



**REALTRENDS**  
THE TRUSTED SOURCE

COMPLIMENTS OF



Charlotte Regional **Realtor** Association

OCTOBER 2015 NEWSLETTER



## REAL TRENDS VALUATIONS

**HUNDREDS** of reasons to get one, **ZERO** reasons not to.

Contact Scott Wright or Steve Murray today to get more information about brokerage valuations.

smurray@realtrends.com  
swright@realtrends.com  
303.741.1000

### FIRST PERSON

#### ADAPTING TO THE TIMES

# THE FUTURE IS BRIGHT

*We can weather any storm by figuring out how to adapt.*  
*by Steve Murray, publisher*

At the 2015 Gathering of Eagles, RE/MAX CEO Dave Liniger was asked what he thought about the future. Was there anything that made him nervous or concerned? Liniger said (and I am paraphrasing), no, he was not worried about the future. He said that he and others had always figured a way to adapt to the changes in the market whether they were seasonal, cyclical or structural. He went on to say that he thought the future was as bright now as it ever was.

He reminded us that over the past 25 to 30 years, a great deal has changed. One of the first big changes was the impact of RE/MAX and the 100 percent commission concept. Another was the accumulation of multiple franchise brands under one roof (Realogy), the large-scale acquisition of brokerage firms by several firms, the entrance of the Keller Williams business model and certainly the emergence of the Internet. And these were just a few of the large

*Continued on pg. 2*

### 1-3 FIRST PERSON

- The Future is Bright
- Lower Priced Competition is Gaining Share

### 4-6 BROKERAGE

- Communicate Like a Leader
- Processes are Vital

### 7-10 HOUSING MARKET

- Summer Home Sales Remain Strong
- Does A Fed Rate Increase Doom Housing?

### 11-12 CEO CORNER

- Pam O'Connor, Leading Real Estate Companies of the World

### 13 FEATURED LEADER

- Michael Saunders, Michael Saunders & Company Real Estate

### 14 TECHNOLOGY

- Voice Activated Systems & the Future of Connected Homes

### 15-16 VALUATIONS M&A

- The Importance of EBITDA
- Active Market for Acquisitions

### 17-18 PUBLISHER'S NOTE

- In Remembrance, Ebby Holiday
- Gathering of Eagles 2016



# REAL TRENDS

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](mailto:realtrends@realtrends.com)  
Web: [realtrends.com](http://realtrends.com)

## **Publisher:**

Steve Murray - [smurray@realtrends.com](mailto:smurray@realtrends.com)

## **Editor:**

Tracey Velt - [tvelt@realtrends.com](mailto:tvelt@realtrends.com)

## **REAL Trends Team:**

Alec Gress - [agress@realtrends.com](mailto:agress@realtrends.com)  
Bryan Warrick - [bwarrick@realtrends.com](mailto:bwarrick@realtrends.com)  
Cade Madison - [cmadison@realtrends.com](mailto:cmadison@realtrends.com)  
Daniele Stufft - [dstufft@realtrends.com](mailto:dstufft@realtrends.com)  
Deirdre LePera - [dlepera@realtrends.com](mailto:dlepera@realtrends.com)  
Doniece Welch - [dwelch@realtrends.com](mailto:dwelch@realtrends.com)  
Jaime O'Connell - [joconnell@realtrends.com](mailto:joconnell@realtrends.com)  
Paul Salley - [psalley@realtrends.com](mailto:psalley@realtrends.com)  
Scott Wright - [swright@realtrends.com](mailto:swright@realtrends.com)  
Terry Penza - [tpenza@realtrends.com](mailto:tpenza@realtrends.com)  
Travis Saxton - [tsaxton@realtrends.com](mailto:tsaxton@realtrends.com)

Copyright 2015 by REAL Trends. All rights reserved. Material in this publication may not be electronically stored or reproduced in any form without written permission. Violators will be punished by a fine of up to \$100,000 per offense.

Please visit us at [realtrends.com](http://realtrends.com) for the following noteworthy products:

Game Changers  
Online Performance Study  
REAL Trends 500  
REAL Trends Brokerage Website Rankings  
NEW! Invest In Professional Photography

structural changes we endured. We lived through downturns in 1980, 1987, 1991, 2000 and 2006. Commission rates have fallen along with gross margins.

Yet, brokerage firms remain vital and healthy. The advent of core services, where brokerage firms entered mortgage, title, and other settlement services, was clearly another positive structural change. Profit margins currently are about 4 to 6 percent pretax for all leading brokerage firms, regardless of business model or brand. The market must be attractive to many as new agents are again flooding the market and new brokerage firms with some interesting new models have appeared. Despite all of the change, in most markets, the firms that had leading market shares still have them.

## **NEW THREATS**

Now come new threats, such as the Consumer Finance Protection Bureau (CFPB) and its rulings on marketing service agreements (MSAs) which are an important source of earnings for many. The National Labor Relations Board (NLRB), which has issued rules that may upend 40 years of settled franchise law, may impact real estate franchise relationships. HUD and its rulings on disparate impact may have an enormous impact on the housing industry. The decline of homeownership seems to threaten our business as well.

## **WE WILL PREVAIL**

Our view is similar to that expressed by Liniger. Yes, these are all trends and events that may impact how we run our businesses and where we invest precious capital. But, think about what we have already been through and about what it took to manage your way through the changes. Over one-quarter of the REAL Trends 500 did not make it through the downturn, but over three-quarters did make it through. If everyone knew that housing sales volumes would shrink more than 50 percent, how many would have thought they would survive? Most did.

