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JUNE 2016 NEWSLETTER



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**FIRST PERSON
A DIFFERENT VIEW**

**A NEW WAY TO LOOK AT
ZILLOW AND REALTOR.COM**

While traditional brokerage firms offer a wide range of services, firms like Realtor.com and Zillow Group focus on offering a subset of these services offered by incumbent brokerage firms.

by Steve Murray, publisher

Many leading brokerage firms refer to their operating models as agent-centric. That is, they see that their primary customer is the agent and not the home buyer or seller.

One could say that most brokerage firms, regardless of their compensation plans or other areas of their business, are agent-centric. The services they offer in marketing,

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technology, education and mentoring or coaching are focused on providing these services to their agents and not to the consuming public.

Therefore, one way to look at organizations like Realtor.com, Zillow Group, and even agent teams, is that they are a further, but different, extension of the agent-centric model. While traditional brokerage firms, regardless of their compensation model, offer a wide range of services, firms like Realtor.com and Zillow Group focus on offering a subset of these services offered by incumbent brokerage firms. Agent teams are yet another hybrid of traditional brokerage firms with their emphasis being on organizing staff and agents under them to service leads that the team owner generates.

The online firms mentioned above focus on just a few areas. They provide advertising services, leads and some technologies that assist the agent with the management of the leads and some other parts of their business. They also provide training and education focused on how to manage leads to achieve higher capture rates. These two firms (and others like SmartZip and BoomTown) tend to focus on these areas.

**NOTHING STAYS THE SAME,
AND ONE OF THE GREAT ATTRIBUTES
OF OUR INDUSTRY IS THAT IT ALWAYS
HAS AND WILL ALWAYS BE OPEN TO
REINVENTION.**

They have grown the number of agents who use their services significantly. Estimates vary depending on who is doing the reporting, but it is likely that over 70,000 agents spend some of their money with these two firms. That means that they have as many agents working with them (dare one say affiliated?) as do all but three other national organizations. This is neither the right nor wrong way to look at it, but it needs to be examined further.

As to teams, while the results of the 2016 REAL Trends America's Best Agent rankings are not finalized yet, the growth in the number of teams and the size of some teams is significant. There are likely hundreds of more teams recording more than 75 closed sides or \$30 million in sales volume than were recorded in last year's results. While the majority of teams consist of a few people

working together (what we refer to as convenience teams), the real growth is in teams led by individuals who are outstanding in generating business from their spheres and in particular those teams that use some lead generation tactics apart from sphere marketing.

In the next few issues, we will examine this phenomenon further and also examine a few new brokerage models that are gaining strength and size, such as Real Home

Solutions, The Referral Exchange and USAA Realty. While they do not threaten the current national leaders, one is already ranked in the top 10 in the country. The other two, if they were counted as brokerage firms, would easily rank near there.

Nothing stays the same, and one of the great attributes of our industry is that it always has and will always be open to reinvention. ♣

JUNE 1987

HOW FAR WE'VE COME

To celebrate REAL Trends' 30th anniversary year, we will bring back old articles from our early years to see how much (or little) has changed about the industry.



One key thing we covered in June 1987 was the introduction of DriverGuide, a new computerized device that prints out driving instructions based on input from someone seeking directions from Point A to Point B. The report would also provide gas stations, restaurants and other points of interest along the way.

The device, which weighed 42 pounds, measured 12" x 13" x 24" inches plugged into a standard electrical outlet. A car-sized device that plugged into the car lighter measured 6" x 3.5". Companies behind the effort included a leading local real estate firm (which no longer exists), Budget Rent a Car and some local technology firms.

Other stories covered 30 years ago in REAL Trends

were about the imposition of a service tax on all business revenues, including brokerage services and advertising services (subsequently and quickly rescinded) in the state of Florida. Century 21 announced that, in addition to its growing presence in Asia, it was mounting a major effort in Europe. Today, Century 21 has a major presence there.

Lastly, we announced the "Real Estate Applications Software Directory," which was launched at the Texas Real Estate Research Center at Texas A&M University. It featured over 333 software packages organized into 119 different categories. ♣

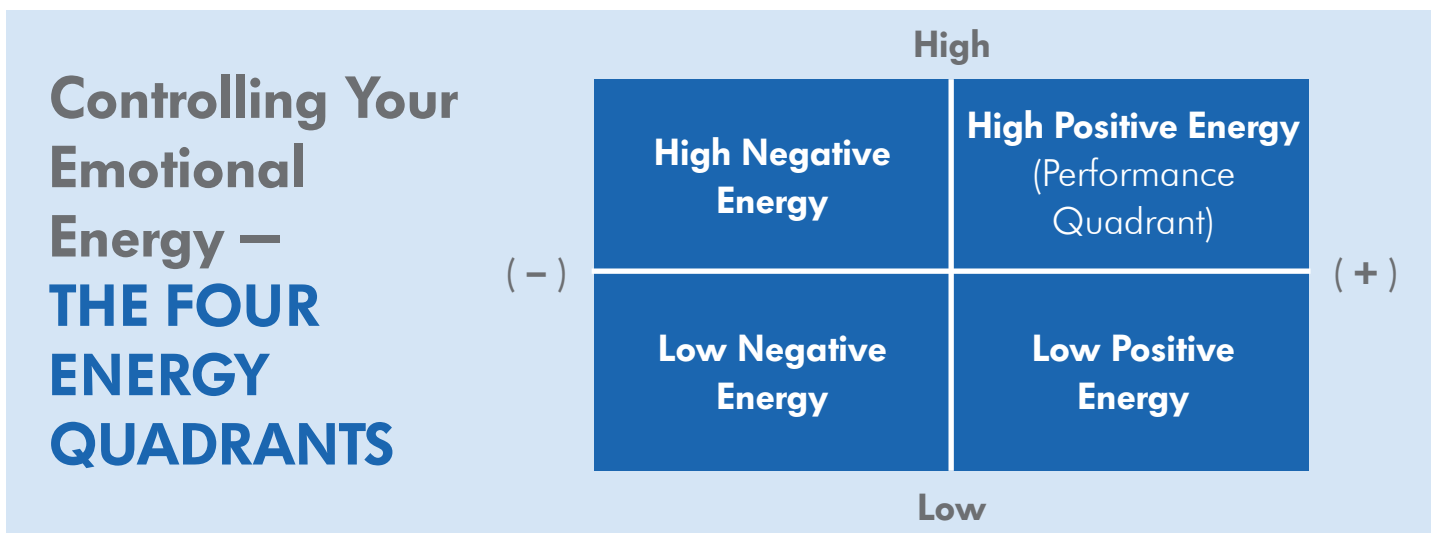


DOES YOUR TEAM HAVE THE HAPPINESS ADVANTAGE?

