive thing about oil price drops is that, experts say, it's a good thing for the housing market. American consumers will have more spendable income, feel wealthier and be able to save more (hopefully for that down payment). This can lead to more household consumption on all kinds of things related to housing, including the ability to invest in new homes. Along with the

Oil Prices cont. on p8



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Commentary cont. from p1

very afraid, not of the independent contractor but of your own attitude."

Obviously his point was that, even independent contractors can be held to standards of behavior, conduct and performance. The real issue is whether the leader of a brokerage firm or a sales office wants to and has the will to do so.

In early January, I attended the first Ninja Leadership program hosted by Larry Kendall and his team. It was an informative three days and nearly 80 brokerage owners and managers attended. I went because each of us needs to retain the heart and mind of a student. There were other leaders who attended whom one might not think needed a refresher in leadership and organizational effectiveness.

There is a system for being successful in the residential brokerage business. The Ninja approach works for The Group Inc. in Fort Collins, Colorado, (and has for 38 years) as it is now working for the thousands of Ninja adherents. There is absolute proof that the Ninja system has elevated the sales achievements of untold numbers of agents. An additional example is how Keller Williams has built a successful system of recruiting and has risen to become the largest firm in North America in terms of the number of agents they have. They did not get to an estimated 112,000 agents without a system to get them there.

"Yes, even independent contractors can be held to standards of behavior, conduct and performance," says Steve Murray.

Doubtless, there are many other examples within the brokerage business of individuals and companies who adhere to a system to drive growth. Truth be told, however, the majority of brokerage firms and sales agents have no system. Their approach to our business is *laissez faire*. Yes, they incorporate training, and yes, they attend seminars, and yes, they embrace trying to build a system that provides consistent results. But, for the most part, the foundation of a system is missing.

It is not that there are no systems. It is that even those who have one do not hold themselves (agents) or their leadership teams accountable to the system and results. This should come as no surprise.

Conventional wisdom says the brokerage business and independent contractor agents can't be systematized in such a manner. Yet, there are a small, but growing, group of organizations that are proving that to be dead wrong. ■



A Different Look at the 2015 Housing Market

Everything we read says this year will be better than last year. Here's a look at the possible, negative impacts.

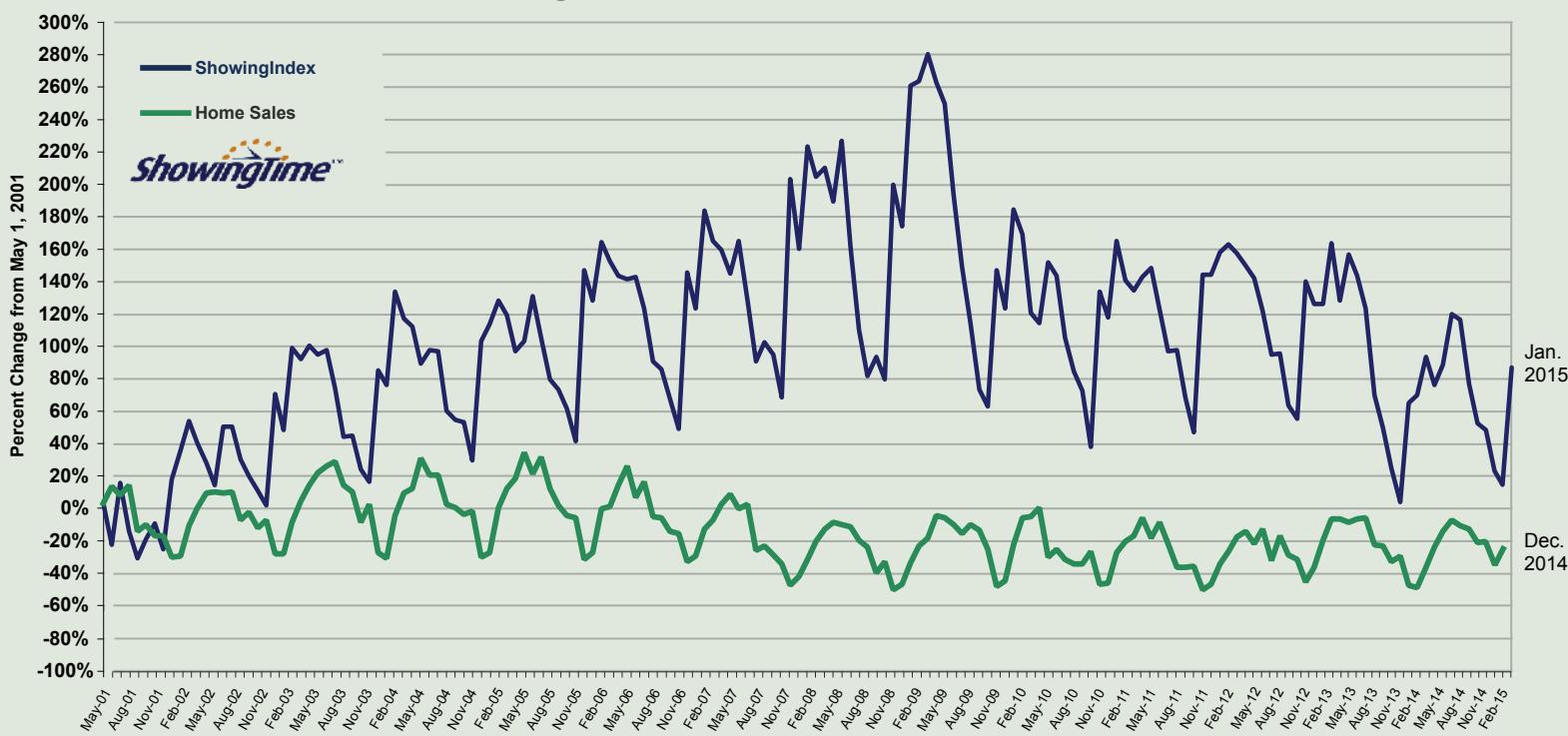
While we would love to believe all the positive reports, 2015 may not be as good as 2014. Among the potential adverse impacts are:

