

JUNE 2017 NEWSLETTER

REAL TRENDS VALUATIONS

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BROKERAGE AND BIG DATA

FIRMS THAT USE IT SUCCESSFULLY

How to make sense of big data.

By Steve Murray, publisher

There is more data available to brokerage firms today than ever before. Operational and financial data within their own firms, benchmarking data from firms like REAL Trends about the performance of brokerage firms across years, regions and markets, as well as market data from firms such as Terradatum, are all available in some form or another.

There's no question that *big data* has helped numerous companies in many industries manage business better. Similarly, access to and analysis of data can help brokerage firms plan their businesses more effectively than they have in the past.

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Most brokerage firms have access to this information. What they lack is the time and means to gather such information in one place in a digestible format. Fellow consultant Dave Colmar recommended that brokerage firms should look to hire a chief data manager for just this reason. (To read his article, go to page 8.)

Using Big Data

We know of firms that are using their access and organization of data to plan their operations. At the national level, Keller Williams makes good use of their access to data about the performance of their Market Centers and the interaction of their training programs to target how to manage these businesses better. At the more local level, The Group Inc. of Fort Collins, Colo. knows from over 40 years of experience what it takes to move a new sales associate from zero to more than \$100,000 gross commissions in the shortest time possible. Your Castle Real Estate in Denver has used this data to create heat maps of market activity.

The truth is most brokerage firms have access to this information. What they lack is the time and means to gather such information in one place in a digestible format. Fellow consultant Dave Colmar recommended that brokerage firms should look to hire a chief data manager for just this reason.

REAL Trends provides benchmark reports alongside our valuation work to pinpoint where our client's revenues and expenses can be fine-tuned to create a stronger, more valuable brokerage. We know that many of the national firms are creating competitor analysis groups to analyze large quantities of data to help them pinpoint affiliates who can use guidance to improve their businesses and where they may be able to sell more franchises.

While we believe that building strong relationships with your employees and agents is the most important investment of time leaders can make, the access to and use of data to plan your investments is becoming far more important than it was in the past. ▲

FAKE NEWS AND THE DIGITAL DUOPOLY

*By Robert Thomson, CEO,
News Corporation (owner of
The Wall Street Journal and Realtor.com)*

‘Fake news’ has seemingly, suddenly, become fashionable. In reality, the fake has proliferated for a decade or more, but the faux, the flawed and the fraudulent are now pressing issues because the full scale of the changes wrought upon the integrity of news and advertising by the digital duopoly—Google and Facebook—has become far more obvious.

Google’s commodification of content knowingly, willfully undermined provenance for profit. That was followed by the Facebook stream, with its journalistic jetsam and fake flotsam. Together, the two most powerful news publishers in human history have created an ecosystem that is dysfunctional and socially destructive.

Both companies could have done far more to highlight that there is a hierarchy of content, but instead, they have prospered mightily by peddling a flat-earth philosophy that doesn’t distinguish between the fake and the real because they make copious amounts of money from both.

Depending on which source you believe, they have close to two-thirds of the digital advertising market—and let me be clear that we compete with them for that share. The Interactive Advertising Bureau estimates they accounted for more than 90% of the incremental increase in digital advertising over the past year. The only cost of content for these companies has been lucrative contracts for lobbyists and lawyers, but the social cost of that strategy is far more profound.

It is beyond risible that Google and its subsidiary YouTube, which have earned many billions of dollars from other people’s content, should now be lamenting that they can’t possibly be held responsible for monitoring that content. Monetizing yes, monitoring no—but it turns out that free money does come at a price.

We all have to work with these companies, and we are hoping, mostly against hope, that they will finally take meaningful action, not only to allow premium content models that fund premium journalism, but also to purge their sites of the rampant piracy that undermines creativity. Your business model can’t be simultaneously based on

TOGETHER, THE TWO MOST POWERFUL NEWS PUBLISHERS
in human history have created an ecosystem that is dysfunctional
and socially destructive.

both intimate, granular details about users and no clue whatsoever about rather obvious pirate sites.

Another area that urgently needs much attention is the algorithms that Silicon Valley companies, and Amazon, routinely cite as a supposedly objective source of wisdom and insight. These algorithms are obviously set, tuned and repeatedly adjusted to suit their commercial needs. Yet they also blame autonomous, anarchic algorithms and not themselves when neo-fascist content surfaces or when a search leads to obviously biased results in favor of their own products.

Look at how Google games searches. A study reported in *The Wall Street Journal* found that in 25,000 random Google searches ads for Google products appeared in the most prominent slot 91% of the time. How is that not the unfair leveraging of search dominance and the abuse of algorithm? All 1,000 searches for “laptops” started with an ad for Google’s Chromebook—100% of the time. Kim Jong Un would be envious of results like that at election time.

And then there are the recently launched Google snippets, which stylistically highlight search results as if they were written on stone tablets and carried down from the mountain. Their sheer visual physicality gives them apparent moral force. The word Orwellian is flagrantly abused, but when it comes to the all-powerful algorithms of Google, Amazon and Facebook, Orwellian is underused.

As for news, institutional neglect has left us perched on the edge of the slippery slope of censorship. There is no Silicon Valley tradition, as there is at great newspapers, of each day arguing over rights and wrongs, of fretful, thoughtful agonizing over social responsibility and freedom of speech.

What we now have is a backlash with which these omnipotent companies are uniquely ill-equipped to cope. Their responses tend to be political and politically correct. Regardless of your own views, you should be concerned that we are entering an era in which these immensely influential publishers will routinely and selectively “unpublish” certain views and news.

We stumble into this egregious era at a moment when the political volume in many countries is turned to 10. The echo chamber has never been larger and the reverb room rarely more cacophonous. This is not an entirely new trend, but it has a compounding effect with the combination of “holier than thou” and “louder than thou.”

Curiously, this outcome is, in part, a result of the idealism of the Silicon Valley set, and there’s no doubt about the self-proclaimed ideals. They devoutly believe they are

connecting people and informing them, which is true, even though some of the connections become conspiracies and much of the information is skimmed without concern to intellectual property rights.

Ideas aside, we were supposed to be in a magic age of metrics and data. Yet instead of perfect precision we have the cynical arbitrating of ambiguity—particularly in the world of audiences. Some advertising agencies are also clearly at fault because they, too, have been arbitrating and prospering from digital ambiguity as money in the ad business has shifted from actually making ads to aggregating digital audiences and ad tech, better known as fad tech.

And so, as the *Times of London* has reported, socially aware, image-conscious advertisers find themselves in extremely disreputable places—hardcore porn sites, neo-fascist sites, Islamist sites. The embarrassment for these advertisers juxtaposed with jaundice is understandable, but the situation is far more serious than mere loss of face.



