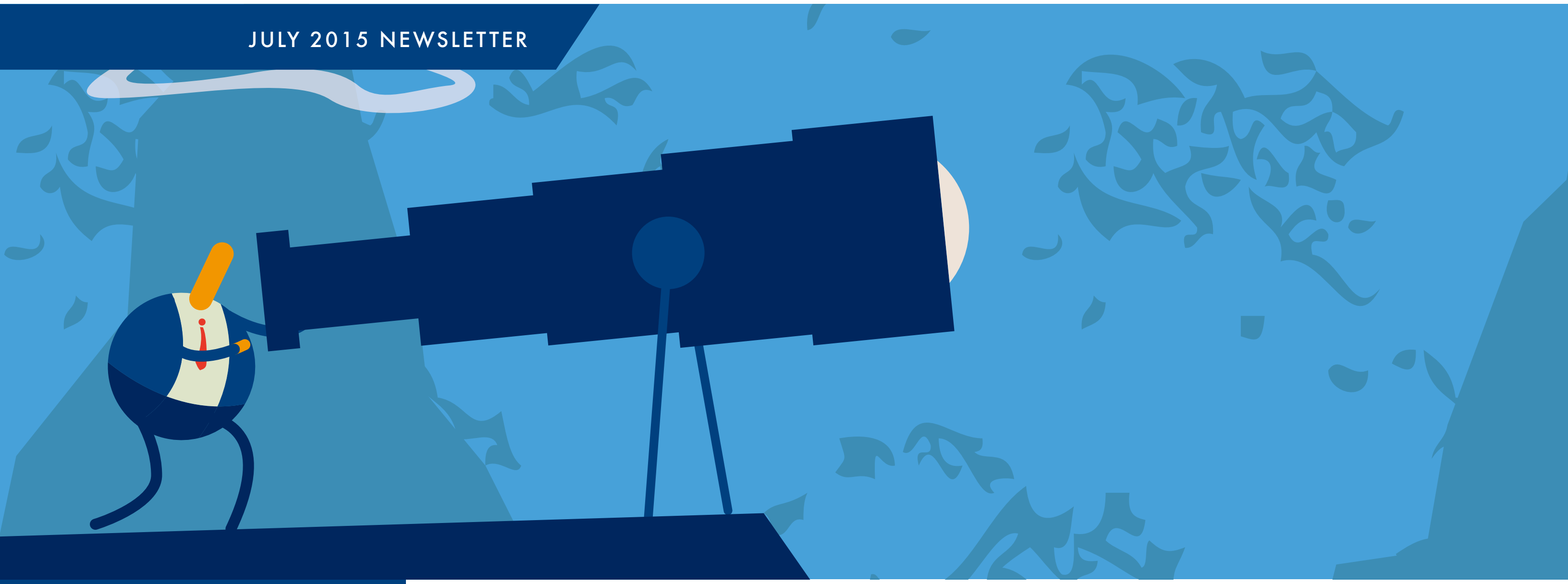
REALTRENDS
THE TRUSTED SOURCE

COMPLIMENTS OF
Charlotte Regional Realtor® Association

JULY 2015 NEWSLETTER



COMMENTARY

FUTURE CHALLENGES

How long will this run continue?

- By Steve Murray, publisher

After a strong run since March in both closed sales and pendings, the question most often asked is, "How long will this run continue?" There is no simple one-line answer but here are some thoughts to consider:

- The average price of homes is far outpacing the growth in household income and has for the past four years since the housing recovery began.
- While there are enormous pressures for the Federal Reserve Board to increase rates, there are just as many reasons the Fed is constrained from doing so—

Continued on pg. 2

REALTRENDS
THE TRUSTED SOURCE

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

Publisher:
Steve Murray - smurray@realtrends.com

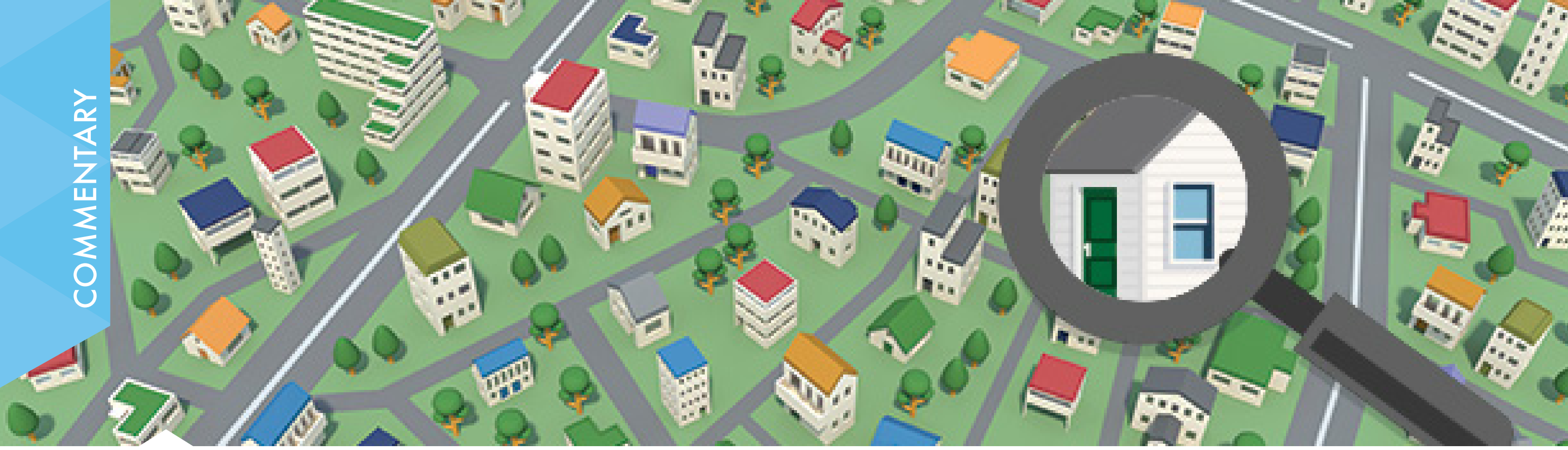
Editor:
Tracey Velt - tvelt@realtrends.com

REAL Trends Team:
Alec Gress - agress@realtrends.com
Amy Broset - abroset@realtrends.com
Brittany Shur - bshur@realtrends.com
Bryan Warrick - bwarrick@realtrends.com
Cade Madison - cmadison@realtrends.com
Daniele Stufft - dstufft@realtrends.com
Deirdre LePera - dlepera@realtrends.com
Doniece Welch - dwelch@realtrends.com
Jaime O'Connell - joconnell@realtrends.com
Paul Salley - psalley@realtrends.com
Terry Penza - tpenza@realtrends.com
Travis Saxton - tsaxton@realtrends.com

foreign banks flooding their markets with cheap money, the strong American dollar and its impact on exports (and export-related employment), etc.