- Foreign investors and buyers may reduce their purchases due to the strengthening of the dollar and weakness in their home country economies. This may especially be true for Russian buyers and investors.
- While the job market appears robust, with total jobs added in 2014 the best results in 14 years, family and household incomes remain stagnant. The percentage of working-age Americans who have full-time jobs remains at nearly a 36-year low. The rise of home prices (even offset by lower mortgage rates) creates a situation where affordability becomes a larger issue.

Finally, the entire mortgage arena may remain an issue. There are two areas of concern to some forecasters. Even though Fannie and Freddie are loosening underwriting guidelines, it does not mean that mortgage lenders are going to jump in quickly. They were badly burned in the downturn and have been battered by settlements. They are gun shy about moving too quickly. Also, there are strong feelings that, at some point, interest rates will rise. There are also some new appraisal requirements that may put a damper on housing sales, as well.

Now, when rates start to rise it tends to bring a rush of buyers into the market. That could happen here. Ultimately, it makes it more difficult to buy a home. ■

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.

Agent Productivity

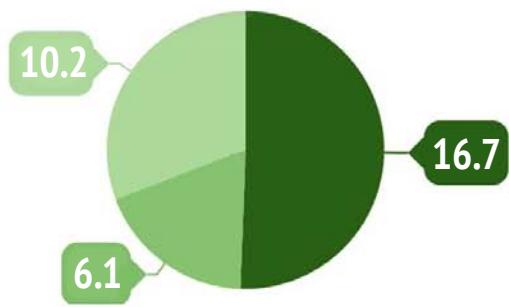
We broke down data from five years of REAL Trends 500 and Up-and-comers reports and four years of the REAL Trends The Thousand to show you just how productive agents are based on the brokerage model.

Agent Productivity Across Business Models



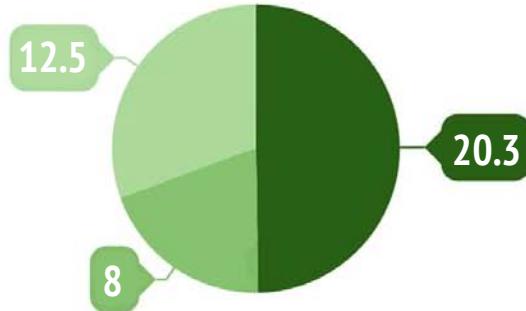
Agent production [transaction sides] across business models.
Data was collected from the REAL Trends 500 and Up-and-Comers reports 2009 to 2013.

Transactions Per Agent 2009



■ Fixed Fee ■ Capped Plan
■ Traditional Broker

Transactions Per Agent 2013



■ Fixed Fee ■ Capped Plan
■ Traditional Broker



Change in Agent Productivity

A positive change in per agent productivity was observed across all models.