IN RECENT YEARS, how many millions of dollars have been channeled to organizations or individuals that are an **existential threat to our societies?**

If these sites are getting a cut of the commission, the advertisers are technically funding these nefarious activities. Depending on the type of advertising, it is estimated by the ad industry that a YouTube partner could earn about 55% of the revenue from a video. In recent years, how many millions of dollars have been channeled to organizations or individuals that are an existential threat to our societies?

Provenance is profound, and in this age of augmented reality and virtual reality, actual reality will surely make a comeback. Authenticated authenticity is an asset of increasing value in an age of the artificial—understanding the ebb and flow of humanity will not be based on fake news or ersatz empathy but on real insight. ♡

Mr. Thomson is the chief executive of News Corp, which owns The Wall Street Journal. This is adapted from a speech he delivered on March 29 to the Asia Society in Hong Kong.

FEAR OF FAILURE?

HOW TO BE A COURAGEOUS LEADER

*Think beyond yourself and fear
will disappear.*

By Larry Kendall, author of *Ninja Selling*
and chairman of The Group, Inc.



Jim Collins, in his book “Good to Great,” says, to build a great company (or office) we need *disciplined thought* and *disciplined action*. Why is it that so many leaders know what to do (disciplined thought) but fail to do it? Simple: they’re afraid.

Are they afraid of pushback from their people? Perhaps they’re afraid to confront the brutal facts. Some leaders even say, “I know what to do, but if I do it, I risk losing some of my people.”

When I hear leaders express fear of confrontation, pushback or losing people, of whom are they thinking? In their excellent book, “Go-Givers Sell More,” Bob Burg and John David Mann state, “If you’re afraid, you’re thinking of yourself.”

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sell better than they are selling.
Does the leader love them
enough (and is he or she
courageous enough?) to step
in and help?

Switch from Love to Fear

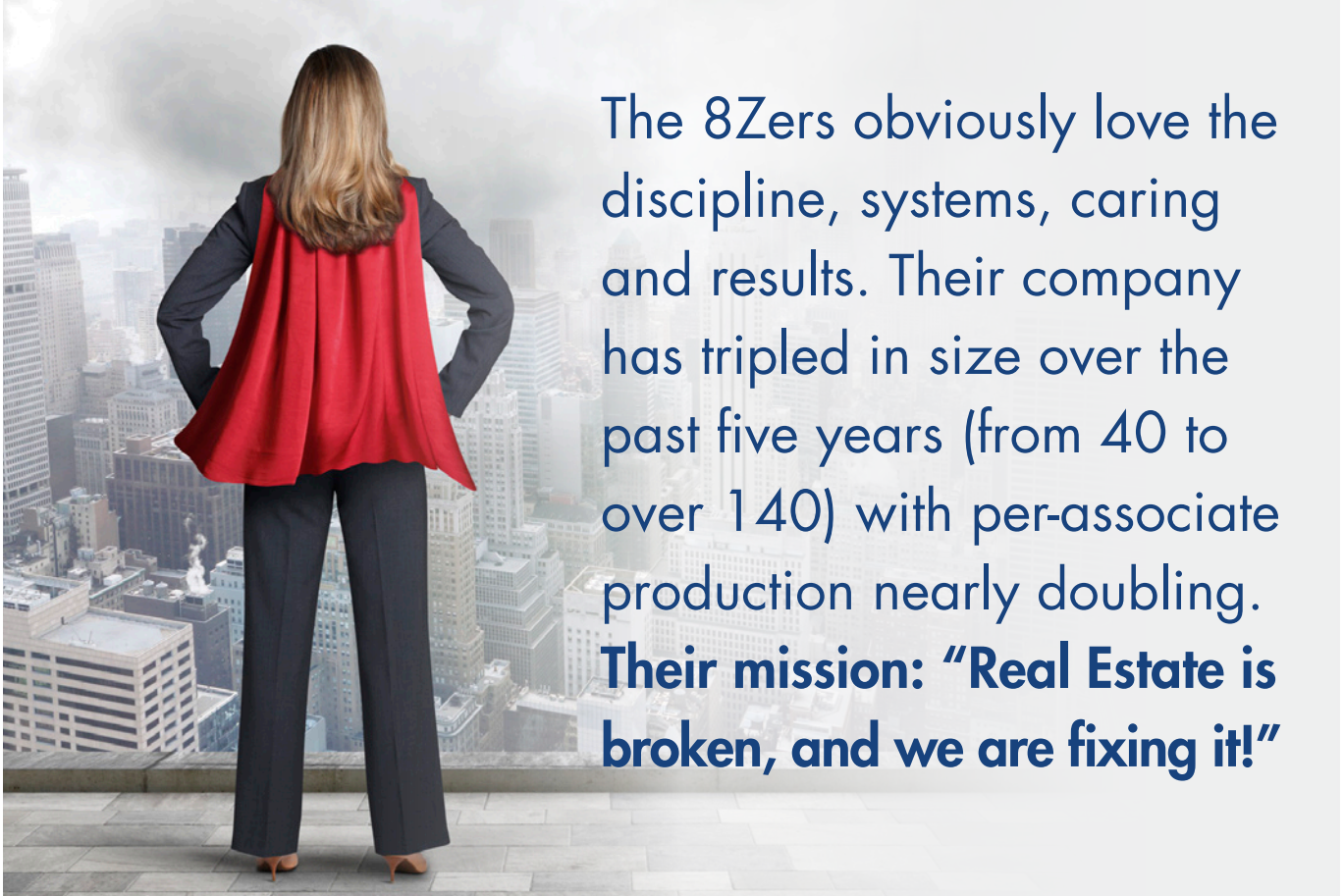
Love is the antidote to fear. In fact, fear is the absence of love. Your brain operates on two pathways—love and fear—and it can only be on one or the other. When a leader is in fear, I encourage them to switch to the love pathway and think about his or her people. How can you help your people be better and have a better life?

Sometimes this will require some tough love—confronting the brutal facts to help them get better. Perhaps the person needs help with discipline. Most associates know how to sell better than they are selling. Does the leader love them enough (and is he or she courageous enough?) to step in and help?

A Courageous Leader

One of the most courageous leaders I’ve met is Lane Hornung, founder and CEO of 8Z Real Estate in Colorado. He is a brilliant, former engineer who runs a disciplined company. Lane knows what needs to be done to be successful, and he requires that of his people. If they don’t want to do it; they won’t be working at his company. Leaders cringe when I tell his story. “How does he keep his people?” they ask. “Tough love,” is my answer.