Change will be constant both in the demographics of our customers, how they buy and sell homes, as well as the regulatory environment in which we operate. There will be new models, gross margins will continue to be under pressure, and online ratings and reviews will be facts that with which we have to deal. And, leaders in the industry will deal successfully.

What hasn't changed is that over 80 percent of all consumers still want to have an agent when they buy or sell, over 90 percent are satisfied with the commission form of compensation, and over two-thirds still find their agent through a personal relationship of some kind. It is our view that as long as these fundamentals remain intact, the rest can be dealt with—just like changes have been dealt with in the past.

## CRUNCH TIME

## LOWER PRICED COMPETITION IS GAINING SHARE

*What can you do to compete and win?*

by Steve Murray, publisher

I recall the early 1980s when leading brokerage firms had a tough choice to make. RE/MAX was gaining traction and brokers were entering an era they had not experienced before—that of strong price competition for their best agents. The choice was stark. Keep splits where they were, invest heavily in agent services and probably lose share or meet the new split levels, retain agents and cut costs, or conversely add significant numbers of new, lower-producing agents to make up for the decline in gross margin? Most large firms chose the latter.

Today, many of those choices remain the same. Strong, lower-priced competition (those paying higher splits or capping company revenue contributions) are gaining share and brokers are faced with reducing costs (and agent services) or increasing agent services, trying to retain gross margin. In all likelihood, they will still lose some share to the lower-priced competition. Complicating these decisions are the loss of revenue and earnings from mortgage, title and other settlement services brought on by the various regulatory bodies that now say that what was acceptable is now not acceptable. Many brokers gave ground on their gross margin due to earnings from these core services over the past 15 years and now find it difficult to regain previous levels in today's market.

**WHAT IS THE SOLUTION?**

Some leading brokerage firms are entering new businesses, such as residential property management, commercial brokerage, and property casualty insurance. Each has its plusses and minuses, but all take time to build to a level where the earnings from such endeavors can make up for the loss in settlement services. Others are getting serious about corporate lead generation and

conversion where they can generate a higher margin business through their brokerage. Many others are pursuing a significant reduction in fixed costs, such as space and personnel where such assets are not directly related to the production of sales.

Each of these strategies has its plusses and minuses. Some can produce immediate positive results to the earnings of the firm, and some take much longer to produce a meaningful difference. This much is true, the decline of gross margin has been underway since the early 1980s and is not likely to stop. In Canada, the typical gross margin is nearly 16 percent more than the 19.5 percent average in the United States. The likelihood it will decline further is higher than the likelihood that it will increase.

**STRONG CULTURE**

There are those who have not given much ground on shifting more revenues to the agents and who have strong, profitable companies. It takes a strong stomach to place more emphasis on strong culture, accountability to standards and profitability than to focus on size and market share. Just like so many high-end luxury goods and services providers, it is harder to prove value than it is cut price as a way of growing. Mercedes-Benz will never be the largest car seller in the world, but they are certainly among the most profitable, as an example.

The main point is that all brokerage firms are coming to grips with this environment in their way, and they chose from some of the strategies we have listed here. However, the decision is no different than it was 35 years ago—value or share? Having both is going to get much more difficult in the years ahead.



## QUALITY SKILLS

# COMMUNICATE LIKE A LEADER

*Learn the formula to becoming a powerful communicator.*

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

“The quality of your company is the quality of your communication.” This simple quote by Business Coach Robin Sharma says volumes about the importance of communicating like a leader. Is there a formula for being a powerful communicator? The answer is “Yes.” Even the charismatic Dr. Martin Luther King was failing in his “I Have a Dream” speech when he got off the formula—more on this later.

Let’s start with a definition of communication. One of my mentors, Marshall Thurber defines communication as “the response you get.” You sent out notice of the meeting, but hardly anyone showed up. Well, your communication was the response you got. “Sending” is not communicating. If you want a particular response, you

will need to communicate a compelling reason (a why) for your team to take action on your message.

### FOUR STEP FORMULA

Research on effective communicators found a simple, four-step formula:

1. Connection
2. Vision/Problem
3. Clarify a solution
4. Passion for your message.

Steve Jobs took this formula to an art form in his Apple product launches. He connected with his audience, then pointed out a problem, clarified a solution, and delivered his message with such passion and belief that his product launches became world famous. (See *The Presentation Secrets of Steve Jobs* by Carmine Gallo.)

was not connecting with his audience. Gospel Singer Mahalia Jackson, who was sitting on the stage behind Dr. King, sensed he was losing the crowd and shouted to him, “Tell them about the dream Martin! Tell them about the dream!”

---

## STEVE JOBS CONNECTED WITH HIS AUDIENCE, THEN POINTED OUT A PROBLEM, CLARIFIED A SOLUTION, AND DELIVERED HIS MESSAGE WITH SUCH PASSION AND BELIEF THAT HIS PRODUCT LAUNCHES BECAME WORLD FAMOUS.

---

The four-step formula will work for anyone. A study of charismatic speakers found no correlation with age, looks, or gender. The only correlation was with the speaker’s passion and belief in their message. So, you do not have to be tall, handsome, beautiful, or young to be charismatic. You just need to believe in your message and deliver it with passion following the four-step formula above.

A good friend of mine is a sales trainer named Ron Stickler. Ron is over 60 years old, has a brain injury and speaks with slurred speech. Given his circumstances, public speaking and sales training should be out of the question for him. Yet, he’s incredible! His ability to connect with his audience; show them they need what he has, and communicate his message with clarity and passion results in standing ovations. He follows the formula and his students love him.

### ANOTHER FORMULA

When it comes to inspiring and leading others, there is an additional formula called “The Three Stories.” This research was documented in “Scientific American” and shows that people want to follow a leader who shares: who I am; who we are, and where we are going together.