Fixed Fee
21.7%



Capped Plan
32.3%



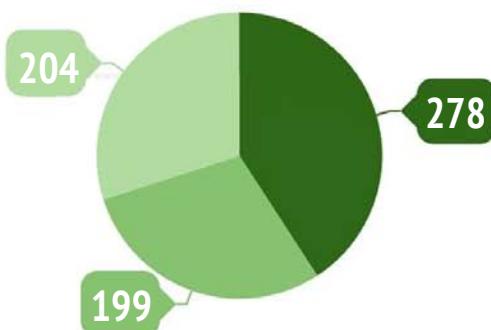
Traditional Brokerage
22.6%

Trends in Agent Production of The Thousand



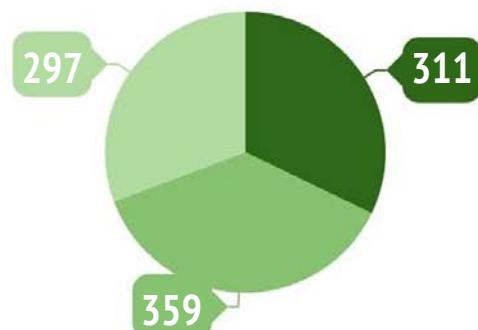
Agent production [transaction sides] among different business models as reported from **REAL Trends The Thousand** from 2010 to 2013 (the averages).

Agent/Team Production 2010



■ Fixed Fee ■ Capped Plan
■ Traditional Broker

Agent/Team Production 2013



■ Fixed Fee ■ Capped Plan
■ Traditional Broker



Change in Agent Transactions

A positive increase in the average agents/teams production was observed across all business models.



Fixed Fee
11.9%



Capped Plan
80.4%



Traditional Brokerage
45.6%

Today's "Customer for Life" Generator

Your current property management system needs to change or risk disruption.

Written by Jeremy J. Conaway, contributing editor

As the industry's long, dreary winter of 2005 to 2011 gives way to the spring 2012 thaw, exposed by the melting snow was the housing and lifestyle attitudes of the Millennial Generation. The question was: Would the largest demographic in American History take up homeownership as a part of their life's experience? Or, would they remain in their early lifestyle rental environment?

The more dramatic of the industry's observers rushed to announce that over a mere five years, the centuries-old tradition of homeownership in America had morphed into a renter nation and that homeownership was soon to be a thing of the past for all but the most prosperous of family units.



A New Reality

It is now apparent that the Millennia's will ultimately join the ranks of homeowners but that, due to a number of unique issues, such as debt and mortgage complications, their migration will take a bit longer than that experienced by their cultural predecessor, the boomers. A key message here is that rental lifestyles will have to expand to meet the needs of this very sophisticated and demanding demographic. Today's lifestyle-driven real estate consumer is going to rent for a while, but he or she is not willing to view the rental experience as a lesser lifestyle or punishment that one must endure while waiting to ascend to homeownership.

Property Management Impacts

The import of this message from the broker perspective is three-fold. First, existing property management operations will not be sufficient to meet this enhanced status. Second, major players are moving to bring their property management operations up to new standards (discussed below) and, third, the property management function will move far beyond investor accommodation, through core services and will become a primary portal and/or gateway through which brokerages will create positive relationships. These relationships will ultimately transition into classic real estate transactions enriched by substantial lifestyle offerings. Property management may be the ultimate customer for life generator.

Property management may be the ultimate customer for life generator.

A Wake-up Call

One can easily hear the cries of those who announce that they have been in the property management field for decades and are doing just fine. Those who believe their traditional property management business model will be competitive in the new rental environment would do well to study the information generated by NRT's August 2014 announcement that they were taking property management to a new level. NRT is about to create a new strategic and tactical model for property management, and there is a high likelihood that this model will become a major wake up call.

These comments are not to suggest that traditional brokerage based property management efforts haven't performed an important function, in fact, they have. It is to suggest that,

like every other element of the residential real estate, property management is about to experience a significant transition in operations, objectives and purpose.