Lane is a former Marine pilot who loves his people and wants them to succeed. He will do whatever it takes to help them, including the tough love conversations. He’s a master of the *velvet hammer*. His people appreciate his help and discipline. They know he’s always acting in their best interest to help them be better, and they love him for it.



The 8Zers obviously love the discipline, systems, caring and results. Their company has tripled in size over the past five years (from 40 to over 140) with per-associate production nearly doubling. **Their mission: “Real Estate is broken, and we are fixing it!”**

WorkplaceDynamics, a leading research firm on organizational health and employee engagement, just named 8Z the top workplace in Colorado for mid-sized companies. The 24-question survey digs deep into employee’s feelings, including their confidence in the company’s leadership, employee loyalty, alignment with company values and where the company is headed, among other factors.

Building a Better Business and Life

The 8Zers obviously love the discipline, systems, caring and results. Their company has tripled in size over the past five

years (from 40 to over 140) with per-associate production nearly doubling. Their mission: “Real Estate is broken, and we are fixing it!” What’s broken about real estate? The lack of discipline in taking care of the customer. They’re fixing that.

Jim Collins calls leaders like Lane Hornung Level 5 leaders. Their attributes are humility, yet toughness. They make their fears subservient to the greater cause of helping their people build a better business and better life. They have a way of getting their people to do what must be done because they want to do it. They are courageous leaders. ▲

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THE MIDWEST DOMINATES IN AGENT PRODUCTIVITY

How does your state rank in the top 500 brokerages? | by Scott Wright, director of mergers and acquisitions

The REAL Trends 500 (RT 500) brokerage rankings provide a myriad of trends and data, and one thing that's always interesting is the geographical diversification of the nation's top residential brokerage firms.

REAL Trends takes a high-level look at the top states represented in the RT 500 by sides (see graphic below.) Naturally, the concentration of top-producing brokerages closely coincides with state populations and major metropolitan areas. It's no surprise that eight of the top ten states by population are represented in the RT 500 top-10 states.

There are exceptions, with New York and Pennsylvania (Nos. 4 and 5 respectively by population) not making the top 10 in the RT 500. Interestingly, with New York and Pennsylvania ranking Nos. 11 and 16 respectively in our study, several other states with smaller populations had more brokers represented in the top 500. Filling out the top 10 were Indiana and Colorado (Nos. 17 and 21 by population), each coming in with 18 ranked brokerage companies.

Other states with strong showings in the RT 500 were Arizona (11), Virginia (11), Tennessee (14), Washington (14), Missouri (16), New Jersey (18) and South Carolina (19), each with at least 10 brokerage firms in the RT 500.

Almost all States Represented

In total, 48 states and the District of Columbia were represented in the REAL Trends 500, with only sparsely populated North Dakota and Wyoming not making showings in the top 500 by transaction sides.

Some other interesting things to look at from a geographical perspective is average price and agent productivity. It's no surprise that the highest average price list is dominated by the District of Columbia, Hawaii and the coastal states. In 2016, Washington, D.C. topped the list with an average price of \$758,000, No. 2 was New York at \$631,000, Hawaii came in at No. 3 with an average price of \$585,000 and California and Connecticut rounded out the top five with average prices of \$549,000 and \$463,000 respectively.

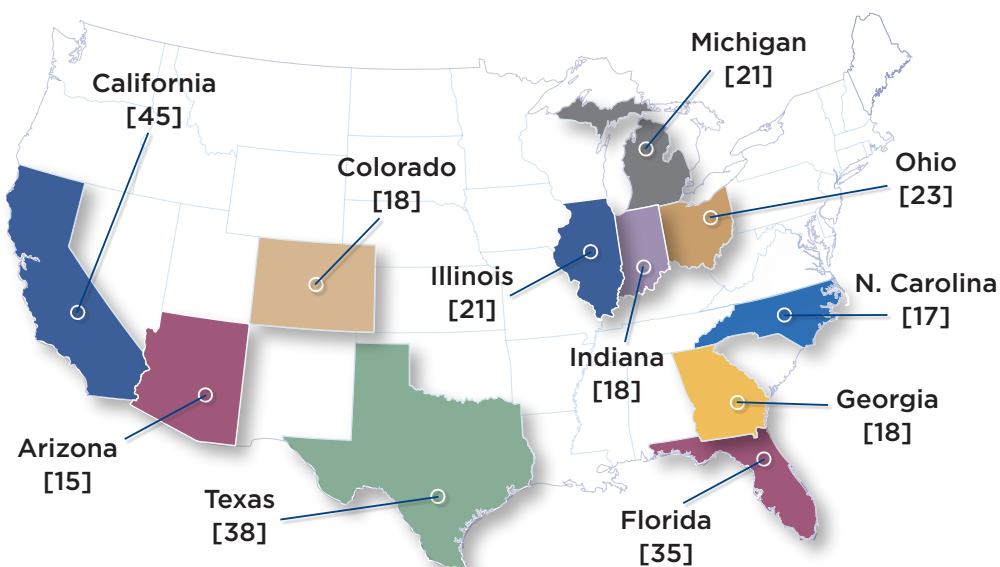
Interestingly, Colorado came in as the highest price land-locked state, with an average price of \$396,000 (7). At the bottom of the list, there were 11 states with average prices under \$200,000, with Mississippi in the rear at \$159,000

Agent Productivity

When it comes to agent productivity, the Midwestern states dominated the top of the RT 500, securing eight of the top ten positions. South Dakota led the way with an

average of 17 sides per agent, Iowa was No. 2 at 15.7 sides per agent, Kentucky came in No. 3 at 15.6 and Indiana and Minnesota rounded out the top five with 15.2 and 14 sides per agent respectively. Interestingly, New York brought up the rear with an average of 5.2 transactions per agent. Thankfully, with this state's average price as high as it is, a sales professional at this average transaction count is still able to make a good living. ▲

Top States Represented in the REAL Trends 500



A PROPOSAL FOR USEFUL INFORMATION

By David B. Colmar, Colmar & Associates

At the recent 30th Annual Gathering of Eagles in Denver, there were various presentations about *disrupters* to the real estate industry, including the 100 percent concept of the 1970s, the aggregation of brands that started in the '90s and the Trulias and Zillows of today and tomorrow. Today's real estate broker will continue to face challenges and changes both from inside and outside the business. If we remain flexible and open to change, we can lead much of it. If we remain fixed in our ways and rigid to change, we will simply be part of it or carried along with the tide.