Dr. Martin Luther King used the three stories formula in his “I Have a Dream Speech,” but only after nearly bombing in front of an audience of 250,000. As Dr. King labored through his prepared notes, the crowd was restless and loud, many were not listening, and others were leaving. He had great content but

Dr. King departed from his prepared notes and spoke with passion from the heart. “I have a dream that my four children will one day live in a nation where they will not be judged by the color of their skin, but by the content of their character.” The audience reconnected. He shared the three stories. And, a 1999 poll of scholars named “I Have a Dream” as the top American speech of the 20th Century.

If you have a vision for your company, and you are passionate about that vision, simply follow the four-step formula and share the three stories. Your team will be inspired to follow you, and the quality of your communication will improve the quality of your company. **You will be communicating like a leader.**

## FOUR STEP FORMULA

COMMUNICATE MORE EFFECTIVELY WITH THIS SIMPLE, FOUR-STEP FORMULA:

1. CONNECTION
2. VISION/PROBLEM
3. CLARIFY A SOLUTION
4. PASSION FOR YOUR MESSAGE.



## TEAM SUCCESS

# PROCESSES ARE VITAL

### *A Lot of Work?*

by Ken Goodfellow, Goodfellow Coaching & Consulting Inc.

Have you ever wondered why some real estate companies are industry leaders and others barely stay afloat or go out of business? Many will answer that it is because they have been around the longest, have the biggest team, do the most marketing or have the most experienced CEO. While these may be contributing factors, they only represent a fraction of the real answer. The real answer is that industry-leading companies all have processes at the core of every aspect of their business. Without processes in place no business can operate at its peak.

In my hundreds of on-site visits, I have noticed one recurring area that is holding back businesses—a lack of concrete processes. From department to department, team members are doing their best to cope with daily routines with no set guidelines. If you think of professional sports teams, they have a playbook that gives them step-by-step directions for every play they need to execute. They know where they are supposed to go and when, but mostly they have a clear understanding of their main goal. I can't imagine what would happen if a team just expected players to go out on the field and figure it out for themselves. If your business doesn't have a firm set of processes for every team member's position, then how can you expect to reach your goals?

### **BUILDING YOUR PROCESSES**

My definition of processes is the steps and actions needed to achieve a goal. Processes are the operating manual for your business and encompass progress, actions, and methods. Every

aspect of your business, and I do mean every aspect of your business, needs a clearly defined set of processes that outline what needs to be done, what takes priority, who is responsible for doing it, expectations for delivery, timeline and who is the next in command for questions or clarification. These processes must be in written form, easily accessible and reinforced with team members on an on-going basis. These processes are particularly useful when a team member is off sick, on vacation and can be invaluable for new hires.

### **A LOT OF WORK?**

You may be thinking that creating and establishing all of these processes will be a lot of work, and initially I would agree with you. Instituting new processes inevitably brings about change that is likely to be felt in many departments and affect a large number of team members. Not everyone handles change the same way, and most businesses can expect to encounter at least one rogue employee who insists on maintaining the status quo and do things the old way. These maverick team members will either need to get on side, or leave the team as there is no room for people who don't understand the importance of processes to the overall success of the business.

When well-defined processes are in place, your business will operate more smoothly and efficiently, your employees will be more confident, and retention rates will increase. Processes will become the catalyst for moving your business to the top.



# SUMMER HOME SALES REMAIN STRONG

*August sales move up 10.7 percent over August 2014*

The REAL Trends Housing Market Report for August 2015 shows that housing sales increased 10.7 percent from the same month a year ago. While down from year-over-year increases of the prior four months, indications are that housing continues to lead the economy. All four regions reported unit sales rose from a year ago with the Northeast leading the way with an increase of 19.1 percent over a year ago.

“August housing sales jumped strongly, and that indicates that the housing market continues to have the wind at its back,” said Steve Murray, editor of the REAL Trends Housing Market Report.

The annual rate of new and existing home sales for August 2015 was 6.199 million units up from a rate of 5.601 million in August 2014.

Housing prices rose an average of 1.4 percent from August 2014 showing continued moderation in home price increases and the lowest year over year increase in prices since 2014.

“While the increase in the average price of homes sold slid again and is showing almost no increase, unit sales continue to climb

in the double digits on a year-over-year basis,” Murray added. “Foreign purchases and the rise in the first-time homebuyer segment appear to have contributed to the continuing strength. It is important to note; however, that month-over-month changes in unit sales and average prices have both backed off their previous highs.”