Consider the following regarding the traditional real estate brokerage based PM program:

- The primary function of the traditional PM was not to drive profits; but rather to drive commission revenues from clients who said, "I will buy if you agree to manage."
- The procedures and practices that evolved through this course were not intended to optimize relationships but instead to facilitate the above accommodation and maintain a connection that might generate a commission when the investor was ready to move on.
- This arrangement is what created the traditional real estate brokerage-based PM program.
- Many of the primary competencies and skill sets of a great property manager are antithetical to the common skill sets of a great agent. This was not a match made in heaven.
- PM was not looked upon as a distinguished function but rather a necessary task.
- While PM revenue might have occasionally functioned as a revenue stabilizer, it was never seen as a primary revenue source nor did it ever reach the level of a qualified core service even though if operated properly it has the potential to outperform those classic offerings
- Even in its traditional format, PM has always been and continues to be a highly challenging business activity that has a high liability profile. This fact is often not addressed.

Moving forward, as the contemporary PM system begins to make an impact, brokerages will discover the following:

- Common sense will dictate that operating a traditional PM operation will no longer make any sense. It is simply not relevant to today's industry environment. It is not making an appropriate contribution to revenues, it is not sustaining relationships, nor is it in anyone's benefit or advantage.
- Even the financial equation of the traditional PM business model continues to blur. Costs have increased. Investor demands for operational metrics have increased. Without increasing revenues to meet these increased expenses, PM will quickly become a loss proposition. It is fast becoming a business not worth owning.
- The current PM environment is poised for digital disruption as major players announce plans to take a position in the PM field backed by substantial financial resources and motivated by a vastly expanded vision of the competitive advantages of a combat tactical PM.
- Message to brokers, either come up to PM speed or you will be a victim of this unique form of digital disruption.

How does PM have to transition? The following information is provided for those readers who find the above arguments compelling, it is a highly refined inventory of the functionalities that must be incorporated into a contemporary PM program.

- The program must be focused on profitability and revenue per unit. The PM manager must focus on maximizing profitability and investor relationships while being aware of the lifestyle movements of their tenants.
- It must incorporate a wide range of service-related revenue generators. To do this, it must identify each service task and equip each with a companion revenue factor.
- The program must have a highly effective process that will rent the property quickly. Vacant properties all too frequently reflect PM deficiencies rather than market shortfalls.
- Fast and effective tenant qualification is critical. The investor is looking for a quality tenant that pays the rent on time, lives in accordance with the lease and cares for the property. Credit, criminal background, and past rental checks are part of the new PM standard.
- Regular and detailed property inspections and condition reports are an integral part of the new PM.
- The program must work in continuous collaboration with a real-time, managed network. PM is now about what you are learning today, not what you learned five years ago. Best practices are no longer aspirational but rather expected. Critical knowledge and data have become essential factors of success. The cost, competitive, mass buying and comparative benefits of such a network are now essential to PM effectiveness and profitability. Surprise is no longer acceptable to the real estate investor. Investment has become a much more specific data- and metric-driven activity. Investor communications must be complete, comprehensive and compelling. Only a tactical network can provide this information.

- PM must prioritize the creation and nurture of tenant and investor relationships that will evolve into real estate service delivery opportunities moving forward.
- Each of the functionalities outlined above must be self-supporting financially, and each must contribute to the overall profitability of the program.
- The PM function and network must incorporate finely detailed operational data and metrics that address each of the hundreds of tasks that constitute contemporary PM. What paint to buy, what response protocol to maintain and what actions to take. Each of these tasks must be backed up by management, cost accounting and communications resources. Highly profitable PM is a game of minute attention to detail; the pennies and the minutes must be counted!
- Today's investors are willing to make enlightened decisions regarding the level of PM service and support they are willing to pay for if it is properly presented. Such service must include real-time information regarding property condition and rental metrics that can be compared with like properties in like environments.

As is the case for many real estate marketing, transactional and occupancy activities, a new standard of performance, one that is significantly more detailed and sophisticated than is predecessor, has emerged and is heading into the PM space. Within the next 18 months, this new standard will become an investor expectation.

Don Lawby, president of Real Property Management, headquartered in Salt Lake City, summed it up when he said, "The property management industry is now facing real and significant digital disruption. Through innovation and advanced technologies, the industry can make digital disruption an opportunity rather than a threat. All of the pieces are in place. This is the opportunity of a lifetime. We can do this." ■

Oil Prices cont. from p2

loosening of standards from Fannie and Freddie and lowering of costs by FHA, this could add measurably to housing sales in the United States.