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

In his great book “The Happiness Advantage,” Harvard psychologist Shawn Achor points out that happiness is not the result of a sale. Rather, his research shows that a sale is the result of happiness. How can this be? It’s simple—when we’re in a positive energy state, customers enjoy being around us, we are more productive and, consequently, we are more successful. As a leader, what can we do to give our team a happiness advantage?

It starts with how we help our team manage their emotional energy. Their personal energy and their combined energy in an office or company can be measured on two scales. Their energy ranges from negative to positive and from low to high as shown in the chart below.



At any given moment, our team members are in one of these four energy quadrants. Their combined energy puts our whole office or company into one of these quadrants as well.

The high positive energy quadrant is called the performance quadrant. When it’s time to meet with a customer, a recruit, or lead a meeting, we need to be in the performance quadrant. Our goal for a sales meeting is to have everyone leave the meeting in the high positive (performance) quadrant.

As a leader, one of our most important responsibilities is to keep the office environment positive, so our people have the happiness advantage documented by Shawn Achor. Here are five tips to help you:

1. It starts at the top. You set the tone. Daily gratitude will help you stay positive.
2. Go to www.TED.com and show Shawn Achor’s video at your next meeting.
3. Make sure your office staff attends this meeting. They are the “keepers of the space.”
4. Set a goal for every meeting to end with your team leaving in the high positive quadrant.
5. Exceed the Losada Line (see below for explanation) of 2.9013 in your one on one interactions.

A decade of research on high- and low-performance teams by psychologist and business consultant Marcial Losada found that 2.9013 is the ratio of positive-to-negative interactions necessary to make a corporate team successful. This means that it takes about three positive comments, experiences, or expressions to fend off the effects of one negative. Dip below this tipping point, now known as the Losada Line, and workplace performance quickly suffers. Rise above it—ideally to a ratio of 6 to 1—and teams produce their very best work. They have a happiness advantage. 🍀

FINDING SUCCESS

DRAFTING IDEAL TEAM PLAYERS

By Patrick Lencioni, founder of The Table Group

The NFL Draft, professional football's annual hiring extravaganza, recently happened. It's become something of an obsession for NFL fans, and even for people who simply enjoy the idea of hiring and strategy.

I understand the fascination: teams spend months assessing a finite pool of applicants, measuring their height, weight, speed, vertical jump, hand size (yes, that's measured), and analyzing their statistical performance in college. After finally having a chance to interview the players, they then have to make a decision about which of them are worthy of multi-million dollar investments.

One thing that makes the draft process so entertaining is the unreliability of it all. Every year there are colossal busts—players who get drafted very early and get paid lots and lots of money, only to turn out to be underperformers or problems for their teams. And then there are draft steals—players who get drafted very late, or sometimes not at all, and go on to become incredible assets to their teams.

Perhaps the single biggest factor that NFL executives underestimate in selecting players is not knowing how well they'll fit into a team. A guy with great talent who doesn't play well with others is always less valuable in the long run than a mid-level talent who knows how to fit into a team and contribute accordingly. So how can leaders, in sports or business or any other endeavor, know that the people they're hiring are going to be good team players? After 20 years of trial and error, I think I've found the answer to that question, and it's the subject of my new book, *The Ideal Team Player*.

Great team players share three common virtues or characteristics. They are humble, hungry and smart. I realize that each of those virtues sound simple at first glance, but there are important nuances in the way those terms are defined relative to teamwork. For instance, being smart is not about intelligence, but rather common sense in dealing with people. And it's critical to understand that if even one of the virtues is missing in a

Great team players share three common virtues or characteristics.

They are humble, hungry and smart.



candidate in a significant way, there are going to be problems for the team that hires him.

Let's consider two quarterbacks who were drafted two years ago in the NFL: Johnny Manziel, picked 22nd overall, and Teddy Bridgewater, taken ten picks later with the 32nd pick. Both players had outstanding college careers and possess dynamic personalities and intelligence. But they had physical and technical differences. Manziel was faster; Bridgewater was taller. Oddly enough, scouts became concerned that Bridgewater had smaller hands than the prototypical quarterback, and after one slightly shaky try-out, Bridgewater's stock fell below Manziel's.

about pursuing perfection in his technical abilities. In terms of being smart interpersonally, both Manziel and Bridgewater were charismatic young men who seemed to know how to get along with teammates.

So, when measured against the three virtues, Bridgewater was three-for-three, and qualified as an ideal team player. Manziel was interpersonally smart, but lacked humility and hunger in a significant way, making him what I call a "charmer." He knows how to say and do things to convince people that he cares about the team and will work hard, but his ability to follow through on either of those promises is significantly limited.

Had the people in Cleveland applied this simple approach in their hiring, they would have avoided wasting millions of dollars. More importantly, they wouldn't have lost two years of investment in time and energy trying to get an employee to be something that every indication said he was not.

Fast-forward two years. Bridgewater is a rising star for the Minnesota Vikings...

Fast-forward two years. Bridgewater is a rising star for the Minnesota Vikings while Manziel has already been released by the Cleveland Browns, something almost unheard of for a first round pick. The question is, could the humble, hungry, smart model have helped teams make better decisions? I'm convinced that it could have.

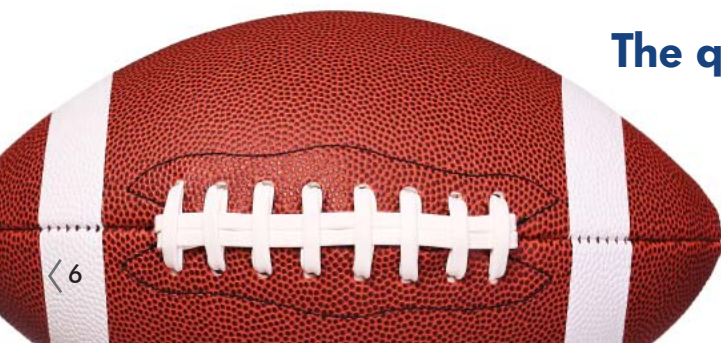
In terms of humility, Manziel was known and, unfortunately, is still known to be an extremely cocky, self-oriented player, calling attention to himself in touch-down celebrations and off-field antics. Bridgewater was all about his team, even refusing to let his school promote him as a Heisman Trophy candidate because he didn't want his team-mates to think he believed he was better than them. As for hunger, Manziel was known for his partying in the off-season, and even during the season, while Bridgewater studied film voraciously and talked

... while Manziel has already been released by the Cleveland Browns, something almost unheard of for a first round pick.