It's About the Numbers

In his 2003 book "Moneyball," Michael Lewis disclosed the strategy of the Oakland Athletics for how they transformed their team with one of the lowest payrolls into one of the best teams in major league baseball (MLB) through the use of readily available data that had not been used for on-base percentage vs. batting averages. It not only transformed the Oakland As, but

The New York Yankees have an entire department for data with over 21 statisticians. Ten years ago, this department did not exist.



also transformed baseball and many other sports. For example, golf is now filled with statistics and data as well as technology analyzing each shot and putting-average accuracy from varying distances to greens, driving distances, etc. Today, the New York Yankees have an entire department for data with over 21 statisticians. Ten years ago, this department did not exist.

Theo Epstein became the youngest general manager in the MLB with the Boston Red Sox in 2002. Armed with data and statistics, he helped his team win the World

Series in 2004 and 2007. In 2011, he became president of the Chicago Cubs, rebuilt the team and farm system and won the 2016 World Series for the first time in 108 years. For baseball, he proved that data and numbers could trump gut instincts! He expanded the use of data for performance guidelines, injury prevention and scouting. He implemented specialized cameras with a four-year-old technology company to do skeletal reconstruction to improve movement, especially with pitchers. He continues to disrupt the sport of baseball.

Using Big Data in Real Estate

As a business, we have a great deal of data, much of which we're not using. We have performance data and historical trends, financial data—mostly in the form of profit and loss statements—and productivity information. However, while other data is available, we don't always use it in making strategic decisions about office or service center locations, design and function, agent and consumer programs and more. Very little effort goes into shaping and creating the long-term strategic plans using available information and data.

We look at historical data that continues to produce old results, sometimes on an old model—desk costs relative

There is an enormous amount of available demographic information that we rarely tap into to develop or improve our recruiting programs. **We know our sales associates, but know little about them.**

to our operation, per-person productivity and more. There is an enormous amount of available demographic information that we rarely tap into to develop or improve our recruiting programs. We know our sales associates, but know little about them. We frequently hire experienced sales associates with little in the way of interviews or

essential information such as background checks. Instead, we make gut decisions or negotiate a commission split based simply on what we have to give away. However, do these agents fit into our long-range plan? Are they team players? What kind of characteristics do they have? What is their background? What is their reputation? What does my existing team look like and does this person add to what my team needs for the future?

A Case for Numbers

Consider the following—in 2016, the REAL Trends Top 100 brokerages closed 1.875 million transaction sides for a per-person productivity (PPP) of 8.4 and an effective commission rate of 5.12 percent. The PPP in 1991, 25 years ago, was 8.8 with an effective commission rate of 6.10 percent. So, per-person productivity has been flat for 25 years, but the commission rate has dropped 1.6 percent. In 2010, the REAL Trends 100 closed 1.9 million transaction sides. How many transaction sides did your company close in 2010? How many agents on your 2010 roster are still with you today? If agents are not with your company, what is being done to mine the data in those files?

Information can be an asset or a liability, depending on how we see it and what we do with it. Treating it as an asset and tapping its potential can raise the value of your business. In an ever-changing marketplace, it can also help to **keep your company alive, profitable and competitive.**

Every brokerage leader should also know the following:

- What does it cost my company to secure, process and market a new listing?
- How much is lost if the listing expires or moves to a competing company?
- If time is money, what could happen if the average days-on-market for my company is 20 percent better than the MLS?
- What would happen financially and with marketing if my company's average sale-to-list price was 15 percent better than the MLS average?

More Questions to Ask

Probing further, what does it cost to recruit one agent—both new and experienced? Take into consideration the

time to interview, set appointments, prepare written materials, training, start-up costs, upfront financial commitments, orientation costs, management time costs and more. \$3,000? \$5,000? If you hired 100 agents in a year but lost 60 (quit the business, retired, moved, left for a competing company), then your “fallout rate” (# agents lost/agents hired) would be 60 percent. How much did that cost? What can you do to reduce it and what is a reasonable goal for your company? What actions must you take to achieve your goal? We have the information we need to answer these and other strategic questions, and doing so will help our companies remain viable and competitive.

Hiring a Chief Data Officer

Many companies already have a chief technology officer (CTO) or IT department. These are needed to ensure everything functions, and the company is in compliance with software licenses, computers are up and running and that connectivity in all the offices works. Companies that realize that sales, hiring, training and customer relations are changing and in need of transformation might consider adding the chief data officer (CDO). The CDO is a corporate officer reporting to the CEO. The CDO should be responsible for enterprise-wide governance and utilization of information as an asset via analysis, data mining and other means. The role is part strategist and adviser, part steward for improving data quality and part developer of new products. Consider that the CTO is the company's technology captain for defense, and the CDO is the technology captain for the company's offense.

What's at Stake?

Rising technology costs, outside services needed to operate in today's changing climate, consumer needs and wants, attracting younger talent, rent increases and more are all at stake in today's market. Decisions can be expensive. Managing the data can alter the approach we take in recruiting both new and experienced agents and providing that edge to make us more competitive. The decisions we make can increase or reduce the bottom line in a business with already thin profit margins. Information can be an asset or a liability, depending on how we see it and what we do with it. Treating it as an asset and tapping its potential can raise the value of your business. In an ever-changing marketplace, it can also help to keep your company alive, profitable and competitive. ▲

Dave Colmar is President of Colmar & Associates, a broker and 37-year industry veteran. Colmar & Associates is a consulting firm to the industry. Dave is a frequent contributor to REAL Trends.

YOUR VALUE PROPOSITION:

BREAKING IT DOWN FOR EASY IMPLEMENTATION

What does your brokerage do best? It's simple to figure out. | By David Siroty



There are two buzzwords that are causing concern in the broker/owner community—*value proposition*.

The real estate industry remains in a continued and obvious state of flux with new models and technology creating daily challenges. Add in big data, predictive analytics and a host of emerging marketing vehicles, and you can assume Advil will soon become an official sponsor of REAL Trends to help calm the industry's constant headaches.

There is so much noise that many are struggling to define what their company means today, largely because fee structures, caps and other financial aspects are dominating the discussion. But why? There has always been, and will always be, only a select few in any market which effectively compete on price.

The rest have to always evolve with an obligation to develop, articulate and communicate the offerings of the firm. And, because so many have grown in size, scope and office locations, getting everyone on the same page can be difficult. But, it's imperative.

Creating Your Value Proposition

Company leadership should set time aside from the daily grind and gather staff and office managers to carefully review the firm's full resources, including history, brand affiliation, management team experience, fee structure, market share and other assorted leading indicators, tools, resources, full-time staff and more.

Match these with the challenges faced by agents in your market, and which of the firm's capabilities can solve each of those problems. Do the same for consumers. Now pay close attention to the features that are superior to those of your competition.

You have essentially just created your value proposition.