The Flip Side

Others caution that there will be job losses in the energy states (Texas, Oklahoma, Colorado, Alaska, North Dakota, Montana, Ohio, Louisiana, and Pennsylvania, to name a few) and that employment will take a material hit in those states. Further, lower expenditures for gasoline have little impact on the ability of households to qualify for a loan. What matters is a consumer's income, not their monthly consumable living expenses. So, there are many forecasters who think that the crash in oil prices (and natural gas has followed it down) may have, at the best, a neutral effect on the housing market.

We haven't seen a crash in energy prices for this duration and depth in some time. This one is not caused so much by oversupply (that is estimated in a single-digit range on a per-day basis) but by forecasters who see the world's economy slowing everywhere in the face of the increased production of hydrocarbons. So, this decline is more about a slowing global economy (evident in current data) and less about some huge oversupply.

What are the impacts on the American housing market when the world's economy slows? With over 12 percent of all purchases last year coming from outside the country, it could have a material impact, especially when you consider that the country with the largest numbers of its citizens buying our real estate, Canada, has broad exposure to the world's natural resource economy.

It will be an interesting year. ■

Getting in Front of the Inevitable Incremental Change

How do you manage change that is so slow it's hardly noticeable?

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 incremental change.

Both incremental change and exponential change share the power of compounding. The difference is in the speed. Exponential change is rapid, while incremental change is so slow that it is hardly noticeable until the result shows up months or even years later.

Albert Einstein once described compounding as, "the most powerful thing in the universe." Warren Buffet was asked about his investing secrets. He answered, being born in America and having good enough genes to live long enough to benefit from compounding.

In his book, "The Slight Edge," Jeff Olson states, "Your life and your business are a printout created by the simple decisions you make consistently compounded over time."

The Truth About What You Do Today

Your decision to do 10 push-ups today or to connect with 10 of your salespeople today won't change your body or your company today. Done consistently over time, they will. These simple activities are easy to do, but are also easy not to do. In the short run, there is little or no result from

doing them or consequence for not doing them. This is what is so insidious yet powerful about incremental change.

Most business people want "quantum leaps" and "silver bullet" solutions. They are not patient enough for the big payoffs of compounded incremental change, so they are unwilling to do the work in the short run. They see no short-term gain. Salespeople are notorious for wanting the quick fix, as are some managers. One solution: Have your key people read, "The Slight Edge," and have a discussion about the power of incremental change.

Focus on Managing; Not Production

A second solution is to have them focus on managing activities rather than production. We know that production comes from the small, incremental activities of our sales associates and managers. For most sales associates, their production is a result of their activities 45 to 90 days earlier. If they stop their activities today, they don't feel the consequence today. They feel it in 45 to 90 days.

Managers, who stop doing their daily flow or recruiting activities, don't see an immediate consequence today. The company doesn't have a blowout. It just develops a slow leak. Declining production, profits, and market share follow in 90 days.

Help your people focus on daily productive activities practiced consistently over time and put the power of incremental change to work for you. ■

Help your people focus on daily productive activities practiced consistently over time and put the power of incremental change to work for you.



Focus On: John P. Horning

Shorewest Realtors, Brookfield, Wis.

Since its origin in 1946, Shorewest, Realtors® has been a family-owned company, grown from a one-person office in Wauwatosa (then known as Wauwatosa Realty) to 23 sales offices covering a 12-county area. As a third-generation real estate professional, John P. Horning joined the business right out of college.

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

Horning: Since it's a family business, I started part time in grade school. When I was 13 years old, I spent the summer microfilming closed files. I graduated from Notre Dame University with an accounting degree in 1990 and worked in Chicago for a business for about three years. I chose not to go into the family business right away because I wanted to get outside experience and prove myself.

In 1993, I interviewed for accounting manager at my father's firm. I had to interview for the position with my family's company. No position was going to be created for me.

I worked every facet of the business. There wasn't any formal succession plan, but our goal was to get a better understanding of how the entire company operates and get to know the different departments and areas. In 2002, when my dad retired, my brother, Joe, and I took over running the company.

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

Horning: When the market turned in 2008, it forced us to scrutinize every part of our business, including core services. We made a lot of cuts while determining what we can be doing better. It was a difficult time, but it was worthwhile. We made it through without lowering the support tools we were offering to agents or the services we were offering to clients.

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

Horning: I'm not sure there is a specific incident, but through the years, I realized how important people and culture are to our company. We have an outstanding team that lives out our mission statement. The first line is "We are a team." Every person knows that the goal is to work together to serve clients. It's not about units sold; it's about the families we serve.

