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SEPTEMBER 2015 NEWSLETTER

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UPSTREAM

WHAT, ME WORRY?

Will the explosion of new brokerage offerings be the ones to take down the business?

By Steve Murray, publisher

Recently, it seems as if there is an explosion of new brokerage offerings, most focused on a discounted commission married to technology. The news that retail giant Lowe's was entering the fray with an investment in a firm designed to "unbundle the brokerage service while offering consumers lower prices" compounded the nervousness in the industry. Read the article here: Solopro Unbundles Real Estate. Throw in the announced acquisition of DotLoop by Zillow, and it's no wonder that many are feeling a bit nervous about what this all means.

One can't blame the industry for feeling nervous. Anyone watching commerce didn't miss the impact of Amazon, Pandora, Apple, Google, Facebook,

Continued on pg. 2

REALTRENDS
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Craig's List, Uber, and AirBnB. Each, in its way, has upended traditional players in business after business. Even the New York Stock Exchange and NASDAQ have been upended by more than a dozen other privately-owned trading exchanges. And, the disintermediation of other businesses and markets are under way—Quicken Loans comes to mind.

WHAT WILL CHANGE THE INDUSTRY?

Because of all of this, more of us are asking, "Is the killer app for residential real estate now on our doorstep, and we just don't recognize it"? After all, how can all of the billions of dollars spent by venture investors be justified? Are they all wrong? Why do so many think that there is a gold mine in brokerage that would warrant such intense interest by technology firms and their backers?

The last question is the easiest. In fact, there is nearly $65 billion worth of reasons. Real estate is an industry that is remarkably untouched by the Web thus far. It's an industry that appears low on the productivity scale and high on the fragmented scale. It's ripe for the plucking, some might say.

Why so much interest and why so much money? First, not only is brokerage an industry still hugely fragmented among its competitors but also it exhibits fairly low productivity as measured by the number of closed deals (or commissions) divided by the number of agents. The largest national firm isn't much above 10 percent national market share, and the top five don't even have 40 percent share combined. So, the question of interest is not hard to fathom. Quite a few MBAs would say that all of these facts make it an appealing business opportunity.

HAS THE KILLER APP ARRIVED?

It is important to note that there are trillions of dollars of liquidity floating around our country and the world seeking a higher return than Treasury notes. And, there are many pools of capital that place bets in dozens of places simultaneously in the hopes that one out of every 10 of their investments will be the next Facebook or Uber. It should not surprise anyone that dozens of real estate tech start-ups get splashed with capital every year. As has always been the case, there is far more money chasing deals than there are good deals, thus you get a scattershot approach to investing by those who really think they know something about brokerage but who truly, well, don't.

Has the killer app arrived yet? No. There does not appear to be one or even two at this time. Think about it this way, the discount brokerage has been around for almost 40 years on a formal basis. The number of firms offering some discount or rebate numbers in the dozens around the country. This does not take into account agents who discount whenever they feel it necessary to do so. Web-based technologies have been around for over 15 years. From transaction management to customer relationship management systems (CRM), there has been a multitude of offerings from which to choose for both agents and consumers. There is nothing new in this regard.

A buyer or seller can find a discounted brokerage firm in virtually every market in the country. Further, in many cases, they can find a traditional agent who may be willing to discount or rebate in almost every market. So, there are few hurdles to lowering one's costs in a transaction today.

WHAT ABOUT THE MILLENNIALS?

The new argument is that the Millennial generation will use the combination of both lower costs and better technology to drive the current brokerage model into submission. But, let's think about that. What is it they favor (along with their older Gen Xers and Boomers)? In fact, we all want a service that is easy to use and doesn't cost much. That is not a generational thing. Every generation wants that. Uber didn't get big because of price; it got big because of their service, which is perceived by many to be far superior to taking a taxi. Amazon did not crush Borders just because of price. It did it because it is easier to order a book than drive to get it—the discount is a great additional benefit. AirBnB did not get huge because of lower prices, but because the service in finding what is available and knowing about options is superior to what was there before.

So how does that work in brokerage? Has anyone truly proposed a better service package in buying or selling a home than one can get from a competent agent with a decent transaction management system behind them? Has anyone delivered a superior way for consumers to find a home than is already available through thousands of real estate websites? Has anyone delivered a system that is so demonstrably better than what is available through the careful choice of a qualified agent? Can they do so at lower costs in a way that is significantly enough to matter to consumers while doing so?

No, we don't think so. Not yet anyway. Maybe a voice-activated real estate search, which is 100 percent intuitive, would be the magic bullet—except really good agents know that what a seller and buyer say they want does not always measure up to what they end up choosing.

"IS THE KILLER APP FOR RESIDENTIAL REAL ESTATE NOW ON OUR DOORSTEP, AND WE JUST DON'T RECOGNIZE IT"?

THE NEXT BIG THING?

ONE FIRM PUTTING THE PIECES INTO PLACE

While the latest news of Lowe's investing in an unbundled real estate services app concerns all, it's time we took a closer look at Redfin.

By Steve Murray, publisher

There is one firm that appears to be focused on putting all of the pieces in place. They have more than adequate capital. They have some very experienced brokerage leaders and have expanded rapidly. While not a huge player in any one market, they are in many markets. They have demonstrated that they understand technology and how to deliver it as a benefit to consumers.

This company has an intense focus on the careful hiring of quality people to be sales agents, the need for non-stop investment in training of both agents and managers and are careful about how and where they grow.

This firm has internal management systems that track every interaction with their clients and customers and know at any given time how well each of their thousands of agents are doing in listing performance, closed rates on company leads, and follow-up with clients. Basically, they know everything a broker-owner would want to know about the performance of their company. They are also masters at online marketing, generating leads for their agents and measuring customer satisfaction.

Do they do all of this extremely well everywhere they operate at all times? Of course not. But their approach to the business, their reliance on the use of full-service agents and teams would be applauded by most in the industry if not emulated. They attempt, at each step, to recognize the importance of the agent while raising the level of importance of the home buying and selling consumer.

The surprising thing is that most traditional firms don't like them much. The reason for that is that they run their business in this fashion while also offering a discount on the commission to the consumer. They think they can do this by taking what they consider unnecessary costs (such as rent, for one) out of their equation. Because they are new, because they are good online marketers and because they are offering lower costs to consumers, they are not much liked. It may turn out, as was discovered at Zip Realty, that consumers like great service more than they like a break in the cost of the service—Uber comes to mind—and perhaps they will not long offer lower prices.

But, they bear watching more than any other tech/realty offering we have seen in recent years.

We are, of course, talking about Redfin.