For teams getting ready to pick their next crop of new employees in the draft, I would advise them to add humble, hungry and smart to their selection criteria, and to move it up the board a little higher than hand size.

Patrick Lencioni is the founder of The Table Group and the author of 10 books, including "The 5 Dysfunctions of a Team," and "The Ideal Team Player," which have sold nearly 5 million copies and been translated into more than 30 languages. 🍀

**The question is, could the humble, hungry,
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DAVE RIDLEY, FORMER CMO,
SOUTHWEST AIRLINES FROM THE
2016 GATHERING OF EAGLES

A LUV LESSON

Lessons remembered—learn from leaders where tomorrow's opportunities and threats lie.

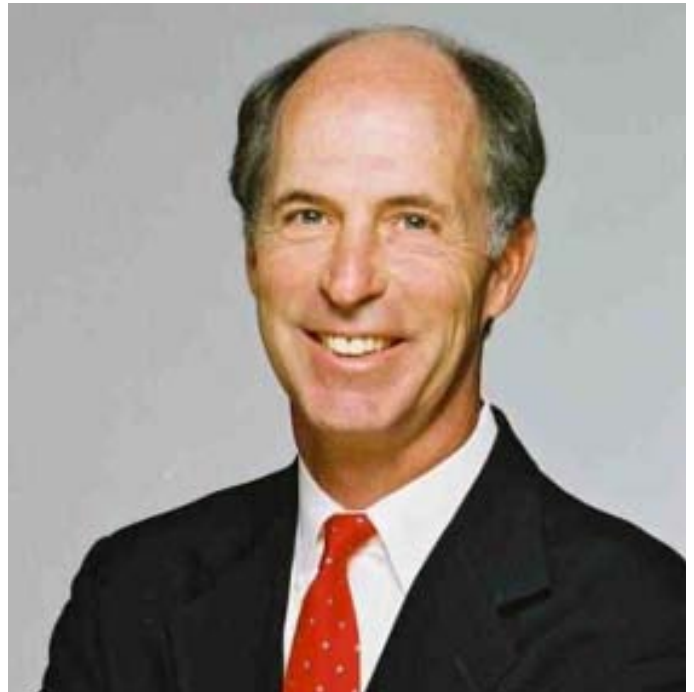
By Steve Murray, publisher

"I am not here to tell you anything or instruct you. I am here to remind you of all that you already know. As leaders of your companies, you have already established that you know how to lead and grow an organization. So, what I have to share is just that, a reminder of what matters most," says Dave Ridley, former CMO of Southwest Airlines.

The first thing to remember is that showing you care about your people and finding ways to show that every day is critical to the success of your organization. Whether your organization has 10 people or 1,000, you must touch the people with whom you come in contact—love them and hold them accountable to love those who report to them. It is critical that your people know that you care for them and that they feel it in ways large and small.

Whether your organization has 10 people or 1,000, you must touch the people with whom you come in contact—love them and hold them accountable to love those who report to them.

A second thing to remember is that your core values are those beliefs that you would defend to the ends of the world. "At Southwest, we fly the same kinds of planes to the same airports on most of the same routes that our competitors do.," says Ridley. "We know that our relationship with our clients is directly related to how we treat our employees. We also know that having a bond with our customers for low fares, transparency and fairness is a huge core value of our company. Thus, when the industry



introduced baggage fees, we discussed it thoroughly at the senior levels of our company. Despite the lure of hundreds of millions of dollars of revenue, we knew in our hearts that it was not for us. Southwest doesn't charge such fees, and we were alone among the largest carriers that don't. When our country was hit by the tragedy of 9/11, we were the only major airline that didn't use involuntary layoffs to reduce our costs. Be sure you know what your core beliefs are and be prepared to defend them with all that you have," he adds.

At the GOE, Ridley reminded the great leaders in the room that their actions and where they focus their time and attention are seen every day by people in their organization. A leader's actions are measured against their stated core beliefs. "One of the things we do is try not to keep jerks—and we all have them occasionally—employed at Southwest. When we clearly see that we have one, and we do nothing about it, we are reinforcing the wrong message to the rest of our people," says Ridley. "When we allow a customer who might manufacture stories about something one of our employees has done, and we discover it is not truthful, we defend that employee. Occasionally, we invite these kinds of people to fly other airlines," he laughs. "These are just a few examples of what we all know must be done to defend our core beliefs. If you truly believe in your core beliefs, you must exercise your leadership to address them."

How a leader behaves towards and with employees is constantly measured against the core values you espouse. While it may be difficult at times to stand behind them with your actions; it most always results in the reinforcement of those things you hold most dear. ▲



REAL TRENDS HOUSING MARKET REPORT

APRIL HOUSING SALES SHOW SLIGHT UPTICK

April housing sales show a slight uptick from March results while prices are down slightly.

The REAL Trends Housing Market Report for April 2016 shows that housing sales increased 6.4 percent from the same month a year ago. The year-over-year gain was slightly higher than March 2016 results but slower than January and February of 2016. The Northeast led the way with a 15.6 percent increase.

“While the April housing report shows continued growth, the year-over-year increase has slipped into lower gear over the past two months,” says Steve Murray, editor of the REAL Trends Housing Market Report. “Additionally, price increases continue to soften as the year progresses. The Northeast region had the strongest showing with unit sales up 15.6 percent but also saw the largest decrease in the average price of homes being sold. Each region, except the West, showed increased strength indicating that the housing market is heading into the second quarter of 2016 with continued momentum,” he adds.

The annualized rate of new and existing home sales was 6.016 million which was up from the rate of 5.655 million recorded in April 2015. The results indicate that the housing market continues to show growth.

Housing prices declined an average of 0.7 percent from April 2015 indicating that while home sales continue to increase average price increases have slowed substantially.

“The housing market appears to be in good shape despite continued evidence of lower than normal inventory levels. Also, the market has shrugged off other negative news such as the decline in equity markets, low inventories and the slower rate of foreign purchases of homes.”