Clearly Defined Buckets

This laundry list should next be boiled into no more than five clearly defined buckets. Five is a great target since they all must be articulated in a concise and easy-to-understand way.

For instance, if the firm has the region's only full-time marketing department, a legal team and other assets, put that in

a support category which might solve agent's time demands. Now, develop the talk track for this bucket this way:

"We employ full-time teams in marketing, legal and finance who provide our agents with unmatched support and professional expertise in these critical areas. Our agents benefit because we free them up to do what they do best, helping buyers and sellers. No one in our market provides this depth of services which is indicative of us having more sales than anyone the last three years in a row."

Do the same for each of the five buckets and practice over and over what you've created.

It is amazing how this type of effort can condense a complex real estate operation into bite-size chunks that are easily delivered and understood.

Final Steps

The final step is to create strategy and tactics to ensure the values are always valued. We've uncovered a full-time (FT) advantage that must be visible every day, so it penetrates and becomes part of the company culture. The new FT Advantage can have a reward program with the agents choosing someone from the staff to honor each month.

Everywhere you highlight agents in newsletters, meetings and at awards functions; you will now do the same with someone from FT Advantage. The different team photos can be included in listing presentations. Your agents will quickly realize the impact of FT Advantage as you include it in all recruiting and consumer-facing collateral.

Your value proposition now has one very important piece clearly defined and articulated. It appeals to the existing agent base, works in recruiting and sets us apart in the race for buyers and sellers.

Not competing in the price war? That's okay. You have FT Advantage. 📌

David Siroty founded Imagine Productions, an integrated communication and content marketing firm in December 2016. He was formerly the vice president, North American public relations for Coldwell Banker Real Estate.

BUILDING GREAT COMPANIES

OBSERVATIONS FROM ORGANIZATIONAL EXPERT

JIM COLLINS

What makes organizations vulnerable to decline?

By Steve Murray, publisher

Organizational and leadership expert Jim Collins, author of “Good to Great,” shared some of his findings with over 340 guests at the 2017 30th anniversary of REAL Trends Gathering of Eagles. His study of organizations and organizational behavior is second to none. Here are a few of the thoughts he shared with us.

- Every institution is vulnerable to decline, even the great. It starts with the hubris of success followed by the undisciplined pursuit of more;
- If an organization or leader has more than three priorities, it has no priorities at all;
- If an organization has more than three core values, it has no core values;
- The only mistakes you learn from are the ones you survive. Leaders who stave off decline and navigate turbulence assume that conditions can change, violently and fast. They obsessively ask, “What If?”

Leaders who stave off decline and navigate turbulence assume that conditions can change, violently and fast. They obsessively ask, “What If?”

Collins lists many more of these key thoughts that guide great companies. You can go to JimCollins.com to see them all.

Our Observations About Real Estate

His presentation and the discussions that followed recall several of the current challenges facing brokerage leaders.

First, we are nearing the end of the sixth year of housing sales expansion. In 2016, we saw a 4.9 percent growth in transactions and double-digit growth in sales volume. The big question we hear is, ‘When will it end?’ or ‘When and where will a slowdown occur?’ or ‘How bad will the next downturn be?’

Second, how can brokerage survive in its current form when many firms are being forced to pay ever-higher commission splits to an increasing number of high-producing agents and teams?

Will brokerage firms be disintermediated by technology? No one fears that agents will disappear soon, but brokerage firms are asking what will become of their role in the business.

Will state-level regulatory actions—which ask brokerage firms to more closely supervise their agents—run counter



to brokerage firms desires to maintain the independent contractor status of agents?

Where will the industry find the next generation of owners and leaders for their companies, whether they are family-owned local firms or the larger national and regional realty firms?

These are the most frequently asked questions we hear from CEOs with whom we meet. Each has implications for how brokerage firms plan their future. Some are right at the front door; others down the road. Some have relatively straight-forward answers; others no one we know can have a simple resolution.

We will pose these questions to some of the best and the brightest over the next few months. Look for some thoughtful answers in these pages in future editions of REAL Trends. ▲

NEW PODCAST SERIES LAUNCHING IN MAY

The Secret Lives of Real Estate

QuantumDigital and REAL Trends partnered to create **The Secret Lives of Real Estate Podcast Series**, where we pull back the curtain to share the personal passions, philanthropic efforts, community spirit and industry insights from real estate leaders, trendsetters and legends.



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SECRET LIVES
OF **REAL ESTATE**

ONLY A FEW BUBBLE SIGNS BREWING

Affordability is the only sign of a bubble right now.

By John Burns, CEO, John Burns Consulting

Once again, we have completed our annual housing bubble check-in. Assessing the criteria that 73 industry executives identified in 2013, we found three qualitative signs of a bubble, two signs of a mini-bubble, and five signs of no bubble. **Click here** to see our infographic *Top 10 Signs of a Market Bubble*. Every month, we analyze the quantitative stats in our analysis of 70+ MSAs for our research subscription members. We have concluded that affordability in some markets is the only sign of a bubble that we can find. Our view on the 10 qualitative stats follows:

3 Bubble Signs

- 1. Reality TV.** While home builders aren't giving away free houses every Sunday night like they were on *Extreme Home Makeover* (ABC) in 2005, shows like *Flip or Flop* (HGTV), *Home Free* (Fox), and *Deed* (CNBC) have been captivating audiences recently. House flipping has become a big business fueled by hard money loans made by non-banks, and *Flip or Flop* just announced its expansion to five new cities.
- 2. Booming real estate careers.** NAR membership has rebounded strongly, pushing near-2005 levels despite far fewer transactions than in 2005. On a recent flight to the hot Portland housing market, one of our team members overheard the flight attendants discussing getting their real estate license.
- 3. Creative mortgages.** Headlines around excessive mortgage documentation and fewer loans to low-credit borrowers mask what is really going on in the market. Per AEI, 56% of borrowers put down 10% or less of the purchase price, and 35% have debt service above 42% of their gross income. Lending is clearly not as aggressive as in the 2005–2007 period, which resulted in a 19% default rate. But it is far more aggressive than in the early 1990s, which would have had only a 6% default rate during the last downturn. Today's loans would have a 12.2% default rate under the 2007 downturn scenario.

2 Minor Bubble Signs

- 1. Outlandish parties.** While far more muted than in 2005, we recently met one builder who took their top outside sales agents to Australia and another who is

taking the entire company to Hawaii. These trips seem to be rewards for working hard in a tough market rather than the builder having exuberant profits, but we are not aware of any similar trips in recent years.