- While new home construction is picking up, it is not nearly enough to satisfy the demand, especially at the entry level in most markets. We are woefully short of product to sell, especially the right products to feed the demand from Millennial and Gen X households.
- Foreign purchasers have made a significant contribution to home sales but with the strengthening of the dollar, this will more likely shrink than grow.
- Historically, about 4.5 percent of all households purchase a home each year. As of May, the percentage stands at 4.6 percent. So, the current level is normal even if it doesn't feel that way. What it does seem to indicate is that home sales don't appear to have a lot of upsides.
- However, the Federal government is now putting in place two new policies, one that may stimulate more sales (lower down payment requirements, looser underwriting standards) and one that may jam home sales (the new TRID requirements).

Home sales will likely remain strong for the foreseeable future but are not likely to continue to grow on a year over year basis as strongly as they have in the first half of the year.



POSSIBLE DISRUPTER?

XOME ENTERS REAL ESTATE

Tech companies are vying for a piece of the real estate industry. Will they succeed?

- By Steve Murray, publisher

Xome announced that they were entering the brokerage industry through the offer of an online portal for consumers and the potential of a rebate to consumers who buy and sell through its service and to the agents who are employed by Xome. Xome says they have the largest, most accurate database of homes for sale, some of the best search technology around and that consumers may be able to receive a discount when they purchase through the Xome network.

FIRST END-TO-END ONLINE TRANSACTION PROCESS

Most importantly, Xome says that they have the first truly end-to-end online transaction process yet to be available. Not only can a consumer buy or sell a home but they can have the entire process handled online so that a consumer can more easily access the transaction as it occurs. Xome says it will have a full concierge program to assist consumers as they move through the process. Should this all be the case, Xome will be the first to tie all the parts of the transaction together in one online process.

In our 2014 book, “Game Changers,” we predicted that this kind of development was not a matter of *if* but when. Further, we said that it could capture a reasonable share of the “do-it-yourself” segment of the market. That share could be anywhere from 1 to 20 percent within a few years. Given that the largest market share held by any one current brand is about 8 to 9 percent, there is a significant opportunity.

STRONG ASSETS

Certainly Xome brings some strong assets to the field. They would appear to have a full and accurate database of home information; they have capital backing from their parent company; they have an experienced industry team leading the effort (Real Estate Digital—RED) and should be able to build relationships with agents who want to handle their customer referrals. They have significant experience in managing transaction management systems. All of this bodes well for their future.

However, consumers will have to find them, then successfully use their service. Agents will have to sign up to receive these consumers and share their commission with them. While all of this can happen, will it do so in large enough volumes in a short enough time frame to warrant the company’s continued interest and investment? This is always the great unknown. Then again, given Wall Street’s unending belief in anything related to real estate technologies, and their desire to see the current brokerage model disintermediated, it could also make for another public offering on its own.

CHALLENGE

Of course, Xome will have to find qualified agents willing to work with their program and their customers. Some will be picked to represent Xome, some may work directly for them at some point while others will be referral agents. The quality of the sales agents who work with the clients and customers can have an enormous impact on how well Xome succeeds with their efforts.

In essence, while the technology sounds reasonable and the proposition intriguing, it is the execution and the reach that will end up mattering more than any other.

NAR, RPR, AMP & UPSTREAM

JOINING FORCES

Figuring out objectives.

- By Steve Murray, publisher

In a surprise move, the National Association of Realtors® (NAR), Upstream shareholders and RPR leaders announced that they had agreed to join forces in some fashion to achieve each of their objectives, whatever those may be.

REAL Trends has not been involved in any of these endeavors. We have spoken to numerous leaders of the various parts of this new venture at different times. It is true that the objectives remain a work in progress as does the development of how it will function. Certainly, at some point, all of this will be worked out and will, in some form, be announced to Realtors throughout the country, at least one would trust this would happen.

A FEW POINTS TO CONSIDER

Upstream was about having one database where brokerage firms had the control over their listing and sales data. RPR was about aggregating data, converting it into something useful for real estate practitioners and delivering it in a useful fashion. RPR was also supposed to become a profit-making entity (although that hasn't happened yet). AMP was to be a backend MLS database tool for use by MLS systems as a more effective way to manage MLS-type data. Now they are all together.

HOW WILL IT AFFECT YOU?

The questions on people's minds at this point are, how it will affect them, what benefits would it provide and would it actually improve the current system of 700+ MLS systems delivering services to over 190,000 brokerage firms and over 1.1 million real estate agents? What might this do to improve the day-to-day operations of the same? How does it impact the relationship with and operations of Move? Will the next "move" be some form of formal connection with Move? How does this partnership between Upstream and NAR line up with NAR's belief that the agent is their primary customer when brokerage firms are thought to be the movers behind Upstream?

There are no clear answers at this time, and likely it will be some time before even the leaders of this new venture can or will discuss what they are trying to accomplish—all in good time.

"MAY THE ODDS BE EVER IN YOUR FAVOR"

A millennial homebuyer shares her story

Written by Brittany Shur, executive assistant

"May the odds be ever in your favor." If you're like most of us, that phrase instantly triggers images of the Hunger Games trilogy and a story about a post-war society dominated by a government whose authority is housed in the capitol, surrounded by 12 districts. In order to prove allegiance to the capitol, each district offers up two tributes to compete in an arena till death. Once selected, the tributes abandon their moral code, and all previous alliances are diminished. Upon arriving in the arena, they are instantly drawn to the central hub where all necessary supplies and weapons are housed. As the clock counts backward from 30 seconds, each tribute analyzes their chances of making it to the hub, collecting the most pertinent items, and making it out alive.

If you're wondering what this has to do with the real estate market, you clearly haven't tried to buy a home in Denver. The idea of competing in an arena is agonizingly depictive of the current market in Colorado. Denver buyers can surely relate to such a battle. As a current homebuyer in Colorado, I can tell you that the process of looking for a home shares many similarities to the Hunger Games arena.

THE GAMES BEGIN

Unlike a few years ago when you could set a showing for a home and avoid the crowds, today your agent sets a showing, and you arrive with three or four other couples. While trying to maintain a cordial smile, you explore the home, becoming more and more frustrated with the fact that you have to wait at each doorway to enter a room. You underhandedly point out anything you can find that's wrong with the house, in the hopes that the other buyers will take note and instantly decide the home is not for them. Of course, you are disappointed when they retreat to the front yard to discuss the offer they plan on making.

You listen intently through an open window, hoping you'll catch a few words and be able to outbid them. If that sounds devious to you, then you haven't had the pleasure of searching for a home in Denver. You decide to make an offer, and your agent looks at you with a smile, trying to conceal her uncertainty. If you're lucky, you'll only have five or six other offers with which to complete. Or, if you're like me, you'll find your dream home, only to hear you're up against 61 other offers! You will do your best to scrounge up every last penny and hopefully come up with an appealing contract. Being $15,000-$20,000 over asking price seems like a good offer, but in this environment, it's not good enough. You'll want to make your contract as attractive as possible, so you remove your opportunity to ask for anything in an inspection and maybe even offer hard earnest money as a way to draw them in. If that's not enough, you may even decide to guarantee the difference between appraised value and contract price. Phew! You smile believing you have prepared an irresistible offer to the sellers. Even with your optimism, you know the home you love will be on the market all weekend and more offers will be coming in. This leaves the entire weekend to anticipate the seller's decision, all while holding your breath.