BROKERAGE HOW-TO

A FORMULA FOR EFFECTIVE DECISIONS

How to find good decisions that have high acceptance by your team.

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

Would you agree that a large part of our success is a function of making and carrying out good decisions? There are two parts to this function. First, we need to make a good decision and then secondly; we need to carry it out or execute the decision. When we have both parts working for us, we call it an effective decision.

Leadership is about getting things done through others. Getting buy-in from our team, especially our management team is critical. They are often the ones charged with executing the decision or the plan.

The scientists at Human Synergistics International have developed a formula for effective decision making that may help you. Here it is.

EFFECTIVE SOLUTIONS = QUALITY OF THE DECISION X ACCEPTANCE BY TEAM MEMBERS

They suggest ranking both the quality of your decision and its acceptance on a 10-point scale and then multiplying one times the other to estimate your results. Here are three examples.

1. **Great Decision, Poor Acceptance**

Let's say you've done your research and clearly you have the right decision. On a 10-point scale, you rate it at a 9. The problem is that this decision is highly unpopular, and the people responsible for implementation have not bought in. You rate their acceptance at a 2. Here's your likelihood of success:

Quality of Decision (9) x Acceptance (2) = 18 (Effectiveness of the Solution)

It appears this decision, as good as it is, is dead on arrival.

2. Poor Decision, Great Acceptance

Someone has a decision that everyone likes (scores a 9 on acceptance). The problem is, it is a bad decision (scoring a 2 on quality of decision). Here's your likelihood of success.

Quality of Decision (2) x Acceptance (9) = 18 (Effectiveness of the Solution)

3. Good Decision, Good Acceptance

What if you have a Plan B? This is not your first choice of decisions, but it is still a good one that you can live with. Your first choice was the decision that rated a 9 on quality but had very low acceptance at 2. You rate your Plan B decision a 7, but your team loves it and are clearly in full support, giving it an acceptance rating of 8. Here's your likelihood of success.

Quality of Decision (7) x Acceptance (8) = 56 (Effectiveness of the Solution)

While your decision may not be quite as good, the overwhelming acceptance of your team gives you a 300 percent greater chance of success.

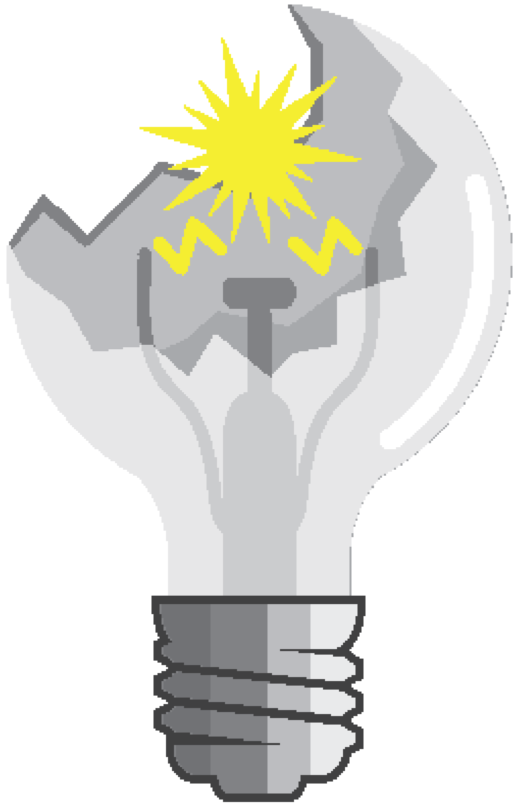
Leadership is the ability to get the right things done through your people. Part of your responsibility is to encourage your team to weigh in on a decision so you can determine their level of acceptance. Don't assume they will simply follow your orders. Also, don't assume they will speak up about their concerns. They may nod as if they agree but then adopt a passive resistance action plan.

A friend of mine and a very successful leader has a system for encouraging debate on key decisions. At his team meeting, he will present the problem and the potential solution and then ask for debate. He will identify the person most in favor of the proposal and will put them in charge of being the devil's advocate.

This person, even though they are in favor, is responsible for arguing all the reasons this is a poor solution and all the potential negative consequences. This brings out the group discussion. Others leap to defend the idea and even those who may have been opposed, chime in with why they think it might work. Others who had reservations about it now feel empowered to speak up. The team often develops an even better solution with much higher acceptance.

The key leadership principle is this: Create a process that stimulates healthy debate before the decision is made, not after. Find good decisions that have high acceptance by your team. It's a formula for effective decisions.

EFFECTIVE SOLUTIONS=
QUALITY OF THE DECISION
X ACCEPTANCE BY TEAM MEMBERS



TALK MORE; STARE AT A COMPUTER LESS

THE BLESSINGS OF A POWER OUTAGE

Thoughts on personal relationships from the world's foremost expert in organizational management.

By Patrick Lencioni, The Table Group

When you were a kid, did you ever have a power outage at your home, maybe in the middle of a big storm, and find yourself without access to distractions like television and other forms of technology? Most of us who grew up before iPads and iPhones and "mobile everything" know what I'm talking about. The family ended up lighting candles and playing a game or engaging in some other group activity that it wouldn't otherwise do, and afterward everyone said, "we should do this more often." And then the power went on, and we got sucked back into television or e-mail or some other technological distraction.

Well, I was recently thinking about this as it relates to work-life.

When I arrive at work, I almost always find my colleagues staring at their computers, working hard at whatever they're doing. This usually makes me a little uncomfortable.

Don't get me wrong. My concern has nothing to do with the idea that my co-workers are doing personal business at work; I expect them to do that because it's an inevitable part of life. And I certainly know that they aren't slackers; they do whatever is necessary to make our company successful.

What bothers me is that we—in my office and in society—have come to visualize productivity as people staring at a screen and typing. Whether we're responding to e-mail, writing a Word document or doing online research, we're usually performing a solitary activity that a person who is sitting more than five feet away has no idea about. After years of observation, contemplation and deliberation, I've come to the conclusion that this is the productivity equivalent of being "penny wise and pound foolish." Sure, everyone is individually busy and focused. But as a whole, we're not maximizing our collective ability to get the most important things done.

Now I'm not saying that people don't need time for individual focus. But it seems to me that the ratio of individual to collective work is about eighty to twenty. Maybe that number is not quite right, but I'm convinced that it should skew more heavily toward interactive than solitary work. Here are a few simple suggestions that I think could help you increase the effectiveness of your people and get them working better together.

First, don't make computers the center of your workspaces. I realize that this sounds radical, because we've come to organize our desks, cubes, and offices precisely around where we work on our devices. In effect, "work" spaces are actually "computer" spaces, even in a world where our devices are mobile. It hasn't always been this way.