- 2. The new urban paradigm shift.** We coined the term *surban*[™] for what we believe will be a continuing trend to build higher-density homes closer to activities and in good school districts. We caution that builders should underwrite these projects with higher-than-usual profit margins due to their additional risk. The up-front capital investment on these projects is typically larger, and buyers of attached homes tend to have less urgency to buy when the market slows.

No Bubble Forming

- 1. Multiple homes for everyone.** We haven't run into lower-paid service workers who own multiple homes, primarily thanks to tight mortgage regulations. Keep an eye on non-regulated lenders getting into this space, however.
- 2. Truck stop feasibility.** While the outlying areas are coming back, particularly in Northern California and Dallas, the most-tertiary markets in most areas have yet to recover.
- 3. Luxury cars for the staff.** Home builder and real estate agent sales and profits have been modest for most of the recovery, keeping big bonus and commission payments down.
- 4. Lazy underwriting.** While the winning bidder on land usually needs to have more optimism than most think is reasonable, underwriting assumptions appear disciplined to us.
- 5. Excessive investments.** The industry has shown amazing discipline, making calculated short-term bets and taking little long-term risk.

You can read our 2016 bubble assessment by clicking **HERE**.

We remain vigilant in our quest to learn new information that could cause home demand and home prices to swing sharply up or down. As of today, we see only a few signs that our clients have identified to be indicators of a housing bubble. 🍷

WILL THIS DECISION NARROW SCOPE OF CFPB INVESTIGATIONS?

Precedent-setting decision could impact wide-ranging CFPB investigations.

By Sue Johnson, strategic alliance consultant

A three-judge panel of the D.C. Circuit Court of Appeals refused on April 21, 2017 to enforce a Civil Investigative Demand (CID) issued by the Consumer Financial Protection Bureau (CFPB or Bureau) to the Accrediting Council for Independent Colleges and Schools (ACICS), in a decision that could set a useful precedent for entities subject to wide-ranging CFPB investigations.

This is the second time that a D.C. Circuit panel has rebuked the CFPB for overly-aggressive enforcement activities. The first was in *PHH Corporation vs. CFPB*, in which a panel of the court ruled that the Bureau's single-director structure is unconstitutional and that its interpretation of Section 8(c)(2) of RESPA (payments made for goods provided or services performed) was overly broad. The CFPB has appealed that decision to the full D.C. Circuit.


Civil Investigative Demands: The Current Practice

The Consumer Financial Protection Act (Title X of Dodd-Frank) empowered the CFPB to issue CIDs requiring materials and testimony information from

anyone it believes may have information relevant to an investigation. Under Title X, each CID must state the nature of the conduct constituting the alleged violation and the provision of applicable law.

In practice, CIDs issued by the CFPB have been worded in extremely broad terms. It's not uncommon for a CID's "Notification of Purpose" to describe the purpose of the investigation as being whether the recipient is engaging in "unlawful acts or practices," a consumer financial protection law (such as RESPA) without citation to any specific statutory provision; or "any other Federal consumer financial protection law."

This approach can leave the recipient with little information as to what specific conduct the CFPB believes may have violated the law and can allow the Bureau to request a wide array of information and then change the scope of the investigation based on what it learns from the acquired materials. Some CID recipients have called the resulting investigations "fishing expeditions" that ultimately force them to settle with the CFPB.



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The ACICS Facts and Decision

The Notification of Purpose in the CID issued to ACICS read as follows:

“The purpose of this investigation is to determine whether any entity or person has engaged or is engaging in *unlawful acts and practices* in connection with accrediting for-profit colleges, in violation of *sections 1031 and 1036 of the Consumer Financial Protection Act of 2010*, 12 U.S.C. §§ 5531, 5536, or *any other Federal consumer financial protection law*. The purpose of this investigation is also to determine whether Bureau action to obtain legal or equitable relief would be in the public interest.” (Emphasis added).

ACICS petitioned the CFPB to set aside or modify the CID because the ACICS is not within the jurisdiction of the CFPB, and the CID failed to identify the nature of the conduct under investigation. CFPB Director Richard Cordray denied the petition and filed a petition in a federal district court to enforce the CID. The lower court denied the CFPB’s petition, agreeing with ACICS that the accreditation of for-profit universities is not under the CFPB’s jurisdiction. The CFPB appealed that decision to the D.C. Circuit.

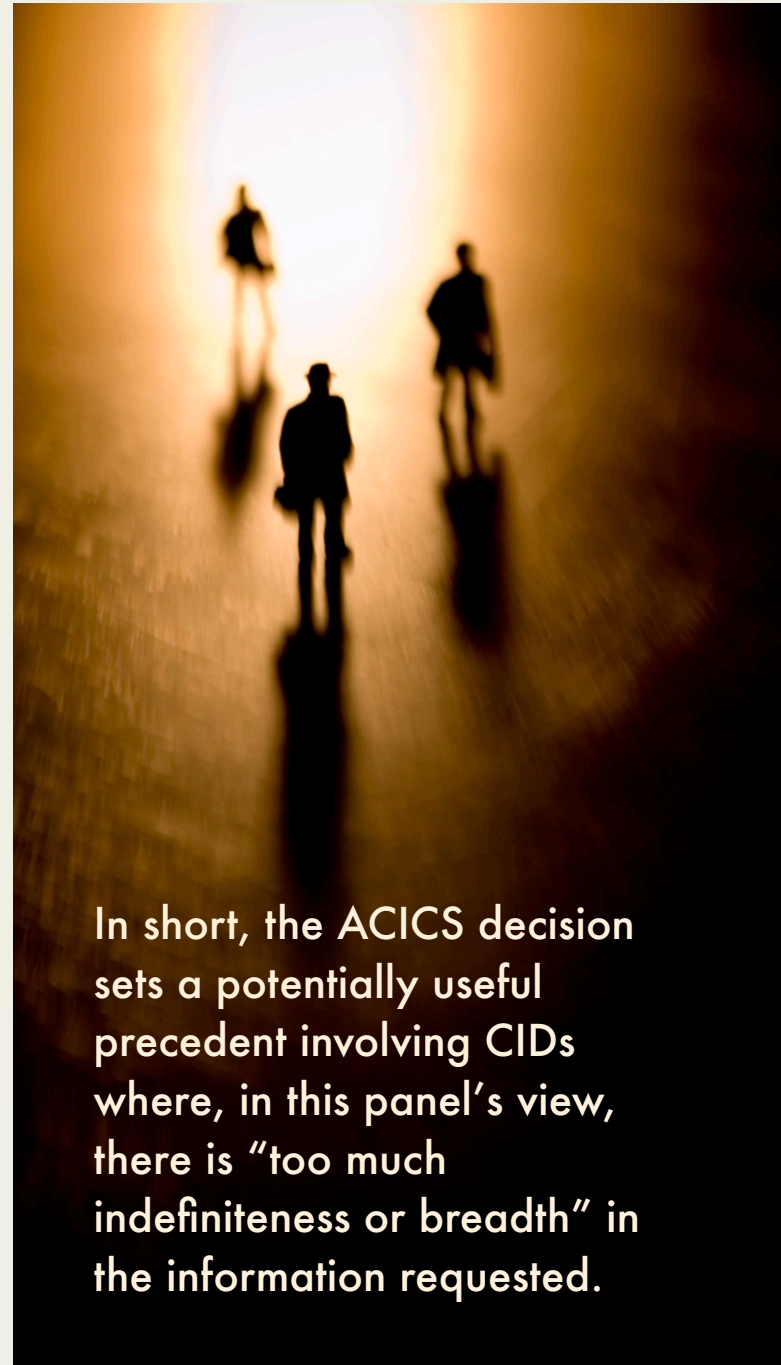
The three-judge panel did not address whether the accreditation of for-profit universities is under the CFPB’s jurisdiction. Instead, it held that the CID was invalid on its face because its broad language failed to state the specific conduct under investigation and the applicable law the CFPB believed was violated. While the CID identified sections 1031 and 1036 of the Consumer Financial Protection Act (which provide the CFPB authority to pursue unfair, deceptive, or abusive acts or practices (UDAAP)), the panel noted that the CID never explained the term “unlawful acts and practices.” The inclusion of the “uninformative catch-all phrase” *any other Federal consumer financial protection law* does nothing to cure the CID’s defect,” it said.