On Monday morning, you'll receive the call that you, yet again, were "so close" but there was a cash offer or heaven forbid your offer of $35,000 over asking price just wasn't enough. You shake it off, find another home online and the process repeats itself. Each time you try to conjure up something else to get the attention but to no avail. With each offer and each agonizing weekend that you anxiously wait to hear from the sellers, the words "May the odds be ever in your favor" become more and more representative of your situation.

"...OR HEAVEN FORBID YOUR OFFER OF $35,000 OVER ASKING PRICE JUST WASN'T ENOUGH."

THE GOOD OLD DAYS

While some of you may be wondering where such a bleak outlook comes from, and others may be questioning the validity of such outrageous claims, let me assure you that I speak from experience. As a Colorado native and current buyer, I can tell you that this picture of the real estate market in Denver is incredibly truthful. While the pessimistic undertones may be a little daunting, I can think of no better way to illustrate the current home buying process in the Mile High City.

Two years ago, my husband and I purchased our first townhome. The process was frustrating at times but, overall, I would describe the experience as exciting. We looked at 10-15 different homes, all of which were newly listed and had zero offers. It was unheard of to look at a house that already had an offer on it. Fast-forward two years, and the idea of seeing a home without a parade of other buyers is unheard of.

BEGINNING THE SEARCH

My husband and I started our search in April, immediately after putting our current home on the market. As expected, we had multiple offers in just two days, and we were able to pick from seven solid contracts. We received five letters from people telling us how much they loved our house and how hopeful they were that we would choose their contract. We even received a Facebook request from one of the prospective buyers. After hours of going through each detail, I was ready to pick an offer from a couple who had written a very sweet letter about themselves. My husband, being a logical man, wanted to go with our only cash offer. He repeatedly told me that it was a business deal, and I needed to keep my emotions out of it. That makes perfect sense, but knowing full well that I was going to be on the other side of the fence shortly made the decision that much more difficult. Nonetheless, we went with the cash offer, believing we had made the best decision possible.

CONTINGENCIES KILL THE DEAL

The inspection should have been easy, but the buyer decided he wanted $10,000 in updates. As you can imagine, the contract fell through, and our house was back on the market. At that point, looking at a home and getting the sellers to consider your offer is next to impossible. Another interesting fact about the Denver real estate market, don't dare try to buy a house if you have a contingency! It doesn't matter if your house just went on the market or if you're a week away from closing with a resolved inspection and satisfactory appraisal. When you're up against five or more people, a contract with a contingency is discarded immediately. We have lost seven houses; five due to our contingency and two due to higher offers. (It is worth noting that we have yet to offer less than $15,000 over asking price).

> "WE HAVE YET TO OFFER LESS THAN $15,000 OVER ASKING PRICE"

STILL LOOKING

Two and a half months after we began the process of selling and buying, we are still searching for our perfect house. We are hopeful that our house is out there, but the market has proven to be incredibly difficult to navigate. This is especially true if you land in the sweet spot for homebuyers; those who are looking to buy between $250,000 and $350,000. With housing costs increasing and wages staying relatively the same, the disparity between the two continues to increase, making the home buying process challenging and emotionally draining. While I've heard from many that buying a home is never easy, I can confidently say that this experience has tested us in more ways than one. While we will continue to search for our perfect house, I can't help but wonder when the odds will ever be in our favor.

PROJECT UPSTREAM

THE BALL IS IN YOUR COURT

How NAR's partnership with Project Upstream may change the industry.

Written by Jeremy Conaway, contributing editor

The events of Saturday, May 16 may well impact the operation of your brokerage business more than any other single day in recent history. This is, of course, a reference to the National Association of Realtors® Board of Directors meeting and the positive vote taken in support of NAR's partnership with Project Upstream, as well as the funding of both Project Upstream and AMP (Advanced Multi-List Platform).

The partnership between NAR and UpstreamRE will leverage the RPR technology platform to develop an incredible new data management capability for brokers known as Project Upstream. The funding of the RPR Advanced Multi-list Platform (AMP) will create a new business-centric data experience for brokerages. Together, these advances will provide the data foundation necessary for the immediate future of the American real estate brokerage.

DATA COLLABORATION

The events of May 16 culminated several months of extensive discussions between the leaders of many of the nation's largest brokerages, franchise networks, and NAR. Even as the industry moved closer to a data and collaboration crisis, the courage, resilience, insight and leadership of NAR CEO Dale Stinton, RPR CEO Dale Ross and a group comprised of some of the brightest brokerage and franchise minds in the industry, were able to bring their experience and wisdom to bear though a decision that will take the entire industry to its next level of data excellence.

A SPIRIT OF PARTNERSHIP

With these decisions, the debate regarding the wisdom of NAR's investment in RPR over the past five years can also be put to rest. The priceless data and technological assets created by that investment were the very things that allowed the parties to come together and reach an agreement. Some will say it was luck; others know it was innovation. Such will be left for historians to argue. What is important is that the brokerage community and organized real estate are now working together in the spirit of partnership that will allow them to move forward on a common ground, not bifurcated turf.

These events occurred because the brokerage community demanded that they occur. These events occurred because the brokerage community used its power and influence through their industry and organized real estate representatives to make it happen. These events occurred because the brokerage community now universally understands that the real estate world and marketplace are changing as a result of new environmental, economic and demographic factors, a new generation of consumers and emerging new ways to look at the housing challenges. This is an example of the system, your system, working. Both Project Upstream and the AMP project will support and facilitate the data needs of brokerage business models for decades to come.

THE NEXT CHAPTER

Now comes the next chapter of this historic campaign. There are individuals and entities out there that will fight these developments in order to protect their status quo. Over the next several months you will be lobbied, coerced and, in some cases, bullied by those whose only plan is to perpetuate employment, resist innovation and protect the status quo. Stand fast. This is not a matter of politics and legacy relationships. It is a matter of potential, opportunity and hope for the industry's future. This is an opportunity for those who want to be successful in the future to start by being active now.

Interview the leaders of the organizations that are currently responsible for meeting your data and informational needs. Learn about their knowledge and vision relative to both your present business environment and, more importantly its window of opportunity moving forward. No organization can support your new business model without understanding what it is going to be. Most importantly, they cannot protect you without a plan. Determine if they have a plan in place. Is that plan to cling to the status quo? Are they investing in your future or their past? Are they into the politics of the current situation or the future profits of your business? At some level these organizations know they will have to change, but they are also hoping that by some miracle they can become the only element of the American real estate industry to escape the wave of change that is being embraced by virtually every other element of the industry.

ROLE PLAY

Understand what role your local association is playing or intends to play in this drama. There are many fine REALTOR® associations out there that are courageously trying to grow with you. However, there are many more that are investing their energies and your resources to protect jobs and legacy positions.

A simple way to start this inquiry is to recall whether or not your association executive has been in your office recently asking about your business vision of the future and what role the association will play in your business success moving forward. Such an event is not to be confused with gathering your brokers to a meeting at the board. This is an option that you should avoid as it will be a complete waste of your time. If their response is that they don't have time, then you should take note of that prioritization.

Keep in mind that sometimes the association's response isn't generated by its executive but rather by leaders that are committed to perpetuating the status quo until they can retire or sell out. It doesn't really matter which of these two forces are at work. The end game will be the same.