Housing unit sales for April 2016 increased 6.4 percent. Unit sales were up 15.6 percent in the Northeast, the

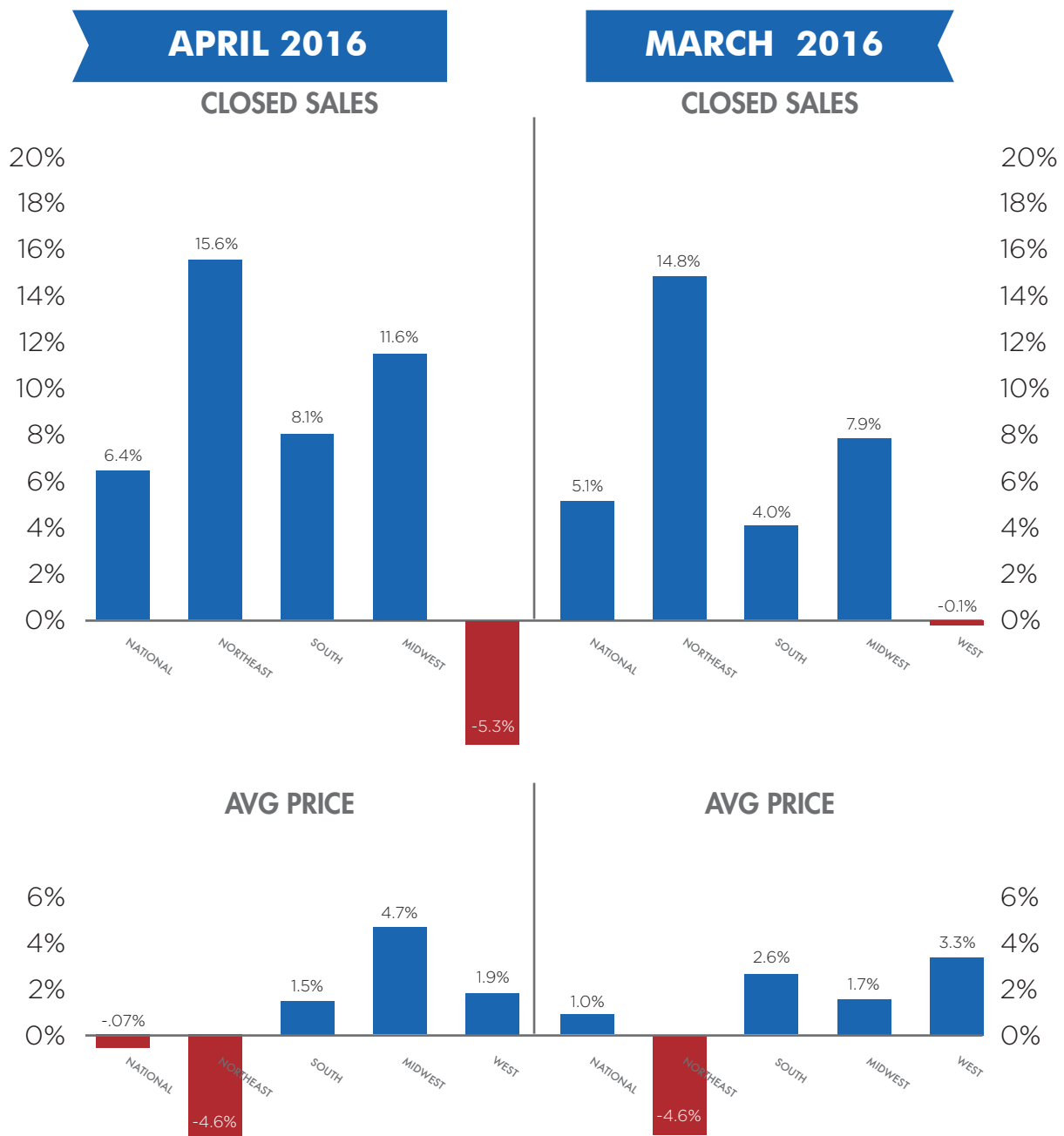
best performance in all regions. Sales in the Midwest region were up 11.6 percent, the South saw an increase of 8.1 percent, and the West region had a decrease of 5.3 percent.

The average price of homes sold in April 2016 in the Midwest region increased by 4.7 percent, the best result in the nation. The South saw average prices increase 1.5 percent, the West saw price increases averaging 1.9 percent while the Northeast saw prices decline -4.6 percent.

“We now expect that housing unit sales increases will continue to be higher in 2016 than thought earlier this past year. Most forecasts believe that housing unit sales will increase 3-5 percent for all of 2016 and that average prices will increase 3-4 percent.”

REAL TRENDS HOUSING MARKET REPORT

APRIL & MARCH 2016 EDITION



OBSERVATIONS

THE UNBALANCED HOUSING MARKET

Some interesting notes about today's housing market based on REAL Trends research.

By Steve Murray, publisher

The homeownership rate for Generation X and the Millennials is 6 to 8 percent below historical norms according to several sources;

The affordability rate and availability of inventory at the entry level of the housing market are worse than most brokers ever recall seeing in their careers;

There are over 14 million scattered, single-family residences owned by private investors and less than 5 percent of these are owned by institutional investors. Most are owned by those who own one to four units. An additional 7.7 million units of two- to four-family dwellings are also owned mostly by private investors;

At the recent National Association of Residential Property Management conference (over 600 were present), the consensus was that investors are in no mood to sell their investment properties. Rents are strong, returns are positive, and there is the question of what to do with the funds when one sells—money market funds at less than 1 percent don't look all that interesting;

If millions of young families can't find affordable homes to buy and if investors are holding millions of these properties, then what happens to the move-up market that drives all markets above? Recent data suggests that new households

are being formed at an annual rate of approximately 1.2 million per year (JCHS Harvard), yet builders are only constructing 500,000 to 600,000 new single-family homes per year. With investors holding millions of entry-level homes and builders mostly focusing on mid-level homes, where will the inventory come from that enable young households to get on the housing ladder?

And, should millions of these young households not get on the ladder, where will the move-up demand come from? We hear from brokerage leaders across the country that their markets are more difficult than ever before. Multiple offer situations are confounding sales associates and managers alike. Pricing has become a guessing game based on who will show up with an all-cash, no-contingency offer.

Fundamentally cheap money is at the heart of this problem. Historically low interest rates and plentiful mortgage availability fire up demand. Historically high land, permitting and building costs, and the huge demand for investor-owned, single-family homes drive down supply. Lastly, an economy where asset values in housing have been going up at double or triple the rate of the growth in household income historically sets up the housing market for a slowdown, which may be what is needed to help this market get back into balance. ♣

If millions of young families can't find affordable homes to buy and if investors are holding millions of these properties, then what happens to the move-up market that drives all markets above?



NEW NAR STUDY

VACATION HOME SALES RETREAT; INVESTMENT SALES LEAP IN 2015

A new study shows that investment purchases increased for the first time in five years.