Potential Ramifications of the Court’s Decision

The CFPB has not yet indicated whether it will appeal the decision. But to prevent similar challenges to its investigations, it would need to be more specific in identifying in its CIDs the conduct it is investigating and the statutory or regulatory provisions it believes may have been violated. This could be significant because a more narrowly-drafted Notification of Purpose would provide

the recipient more information about what conduct is being investigated. The decision also opens the door to further challenges by CID recipients to broadly-worded Notifications of Purpose, which could prevent information demands that are not tied to a specific statutory provision and therefore arguably not relevant to the investigation.

In short, the ACICS decision sets a potentially useful precedent involving CIDs where, in this panel’s view, there is “too much indefiniteness or breadth” in the information requested. ▲



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DUBAI MAY HAVE ANOTHER TOUGH YEAR

The real estate industry in the United Arab Emirates and the city of Dubai, in particular, is in for another tough year, according to credit rating agency Standard and Poor. But, they believe that the worst is over, and prices are bottoming out. Analysts are positive about the long-term market in Dubai and believe that it's one of the safest long-term investments. The belief is based on the fact that property values have shown a solid increase over time, as well as above average income generation.

The Market Stats

In 2016, residential prices dropped by between 8 and 11 percent on average, but rentals only dropped by between 4 and 6 percent, according to reports in the *Gulf News*. Last year, there were approximately 60,000 units sold in Dubai totaling around USD \$70 billion. Prices are expected to decline further in 2017 due to regional and domestic macroeconomic conditions resulting from ongoing low oil prices, as well as global factors such as the post-Brexit depreciation of the British Pound and the Dollar strength impact on the market.

Economy of Dubai

The city of Dubai is located in the Persian Gulf and is the capital of the Emirate of Dubai, one of the seven Emirates that make up the United Arab Emirates (UAE). With nearly three million inhabitants, it's the most populated city in the UAE and has developed quickly into the travel, business and shopping hub of the Middle East. The Emirates Western-style business model drives an ever-growing economy with the main revenues coming from tourism, aviation, real estate and financial services.

While Dubai's property market for 2017 looks a little rough, a recovery is predicted.

By Peter Gilmour, chief foreign correspondent

The city has attracted the world's attention over the last 20 years with numerous innovative construction projects such as the Burj Al Arab Hotel, Dubai Marina, Palm Jumeirah, World Islands and the Burj Khalifa—the world's tallest building at 2,722 feet, to name a few. The Burj Khalifa is the centerpiece of a large-scale mixed development that includes over 30,000 homes.

The Dubai market continues to mature and stabilize as a result of strategically implemented government rules and regulations, including increased property registration fees, real estate licensing, escrow regulations and mortgage caps sets by the UAE Central Bank.

Expo 2020

In 2013, Dubai was granted the rights to host Expo 2020. Many believe this will lead the recovery of the real estate market. The event will generate activities and building projects worth billions of dollars and is expected to create nearly 300,000 new jobs. Major developers are looking to 2017 opportunity to start building projects to enable them to be delivered by 2020. Estimates are that 10,000 new units will be delivered in 2017 with a further 40,000 units being delivered by 2020. The current lower prices are attractive to investors looking for income generating properties and first-time buyers who are currently renting.

The property market in Dubai this year will offer a strong alternative to investors worried about the UK's Brexit vote, and growing demand is expected to come from serious investors looking for above-average net returns. 🏠

The Palm Jumeirah, Dubai, UAE



WHAT DOES TOMORROW LOOK LIKE?

REAL Trends is frequently asked what valuations may look like one to five years down the road. Our standard answer is, 'It's hard to know.' Why this is so is what we will discuss here.

By Steve Murray, publisher

Prior the entry of NRT/Realty and HomeServices of America (circa 1997), valuations were almost always less than they've been since the entry of these two large and well-capitalized purchasers. Not only were valuation multiples lower then, but the terms were less generous to sellers in that the EBITDA basis was normally based on a two- to five-year average looking back, the cash down at close was generally lower as a percent of total purchase price and the years of the Earn-Out or contingent payments were usually longer than is the case today.

One point to make is that so long as HomeServices and NRT remain interested in growth through acquisitions, the prices and terms paid for strong, solid brokerage firms should remain about where they are today. Should either or both exit the market for the acquisition of brokerage firms of this kind, then we would imagine that prices and terms likely decline from where they have been the last five years.

Strong Interest from Regional and Local Firms

We're also aware that there is strong interest in growing

through mergers and acquisitions from regional and local brokerage firms. Also, a new type of acquirer in the form of the nation's credit unions is a coming trend. Many are aware of the strong growth of Pentagon Federal Credit Union (Pen Fed) as they are now in multiple states and have built a REAL Trends 500-ranked brokerage firm. We know of at least two other credit unions that are also investigating the opportunities of entering the brokerage business. We don't know whether this trend will grow. Further, we've been in touch with foreign realty organizations that are also in the beginning stages of looking at entering the U.S. market through acquisitions.

What Does the Future Market Look Like?