Take the time to read and study the plans, documents and visions of both sides. Use the events of May 16 to strengthen control of your business and to build its value proposition for both your customers and that sale transaction that may be down the road. We can do this.

SMART OR HEALTHY?

DOES YOUR LEADERSHIP TEAM HAVE "THE ADVANTAGE"?

Most companies are smart but not healthy. Which are you?

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

At the most recent REAL Trends Gathering of Eagles Conference, author and consultant Patrick Lencioni, gave a riveting presentation on the importance of our leadership teams being healthy as well as smart. Smart teams have a great strategy and solid marketing, finance, and technology. Healthy teams have minimal politics, minimal confusion, high morale, high productivity, and low turnover.

His observation: Most companies are smart but fewer are healthy. Being healthy is "The Advantage," the title of his latest book.

"The Advantage" provides a template for creating the healthy (and smart) leadership team. Since the conference, I've met two executives, one the CEO of a $1.2 billion a year construction company and the other the chairman of a hospitality company with over 300 hotels. They both rave about the book. Both are taking their leadership teams through The Advantage process, as are we at our company. We recommend you consider it as well.

Lencioni says the foundation of a healthy organization is trust. I'm reminded of a brilliant young researcher and author by the name of James Kane and his analysis of trust. Kane says there are four key elements in building trust. We've added three more from our experience working with real estate leadership teams. Want to build trust with your team and create the advantage? Focus your team on these seven areas to start. Ask them to work together to hold each other accountable to these principles.

- Character. Are you honest? Will you have the courage to tell me the truth, not just what I want to hear? Will you not talk about me behind my back?
- Competence. Are you competent at what you are doing? Can you help put us in a position to be successful?
- Consistency. Do your team members know what they can expect from you? Emotional and volatile behavior, as well as inconsistent decision-making, destroy trust.
- Capacity. Do you have the bandwidth to complete projects? Or, are you quick to take on projects but not so good at finishing them?
- Commitment. People are committed to working with people who are committed. Do your team members feel you are all in with them?
- Clarity. Confusion creates chaos and wastes resources. The brilliance of The Advantage is how Lencioni takes us through a goal clarifying exercise, so we are clear on: Why do we exist? How will we succeed? What must we do right now? Who must do what?
- Caring. Do you see your team members and your employees as people or as objects? This simple, yet powerful, question is critical to the success of your organization. We have found that the team members who don't care about each other as people have a hard time building trust.

Work on these seven areas in building a foundation of trust. Discuss them with your leadership team. Ask your team to hold each other accountable to these principles and you will build a healthy organization—one that has the advantage.

SHANE S. MCCULLAR,

OPERATING PRINCIPAL & BROKER-OWNER KELLER WILLIAMS METRO CENTER ALEXANDRIA, VIRGINIA

With three market centers and 625-plus agents, McCullar is dedicated to the idea of high integrity and working with learning-based individuals.

REAL TRENDS: Tell us about your path to real estate.

MCCULLAR: After college, I worked in the securities industry as an investment broker. I later worked for McDonalds Corporation in Chicago. After three years, I became the corporate liaison to McDonalds Corporation with Rubbermaid Corporation on all domestic and international business.

Later, I joined Coldwell Banker in the Gold Coast of Chicago. I then worked with Belgravia Group, Ltd. as a director of sales and marketing. After building their internal sales force and real estate entity to the highest level of sales in the company's 50-year history, I was approached by Keller Williams Realty.

I launched a new office for Keller Williams on Michigan Avenue and managed a 75-person office in the West Loop. After the opening of the Gold Coast office, an opportunity came to have an equity stake in a new office in California.

The move to Palo Alto, California was a risky move since I did not know anyone in the state and more specifically did not have any agents. Within a year and a half, the office achieved a No. 1 position in Keller Williams International owners profit, No. 1 in GCI and No. 1 in controllable expenses.

Finally, I decided to move closer to family in Virginia on the east coast. Building an office for the long term in a high-end market, Alexandria - Old Town became real in December 2007 with the approval of Keller Williams Realty International. Old Town opened in December 2007, the worse month of the year and worse year of the recession. I did everything I could to stay afloat. I grew up poor and learned the difference between good and bad debt.

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

MCCULLAR: I opened a new office in the worst month of the worst year in real estate—December 2007. I paid everything in cash. However, I had to sell 30 percent of my company just to keep the door open. I renegotiated the lease and lost agents. It was a scary time, and we almost didn't make it. For three months, I didn't have any income, yet I put in $135,000 of my own money. It paid off, and now, we've been profitable for years.

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

MCCULLAR: Trust your gut about the people with whom you choose to partner. If things aren't going well with partners, get rid of them quickly. If, during an interview, your gut is telling you no, then get up and walk away.

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?

MCCULLAR: Education. The work I put into my business, learning new things and business techniques drive me to push a little harder each day. That was one thing I did from the beginning that changed the trajectory of my business. I study John Maxwell, a leadership expert. I understand the need to grow, so I schedule the time and put money behind it.

One time, I was sitting next to John Maxwell. I don't like to bother people I admire, but we literally almost bumped into each other in the hallway. I was so excited about it; I got a picture. I told him that my wife and I were huge fans of his.

REAL TRENDS HOUSING MARKET REPORT

SPRING HOME SALES SURGE SLOWS IN MAY

Sales still growing but at slower rates

The REAL Trends Housing Market Report for May 2015 shows that housing sales increased 5.4 percent from the same month a year ago. All four regions reported unit sales had increased from a year ago with the Midwest leading the way with an increase of 6.3 percent. The rate of growth slowed substantially on a year over year basis from the results in April 2015.

The annual rate of new and existing home sales for May 2015 was 5.754 million units up from a rate of 5.460 million in May 2014.

Housing prices rose an average of 2.1 percent from May 2014 the slowest rate of home price increase in 2015.

"May housing sales continued to grow, but the year over year results were the weakest in several months," said Steve Murray, editor of the REAL Trends Housing Market Report. "In addition the increase in the average price of homes sold was among the smallest increases on a year-over-year basis in the last 12 months. While one month does not create a definable trend, previous reports on strength in pending sales seem to have over-reported the actual final sales," Murray added. One potential cause may be the continuing tightness of inventory of homes for sale, which remains well below normal market conditions. Affordability may also be a reason for concern."

Housing unit sales for May 2015 increased 6.3 percent in the Midwest, the best performance in all regions. Sales in the South region were up 5.7 percent, the Northeast saw an increase of 4.8 percent, and the West had an increase of 4.4 percent.

The average price of homes sold in May 2015 in the Midwest region increased by 4.6 percent, the best result in the nation. The West saw average prices increase 3.2 percent, average prices in the South were up 2.7 percent, and the Northeast saw average prices decline by -2.0 percent.

"While the job market remains strong, average household incomes continue to show sluggish growth. And while the private market for mortgages is less stringent than it was in the past, many of the major lenders remain wary of adopting looser underwriting standards. So, while there has been a pick up in first-time homebuyer activity, it is not expected to return to normal historical levels of activity," Murray added.