Maintaining that culture is important. When we've looked at acquisitions over the years, we've had to turn down those that weren't a fit. Several years ago, we had to release a top agent whose business wasn't in sync with our mission. These are hard lessons to learn.

In addition, I've learned how valuable it is to be involved and invested in the local, state and national associations. Sometimes as brokers we focus solely on running our business, but the associations have tremendous legal and legislative arms. They have helped pass laws that have benefited us by keeping property taxes under control and more.

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?

Horning: In 1997, we had our first major acquisition of another company that had five offices in the Milwaukee area. That's when we realized we had outgrown our roots and needed to rebrand to Shorewest Realtors. The old name was the name of a suburb and wasn't reflective of our growth. We outgrew that name. Shorewest means: From the shores of Lake Michigan to all points west. We invested about \$1 million in rebranding, and it created a lot of interest in the company. We created a buzz in community with funny TV commercials. That energy helped propel our growth. ■





REAL Trends

HOUSING MARKET REPORT



Housing Sales Soar in December

Housing has a great deal of room to run

The REAL Trends Housing Market Report for December 2014 shows that housing sales increased 8.7 percent from the same month a year ago. The annual rate of new and existing home sales for December 2014 was 6.395 million units up from a rate of 5.884 million in December 2013.

Housing prices rose an average of 1.8 percent from December 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 December housing data indicates that housing has a great deal of room to run. The unit sales increase was far stronger than anticipated while housing price increases were very moderate,” 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 weakness in housing price increases bodes well for affordability in the months ahead particularly given the decline of mortgage rates. The more moderate weather of December 2014 versus the early winter of 2013 likely had some impact as well,” Murray added.

Housing unit sales for December 2014 increased 12.2 percent in the South, the best performance in all regions. Northeast sales were up 7.5 percent, the Western region saw unit sales increase by 6.2 percent, and the Midwestern region saw unit sales increase by 5.9 percent.

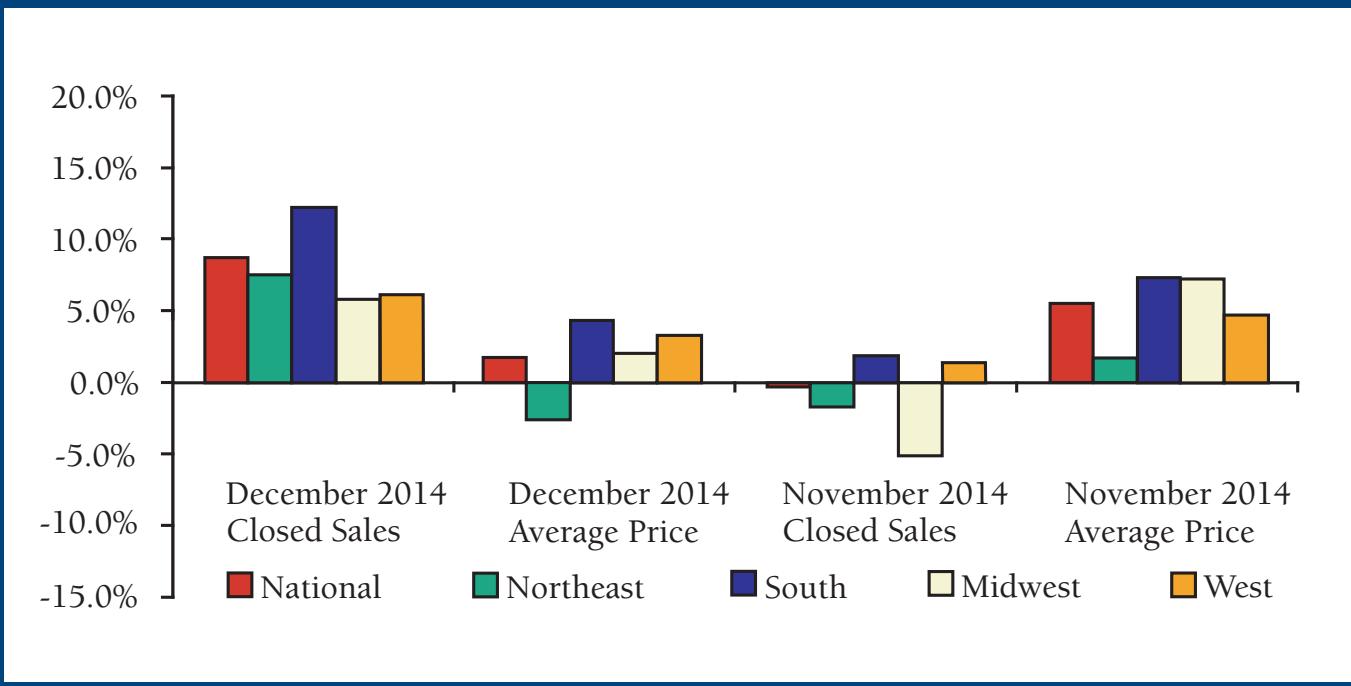
The average price of homes sold in December 2014 in the South region increased by 4.4 percent, the best result in the nation. The Western region saw average prices increase 3.4 percent, average prices in the Midwestern region were up 2.2 percent, and the Northeast had an average price decrease of 2.6 percent.