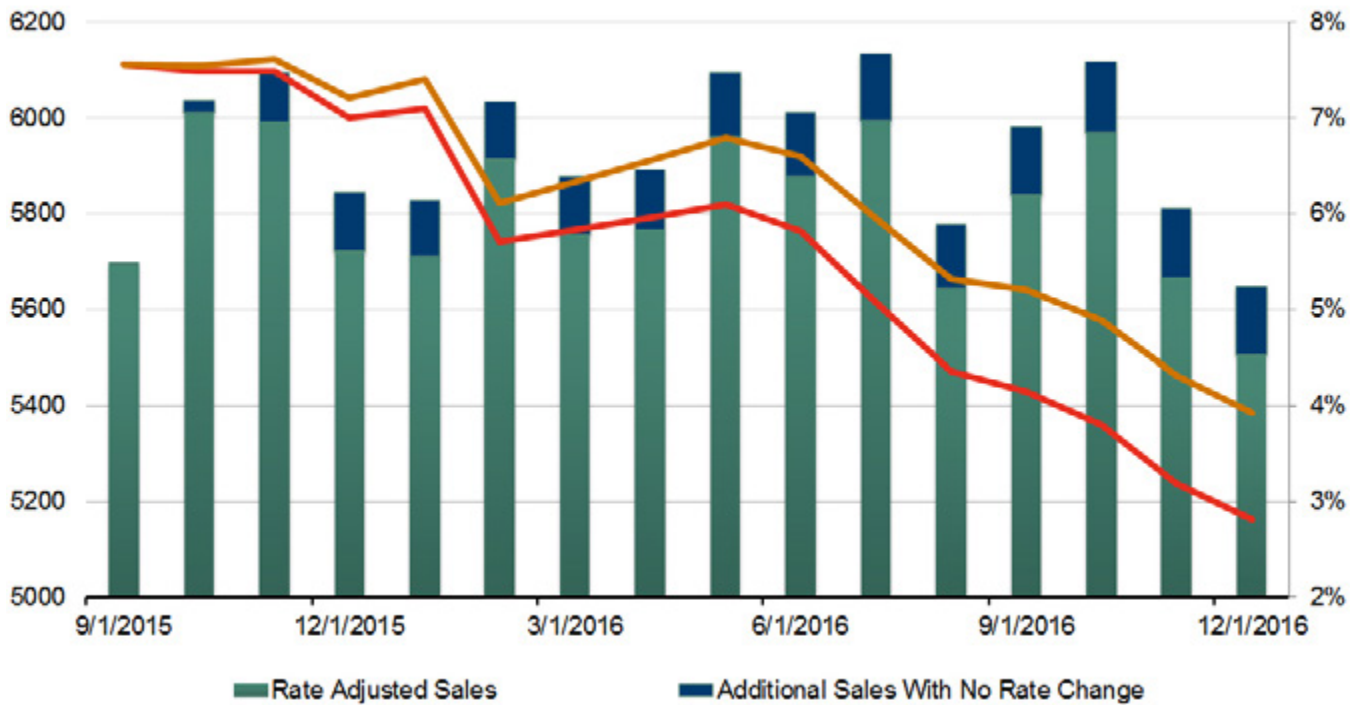
Housing unit sales for August 2015 increased 19.1 percent in the Northeast, the best performance in all regions. Sales in the South region were up 9.7 percent, the Midwest saw an increase of 8.9 percent, and the West had an increase of 8.0 percent.

The average price of homes sold in August 2015 in the West region increased by 3.5 percent, the best result in the nation. The South saw average prices increase just 1.6 percent, average prices in the Midwest actually declined by 0.9 percent while the Northeast also experienced a decline in the average price of homes sold with prices dropping 1.7 percent.

“Recent reports from the National Association of Realtors® about strong increases in pending home sales would seem to presage additional strong increases in homes sales for the next month or two,” Murray added.

### The Fed's Influence on Housing

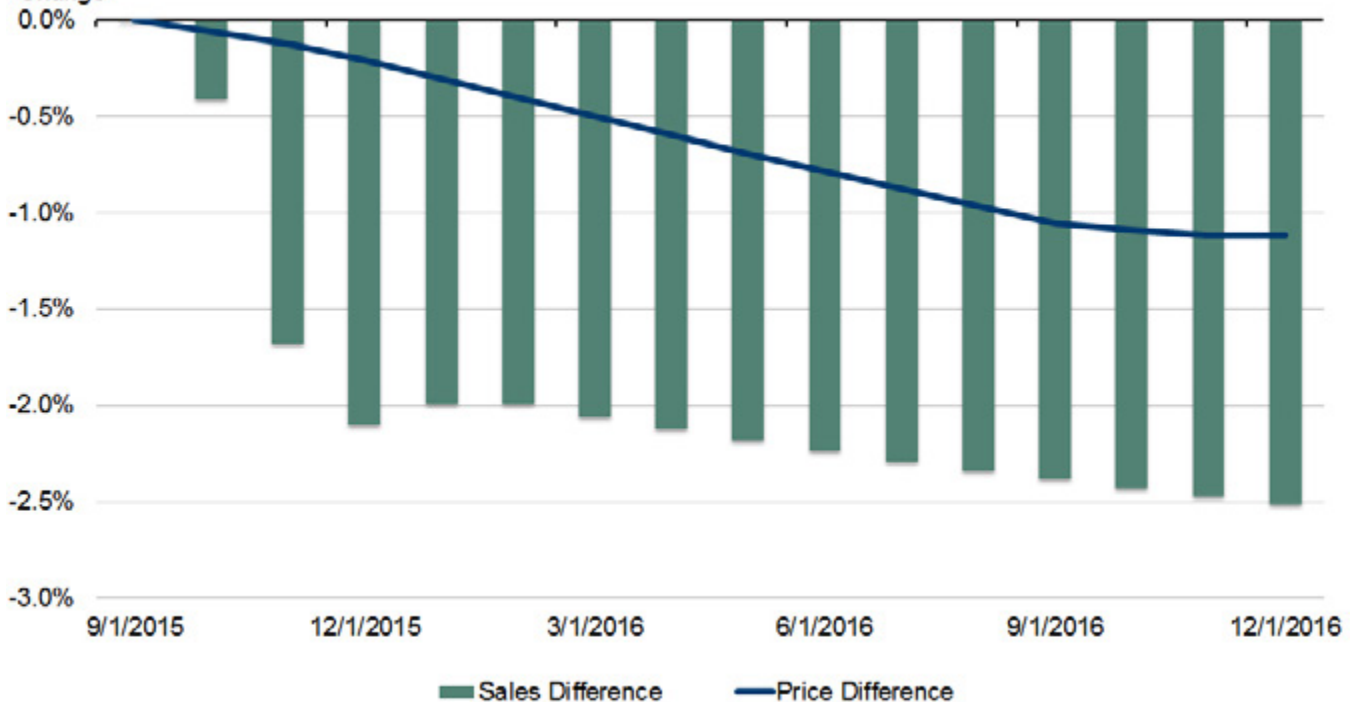
Existing-Home Sales ('000s, SAAR) and Year over Year Price Growth