REAL Trends Housing Market Report

	MAY 2015		APRIL 2015	
	CLOSED SALES	AVG PRICE	CLOSED SALES	AVG PRICE
NATIONAL	+5.4% ↑	+2.1% ↑	+13.2% ↑	+3.5% ↑
REGIONAL REPORT				
NORTHEAST	+4.8% ↑	-2.0% ↓	+6.8% ↑	+1.4% ↑
SOUTH	+5.7% ↑	+2.7% ↑	+14.1% ↑	+5.0% ↑
MIDWEST	+6.3% ↑	+4.6% ↑	+14.8% ↑	+3.1% ↑
WEST	+4.4% ↑	+3.2% ↑	+14.0% ↑	+4.0% ↑

MARKET ANALYSIS

NO HOUSING BUBBLE IN SIGHT ...FOR NOW

Loss of property flippers and opportunists help market to remain stable.

by Matthew Gardner, chief economist for Windermere Real Estate

Ten years ago, Alan Greenspan was asked if he had any concerns regarding the housing market. At that time, he emphasized that he saw no sign of a nationwide housing bubble, but he did have concerns over "froth" in the market and pointed to a big increase in the purchase of investment properties—particularly in second homes. As a result, he said, there are "a lot of local bubbles" around the country, but not at a national level.

As we are all very much aware, he, along with many other esteemed economists, was incorrect in his prediction that there was no national housing bubble in sight.

A DECADE LATER

So here we are, a decade later, and some are starting to suggest that we are on the verge of another bubble bursting due to an overheated housing market. I'm often asked if there is any truth to this, and my response is no, I don't believe there is a national bubble on the horizon. And here are the reasons why:

1. **The flippers have left the building.** In as much as it causes me untold angst to see the resurgence of reality TV programs espousing the wonders of house flipping, the country has seen a marked slowdown in this type of business. Why? One reason is that the number of foreclosed homes continues to drop. Foreclosures are the preferred property type for flippers, as margins can be significantly higher.

   Given that there is less distressed inventory, it's not surprising that homes purchased with the intention to flip have declined nationwide. Data supplied by RealtyTrac suggests that the percentage of homes that were bought with the intention to flip has dropped from a peak of 6.7 percent at the beginning of 2014 to 4 percent today, and I believe that this share will continue to decline, signifying a more normalized market.

2. **Lending standards remain very stringent.** Banks did learn a lesson from the collapse of the housing market and remain wary, and because of this, qualifying for a mortgage remains difficult. For example, in April of this year, the average FICO score required for an approved conventional home loan was 756 with a 19 percent down payment. The average FICO score for someone who was denied a loan (with an average down payment of 17 percent) was very high at 699.

   Even low-down–payment programs, such as FHA loans that have less stringent FICO requirements (686 for FHA loans approved in April) are still high enough so that they don't cause me concern when I think about these borrower's ability to handle their mortgage obligations.

   To further support this view, there are several components of the Dodd–Frank Wall Street Reform and Consumer Protection Act that provide substantial safeguards when it comes to irresponsible lending practices, such as requiring lenders, through the qualified mortgage rule, to ensure a borrower's ability to repay.

3. **Home prices are up,** but not to pre-bubble levels. I looked at data provided by S&P Case Shiller index, which is a useful resource because it calculates the increase/decrease in value of the same house over time, rather than just the make-up of sales during a specific time period. At the national level, the bursting of the housing bubble led to a 27 percent drop in the index. The index has risen back but is still 9 percent below the prior peak.

4. **Interest rates are going to (eventually) start to rise.** This will take some of the heat out of the market. Now, there are some who will say that any increase in mortgage rates will negatively impact the housing market, but I don't agree. Although it is true that an increase in rates does decrease buying power, the naysayers are ignoring the fact that we are in a growing economy. The growth in employment, and the subsequent drop in the unemployment rate will lead to wage growth, and increasing incomes will take some of the sting out of any rate increase.

Given all of these points, I do not see the risk of a national housing bubble anywhere in the foreseeable future; however, I do think we see localized froth in some markets.

> "THE NAYSAYERS ARE IGNORING THE FACT THAT WE ARE IN A GROWING ECONOMY."

Matthew Gardner is the chief economist for Windermere Real Estate, specializing in residential market analysis, commercial/industrial market analysis, financial analysis, and land use and regional economics. He is the former Principal of Gardner Economics and has over 25 years of professional experience both in the United States and United Kingdom.

HOUSING MATTERS SURVEY

PROLONGED HOUSING CRISIS DIMINISHES CONFIDENCE IN THE AMERICAN DREAM

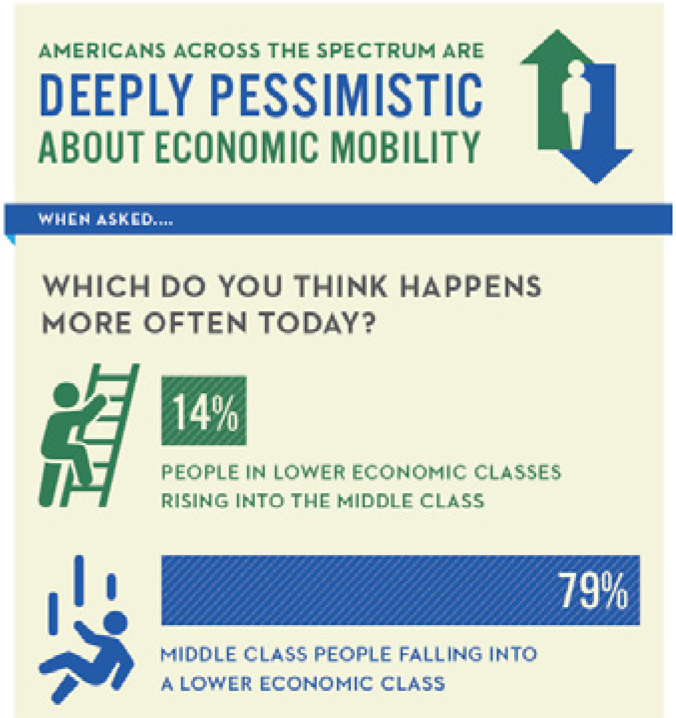
A significant majority of Americans believe the country is still not past the housing crisis that began seven years ago, according to a new survey of housing attitudes released by MacArthur.

Despite some improvement in their view of the housing situation nationally, the enduring sense of the housing market under pressure is reflected in the public feeling more worried and concerned than hopeful and confident about what the future holds for the country. Americans believe it is harder than it used to be to attain a secure middle-class lifestyle and significantly more likely for a family to fall from the middle class than to join it.

“Decent housing at an affordable price remains a challenge for an increasing number of Americans, even after the recession has formally ended,” said MacArthur President Julia Stasch. “It is disturbing that people feel the American dream and prospects for social mobility are receding. This survey is a wake-up call. People want and expect solutions to the housing crisis to be a higher priority for both national and local leaders alike.”

The 2015 How Housing Matters survey is the third annual national survey of housing attitudes conducted by Hart Research Associates and commissioned by the MacArthur Foundation. Hart Research Associates interviewed 1401 adults, including landlines and cell phones, between April 27 and May 5. Survey findings include:

Americans believe the housing crisis continues though that view is slowly receding. Three in five Americans (61%) believe we are either “still in the middle” of the housing crisis (41%) or “the worst is yet to come” (20%). While this is an improvement from 2014 (a combined 70%), and 2013 (77%), the persistence of such pessimism seven years after widespread mortgage defaults helped trigger a deep recession is an indicator of ongoing concerns about housing affordability as well as lingering economic trauma.