When I first started working after college, employees didn't have their own computers (my kids think I'm 100 years old). At the very sophisticated management consulting firm where I worked, we had a "computer lab" where we went to do our computer-related work. As painful as that sounds today, there was something good about having to be intentional about using technology, rather than making it our default activity. People probably talked more, worked together more and discussed ideas more back then. Yes, it took us longer to make a really cool-looking PowerPoint presentation or find industry data, but the process we used for doing analysis and data vetting was certainly more comprehensive and collaborative than it would be today.

Second, don't be afraid to interrupt people and ask them what they're working on. They probably won't thank you for doing it, and they might even find it a little annoying at times. But you'll provoke the conversations that will get them talking about their work and sharing their ideas and challenges with one another.

Finally, have an "office power outage" every day for an hour or two. Make everyone close their laptops, turn off their devices and do some kind of interactive work. Heck, you could even shut off the lights and put some candles in common spaces just to make the purpose clear.

What will be the exact ROI of this? I can't say for sure, but based on my experience, I'm certain that good things will happen. New ideas. Better relationships. Creative conversations. And after a while, people will start to say, "we should do this more often."

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MAKE *EVERYONE* CLOSE THEIR LAPTOPS, TURN OFF THEIR DEVICES

MANAGEMENT MIGRATION

A SIGN OF THE TIME

Increasingly dramatic transformation continues to be constant.

By Jeremy Conaway, contributing editor

The conclusion of the industry's recent round of summer presentations and articles provides an opportunity for reflection and consideration regarding what lies ahead for fall and winter. As has been the case for the past few years, the increasingly dramatic transformation continues to be constant. Issues regarding the control and processing of listings and other real-estate–related data, the emergence of the hybrid brokerage culture, the continuing demise of MLS organizations and Realtor® associations, the sharpening of the consumer expectation and the industry's almost myopic focus on all things portal provides the framework for this ongoing discussion.

THE FIRST WAVE OF A NEW MOVEMENT

Certainly one of the most significant dynamics currently driving the industry is the almost universal sense that little or no change will be initiated or driven by the traditional brokerage element. With few exceptions, they stand bravely facing out the forest awaiting their fate at the hands of those that will carry the day forward.

Yet, under the umbrella of the forest there is a great deal of activity. Record numbers of more aggressive agents are abandoning these fortresses to seek refuge, safety and success with brokerage organizations that appear to be preparing to take both a leadership position and advantage of the evolving marketplace environment. Interestingly enough, many of these agents are entering into new brokerage relationships that involve levels of compliance, accountability, and discipline that would never have been possible in the traditional sector.

These agents may constitute the first wave of the new movement. If that's the case, then the second wave is likely to consist of the brighter and younger managers who are increasingly recognizing that their futures depend on getting up to speed with a brokerage that is preparing to align with the trends, emerging rules and realities of the new industry environment.

In July, I found myself engaged in a riveting discussion with a group of clients, all of whom are successful brokerage management executives. The conversation worked its way through a number of interesting issues before coming to rest on the subject of management careers in the real estate industry. It was at this point that one of the participants assumed the leadership position and sharpened the group's focus by sharing the story of her recent career changes.

This individual is no ordinary soul. Her career achievements include being both a long-time, super-high production agent and a record-setting large office manager. She has recently executed an interesting career strategy that involved a number of rather dramatic tactics. As I listened to her story, it occurred to me that it was really the story of our current industry. I hope the reader will find the following thoughts both interesting and beneficial. To avoid irrelevant complications, this individual's name and current and past relationships have been purposefully omitted.

THE CASE STUDY

Here is how our interview went:

What went wrong with your former brokerage relationship?

"I was observing fast-moving changes in the industry and the marketplace, not so much by following industry events as by listening to my better agents. Many, especially the younger high performing agents were aware of how the industry was changing. Increasingly, their conversations evolved to asking what their brokerage was going to do to get on the new track.

> "BE WITH PEOPLE WHO ARE LOOKING FOR SUCCESS AHEAD ***NOT BEHIND***"

At the same time, I was attending management meetings where I observed no such discussions at all. I saw no apparent interest or willingness to change business strategies or tactics. Attempts to exercise basic leadership energies and get the senior team to consider alternatives were quickly rejected. As I became more engaged, I couldn't see that there was a plan in place or a process to get one started. It seemed that the ownership and senior management was not committed to future success but rather merely surviving the storm."

How did your former career relationship make you feel like a professional and an individual?

"I was concerned for my agents but even more frustrated at not being able to work with my team to take advantage of opportunities that were so obvious. I was unable to find a way to be effective. The message of senior management seemed to be to stay the course and everything would be good."

Through what process did you set about getting your career back on a course that you deemed to be appropriate and meaningful?

"I tried hard to convert my influence into leadership for positive change. I offered to become a change advocate. I offered to use the offices under my management as examples. When these efforts failed, I made the decision to take my career in a new direction."

At what level of detail did you negotiate your new position?

"I searched for firms that seemed to have a clue about what was happening in the current marketplace. I decided not to associate myself with those for whom retirement was the next stage of their career. I focused on finding a position with a firm that understood the industry's direction and had a business plan that would allow them to take advantage of the new environment. I wanted to be with people who were looking for success ahead not behind. I understand that it takes more than a plan to succeed, but I also understand that a team cannot succeed without a plan. I believe that my career is now back on track and that my talents are being used to their greatest extent and appreciated."

What advice would you share with others in like circumstances?

"For someone who is in my former position, I would say, you have to follow your heart. If you are in conflict with your best feelings, it is probably time for a change. Search for that place or that relationship where you feel you can make a difference. Our world and our industry are changing, and those who don't change with it are going to be left in the dark. Success moving forward will require a partnership based on an emotional relationship between brokerages and agents."

With each passing month, our industry becomes more focused on objectives and destinations that are inconsistent with how it has always been done. It is clear that soon, the changing industry and market environment, its productive agents and those who manage will demand a business model that conforms to the new expectations.

While there is no certainty of success in this environment, it has become obvious that without an innovative and adoptive business plan and widespread collaboration, accountability, and support success will likely be impossible.

FEATURED LEADER

GEORGE Q. MORRIS, CO-FOUNDER & OWNER

CENTURY 21 EVEREST REALTY GROUP
SALT LAKE CITY, UTAH

With four offices and 450 sales associates, George Morris and co-founders John Ciet and Rob Ockey believe in helping their agents become their best selves. REAL Trends interviewed George Morris to get his take on brokerage success.