Source: First American Calculations, September 2015

### The Fed's Influence on Housing

Percentage Change in Existing-Home Sales and Home Prices Based on an Interest Rate Change



Source: First American Calculations, September 2015





## MARKET INFLUENCES

# DOES A FED RATE INCREASE DOOM HOUSING?

*by Mark Fleming, chief economist, First American*

While the Federal Reserve hasn't raised rates yet, it could potentially decide, before the end of the year, to increase interest rates for the first time since 2008. The CME FedWatch Tool measures the market's expectation of Fed target rates.

One argument is that rising interest rates cause affordability to decline, which is true. Many contend that declining affordability leads to a reduction in demand, which is not necessarily true and that a reduction in demand means house prices will fall, which is not necessarily true either. People may adjust how much housing

they demand, rather than drop out of the market altogether. Of course, marginal borrowers may truly be priced out of the market, but it's not clear that this reduction in demand would be significant enough to trigger falling prices. A slowdown in the pace of price appreciation is a much more likely outcome.

I have argued here, as others have, that rising rates don't necessarily cause a negative demand shock and falling home prices. When the Fed raises interest rates, it's because the Fed believes that the economy is strong enough to adjust and has the potential to begin overheating (that's what inflation measures). A stronger economy, more or better jobs, rising wages, increased confidence – these factors all increase demand for housing. In other words, rising rates are indicative of increased home sales and upward pressure on prices.

## **I HAVE ARGUED HERE, AS OTHERS HAVE, THAT RISING RATES DON'T NECESSARILY CAUSE A NEGATIVE DEMAND SHOCK AND FALLING HOME PRICES.**

### SCENARIOS

So, what scenario plays out if the Fed raises rates? Does reduced affordability win, or the better economy? Alas, we only observe the net effect of the two, but using our proprietary model of U.S. housing market existing-home sales demand and house prices, we can “ask” exactly what the net effect might be. In this case, what happens to existing-home sales and house prices when the Fed increases interest rates later this week by 0.25 percent, and that causes a permanent upward shift in mortgage rates by the same amount?

In the two figures below, we show the hypothetical result of a 0.25 percent increase in the 30-year fixed rate mortgage rate this month caused by a Fed rate increase this week, and how that may influence the amount of existing-home sales demand and house prices through the end of 2016. The first figure shows home sales and price changes, both with and without the rate increase. The second figure shows explicitly the differences between the two scenarios.

House price appreciation, on a year-over-year basis, does slow down, but only by 1 percent more than it is expected to slow down anyway. Existing-home sales also slow down, by about 2.5 percent on annualized and seasonally adjusted basis by the end of the time horizon. That turns out to be a hypothetical decline of fewer than 150,000 sales a year.

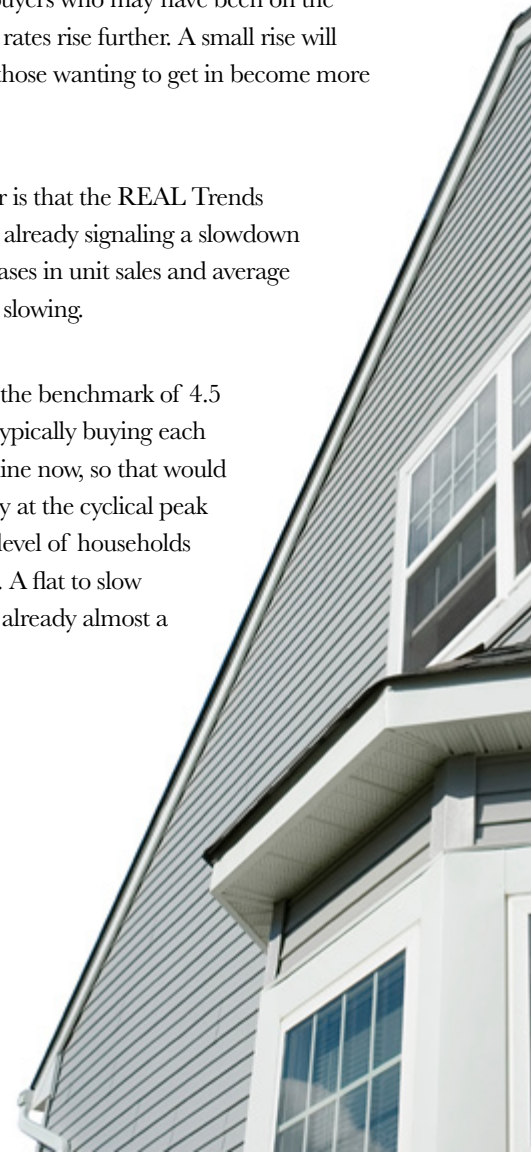
Of course, we cannot be sure exactly how mortgage rates and the housing market will respond to a Fed rate increase. But, we can say with some certainty that the Fed will eventually raise rates. When it does, the housing market isn't doomed to fail, but rather adjust to the reality of interest rates that are reflective of a strengthening economy and certainly more traditional financial conditions. Is the housing market doomed? No, but the housing market will modestly adjust to a Fed rate increase.