What does the market look like for the value of residential brokerage firms in the future? We don't know for sure, but the desire of strong, well-capitalized realty firms to grow through acquisitions looks to continue for the foreseeable future. We do believe for the well-run, leading-market-share firms, the market should continue to be competitive and well-funded. 🏠

WE DO BELIEVE

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ONE BROKERAGE'S SOLUTION TO AGENT TECH ADOPTION

How one Florida brokerage achieved a high agent adoption of tech tools.

By Paul Salley, manager of marketing strategy and business development

It's no secret that one of the buzz phrases in our industry is agent adoption. The reason this phrase gets so much interest is that it addresses a real issue that most brokerages face, which is how to get their sales associates to accept technology systems put in place for their benefit.

Success in Agent Adoption

I recently visited an established and successful brokerage in Florida. During this visit, I analyzed the marketing and technology systems they used for operating and marketing their brokerage to gain leads. I also analyzed the technologies that are provided to their agents. Something that immediately stood out was the overwhelming acceptance and adoption of these provided technology tools. I asked the leadership team how they've been able to accomplish this feat so successfully. The answer to my question was unexpected.

The First Day

I learned that the agent adoption success story stems from the very first day an agent starts at this brokerage. The onboarding process begins with the agent meeting the senior team and ancillary service teams in the main office. This allows them to make a personal connection. Also

present during this onboarding process is a dedicated technology liaison. This person is with the agent from day one and actively assists in setting up all of the agent's technology systems. The tech onboarding doesn't stop there. This dedicated liaison regularly checks in with the agent—in person—and has troubleshooting and training sessions to break down any resistance or potential intimidation the agent might harbor towards a specific technology platform. This person also is the main contact should an agent have an issue or question about a tech platform.

Hire a Tech Liaison

By hiring someone who acts as a personal support system to agents and wants them to succeed by using the tools provided, this brokerage has seen a dramatic increase in overall agent production. This increased production is directly attributed to the adoption of tools that have proven to do what they claim—make agents more efficient.

Chances are, you will have the agent adoption discussion at a meeting. When the topic arises, consider hiring and implementing a systems coach dedicated to agents' success via technology adoption. 🏠



BUILD BRAND PRESENCE WITH VIDEO

Brand videos do more than promote your business; they tell the story of your brand.

By Deirdre LePera, director of business development

Did you know that video content will represent 74 percent of all internet traffic in 2017? Cisco, an information technology and networking company, projects that global internet traffic from videos will make up 80 percent of all internet traffic by 2019. Listing videos provide real estate brokerages and sales associates with a steady stream of original video content for their websites, which is great for search engine optimization. However, there is so much more that real estate professionals and firms can do to promote their brand. Here's why you want to develop brand videos:

Housing market videos are the second most popular type of video found on a residential real estate website. These videos educate consumers and sales associates about the current state of the market. Housing market videos are usually released monthly and offer coverage for multiple markets, so they are valuable for SEO. However, a majority of these videos rarely give insight into what a brand is all about.

Tell Your Story

A brand video does more than promote a business; it tells the story of a brand, building the connection between the brand and the consumer. Studies have shown that consumers are 64 percent more likely to buy a product or

service that has video representation. For a real estate firm, a consumer may be a potential buyer or seller, or that person could be the next sales associate or staff person to join the company.

Unlike listing or housing market videos, brand videos don't need to be created on a daily or monthly basis. This type of video should be created on a quarterly basis and will require a significant investment. And, producing four videos a year is the bare minimum for keeping your personalized video content relevant.

Most Consumers Prefer Video

According to Garlic Media Group, four times as many consumers prefer to watch a video about a product or service than to read about it. The next time your brand hosts or participates in a community event, document it with video. If your brand is recognized for its achievements, use video as well as a press release to announce your success. Is your brokerage or brand going through an office redesign? Use a time-lapse video and tell the story of why growth is important to your brand.

Seven out of ten Millennials are likely to watch a brand video when shopping online. Don't miss out on the opportunity to tell your story through video. 🐼

Let REAL Trends Help Your 500 Brokerages Tell Your Story

If your firm ranked in the 2017 REAL Trends 500 or as an Up-and-Comer, you are eligible to purchase a customized promotional video. Learn more by clicking **HERE**.

A PERSONAL NOTE FROM STEVE MURRAY

Last month, we celebrated the 30th year of REAL Trends at the Gathering of Eagles conference. We had nearly 350 friends and colleagues come to hear Jim Collins, Huddy Hanna, Dave Liniger and Ron Peltier, among other great presenters.

We expressed our appreciation to them personally.

For the many friends who could not be there, let me express my sincere thankfulness to every person with whom we've had the pleasure of knowing over these past 30 years of REAL Trends and 40 years of my career. None of us can achieve real success and fulfillment in our careers without the help of others. REAL Trends' success story is due to you as much as any other factor. Without the great relationships we've enjoyed with you; it is unlikely we would still be here.

We promise for the next 30 years that we will do all in our power to stay true to our mission to be *The Trusted Source* and grant you the permission to call us on it should we ever fail to live up to that standard. 🙏

REGISTER TODAY!

2017 REAL TRENDS DEALMAKERS CONFERENCE

On August 10-11, 2017, REAL Trends will host the first ever conference specifically targeted at succession planning, valuations, mergers, acquisitions, legal and tax issues surrounding the above and how to use acquisitions and other combinations as a means of growth.

This conference will last for 24 hours, from 2 p.m. on the August 10 until 2 p.m. on August 11 at the Westin Denver Downtown in Denver, Colorado.

Most of the nation's leading experts on these topics have already confirmed their attendance, including the chief deal executives from HomeServices of America and Realogy.

This year attendance is limited to 100 people.

CLICK HERE to find out more and register.

2017 THE THOUSAND AND AMERICA'S BEST REAL ESTATE AGENTS

For the 12th year, REAL Trends will be releasing its annual rankings of the most productive agents and teams in the United States.

The Thousand, which includes the top 250 in each of

four categories of rankings, as advertised with *The Wall Street Journal*, will be released June 23. America's Best Real Estate Agents will be released in early July and includes over 12,500 of the top teams and agents in the country ranked by state and metropolitan area. ▲



Launching **THE THOUSAND**
June 23 ► AS ADVERTISED IN **THE WALL STREET JOURNAL.**

Launching **AMERICA'S BEST
REAL ESTATE
AGENTS**
July 6 ► **REALTRENDS**



WHO IS LEADING YOUR MARKET? FIND OUT JUNE 15, 2017.

REAL Trends Market Leaders ranks the top residential real estate firms in over 125 different metropolitan markets. Ranked by transaction sides and sales volume, this ranking is a geotargeted snapshot of brokerage performance. ▲