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

MORRIS: July 2014 marked my twenty-first year in the business. I was born and raised in the Salt Lake City metropolitan area. At one point, I owned an international real estate franchise office that grew from 70 to 350 agents in a matter of five years. I opened multiple branch offices in various counties. I sold that office in 2007 before the market decline. In 2009, opportunity struck. I had a strong feeling the market needed leadership, so I joined forces with John and Rob to start a real estate company. In 2014, C21 Everest was the No. 1 office in the world for Century 21.

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

MORRIS: When we founded the company in May 2009, we did so as an independent real estate company. It took me a while to believe that it made sense to go with a national brand. I had already been with a national brand and was convinced that being independent was the way to go.

However, after time, I realized that many of us brokers take on this badge of honor that they don't use what the brand has to offer. They say, "We built a system ourselves." I said no to Century 21 three times before deciding to evaluate some core business propositions. So, I looked at a few things such as the fact that a national franchise could get us to a higher-end price point, help us recruit easier, give us a back office that we didn't need to recreate, and more.

Instead of fighting the brand and thinking you can one-up the brand, we chose to partner physically and emotionally with the brand to see what would happen. Everything changed—our relocation business quadrupled, a couple of banks we were trying to work with immediately said they were ready to go. Our challenge ended up being our best success story. My whole world changed, and I'm not just saying that. I wish I could have figured it out a long time ago.

REAL Trends: What differentiates you and your company?

MORRIS: At the core of everything we do is the focus on the individual. The great challenge in the marketplace is that most brokers are focusing on the money or the savings of money, such as commission structures. We decided to focus on helping our agents and managers get to that next level of success. That help becomes invaluable, and agents are willing to accept the commission structures and the splits because you're bringing value to their lives.

We've had tremendous growth as a full-service, traditional brokerage, and we don't bring in people because of our commission structure. The mission of the company is to help people become their very best. That is a simple statement, but every decision is built around that idea in three core areas, financial, relationships (intimate, business and spiritual) and health. If those three areas are taken care of, the real estate sales part becomes easy.

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?

MORRIS: The big aha for us came when the growth wasn't happening as fast as we wanted it to happen. I realized that the organization was built between 5 to 7 p.m. I say that from the standpoint that sometimes there wasn't the time during the day to recruit and reach out to outside agents. The aha came that if we were going to build this brokerage, we would have to build it after hours. Every broker or manager in the company was expected to set one appointment a day. We bring in over 14 agents a month now. As long as brokers and leaders do this, it all comes together. It's fascinating how many brokers don't do that. They send out emails, but they don't do the one thing that builds great brokerages—pick up a phone, call someone and meet him or her face to face.

REAL TRENDS HOUSING MARKET REPORT

SUMMER HOME SALES OFF TO STRONG START

July sales jump 13.2 percent over July 2014

The REAL Trends Housing Market Report for July 2015 shows that housing sales increased 13.2 percent from the same month a year ago. All four regions reported unit sales rose from a year ago with the Midwest leading the way with an increase of 14.6 percent.

The annual rate of new and existing home sales for July 2015 was 6.989 million units up from a rate of 6.173 million in July 2014.

Housing prices rose an average of 2.4 percent from July 2014 showing continued moderation in home price increases.

"July housing sales jumped strongly and indicates that the housing market continues to have the wind at its back," says Steve Murray, editor of the REAL Trends Housing Market Report. "The increase in the average price of homes sold continued to be moderate and was in line with increases for the past six months," Murray added. "Foreign purchases and the rise in the first time home buyer segment appear to have contributed to this new found strength."

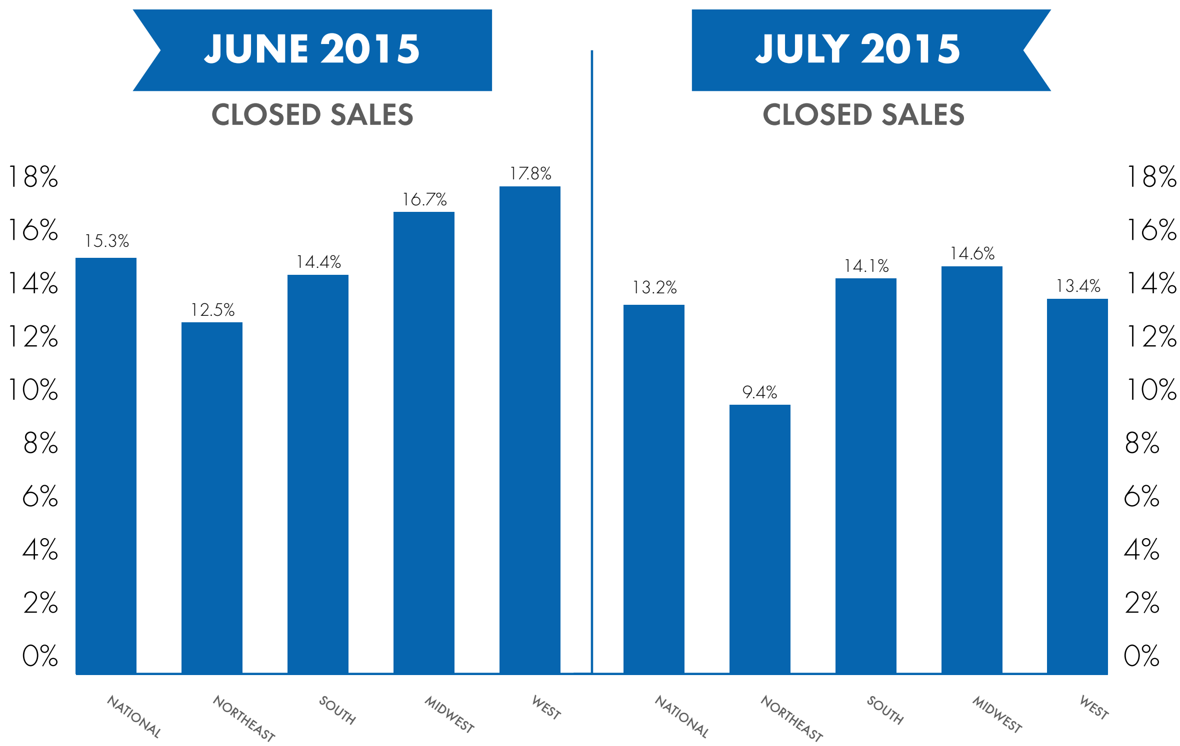
Housing unit sales for July 2015 increased 14.6 percent in the Midwest, the best performance in all regions. Sales in the South region were up 14.1 percent, the West saw an increase of 13.4 percent, and the Northeast had an increase of 9.4 percent.