### COMMENT FROM REAL TRENDS

“Manfredi lays out carefully thought-through considerations about the impact of a rate rise by the Fed on housing sales and prices. It all makes perfect sense. But, in the last 40 years, I have noted that once the Fed begins to raise rates, the reaction of the housing market is for buyers who may have been on the sidelines to jump in before rates rise further. A small rise will provide some impetus for those wanting to get in become more motivated to do so.

“Another factor to consider is that the REAL Trends Housing Market Report is already signaling a slowdown as the year-over-year increases in unit sales and average price increases are already slowing.

“Lastly, when we consider the benchmark of 4.5 percent of all households typically buying each year. We are right on that line now, so that would indicate that we are already at the cyclical peak of housing sales given the level of households and household formations. A flat to slow growth housing markets is already almost a sure thing.”





## THE CEO CORNER

# PAM O'CONNOR

CEO OF LEADING REAL ESTATE COMPANIES OF THE WORLD

*Learn from leaders where tomorrow's opportunities and threats lie.*

*by Steve Murray, publisher*

For the next year, we will be gathering input from industry CEOs from all corners of the business. What do they think is most important? Where are they investing their time and resources? What keeps them up at night?

Our first interview is with Pam O'Connor, CEO of Leading Real Estate Companies of the World (or Leading RE for short). O'Connor is a nearly 40-year veteran of the business and is the only CEO in Leading RE's history having been with them since before it was renamed almost 15 years ago.

Here's what she had to say.

**REAL Trends:** What do you think the biggest challenges facing brokerage are today?

**O'Connor:** Whether you call it succession planning or leadership development, most leading brokerage firms, regardless of brand or

size, are faced with the challenge of replacing themselves in their companies or having people who can step up to help with growth. I think this is the most significant Achilles Heel of the industry today. Unless one has a well-developed bench of up-and-coming leaders, it's hard to imagine how the firm goes forward in the future.

We have found most firms do not invest much time or resources in developing their next generation. It is the main reason we built a program to directly address this issue. We are aware that our peers are beginning to do some of the same things. This is a challenge for all brokerage firms.

**REAL Trends:** What are you advising your brokers to be prepared for?

**O'Connor:** We are advising them to keep watch on what is coming out of the federal and state regulatory agencies. Most are aware of the Consumer Finance Protection Bureau (CFPB) and its

hostility towards Marketing Services Agreements, but many aren't aware of other issues related to joint ventures. There are many brokers who get significant portions of their income from such ventures and if only the largest firms can afford the capital to be in these, it will definitely tilt the playing field in brokerage, or it could.

starting to pay off for our organization. We are now in 70 countries and see real results in both our Luxury Portfolio program and our broker-to-broker referral activities. We think there is still much room for growth here.



Other areas have to do with online advertising policy, IDX, VOW and other related issues. We are also aware of what is going on with the National Labor Relations Board and their recent rulings about franchiser/franchisee relationships. We are watching what is happening with the loosening of credit standards by HUD, and while their positions may increase homeownership, we wonder what kind of impact that may have down the road.

We are watching the enormous growth in referral-type online business models and those who propose a full home-buying and -selling capability without the use of agents. One other deeper question is how these may impact the value of the brokerage firm itself.

**REAL Trends:** Where are you investing most of your time these days?

**O'Connor:** As I said earlier, leadership development is an area where we are investing considerable time. It is not just the development of leaders; it is the attention that needs to be paid by brokerage leaders to building and protecting the cultures of their companies. Our view is that the culture is the glue that keeps firms growing and prospering.

Secondly, we have built a large global presence, and it is

**REAL Trends:** Where should a broker invest most of their time?

**O'Connor:** I hate to sound like a broken record, but we believe strongly that leadership development and culture building should be the Nos. 1 and 2 priorities for all brokerage companies. In addition, we think brokers need to better develop (and pay attention to) their business metrics—measuring the critical operational and financial yardsticks—to help them know where they are performing well and where they need improvement. You can't continue to rely on an expanding market. Therefore, they must know how to maximize the productivity of their companies.



**PAM  
O'CONNOR**  
CEO OF LEADING REAL ESTATE  
COMPANIES OF THE WORLD



## MICHAEL SAUNDERS,

### MICHAEL SAUNDERS & COMPANY

SARASOTA, FL

It's a year of accolades for Michael Saunders & Company. From being named No. 47 in real estate brokerages by sales volume in the 2015 REAL Trends 500 to getting the nod for Best Overall Website in the REAL Trends Real Estate Website Rankings, the company is thriving. We interviewed Founder and CEO Michael Saunders about her company. Here's what she had to say:

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

**Saunders:** Before I was an agent, I was a probation and parole officer in Manatee County. I made a decision to move to real estate, because I knew, as a single mother, that I couldn't be at the jail at 2 a.m. or chased with knives and broken bottles. Just as in my probation and parole work, I care about making a difference. Now I do that through real estate. I founded my company in 1976. I went from a single small office on Sarasota's St. Armands Circle to a company with 26 branch offices in three Florida counties.

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

**Saunders:** This is a hard question because I see every challenge as an opportunity. I know this sounds trite, but it's true. Some of the challenges we had to embrace, and we realized that they pulled us together as a team.

It's always been about the people. I owe everything to my team, from the very beginning. I started the company based on values. The industry has gone through monumental

changes, but what has never changed is our core values. So, if you use that in your decision-making, you can turn challenges into incredible opportunities. You must not compromise your values, no matter what the market.