“All indicators at this time point to a continuation of the housing market rebound that started in the third quarter of 2011” – Steve Murray

“As employment and incomes continue to improve housing sales should also continue to increase. All indicators at this time point to a continuation of the housing market rebound that started in the third quarter of 2011,” says Murray.” ■

REAL Trends December/November Housing Market Report
(Versus same month a year ago)

| | December 2014 Closed Sales | December 2014 Average Price | November 2014 Closed Sales | November 2014 Average Price |
|-----------------|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
| National | +8.7% | +1.8% | -0.4% | +5.6% |
| Regional Report | | | | |
| Northeast | +7.5% | -2.6% | -1.8% | +1.8% |
| South | +12.2% | +4.4% | +1.9% | +7.4% |
| Midwest | +5.9% | +2.2% | -5.2% | +7.3% |
| West | +6.2% | +3.4% | +1.5% | +4.8% |



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Why Real Estate Leads Don't Close

How Does Your CRM Impact an Agent's Sphere of Influence?

by Travis Saxton, REAL Trends vice president of technology, with guest writers Peter Kempf and Eric Pierce, co-Founders of Clearview Elite, and York Baur, CEO of Moxi Works

Most agents think of a lead as a person who wants to buy or sell a home immediately, and if they don't transact within a relatively short period, then the lead is often forgotten. In reviewing agent performance data across thousands of agents (with millions of contact records) using Moxi Works, it is clear that agents who focus on building a sphere of influence—people who know, like and trust them—tend to be vastly more productive than agents who don't. In fact, Moxi Works notes that agents, who embrace this method, increased their businesses by 38 percent. This is partially because the people in an agent's sphere provide a steady stream of repeat and referral business. Knowing this allows agents who use a CRM to change the way they think of new leads. The focus goes from getting a quick transaction to gaining a person who knows, likes and trusts them.

Agents who work to grow their spheres think about new leads differently:

- They are far less concerned with qualifying a lead based on whether that lead will transact soon.
- They are far more concerned with getting the lead integrated into ongoing marketing programs powered by a CRM.
- They understand that the people in their sphere will transact with them eventually and also provide them repeat and referral business.

People do business with people they know, like and trust.

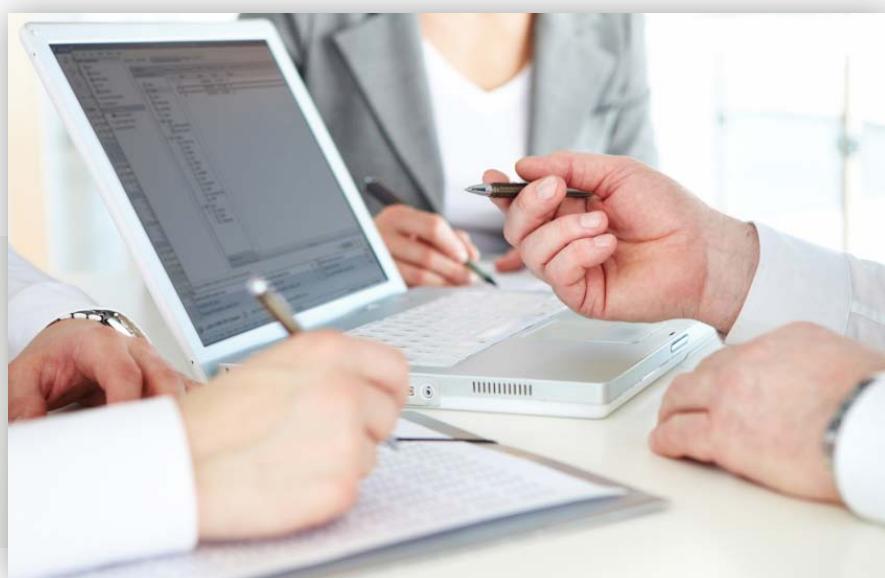
Using a CRM can dramatically change the way agents think about and process leads.