Perceived improvements in the housing situation nationally are not reflected in the public's personal experiences or what they see happening in their communities, as housing challenges persist at very high rates. Half of the public (55%) reports having had to make at least one sacrifice or tradeoff in the past three years in order to cover their rent or mortgage. One in five (21%) reports having to get an additional job or work more, 17% stopped saving for retirement, 14% accumulated credit card debt, and 12% cut back on healthy nutritious foods. The segments of the public having to make tradeoffs at the highest rates include renters (73%), racial minorities (68% of Hispanics and 62% of African Americans), Millennials (67%), and city dwellers (64%). Majorities of Americans continue to believe that it is challenging to find affordable rental housing in their communities (58% in both 2014 and 2015), and housing to purchase (60% in 2015, 59% in 2014), and even more challenging for families at the median income (65%), young adults (80%), or families at the poverty level (89%).

Housing is central to the public's pessimism about the potential for social mobility. The public remains more worried and concerned (60%) than hopeful and confident (32%) about the nation's future. Deep skepticism about the ability of Americans to move up the socio-economic ladder is indicated by four in five (79%) saying it is more likely for "middle-class people (to fall) into a lower economic class" than for "people in lower economic classes (to rise) into the middle class" – a belief that persists across political party, age, and income. The housing crisis saw millions of Americans lose wealth when their homes lost value or were foreclosed. The 76% who believe it is either much more likely (45%) or somewhat more likely (31%) for banks today to foreclose on homeowners than it was a generation ago has only declined slightly since 2013, when 81% believed this. Three in five (62%) now believe it is somewhat (37%) to much less likely (25%) for families today to build equity and wealth through homeownership compared to 20 to 30 years ago.

While Millennials are personally hopeful about their future prospects, the overwhelming majority of Americans today think it is harder for young people to achieve a secure middle-class lifestyle than it used to be. Americans as a whole perceive a tough road ahead for Millennials. Three in four (75%) believe achieving a middle-class lifestyle has become harder for young adults, and when it comes to key achievements associated with a middle-class lifestyle, vast majorities believe it will be harder for young people to save for retirement (81%), own a home (76%), secure a stable decent-paying job (71%), or have a stable affordable housing situation (71%) than it was a generation ago. While 88% of Millennials say they are optimistic about their future, including nearly half (48%) that are very optimistic, they expect a more challenging road ahead for their own generation, with significant majorities believing that being able to own a home (77%), save for retirement (76%), have a stable, affordable housing situation (69%), and have a decent-paying job (65%) will be harder for them than it was for previous generations.

While the public overwhelmingly believes that housing affordability is a problem, the American people lack a clear vision of the role of the federal government and the kinds of policies it could enact that would substantially improve housing affordability in their communities. Eight in 10 Americans believe that housing affordability is a problem, with 60% characterizing it as a very (36%) or fairly (24%) serious problem, and this recognition transcends age, educational attainment, income, and even political party affiliation. A majority of Americans (55%) believe the federal government is more involved in housing-related issues today than it has been in the past two decades, and most (53%) say that addressing housing affordability is not its responsibility (39% say it is.)

Still, there is a disconnect between the level of priority housing issues receive from government and the degree of priority the American people would like to see their elected leaders place on housing-related policy issues. Half of all adults express the desire for their elected officials in Washington to treat housing affordability as a very (27%) or fairly (22%) high priority. More than half (55%) would like to see their state and local elected leaders treat housing affordability as a very (30%) or fairly (25%) high priority. Yet only 14% believe elected officials in Washington or in their localities treat housing affordability as a high priority. The survey also shows that the public finds several empirically based messages to be very convincing evidence that government should be doing more to provide decent, affordable housing opportunities for families and communities.

The pendulum has swung back slightly toward the belief that homeownership is appealing and offers long-term benefits. 56% of adults say that buying a home is an excellent long-term investment compared to 38% who believe that buying a home is no longer an excellent long-term investment and one of the best ways for people to build wealth. This stands in contrast to the initial How Housing Matters survey in 2013 when a majority of the public (57%) said that buying a home was becoming less appealing. The proportion of non-homeowners who aspire to own a home remains constant at roughly seven in 10, with 43% of non-owners saying that homeownership is a fairly to very high priority. Millennials and African Americans prioritize homeownership at even higher rates, with 53% and 46% respectively saying that they place a very or fairly high priority on homeownership.

"Most Americans do not believe the housing crisis is over, and this has contributed to the public feeling shaken in its optimism about what the future holds, particularly for younger people. The building blocks of success – having a good job, decent housing, and the ability to save for a secure future – are viewed as harder to achieve than they were a generation ago, and this in turn helps drive pessimism about social mobility. The idea that downward mobility is more likely today than upward mobility turns the American Dream on its head, and is an indicator of how badly confidence has been eroded," said Geoffrey Garin, President of Hart Research Associates.

View the full survey report ›

View the complete survey data ›

View a report on Millennial's housing attitudes ›

View a report on African Americans and Hispanics being left behind in the housing recovery ›

INDEPENDENT CONTRACTORS

STATE SUPREME JUDICIAL COURT DECISION MAY BE A WIN FOR CONSUMERS AND THE REAL ESTATE INDUSTRY

Monell vs. Boston Pads LLC Ruling Affirms Long-Standing Broker-Agent Relationship

The Massachusetts Association of Realtors® (MAR) announced that the Massachusetts State Supreme Court (SJC) decision in Monell vs. Boston Pads LLC is a win for consumers and the entire real estate industry. The ability for real estate agents to choose to affiliate with real estate brokers as independent contractors has been the backbone of the profession for more than 100 years.