**REAL Trends:** What advice do you have for brokers?

**Saunders:** I surround myself with the best people, people who are smarter than me. After establishing a regional base, there were days you wake up and wonder how you're going to make payroll. We had some rough patches. My best advice is to get involved on a national level. Be well known locally, but learn from the best and brightest. I chose never to swim with sharks, but instead to associate with the best leaders in the business, learn the best practices, take what I've learned and use it. In addition, find mentors within your market and outside your market. Also, recognize opportunities. When I began the company, I had a laser focus on waterfront property. As I continued to expand, I took that exceptional service and expanded it to all price ranges, to commercial and commercial property management and resort management.

**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?

**Saunders:** I think that the decision to follow our customers and clients in exceeding their expectation and fulfilling their needs. We focused on waterfront initially, but I would not be in business today if I only focused on that now. Our market share in the upper end is still there, but we expanded our base to provide to all price ranges the same services. The path I have never strayed from is being an entrepreneur and being independent. Through all times, the entrepreneurial spirit and burning desire to remain independent led me to find the financial and human resources to compete on any playing field.

We think everything has been done in this industry, but it hasn't. Continue to look for cracks in the space you serve and analyze whether you can fill that crack and grow your business. But, you must have a solid foundation that allows you to seize opportunities. Making decisions based on good data and having a team that buys into it is what makes a great leader even better.

## TECHNOLOGY

# VOICE ACTIVATED SYSTEMS & THE FUTURE OF CONNECTED HOMES

*The Amazon Echo sparked amazing glimpses into our near future.*

*by Travis Saxton, vice president of technology*

The REAL Trends Tech Team recently bought an Amazon Echo for the office. While initially it's a glorified music player with a voice-activated calendar (it integrates with your Google Calendar!), it can be so much more. Rooted in the smart-home sector, the Amazon Echo (and later evolutions and upgrades) will be a powerhouse in our industry for years to come. Right now, you can connect most smart-home devices to it, and it's relatively inexpensive at just under \$200.

Other voice-activated systems, such as Siri have the potential to change the way to do business. While connected in a different way, the "Hey Siri" feature is pretty powerful as well. It is voice activated without having to get past your passcode or fingerprint and can help you discover information when your hands aren't free. If you don't have that feature turned on, go into your iPhone settings and check it out.

## MORE CONNECTED HOMES

So what does this all mean? A look into the near future, and you will see more connected homes with security, lighting, heating and cooling, smart devices and more all controlled by your voice as you enter the home (sometimes even before you enter the home.) Because your WiFi is secure, you may voice-activate your garage door opener, exterior lighting or front-door lock with a simple audible command.

Coldwell Banker is taking a clear leadership stance in the future of home automation and, as fast as this sector of our market is evolving, this is an extremely wise move for a real estate franchise. Pay attention to the partnerships they create. Soon, I predict that we will see smart home designations. I am also willing to bet that smart homes will impact home prices in more progressive parts of the country, then trickle down to

luxury homes and new developments in more rural parts of the country. REAL Trends joined the smart home bandwagon. We will have many new smart home announcements coming soon.

## WHAT'S ON THE HORIZON?

There are products being tested that allow a world where visual and audio experiences close the gap, and more hologram-illuminated displays are within reach for the office or home. With the voice activation and connected home, just about any device or any room could be truly connected.

For real estate, technology will allow you and customers to walk through a listing without actually being there. With smart hubs in every room (including the bathroom!), you can communicate and be in each room without actually being there.

Even applications and interactions with consumers will change. Initially, it will likely be in the form of data and systems access. Imagine voice entering your next listing into the MLS, or a central input point, then meeting a new lead face-to-hologram-face in your living room in real time. Wow!

But, enough about the future. Let's talk about now. How can you get involved? Obviously, if you are a Coldwell Banker broker or sales associate, stay the course. For others, there are plenty of opportunities. Get connected with smart home innovators and companies. Many want broader access to the real estate market and can partner with real estate firms to achieve this. Find a few partners in several of the categories and educate and train your agents on these new products.

Stay tuned as REAL Trends will continue to offer great how-to articles concerning smart, connected homes.

# EBITDA?

## RESIDENTIAL BROKERAGE VALUATION

# THE IMPORTANCE OF EBITDA

*How much do you know about EBITDA? Here's a crash course.*

*by Steve Murray, publisher*

In our consulting practice on mergers, acquisitions, and valuations, we outline what EBITDA (earnings before interest, taxes, depreciation and amortization.) It's important because most of those doing the purchasing are using it as a proxy for how to value a residential real estate brokerage firm.

EBITDA is a measurement of the cash flow that a brokerage will produce for an owner or investor. It is commonly used throughout many industries as a way to measure what the business truly produces in terms of cash.

The second part of determining value is the application of a multiple to the

EBITDA. Check next month's valuation article for details about how the multiple is determined. It's a question we get asked daily.

EBITDA is used because a new owner needs to have a grasp on how much cash a brokerage produces to determine what someone can finance in an acquisition. While size, location, strategic value and other considerations are always at play, these factors are secondary to the determination of the level of EBITDA. These other factors will have an influence on the multiple of EBITDA that is used to calculate value. However, first every acquirer is going to want to know what level of EBITDA the seller has before applying a multiple to the EBITDA to the final value.

In the brokerage business, there are other factors that are used to qualify EBITDA. First is an adjustment for owners' benefits. In addition to quantifying EBITDA, we commonly add back all of the wages, benefits, and other items that the brokerage either pays to or pays on behalf of the owner of the brokerage. Then, we subtract what is referred to as Comparable Cost of Management, which is a measurement of what it would cost

to replace the services provided by the owner. After all, a new owner may have to replace the existing owner(s) with new leaders, what will they cost? This, of course, varies depending on the location and size of the firm being valued.