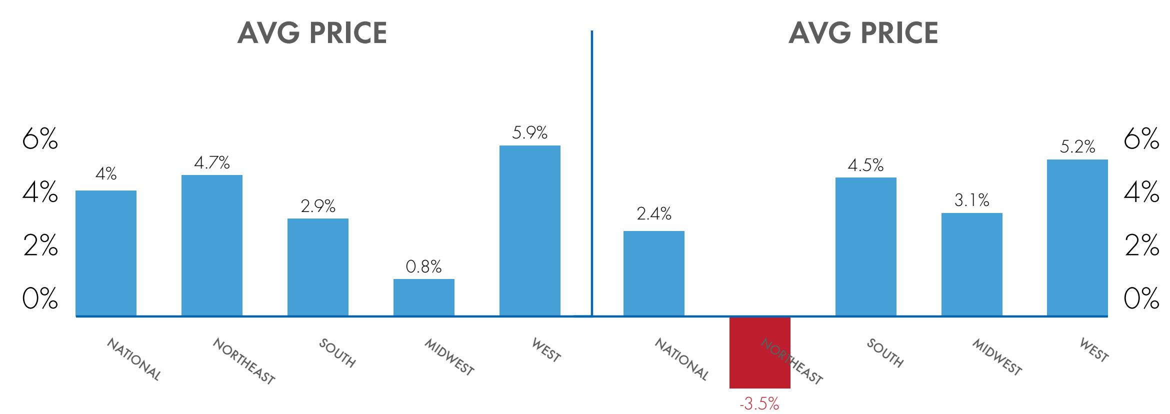
The average price of homes sold in July 2015 in the West region increased by 5.2 percent, the best result in the nation. The South saw average prices increase 4.5 percent, average prices in the Midwest were up 3.1 percent while the Northeast experienced a decline in the average price of homes sold with prices dropping 3.5 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," says Murray.

REAL TRENDS HOUSING MARKET REPORT

JULY & JUNE 2015 EDITION





NEW SURVEY

FIRST-TIME HOME BUYERS READY TO MOVE THE MARKET

One-in-five actively looking to buy, according to TD Bank's First-Time Home Buyer

In the past many first-time home buyers may have shied away from entering the market due to debt and stagnant wages, new research released by TD Bank, America's Most Convenient Bank®, indicates that nearly one-in-five potential first-time home buyers are actively looking to buy, and nearly two-thirds would like to provide a sizable down payment of 20 percent or more. The bank polled more than 1,000 Americans looking to purchase their first home within the next five years.

The TD Bank First-Time Home Buyer Pulse also revealed that 62 percent of potential first-time home buyers think they will purchase a home within the next two years. Among millennial survey respondents, this number rises to 67 percent.

"It's encouraging to see interest from the first-time home buyers, who have been cautious for much of the housing recovery," said Scott Haymore, Head of Pricing and Secondary Markets, TD Bank. "Consumers are gaining confidence in the economy, and many are looking to enter the housing market within the next two years."

52%

SAID THEY NEED TO PAY DOWN DEBT.

WHAT FIRST-TIME HOME BUYERS LOOK FOR IN A HOME

More than two-thirds of consumers (68 percent) looking to purchase their first home are:

- Interested in move-in ready homes while one-third would like to buy a fixer-upper.
- Forty-three percent of consumers are looking to purchase their first home in a suburban area outside of a city compared to 20 percent that want a home in a big city or metro area.
- When it comes to amenities, respondents are most interested in their first home having a backyard or pool and an attractive design, followed by energy-efficient/smart-homes technologies.
- First-Time Home Buyer Financing Plans
- The top four financing options first-time buyers consider: cash savings, 30-year mortgage, an affordability program and government loan.
- Sixty-two percent of respondents would like to provide a sizable down payment of 20 percent or more.
- Millennials are more likely to purchase their first home with a partner or spouse (70 percent) compared to potential first-time home buyers of other generations 49 percent
- Potential first-time home buyers value mortgage rates the most when looking for a home.

BARRIERS TO HOMEOWNERSHIP

When asked what is preventing them from purchasing their first home, respondents most often cited needing to save money for a down payment (64 percent) and needing to pay down debt (45 percent).

For Millennials, the entry to homeownership is even tougher: 70 percent of millennial respondents said they need to save for a down payment, and 52 percent said they need to pay down debt.

More than one-in-five consumers (22 percent) looking to purchase their first home noted that they can't find a home in their price range.

ADDITIONAL HIGHLIGHTS FROM THE TD BANK FIRST-TIME HOME BUYER PULSE ARE AVAILABLE AT:

CLICK HERE
TO SEE THE HIGHLIGHTS!

http://mediaroom.tdbank.com/homebuyer

FINANCING

CREDIT UNIONS STEP UP TO THE PLATE

By Steve Cook, Real Estate Economy Watch

Non-banks aren't the only lenders to benefit as more and more bank holding companies withdraw from the mortgage marketplace. The number of credit unions stepping up to the plate to provide mortgage loans appears to be greater than other financial institutions, according to new research from TransUnion. Credit unions' share of all mortgage originations has increased from 7 percent in Q1 2013 to 11 percent in Q1 2015.

Nonbanks like loanDepot.com and Quicken Loans issued 53 percent of new home loans, edging out traditional banks and credit unions and the share of government-insured mortgages coming from these companies has more than tripled since 2010.

"Mortgage originations had declined substantially across the board in the last few years; however, the decline had been less dramatic for credit unions," said Nidhi Verma, director of research and consulting in TransUnion's financial services business unit. "In the last year alone, it appears significantly more credit union executives see growth in this area. Credit unions are becoming bigger players in the mortgage loan market, something that may serve them well in the future as the housing market continues to recover."

While TransUnion data show that credit union mortgage originations decreased 24 percent between 2012 and 2014, originations have actually increased 35 percent in the past year (Q1 2014 to Q1 2015). The rest of the market experienced a 48 percent drop between 2012 and 2014 and only experienced 15 percent growth in the past year (Q1 2014 to Q1 2015).

TransUnion also found that credit unions experienced 25 percent growth in non-prime mortgage originations in Q1 2015 while the rest of the industry grew at 4 percent.

"As the U.S. economy continues to recover, non-prime mortgage originations are growing for both credit unions and the rest of the industry," said Verma. "Historically, credit unions have seen lower delinquency rates than the rest of the industry, and their focus on membership expansion makes them well-positioned to take advantage of this growth."

The research was corroborated by a new survey of 90 credit union executives, with nearly six in 10 respondents stating the number of mortgage originations provided to their members has grown over the past two years. The survey and data were released today at TransUnion's annual credit union seminar in Las Vegas, which includes participants from several leading credit unions located throughout the country.