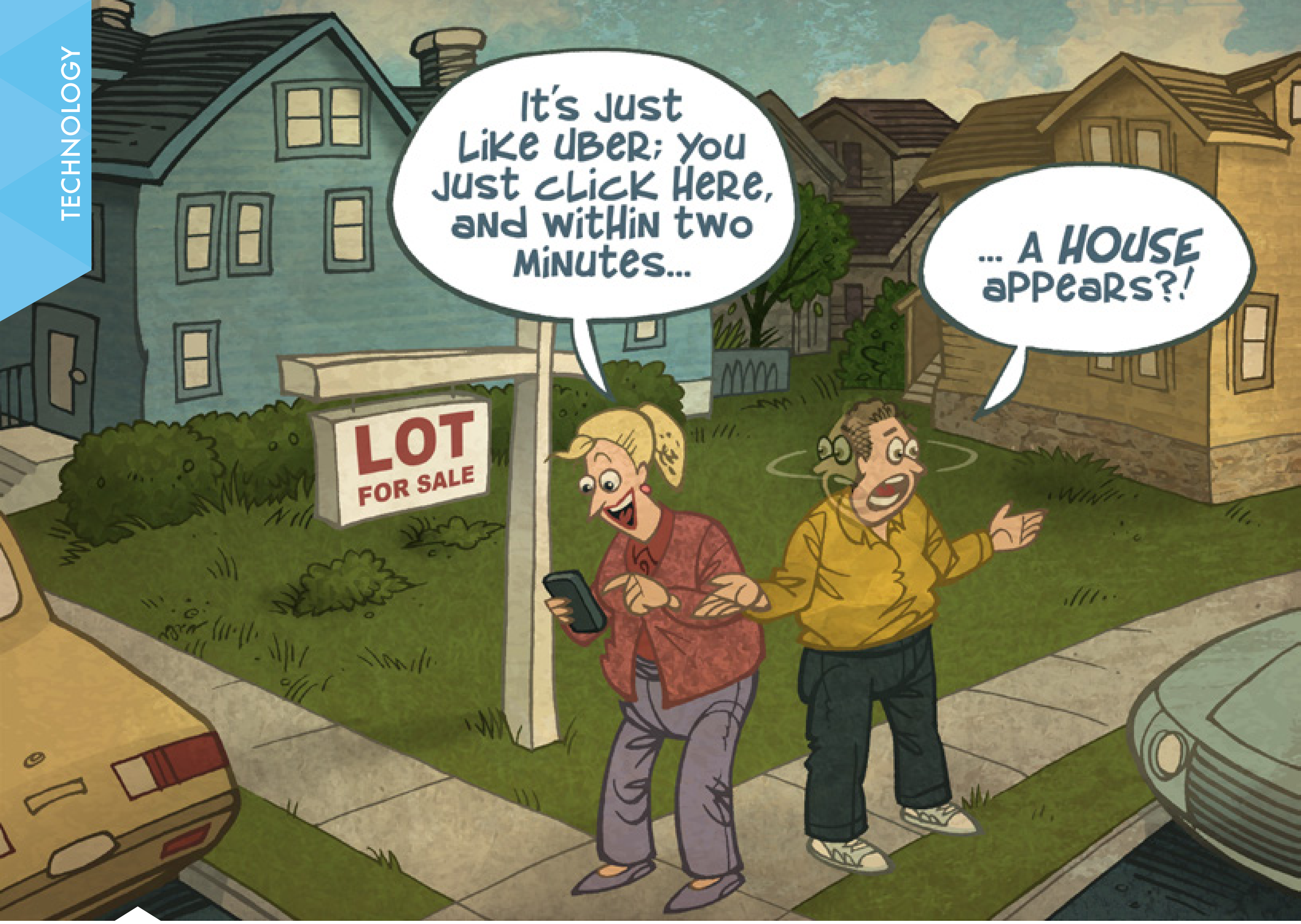
As a result of the decision, the Court affirmed the Superior Court ruling that the real estate license law governs real estate agent relationships with their brokers. This decision also confirms what MAR has been recommending to its Realtor members for years.

INDUSTRY STILL OPEN TO LITIGATION

While it may be a win for the state of Massachusetts, it may have little impact on other states. According to Bernice Ross, an industry coach with RealEstateCoach.com, "The court ruled very narrowly in this case and essentially punted back to the legislature. What I found particularly troubling was that they said real estate professionals failed to meet two of the three standards to be considered independent contractors. The real estate law only took precedence because it was narrower than the independent contractor law. Moreover, when the legislature passed a law affirming independent contractor status for the real estate industry, Governor Patrick vetoed it. The review I read in *Banker Tradesman* on this felt it left the industry open to additional litigation on this front. The real challenge is with Barasani vs. Coldwell Banker in California where the judge said he was going to use the 11-factor, not the 3-factor test. That's the one the experts are most concerned about."

Monell v. Boston Pads, LLC was originally heard before the Suffolk County Superior Court, and a decision was made in July 2013. The Superior Court held that the existing practice of brokers and salespersons affiliating as independent contractors is consistent with state law and that they may affiliate as either an independent contractor or as an employee.

Most agents and brokers in Massachusetts, and throughout the country, have agreed to affiliate as independent contractors. This is due to a variety of reasons, primarily because of the commission-based nature of the business, the irregular hours, and the manner in which the business is conducted to best serve consumers. The losing agents appealed the decision, and the State Supreme Judicial Court upheld the Lower Court ruling.



TECHNOLOGY TRENDING

A PEER INTO THE NEXT 5 YEARS IN REAL ESTATE

Is the industry headed for a major disruption?

Written by Travis Saxton, vice president of technology

There is much speculation about an Uber-type disruption for an on-demand real estate solution. At REAL Trends, we feel that is highly unlikely to happen. Here's why: the high emotional and financial investment in a real estate transaction means it's difficult to formulate an on-demand real estate relationship or transaction.

There is a company called Curb Call that is supposed to be the Uber of real estate, and it hasn't taken off like many thought it would. We do see technology upsetting our business model, but only in slight increments and not all at once. After all, a company may come in with a model like E-trade or Geico, significantly reducing or eliminating overhead, yet offering a virtual experience that is on-demand. The problem with the existing technology is that, in our industry, there is little to no transparent flow of data. Plus, the ability for a client to experience an all-in-one real estate transaction is significantly lacking. Until this gets to a point where it is flawless, and the consumer has a 100 percent transparent dashboard showing the whole real estate process (a dashboard that shows the whole real estate process, progress, closing, and more), we doubt this will happen. For now, we'll see shiny pennies and niche products that wow us but likely don't grab major traction.

WHAT ABOUT XOME?

Recently, a company called Xome launched and peaked our interest. We think it will take a dramatic shift with the consumer in mind and not the agent (unfortunately). That is the next big thing. I'm not saying Xome will be the disruption, just using them as an example.

SMART APPLICATIONS

We think big data and smart applications of big data are going to be next. Staying one step ahead of the closest competitor will be key. This plays into many areas of the real estate process, starting with pre-identifying leads to lead generation as we currently know it. The number of mobile consumers is growing so fast that using mobile to reach these consumers will render our current desktop strategies obsolete very soon (probably within 10 years.) There are quite a few behavioral products on the market from Smart CRMS to SmartZip. These will evolve, too. We are working on a product that, based on consumer habits on real estate websites, will serve up emails that are constructed while the consumer is browsing. These emails are far more suited to consumers than the standard "new listing hits MLS with my criteria set." Matterport and virtual reality will replace traditional photos.

SEARCH WILL CHANGE

We agree with Brian Borero of 1000Watt, who recently mentioned that the present-day real estate search would change. Everybody does the same thing; the standard search results are displayed and then users can click to view property detail pages. This will change, and a constant stream of content/video/dynamic results will be the future of real estate search. It should take all the guesswork out for the consumer.

SHIFTING BUSINESS MODELS

Our industry is shifting to the consumer-centric model, and the Internet, and more specifically the portals, has made that happen. This is why it is imperative for brokers to appeal to this on-demand, fastest-finger demographic with an e-team that is appealing to these consumers while still maintaining their traditional business.

This will be a breeding ground for new lead sources, technologies, and strategies, as well as more brokerage control and higher broker splits. In this scenario, the brokers may require more control over the process. It will move closer to a transactional type of business without actually being defined as one. The scalability of this is easier as systems will do more of the work than the people.

REAL TRENDS THE THOUSAND, AS ADVERTISED IN THE WALL STREET JOURNAL

AGENT RANKINGS RELEASED

Bonus: REAL Trends announces a new ranking based on average sales prices.