Vacation home sales cooled off in 2015 but remained at the second highest amount in nearly a decade, while investment purchases increased for the first time in five years, according to an annual survey of residential homebuyers released today by the National Association of Realtors®.

Mirroring the strong price growth seen throughout the U.S., the median sales price of both vacation and investment homes surged in 2015.

NAR's 2016 *Investment and Vacation Home Buyers Survey*, covering existing- and new-home transactions in 2015, found that vacation-home sales last year declined to an estimated 920,000, down 18.5 percent from their most recent peak level of 1.13 million in 2014.

Investment-home sales in 2015 jumped 7 percent to an estimated 1.09 million from 1.02 million in 2014. Owner-occupied purchases jumped 15.9 percent to 3.74 million last year from 3.23 million in 2014—the highest level since 2007 (3.93 million). Sales estimates are based on a national online survey including responses from over 2,000 U.S. adults who purchased a residential property in 2015, and exclude institutional investment activity.

Lawrence Yun, NAR chief economist, says vacation sales took a sizeable step back in 2015, but still came in at the second-highest amount since 2006 (1.07 million). “Baby boomers at or near retirement continue to propel the demand for second homes, although headwinds softened the overall volume of vacation sales last year,” he said. “The expanding pool of buyers amidst a dwindling number of bargain-priced properties led to tighter supply and fewer sales and caused the price of vacation homes to rise. Furthermore, the turbulence that hit the financial markets the second half of the year likely seized some would-be buyers’ available cash.”

The median sales price of both vacation and investment homes soared in 2015. The median vacation home price was \$192,000, up 28.0 percent from \$150,000 in 2014.

The median investment-home sales price was \$143,500, up 15.3 percent from \$124,500 a year ago.

According to Yun, many of the metro areas with the strongest price appreciation in 2015 were in the South – the most popular destination for vacation buyers – and particularly in several Florida markets. While increased buyer demand contributed to the run-up in prices, it also likely squeezed less affluent households looking to purchase vacation properties.

Vacation-home sales accounted for 16 percent of all transactions in 2015 — down from 2014 (21 percent), but still the second highest share since the survey was first conducted in 2003. The portion of investment sales remained unchanged from a year ago at 19 percent, and owner-occupied purchases increased to 65 percent (60 percent in 2014).



“Despite a smaller share of distressed properties coming onto the market, investment purchases reversed course in 2015 after declining for four straight years,” says Yun. “Steadily increasing home prices and strong rental demand appear to be giving more individual investors assurance that purchasing real estate will diversify their portfolios and generate additional income if they decide to rent out the home.”

This year's survey found that in addition to longer-term rentals, investors are most likely to attempt to and rent their properties for less than 30 days. Among investors, 42 percent did or tried to rent their property in 2015 and plan to rent their property in 2016. Twenty-four percent of vacation buyers did or tried to rent their property in 2015 and plan to rent their property this year. Vacation buyers are more likely to use a property manager or social media to rent their property, while investors are more likely to use a traditional real estate agency.

The share of vacation buyers who paid in cash jumped to 38 percent from 30 percent in 2014, while cash purchases by investors decreased to 39 percent from 41 percent a year ago. Of buyers who financed their purchase with a mortgage, over half (52 percent) of vacation buyers and 44 percent of investors financed less than 70 percent of the purchase price.

The overall trend of fewer distressed properties (short sale or foreclosure) on the market resulted in vacation buyers and investors purchasing less of them in 2015. Thirty-six percent of vacation buyers (45 percent in 2014) and 39 percent of investors (44 percent in 2014) purchased a distressed property a year ago.

and 13 percent in the Midwest (14 percent in 2014).

Over one-third of vacation buyers plan to use their property for vacations or as a family retreat (37 percent), 16 percent bought for future retirement plans and only 7 percent purchased to generate income through renting the property, a decrease from 11 percent in 2014.

CHARACTERISTICS OF INVESTMENT-HOME PURCHASES

The typical investment-home buyer in 2015 had a median household income of \$95,800 (\$87,680 in 2014) and bought a detached single-family home (62 percent) that was a median distance of 22 miles from their primary residence (24 miles in 2014).

Investment buyers last year purchased property for a variety of reasons, with an increasing share from 2014 citing rental income as the primary reason (42 percent; 37 percent in 2014), followed by low prices and the buyer found a good deal (16 percent), and for potential price appreciation (14 percent).

Likely reflecting growing demand towards renting in the city, investment purchases in urban areas increased to 29 percent (26 percent in 2014). Purchased properties from



Over 80 percent of both vacation buyers and investment buyers believe that now is a good time to purchase real estate.

CHARACTERISTICS OF VACATION-HOME PURCHASES

Vacation-home buyers in 2015 had a higher median household income (\$103,700) than those in 2014 (\$94,380) and purchased a property that was a median distance of 200 miles away from their primary residence (unchanged from a year ago). Buyers plan to own their property for a median of 7 years, an increase from 6 years in 2014.

With more vacation buyers purchasing single-family homes (58 percent) compared to a year ago (54 percent), the share of those buying a condo (25 percent) or a townhouse or row house (13 percent) decreased in this year's survey. Forty-percent of vacation buyers purchased in a beach area, 19 percent purchased in the mountains or at a lakefront and 16 percent purchased a vacation home in the country.

Nearly half of all vacation homes bought last year were in the South (47 percent; 41 percent in 2014), 25 percent were in the West (unchanged from a year ago), 15 percent in the Northeast (unchanged from a year ago)

investment buyers were more likely to be in the South (37 percent) and in a suburban area (41 percent).

Perhaps encouraged by rising housing demand and home prices, over 80 percent of both vacation buyers and investment buyers believe that now is a good time to purchase real estate.

NAR's *2016 Investment and Vacation Home Buyers Survey*, conducted in March 2016, surveyed a sample of households that had purchased any type of residential real estate during 2015. The survey sample was drawn from a representative panel of U.S. adults monitored and maintained by an established survey research firm. A total of 2,053 qualified adults responded to the survey. Respondents were sampled to meet age and income quotas representative of all home buyers drawn from the *NAR 2015 Profile of Home Buyers and Sellers*.

The *2016 Investment and Vacation Home Buyers Survey* can be ordered by calling 800-874-6500, or [CLICK HERE](#). The report is free to NAR members. ♡



D'ANN HARPER

PRESIDENT

COLDWELL BANKER

D'ANN HARPER, REALTORS®

SAN ANTONIO, TEXAS

D'Ann Harper, licensed in 1978, began her real estate career with Bob Jones Realty in San Antonio, Texas. In 1986, she opened her company, D'Ann Harper, Realtors®. Acquiring the company-owned Coldwell Banker Residential real estate offices in San Antonio in 1989, the company grew from 18 sales associates to 100 overnight. Coldwell Banker D'Ann Harper, REALTORS® has attained Coldwell Banker Chairman Circle status every year since 1990. This award is bestowed on those companies who are in the top 1% of all Coldwell Banker companies internationally based on closed gross commission income.