Finally, we make adjustments for Non-Recurring Incomes and Expenses and add the net of these adjustments to base EBITDA. Non-recurring incomes could be one-time sales of property, a large legal settlement, the sale of a related mortgage or title company, etc. Non-recurring expenses vary widely and can include things such as the expense of closed offices, one-time costs for new offices, permanent reductions in salaries, employees, etc.

To get to the core EBITDA, one should start with earnings before interest, taxes, depreciation and amortization and then add the net effect of adjustments for comparable cost of management and non-recurring items. A few other notes. Interest expense is added back for operating loans and not for

mortgage notes against a building that may be owned by the owner. The new owner is highly unlikely to assume any debt, so they will not have this expense going forward. Depreciation and amortization are added back because they are generally non-cash items.

While every owner wants to believe that their firm is worth more than some multiple of cash flow, that they have intangibles such as goodwill, brand name recognition and other intrinsic parts of the company, the fact is that virtually every purchaser of brokerage firms over the last 30 years relies first on EBITDA, or Adjusted EBITDA, to determine the core value of the firm.

In the next issue, we will cover how the multiple of cash flow is determined and how the price and terms of a transaction can affect the multiple. For more information, go to [Realtrends.com/publications](http://Realtrends.com/publications), and purchase our book "How to Value a Residential Real Estate Business."



## 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 or family 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 Scott Wright at**  
**303.741.1000 or [swright@realtrends.com](mailto:swright@realtrends.com)**





IN REMEMBRANCE

# EBBY HALLIDAY 1911-2015

There are a few men and women who built firms that have so thoroughly stood the test of time. There are fewer still who remained active past their hundredth birthdays. And, fewer still are those who accomplished all of that and were remembered mostly for their integrity, their sense of mission and the way they embraced life to the fullest. Ebby Halliday was one of these very few in all regards.

In some ways, a person's life can be measured by those who are touched. Viewed this way, Ebby likely touched more people in her life in a personal way than most of us can know. Interestingly, a former President of the United States and a current Governor issued statements noting Ebby's passing with sadness, yet also added personal notes about her contributions to women, to young people and to the community at large.

I did not know Ebby well. But, I do know many who did, and I can say that I never once, in my nearly 40 years in this business, heard anyone say a negative word about her. She was classy before that term was widely used and showed how to be a successful business woman, yet remain extraordinarily feminine at the same time. She will not be forgotten.



APRIL 20-22 IN DALLAS

# GATHERING OF EAGLES 2016

*New Speaker Added to GOE Lineup*

If you haven't already registered for this year's Gathering of Eagles, April 20-22 at the Four Seasons Resort Dallas at Las Colinas, you'll want to once you hear about our newest speaker! In addition to Dave Ridley, part of the senior management team at Southwest Airlines, Geoff Colvin will be joining the lineup.

Geoff Colvin is an award-winning thinking, author, broadcaster, and speaker on today's most significant trends in business. As Fortune magazine's senior editor-at-large, he is considered one of America's sharpest and most respected commentators on leadership, globalization, wealth creating, the InfoTech Revolution, and related issues. As an anchor of Wall Street Week with Fortune on PBS, he spoke each week to the largest audience reached by any business television program in America. Colvin will speak on leadership and business issues.

To book your room, please contact the Four Seasons at Las Colinas in Dallas directly at 972-717-0700, and ask for the REAL Trends room block to receive the discounted negotiated rate of \$295/night. The room block deadline is Friday, March 18, 2016, unless we fulfill the room commitments prior.

To register for the conference, go to: [realtrendsgatheringofeagles.com](http://realtrendsgatheringofeagles.com) or call Daniele Stufft at 303.741.1000.



# REALTRENDS

THE TRUSTED SOURCE

## OVER 300

leading brokerage firms trust REAL Trends with their confidential business records every year

## OVER 670

leading firms have entrusted the sale or purchase of their most important asset, their brokerage company, to REAL Trends

## OVER 2,350

residential real estate firms have trusted REAL Trends to perform valuations and assessments of their firms

## MORE THAN 100

leading brokerage firms rely on REAL Trends for guidance in their technology and online marketing

## INDUSTRY EXPERTS

When firms like HomeServices of America, Realogy, RE/MAX and Keller Williams need an industry expert in valuations or general industry issues, they have turned to REAL Trends

## FACT-BASED RESEARCH

Only REAL Trends does its own original fact-based research and has authored seven major consumer studies and literally dozens of industry studies.

## RANKINGS PUBLICATIONS EVENTS

TECHNOLOGY  
ADVERTISING  
SPONSORSHIPS

BROKERAGE  
SERVICES

# LORE

REAL ESTATE TRENDS

# M&A

MERGERS AND ACQUISITIONS

VALUATIONS  
CONSULTING

## NATIONAL ASSOCIATION OF REALTORS®

When NAR was threatened by the U.S. Dept. of Justice and required an expert witness, they turned to REAL Trends.

## OVER 65

leading brokerage companies have depended on REAL Trends for expert testimony in valuations or industry practices.

## OVER 1,500

brokerage firms and virtually every national real estate network trusts REAL Trends to create the most accurate rankings of America's top firms in the annual REAL Trends 500 report

## ALMOST 10,000

Almost 10,000 of the nation's most productive real estate agents and teams trust REAL Trends to rank them correctly each year in the America's Best Real Estate Agent and The Thousand ranking reports

## 28 YEARS

REAL Trends has been for over 28 years the most trusted source in residential real estate consulting and publishing. For free consultation of how we can assist you, call us at 303-741-1000 or email [info@realtrends.com](mailto:info@realtrends.com)

[REALTrends.com](http://REALTrends.com)  
[realtrends@realtrends.com](mailto:realtrends@realtrends.com)  
303.741.1000