Agents using a CRM with this mindset know that if they can win over leads and develop relationships, their conversion rates, to transact with leads (and their referrals), will be nearly 100 percent over time. Leads become opportunities to grow their spheres. Conversion rate can be calculated based on the percentage of new leads that end up in their sphere, rather than on the final transaction. Whether that new lead converts immediately or not is no longer the meaningful metric.

Leads for agents leveraging a CRM with solid, long-term marketing plans for sphere engagement are very valuable. Leads can be seen as a way to grow an agent's sphere, which organically produces repeat and referral business. Agents who view leads as opportunities to grow their spheres are much more likely to:

- Contact a lead
- Provide high-quality information
- Provide exceptional followup
- Connect with the person long term by learning about his or her family, interests and hobbies
- Decrease efforts to qualify the lead based on the likelihood of transacting immediately

Agent's Influence cont. on p14



A New **REAL Trends** is Coming

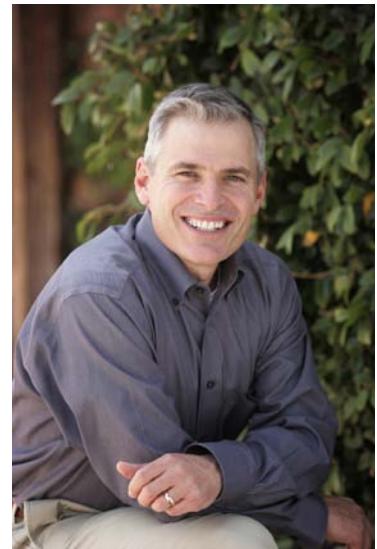
REAL Trends was formed in the first days of 1986. Back then; there was no email, no Google, no iPhones, no Zillow and no such thing as IDX. There were also few, if any, other trends publishers in the residential industry. **REAL Trends** was by itself as a regular monthly trend report. Our brand was new and unknown.

REAL Trends today is like a brand new company. While we remain a leading trends publishing company, with four separate online publications, we are also the leader in consulting services, whether it is merger and acquisitions or realty technology services. We grew from five employees just a few years ago to 12 today. Many of them are employed in technology services and products.

To reflect on our new (old) company, at the 2015 Gathering of Eagles, we will announce a new logo, a new look for our company and some very interesting new services for our clients and customers. While we built **REAL Trends** on the basis of trying to do the best work and build the strongest relationships possible, we will be endeavoring to add to that the ability to communicate more effectively and bring more valuable content to each of you.



Peyton Manning



Patrick Lencioni

Should your schedule permit, join me and 300 of the finest leaders in the industry in sharing ideas, welcoming input from Patrick Lencioni, organizational expert, and Peyton Manning, quarterback for the Denver Broncos. Or, enjoy the powerful networking opportunity and revel in the ambiance of the Four Seasons Hotel in Denver.

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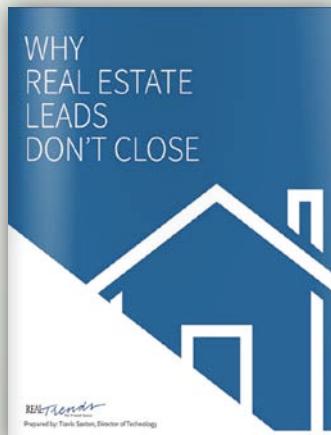
Agent's Influence cont. on p13

Good CRM systems help these agents offer quality information that encourages the lead to want to work with the agent over time.

Agents can make suggestions such as:

- "Since I've got your email, may I sign you up for my Neighborhood News newsletter that shows prices and trends in your neighborhood?"
- "Would you like to receive my quarterly newsletter?"
- "How about I email you a quick report that features some comparable properties?" ■

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Key Takeaways

- A large percentage of agents do not use a CRM system and therefore find far less value in new leads. This causes agents to fail to contact new inquiries or do a poor job following up. This is a large contributing factor to leads not closing.

- Agents, who use CRM systems, can view leads differently, focusing on creating a relationship instead of a transaction. This lets the agents see far more value from leads and helps them close far more leads.