REAL Trends interviewed Harper about her brokerage.

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

Harper: In 1963, I partnered with my father in law, helping him with an apartment complex and single-

family home rentals. He was blind and couldn't drive. The way he made his living was investing in rental properties. I drove him around, and he would share the profits with me. I mowed yards and did whatever was necessary to keep the properties maintained. When we first started, we had three single family homes, a sixplex and a fourplex. When I left, we had 40 properties.

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

Harper: I learned very quickly to surround myself with people who knew more than I did. Once I purchased the franchise, I had to hire someone who could manage people. I realized that I would give away the store to make people happy. I make the final decisions, but I have great managers and support staff.

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

Harper: As we began to grow and expand, I became a Coldwell Banker franchise in 1989. I did that by purchasing the Coldwell Banker company-owned offices in San Antonio. We grew overnight. I had never managed people before in my life. My original 18 sales associates just did their own things. I cashed checks, put them in the bank and paid the bills. So, managing people and learning how to operate a big business was my biggest challenge.

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?

Harper: There were several Aha moments. Since the Coldwell Banker purchase, we've acquired 6 to 7 more companies. In 2002, we purchased a well-established company that has been around since the 1940s. They had good people and were a sound, grounded company. When we bought it, our agent count went from 125 sales associates to 205. We merged two marketing platforms and two cultures. The result set us apart from any other broker in the area. It still does today. We do everything for the agent—all of the marketing. The agent is only responsible for getting in front of the client. We have a TV show, monthly magazine, drone photos and the new Matterport 3D camera that we use on luxury homes. 🏠

PROPOSED RULE

NOW IS THE TIME TO SHARE YOUR TRID CONCERNS!

Do you still have TRID headaches? This summer, you will have a new opportunity to make them known to your trade associations and the Consumer Financial Protection Bureau (CFPB).

By Sue Johnson, strategic alliance consultant

In an April 28 letter sent to mortgage industry trade groups, CFPB Director Richard Cordray announced that the Consumer Finance Protection Bureau (CFPB) will draft a proposed rule that will recommend changes to the sweeping 2015 Truth in Lending-RESPA Integrated Disclosure (TRID) regulation. It expects to meet with industry and consumer groups in late spring and to publish the proposed rule for public comment in late July.

Cordray's letter is limited in its scope, referring only to the possibility of incorporating some of the CFPB's

previously provided informal guidance into the regulation and of making adjustments that "would be useful for greater certainty and clarity." But, the question in Washington circles is whether the CFPB can be convinced to consider policy changes to address more substantive TRID issues.

Industry groups from every segment of the mortgage, real estate and settlement service industries already are putting together their wish lists on what kinds of changes they would like to see. Here are some of the

INDUSTRY GROUPS FROM EVERY SEGMENT

of the mortgage, real estate and settlement service industries already are putting together their wish lists on what kinds of changes they would like to see.



issues we can expect to be on these lists, based on their recent correspondence with the CFPB.

1. **High loan rejection rates due to investor liability concerns.** Mortgage trade groups report that some investors are using strict TRID compliance standards that result in high rejection rates on closed loans due to minor and technical errors. They attribute this to the lack of clear guidance from the CFPB, and say that it eventually could lead to significant liquidity issues in the industry as lenders must sell rejected loans at deep discounts in an undeveloped market.

Until now, the CFPB has tried to reassure lenders and investors that “the risk of private liability to investors is negligible for good-faith formatting errors and the like” under TRID and the Truth in Lending Act. But, the industry likely will continue to urge the CFPB to publish official, clarifying guidance that will assuage investor concerns.

Now is the time to contact your trade association(s) to report ongoing problems with TRID that negatively impact your industry and your clients.

2. **Mortgage originator liability concerns.** Mortgage trade groups also are concerned about potential liability despite good faith compliance efforts by lenders. So far, the CFPB merely has reassured the industry that “examiners will be squarely focused on whether companies have made good-faith efforts to come into compliance with the rule.” But, the industry wants further assurances through binding regulatory clarifications.
3. **Lender ability to revise disclosures for changed circumstances.** The Mortgage Bankers Association (MBA) urged the CFPB to allow lenders to adapt to unforeseen changed circumstances, such as a storm or fire necessitating repair or borrower-requested

changes caused by last-minute negotiations between the seller and borrower or by additional purchase decisions (e.g., homeowners insurance). Currently, lenders must either start over with a new Loan Estimate or absorb any increased charges under these circumstances. The MBA has suggested that lenders instead be allowed to reset tolerances without having to issue a new Loan Estimate that could cause closing delays.

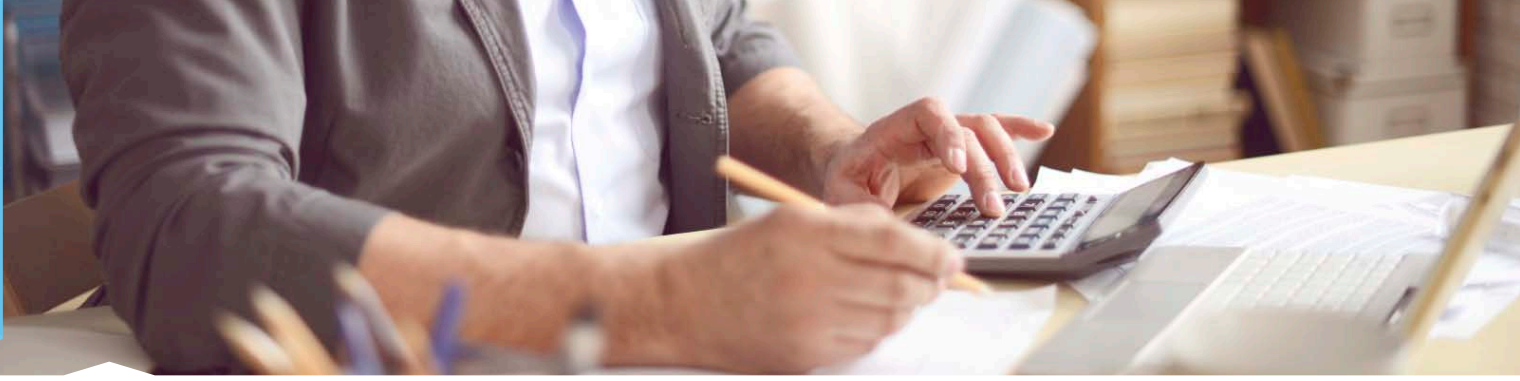
4. **Real estate agent access to the Closing Disclosure—not a TRID issue.** Many real estate professionals are expressing concerns about not having the same access to the Closing Disclosure that they had to the HUD-1 Settlement Statement. According to a 2016 National Association of Realtors® (NAR) survey, 54.5 percent of respondents had problems getting the Closing Disclosure.