HOUSING FINANCE

RESIDENTIAL LOAN ORIGINATIONS UP 23 PERCENT FROM A YEAR AGO

Purchase originations are up 9 percent, refinance originations are up 32 percent; VA originations are up 39 percent, HELOCs are up 22 percent, and FHA loans are up 46 percent from year ago.

RealtyTrac® (www.realtytrac.com) recently released its Q2 2015 U.S. Residential Loan Origination Report, which shows that 1,950,267 loans were originated on single family homes and condos in the second quarter, up 22 percent from the previous quarter and up 23 percent from a year ago to the highest level since the third quarter of 2013.

The total dollar volume of loans originated in the second quarter was nearly $540 billion, up 14 percent from the previous quarter and up 29 percent from a year ago. Refinance originations represented nearly $307 billion in the second quarter, 56.7 percent of total loan origination dollar volume, and purchase loan originations represented nearly $234 billion, 43.3 percent of total origination dollar volume. As a share of total loan origination dollar volume, purchase originations reached a recent peak of 51.3 percent in the third quarter of 2014.

Of the more than 1.9 million loan originations in the second quarter, 737,824 were purchase loan originations, up 9 percent from a year ago. There were 1,212,443 refinance originations in the second quarter, an increase of 9 percent from the previous quarter and up 32 percent from a year ago.

"The rise in loan originations particularly the sharp rise in FHA purchase originations indicates the FHA premium reduction at the end of January really is having a big impact, pushing people off the fence to purchase," said Daren Blomquist, vice president at RealtyTrac. "The average loan amount for FHA purchase loans increased from $187,718 in the first quarter of 2011 to $197,315 in the second quarter of 2015 (a 16 quarter high), as the lower FHA premium gave those buyers more buying power."

Markets with biggest increases in loan originations in Alabama, California, Virginia

Metro areas with a population of at least 500,000 and the biggest increase in loan originations from a year ago were Birmingham, Alabama (up 197 percent), Oxnard, California (up 58 percent), Minneapolis, Minnesota (up 51 percent), San

Jose, California (up 50 percent), Los Angeles, California (up 50 percent), San Diego, California (up 49 percent) and Richmond, Virginia (up 48 percent).

Other major markets among the top 20 for biggest year-over-year increase in loan originations included San Francisco, California (up 47 percent), Sacramento, California (up 46 percent), Denver, Colorado (up 46 percent), Riverside, California (up 41 percent) and Seattle, Washington (up 39 percent).

"Total loan originations year-over-year are higher in the Seattle area primarily due to refinancing rather than home purchases. Many homeowners are scrambling to refinance before interest rates rise, as they're expected to do in the fall," said Matthew Gardner, chief economist at Windermere Real Estate, covering the Seattle market. "The growth in FHA loans in the Seattle region tells us two things. First, it's indicative of a market where prices are rising at a rapid rate. It also tells us that first-time buyers, buoyed by a thriving economy and a belief in the housing market, are now dipping their toes into the water."

Markets with biggest increases in purchase loan originations in Alabama, California and Florida

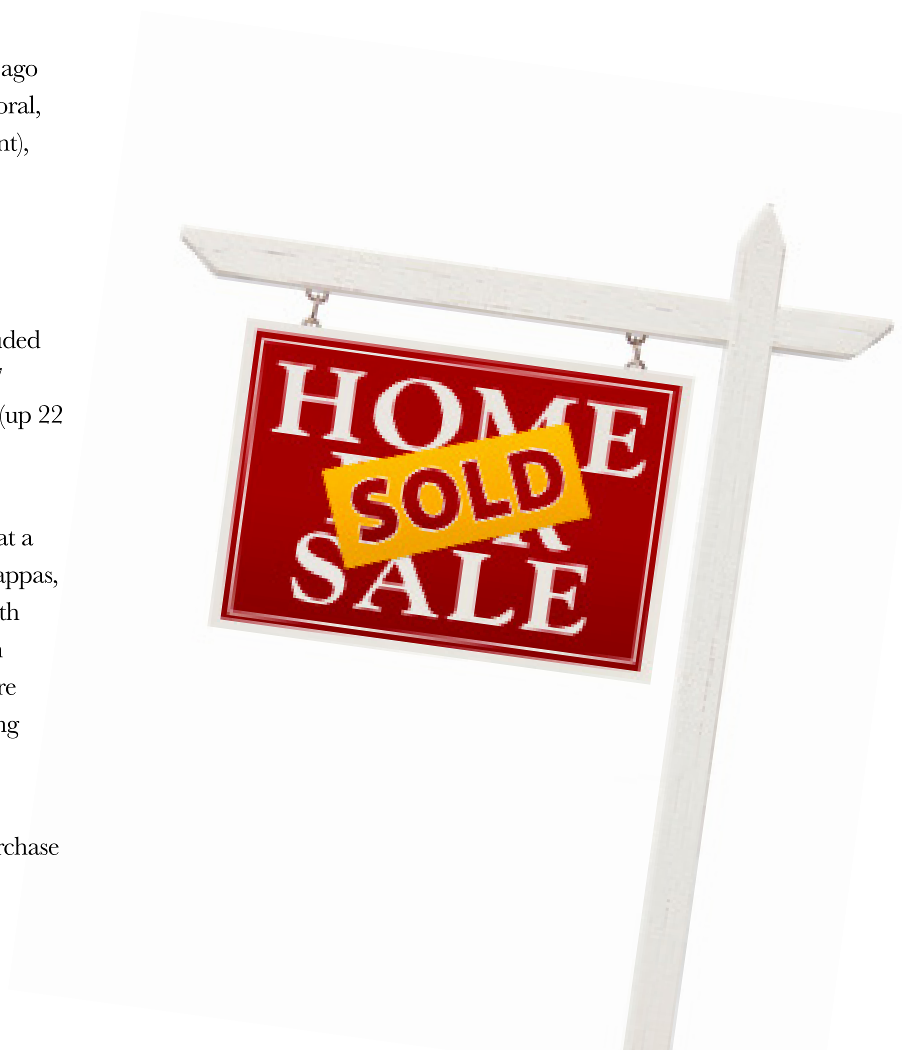
Metro areas with a population of at least 500,000 and the biggest increase in purchase loan originations from a year ago were in Birmingham, Alabama (up 190 percent), Cape Coral, Florida (up 31 percent), Richmond, Virginia (up 30 percent), Augusta, Georgia (up 30 percent), Tampa, Florida (up 30 percent) and Minneapolis, Minnesota (up 29 percent).