On June 26, we released the 2015 REAL Trends The Thousand, a ranking of the 1,000 most productive real estate agents and teams. There are separate rankings of the top 250 in four categories: individual agents by sides, individual agents by volume, top teams by sides and top team by volume. This is the fifth year we have published the list. The results are also published in *The Wall Street Journal* who have been significant supporters of this report since its inception ten years ago.

Nearly 10,000 of the top teams and agents submitted their results for this report. Each submission has to be verified by an independent, third-party source. In some cases, agents and teams had to submit additional verification, such as their 1099 form. We take great care to review all submissions so as to ensure that the numbers are correct and that those submitting are properly classified as being a team or an individual agent. Perfection is what we seek, even when we don't always reach that level.

The kinds of legal entities and business forms in which agents do business are constantly morphing and changing. What was simple yesterday is not so simple today. One big question about such rankings, for instance, is whether a team that is also an entire separate brokerage firm should be classified as a team or a brokerage firm. Now that the numbers of these kinds of firms are popping up, we will be reviewing how and where we will be classifying them for future editions.

This year, we added a new ranking to the report where we rank agents and teams by the average sales price of the homes they sold. Take a look and see what is happening in several markets with prices—it is astounding.

VIEW THE RANKINGS!

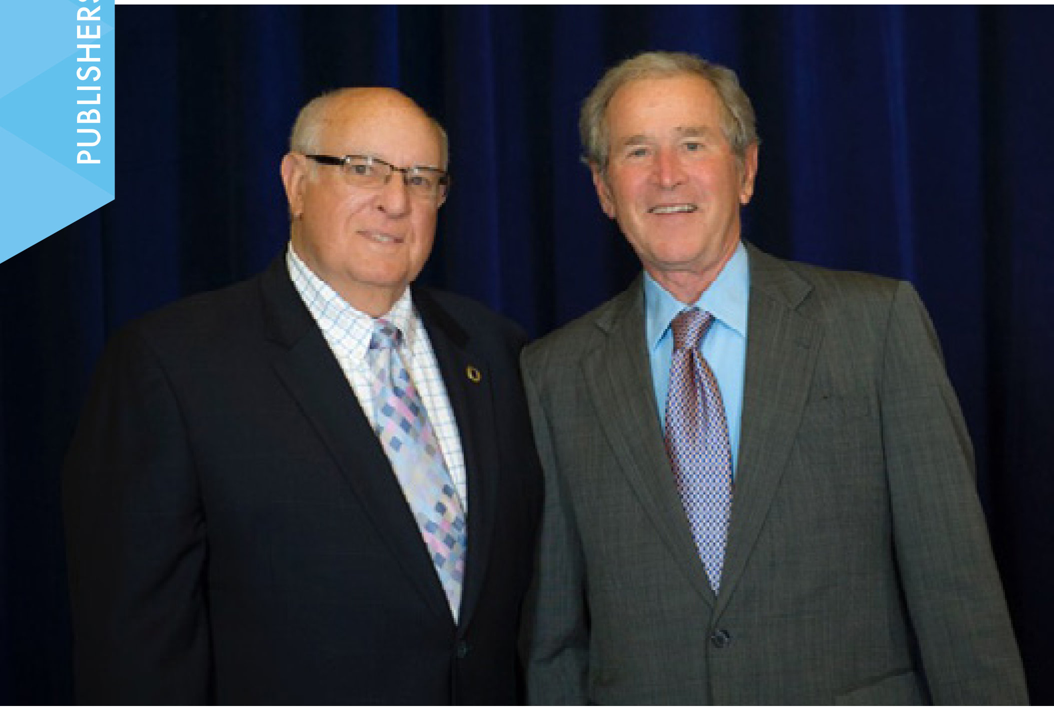
REAL TRENDS AMERICA'S BEST REAL ESTATE AGENTS

RANKING THE NATION'S TOP AGENTS

The most productive sales associates in America.

On July 7, we will release the 2015 REAL Trends America's Best Real Estate Agents ranking report. This includes those ranked in The Thousand as well as nearly 9,000 other top agents and teams from across the United States. To qualify, individual agents had to close no less than 50 closed sides or $20 million in sales volume. For teams, the minimum was 75 closed sides or $30 million in sales volume on a closed basis.

These teams and agents are ranked by individual agents and teams, by sides and by volume and are ranked within their states and metropolitan areas. One new additional service this year is that agents and teams may identify up to 30 additional cities where they provide services in addition to being found in the city where their host office is located. This will make it easier for consumers to find top performing sales associates and increase their recognition in the markets they serve.



IN MEMORIAM

JIM BRAY | ALLEN TATE JR

In our industry there are leaders and there are *iconic* leaders. Iconic leaders are those who leave their mark on their companies in such a way that the lessons are never lost; the feelings of respect and love aren't diminished over time. As a result of their deep care for the people of their companies, their companies find a way to continue to thrive even after they are gone from us.

This last month, our industry lost two of the very best, Jim Bray of Cutler Realtors in Akron/ Canton, Ohio and Allen Tate Jr. of The Allen Tate Company of Charlotte, North Carolina. To all who knew them, their departure leaves a sense of loss of a great friendship, and beloved mentor. I was privileged to have known both men almost 40 years. I feel like both Allen and Jim were part of the greatest generation of our business, who started small firms and grew them into large firms. More importantly, they took care of the people of their companies in a way that had little to do with business and a great deal to do with improving the lives of their people and their communities.

Jim Bray was admired by those who knew him as a man who had a great sense of humor, a warm smile and a terrific wit. He brought a measure of sunshine into any room he was in. He had a wide range of interests including the real estate technology business where he was an early supporter of Delta Media Group, which is today a leader in that field.

Allen Tate Jr. was from a generation who believed in courtesy, integrity and respect for others. His southern manners were always on display but failed to disguise a keen mind for talent, an intelligence that was rare and a belief that one can be guided by a sense of noblesse oblige, a commitment to more than the business, a lifelong commitment to improving service for all of the employees, agents, clients and customers of his firm. His achievements were historic in many regards and too many to list here.

Allen and Jim leave loving families and many friends. They were simply the kind of special people where I and many others can say our own lives were the better for having known them. Here's to you, Allen and Jim, and our thanks for all that you meant to all of us and the memories that we will always carry with us.

VALUATIONS

NEED A VALUATION? WE'RE THE EXPERTS

REAL Trends Consulting provides valuations for a variety of purposes including sale or purchase of brokerage firms, for ownership issues, insurance, gifting of shares and for partnership issues. A full report with all the financial analysis along with a narrative report is provided along with 2-4 hours of personal consultation.

Each assignment starts with a ***confidential initial consultation*** with a client to determine their actual needs. Valuations are done using recognized professional methodologies such as the Income Approach and the Discounted Cash Flow Approach. In addition, we develop a Company Revenue Approach to value that is industry specific.

Since 1987, we have performed over 2,350 valuations for realty firms in the United States and Canada and have provided expert testimony in over 65 legal proceedings related to the valuation of residential realty firms.

For more information on how we may assist your company please contact:
Steve Murray or Amy Broset at
303.741.1000 or abroset@realtrends.com

REALTRENDS
THE TRUSTED SOURCE

www.realtrends.com | 303.741.1000