Unfortunately, the CFPB is limited in its ability to address this issue in the TRID rulemaking, since nothing in the TRID rule prevents the sharing of the disclosure. What TRID *did* do is make lenders responsible for the delivery of the disclosure, and many lenders take the position that the privacy provisions in the Gramm-Leach-Bliley Act restrict them from sharing personally identifiable information with third parties without the consent of the borrower. Title underwriters, which now are subject to vendor management standards, are similarly concerned.

In the absence of an immediate resolution, many firms provide their real estate agents with a standardized American Land Title Association (ALTA) Settlement Statement that itemizes seller and buyer fees in addition to the Closing Disclosure.

AN OPPORTUNITY FOR YOU!

Are your TRID headaches on this list? While this list doesn’t cover all of the issues that industry groups will raise in the upcoming TRID rulemaking, now is the time to contact your trade association(s) to report ongoing problems with TRID that negatively impact your industry and your clients. If you have an affiliated mortgage and/or title company, ask them to contact their trade groups as well. If you have hard data, provide it—the CFPB is a data-driven organization. We don’t know how far the CFPB will go in its rulemaking, but this may very well be your last opportunity to weigh in for a long time. 📌



VALUING A BROKERAGE

HOW ARE MULTIPLES DETERMINED?

We answer one of the most commonly asked questions about valuing a brokerage.

By Steve Murray, publisher

Among one of the most commonly asked questions we receive when providing valuation assistance to our clients is, “How are multiples determined?”

It would be easy to say what the multiple is when we believe that either HomeServices of America or NRT are likely bidders because they have a systemized way of approaching how they value residential brokerage firms. NRT uses a straight EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization) Approach while HomeServices uses a Discounted Cash Flow Approach.

With a general understanding of how they approach valuation and some substantial evidence of what they have paid in the past (the real numbers not the ones brokers talk about), valuation is not that difficult.

But, for the majority of valuations we perform, these two firms are not present or not likely to be present. In these cases, we defer to a Market Approach, which is based on the net operating income (NOI) of a brokerage firm and comparable sales that REAL Trends has been involved in over the past 12 to 24 months.

Valuations are affected by a number of factors when looking at value from a market view. They are:

- Terms of a potential sale—how much cash, what are the terms of the earn-out, for how long;
- Does the firm have a franchise agreement, for how long, in what market(s);
- What is the depth of the market for the acquisition, how many other firms are in the market, or want to be in the market, what capabilities do they have in terms of capital and management to take on a deal;
- Is this an inside sale to others who are already owners of the firm or senior employees of the firm or is this an

outside sale to others not involved currently in the company;

- Is the market going up, sideways or down at the time of the valuation;
- How has the firm operated over the past 3-4 years?

While most valuations are performed based on the most current 12 months, we and others involved in valuations, mergers and acquisitions always look at how the firm has performed in prior years. Is the firm growing, and what is happening to its gross and net margins and cost ratios?

While none of these is more important than others, one question that is most often overlooked is, “What does the pool of interested and capable buyers for a firm look like?” We’ve done valuations of firms in a wide variety of markets, and have seen many cases where two firms of equal size and performance have distinctly different valuation multiples. One firm in a market of 2 million people will generally have a higher multiple than the same size firm in a market of 400,000 or fewer people. The pool of potential buyers in that market is smaller and less capable of acquiring other firms.

While the valuation of residential brokerage firms and related businesses such as mortgage, title, escrow and property management, are as much art as science, in our practice we look at market comparable much as an agent would do in pricing a home.

The factors that can drive a price up are much more likely to be driven by other factors such as strategic value and the potential value of the leadership of a firm being sought. Yes, the numbers and other factors such as those listed above serve as the basis for all acquisitions, but there are intangible factors that often come into play as well. ♠

WHAT IS THE LIFETIME VALUE OF A LEAD?

We've got a new way for you to think about how you calculate the value of a lead.

By Travis Saxton, vice president of technology

What is the value of the leads you generate? To illustrate, here's a story from a fake sales associate, Joe, that represents a situation that we see often.

Joe is an aggressive sales associate who advertises online. He's spent money online to generate business to his website and, more specifically, Joe is dominating one neighborhood on a granular level. In fact, no other agents are equaling his efforts. Joe generates a lead through his online efforts. The lead cost Joe \$35 to generate.

Many sales associates assess leads for straight transactional value. One lead equals one potential deal. Let's think of it another way. We know real estate is a relationship business and, while online lead generation is growing and not going anywhere, it still only makes up a fraction of your business. The largest portion of your business comes from referrals and happy clients. Of course, many of those transactions are initiated with an online lead. As people migrate to and from your market and grow older, your sphere naturally denigrates, and you need to replace it with new business. For some sales associates, this is their only source of business—not Joe.

Joe does a great job of taking care of his \$35 lead and produces a transaction. The customer is thrilled, and Joe collects a testimonial from this customer. Joe also hosts and pays for a housewarming party, inviting the customer's new neighbors. Naturally, Joe is there, and now a \$35

lead has turned into a \$535 transaction. (\$500 for the party). Some agents stop here, but not Joe.

Joe stays in great contact with his customer and his customer's new neighbors hoping to become their real estate professional of choice. Joe spends time generating CMAs, market reports and newsletters relevant to people in this neighborhood. Joe was so impressive with his neighborhood knowledge and effort that his sphere is growing. Now, one \$35 lead with proper TLC has produced three transactions that could multiply as this new sphere continues to grow. This is how to conduct your business.

In Joe's new listings, he now has a larger budget to spend on marketing, drone videos, virtual reality tours and more. Joe knows that the effort put in today will bear fruit. Now let me ask this. What was that lead worth to Joe?

We often struggle with this question as there are a lot of variables. In this scenario, one lead, a party, and diligent communications produced three and possibly more transactions. So, the lifetime value of this lead could have been worth thousands of dollars, depending on factors such as price and commission rates. REAL Trends is doing our best to take the guesswork out of valuing a lead. We've partnered with Adwerx to bring you an online calculator that helps you calculate the lifetime value of a lead in your specific market.