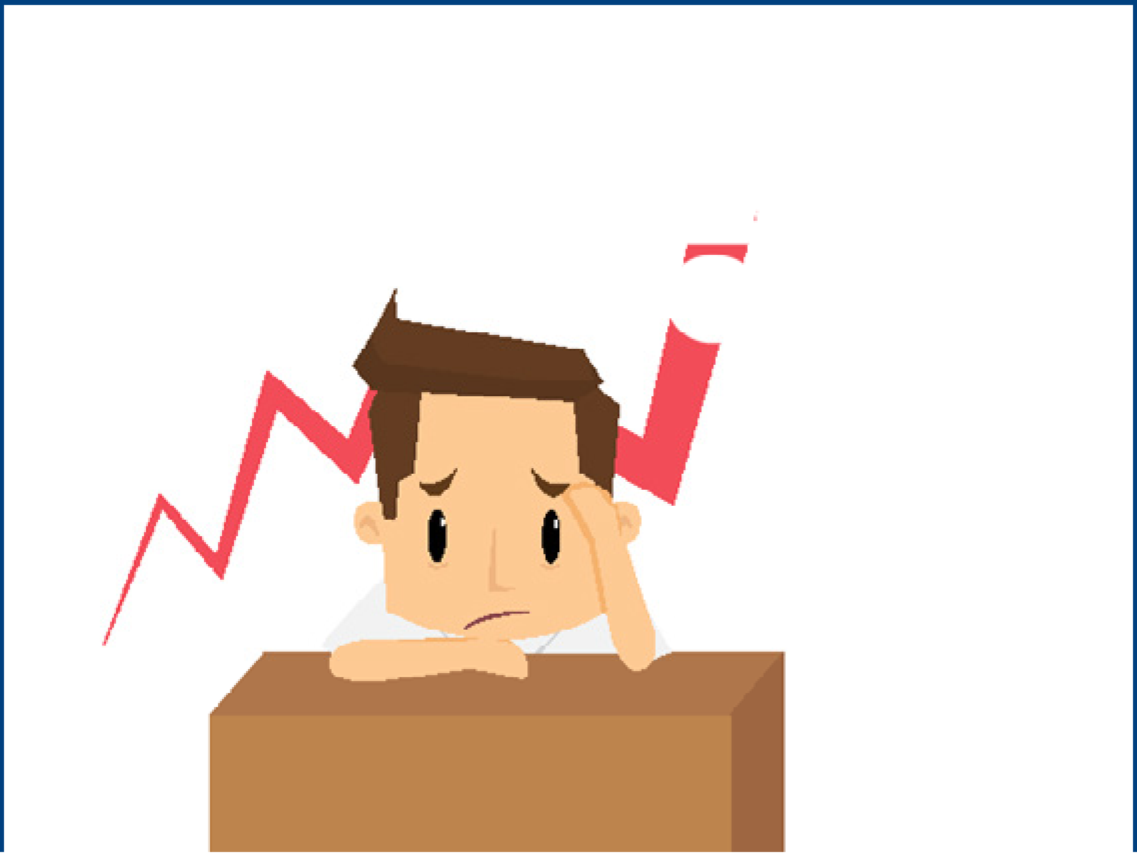
Other major markets among the top 20 for biggest year-over-year increase in purchase loan originations included Orlando, Florida (up 28 percent), Sarasota, Florida (up 27 percent), Dayton, Ohio (up 24 percent), Atlanta, Georgia (up 22 percent) and Miami, Florida (up 19 percent).

"Our second quarter South Florida written contracts are at a record pace, up 16 percent from a year ago," said Mike Pappas, CEO and president of Keyes Company, covering the South Florida market. "This should translate into a surge in loan originations in the third quarter. First time home buyers are picking up the slack from the decline in investors and taking advantage of the reduced FHA fees."

On the other end markets with the biggest decrease in purchase loan originations from a year ago were Greenville, South Carolina (down 43 percent), Buffalo, New York (down 21 percent), New Orleans (down 21 percent), Cleveland, Ohio (down 13 percent) and Tucson, Arizona (down 11 percent).

"While closed sales volume continues to increase across most Ohio markets in 2015, there has been a noticeable trend of increasing cash transactions and low down payment FHA loans, providing a declining number of conventional loans being utilized to fund the growth of real estate transactions. The growth of cash transactions can be contributed to investors as well as empty nesters wishing to leverage equity in a low inventory and very competitive purchase market," said Michael Mahon, president at HER Realtors, covering the Cincinnati, Dayton and Columbus markets in Ohio. "The increased use of low down payment FHA loans is due to millennial and boomerang buyers, wishing to take advantage of lower down payment and loans with more forgiving considerations for bruised credit issues. The question remains if proposed federal regulatory changes coming in October, will continue in adding more pressure to a declining conventional loan market, and equally provide added hindrance to purchasers attempting to utilize FHA loans to accomplish their goal of the American dream."





UP OR DOWN?

IS THE HOUSING MARKET ABOUT TO LOSE STEAM?

Are we heading toward another bubble?

By Steve Murray, publisher

Various commentators say yes. Why? Household incomes are lagging way behind the increase in housing values. The percent of working age Americans with a full time job hasn't been this low since about 1978. Cheap abundant money can't last and rates will rise, and on and on.

Basically, these prognosticators are fundamentally correct. It is only a matter of time before rapidly rising home values run away from stagnant incomes. And, in those markets where this is not the case, like northern California, south Florida, New York City, Seattle and Denver, affordable housing is in crisis mode. Activity persists in many of these markets due to froth in three other market segments: the tech boom, the surge in foreign buyers and the financial services industry. Keep this in mind—cheap money is driving each of these markets. It is driving Wall Street, it is driving the tech sector (does anyone believe companies are fairly valued at 100 times REVENUES), and it is making foreign buyers.

Cheap money is not going away, mainly because, should you think the American economy is sluggish take a close look at Europe, Japan, a slowing China and a moribund South America. All of the world's main economies are either dead in the water or sinking slowly. Cheap money was thought to be the cure. The only thing it has truly caused is a bubble in most asset classes, such as real estate and stock markets. Yet, the leaders of these economies, having run out of new ideas, are just running the printing presses.

We have seen this before. 2000 and 2008 come to mind, and how did those times turn out? No, we won't likely crash like we did in those two years, but housing will slow down over the next 18 months. The double digit month-over-month increases in unit sales will be a thing of the past. It is inevitable.

VALUATIONS, MERGERS, AND ACQUISITIONS

ACTIVE MARKET FOR ACQUISITIONS

Four trends to watch in brokerage valuation.

by Steve Murray, publisher

In our consulting practice, we handle an average of 15 valuations per month for a wide variety of business models, brands, regions, and sizes of brokerage firms.