Visit the link below to see your lifetime value of a lead, [CLICK HERE](#) ↗

DIGITAL MARKETING

LEAD GENERATION VS. LEAD CAPTURE

Digital marketing can help you generate and capture leads.

By Paul Salley, marketing strategist

One of the core lifelines in any real estate business is a steady and reliable source of leads. My role at REAL Trends consists of analyzing how brokerages across the United States and Canada can drive more leads in quantity and quality. Establishing or correcting a flow of leads can be accomplished via digital marketing mediums.

LEAD GENERATION

The best approach is to set a dedicated budget for specific digital marketing solutions and run the ads for two weeks on each solution. Upon completing the two-week trial period, you will be able to get a sense as to where your marketing efforts are paying off. Examples of digital marketing platforms include Google AdWords and Facebook. It's important to use the same or very similar ads with identical calls to action when comparing and contrasting the effectiveness of various digital marketing platforms. It's also pertinent to ensure that the landing page you are sending people to is about the ad messaging that you're presenting to the consumer.

LEAD CAPTURE

To capitalize on paid traffic being sent to your website, it's critical to have an effective lead capture strategy on your website. There is a fine line between tactfully requesting an individual's information and coming off as intrusive. If you want consumers to give you their contact information, then you must provide something in return and make them aware of what that will be. This will satisfy the question of "What's in it for me?"

Another suggestion is to put the least amount of capture fields possible on a form. The less intimidating the form, the more likely it is to be completed. Another suggestion is to eliminate forced registration

on listings. If a user gets through a few photos and must register in order to proceed, chances are they will leave your website and continue their same browsing experience somewhere else.

Another important lead capture strategy is to incorporate subtle lead capture opportunities throughout your website. Some subtle opportunities for lead capture include open houses, chat, schedule a showing, complimentary CMA, find an agent, etc.

Making an individual voluntarily give up their contact information can be achieved if approached correctly. By implementing some of the strategies above, you'll see an increase in leads and your lead capture rate. ▲

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THE SECRET LIVES of Real Estate Professionals

Spill the Beans and Win a 4-Night Vacation!

REAL Trends knows that real estate professionals have lives that are about more than contracts, open houses and virtual tours. There's a whole secret world that we want to uncover!

Perhaps you moonlight as a guitarist in an AC/DC cover band (Angus Young, anyone?), or you were a guitarist in a top band. Perhaps you have a coveted spot in the Guinness Book of World Records for the longest motorcycle ride by a team. Yes, a real estate professional really does hold that record!

If you've got an interesting, dangerous, funny, compassionate or crazy passion or hobby outside of real estate, REAL Trends wants to know all about it. Real estate is about connections, and we want to connect with you on a personal level. Submit your story by June 30, 2016. The winner will receive an all-expenses paid vacation to beautiful mile-high Denver, Colorado (home of the corporate office of REAL Trends), including up to four round-trip coach airfare, one hotel room for up to four nights, four tickets to some of Denver's top tourist attractions (winner will choose two attractions from our list), a gift card to a premier local restaurant and four Denver Broncos NFL shirts.

Deadline for Entries: 6/30/16
Winner Announced: 7/14/16

See Official Contest Rules at
secretlives.realtrends.com



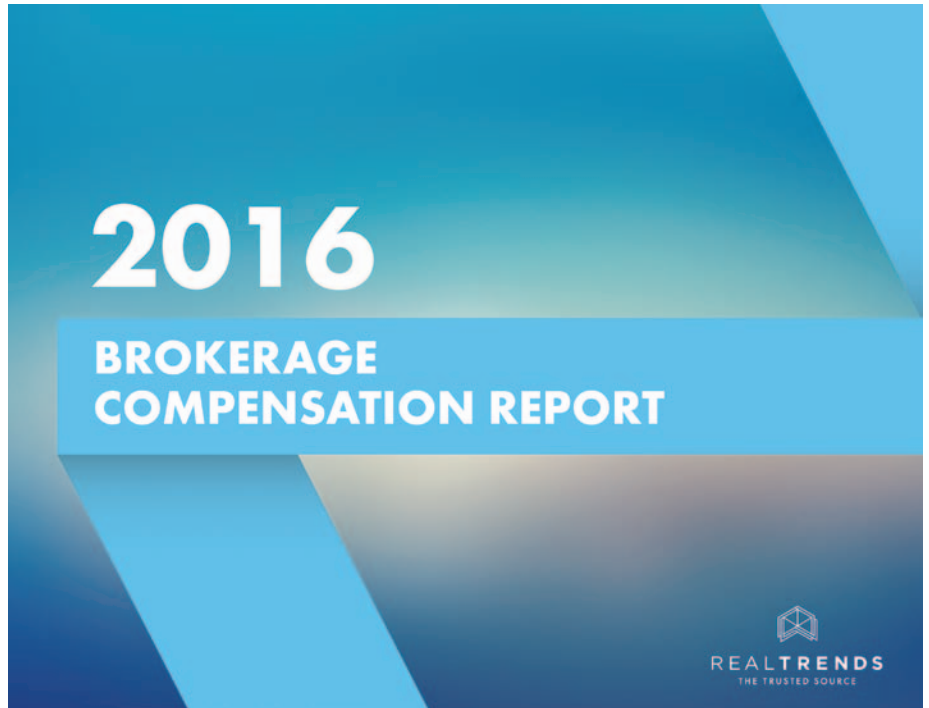
REAL TRENDS ORIGINAL RESEARCH

REAL Trends research, under the direction of Research Strategist Deirdre LePera, is involved in numerous studies this year.

The first, available now, is the 2016 Brokerage Compensation Study, which is a comprehensive look at the compensation of most key positions within leading brokerage firms including president/CEO, general manager, directors of technology, marketing and education, the chief financial officer and office or sales managers.

The study is broken down by four different regions and three different-sized firms, along with a national study. The compensation is broken down by base compensation, bonus compensation and benefit compensation for all the positions listed above.

The study is available to order on our website, www.realtrends.com/research for \$195.



Other studies coming this year from REAL Trends include:

- The Evolution of Teams**
- Redefining Office Space**
- Cost of Technology for Brokers**
- Influence of Culture on Performance**
- When to Change Your Technology**
- Agents of the Future**
- Online Performance Study**

Stay tuned also for an updated consumer study as REAL Trends watches for any changes to basic consumer behavior as it relates to housing and the use of brokerage services. For more information, go to www.realtrends.com/research. ↗