HERE ARE SOME CURRENT TRENDS:

1. **Cost creep.** Operating costs are creeping up a bit faster than both gross revenues and gross margin. As a result, margins are again getting squeezed.
2. **Core services.** Earnings from core services, such as mortgage and title insurance, are also under pressure, or are limited. Many brokerage firms are finding fewer qualified mortgage partners willing to do Marketing Service Agreements.
3. **Acquisition challenges.** Due to the increase of radically different business models in most markets, it is more challenging than ever to find acquisition opportunities where both parties operate in a way similar enough to create a favorable match.
4. **It's all about the multiple.** While there is still strong interest in growth through acquisition, the peak of multiples appears to have been reached for the time being. This may be because successful acquisitions are harder to do, or that buyers view that we are at the peak in most markets.

This raises the question: where do we go from here? The market continues to be active, and there are many who still seek to grow through combinations with others in some fashion. It is important to note, however, that the froth of housing sales doesn't match a froth in mergers and acquisitions.

TOP BROKERAGE SITES

THE FIRST ANNUAL REAL TRENDS WEBSITE RANKINGS IS NOW LIVE

REAL Trends reviewed 750 brokerages sites to narrow it down to the top ten. Read about it here.

By Travis Saxton, vice president of technology

What elements make a good real estate website? Are you generating leads? How does your mobile search stack up? These and many more questions are now, for the first time, being answered by REAL Trends. We started with 750 real estate brokerage sites and have narrowed down that list with help from expert judges across the country.

Please visit realtrends.com for a complete ranking broken down into nine categories featuring a best overall category. Numerous websites made the top 25 lists in multiple categories and votes were aggregated to form the best overall category.

BASED ON THE VOTES HERE ARE THE TOP 10 REAL ESTATE BROKERAGE WEBSITES IN DESCENDING ORDER:

10. COLDWELL BANKER MASON MORSE, ASPEN, COLO.

This Boston Logic-built site was a solid performer in numerous categories, such as best design, best neighborhood pages, best video strategy and best property detail pages. masonmorse.com

9. SMITH AND ASSOCIATES REAL ESTATE, ST. PETERSBURG, FLA.

This Terabitz-built website was a top performer in two categories: best neighborhoods and best map search. It was bolstered by its exceptional map search, which was a clear top vote getter in that category. smithandassociates.com

7. TIE WINDERMERE REAL ESTATE, SEATTLE, WASH.

In a tie with Turpin Realtors, Windermere's Moxi Works-built website was prominent in two categories, nearly making a top five award in the best design category and tying for second in the best map search category. windermere.com

7. TIE TURPIN REALTORS, NEW JERSEY

A solid performer in three categories, Turpin Realtors' Booj-built site won accolades for its design, neighborhood pages, and property detail pages. The brokerages brought home top five honors in two of those three categories. turpinrealtors.com

5. TIE WILLIAM PITT/JULIA B FEE SOTHEBY'S, NEW YORK AND CT.

One of my personal favorites, this Neutrino-built website does an amazing integration of live listings on the homepage. This site a top performer in three categories for design, mobile and property detail pages, and is tied for fifth overall. williampitt.com

5. TIE HOULIHAN LAWRENCE, RYE BROOK, NEW YORK

This site built by Booj tied for fifth and also tied for the most categories (6) present amongst all websites. It was a solid performer across the board. Houlihan Lawrence nearly made the top five in design and did so in neighborhood strategy. houlihanlawrence.com

4. PACIFIC UNION, SAN FRANCISCO, CA.

With Boston Logic's second entry, Pacific Union is a top performer in three categories including design, mobile and property detail pages. This site offers a breathtaking glimpse into homes in San Francisco, taking home the best property detail pages overall. pacificunion.com

3. CLIMB REAL ESTATE, SAN FRANCISCO, CALIF.

A strong performer in five categories, this site by ClimbLabs is run by a cutting edge firm in San Francisco. Climb takes home top five overall honors on the strength of their creativity. This site is homegrown by Climb Real Estate and is truly fantastic. climbsf.com

2. REALTY AUSTIN IN AUSTIN, TEXAS

The top converting site in the nation was built by Real Estate Webmasters (REW), an amazingly unique company. Realty Austin is a clear leader in real estate websites, and it's evident by their presence in six categories (tied for the most.) realtyaustin.com

1. MICHAEL SAUNDERS, SARASOTA, FLA.

What makes this site even more impressive is that it was built in-house by a real estate company. Congratulations to our top performing website in real estate! They tied for the most categories and were chosen as the winner of the best mobile website. They had a top five finish in neighborhood pages, and nearly in design. michaelsaunders.com

To see the top-performing, best overall websites ranked 11 through 20, and the complete ranking of top 25 in all categories, visit realtrends.com/2015-website-rankings.

THERE IS A DIFFERENCE

A NEW REAL TRENDS

REAL Trends continues to be The Trusted Source while adding new technology consulting services.

Since our founding over 28 years ago, we have been known for our valuation, merger and acquisition consulting services, along with the pre-eminent rankings of brokerage firms, sales agents, and teams. Many do not know that we have greatly expanded our team to offer technology and marketing consulting, along with world-class research services.

We now have a full-time staff of five individuals who deliver such consulting to well over 100 brokerage firms, Realtor® associations and technology and marketing firms. Among other services, we provide complete technology and marketing assessments for our clients, online marketing services to a fast-growing number of clients and have produced five leading research studies for clients, in addition to our own studies, such as the 2015 Online Performance Report.

HERE'S WHAT WE OFFER:

- Complete technology assessment and review
- Complete marketing services assessment
- Negotiated agreements with national platform firms for our clients
- Marketing services provision. We assume responsibility for the actual operations of your online marketing
- Intra-company and inter-industry research

When you think of REAL Trends Consulting, don't just think of us as the merger and acquisition firm. We are much more than that now. The key focus, however, will always be to help real estate leaders increase their value and the personal enjoyment of their businesses.

REAL Trends—for 28 years The Trusted Source

THANK YOU TO A FRIEND

Jeremy Conaway has been a great contributor to REAL Trends for over 13 years. Each month, he has written important commentary for us, explored areas of our industry and of our psyche that few have ever ventured into and has been faithful to our vision of presenting useful new ideas to our readers.

Recently, Jeremy made a commitment to another firm that will take him away from continuing to contribute to REAL Trends. We have shared with him our sincere appreciation for his diligent efforts on our behalf and wish him only the very best of success with his new venture.

We are confident that he will continue to be an effective voice for change in an industry that is facing many hurdles in the years' ahead. And, we will always consider him a good friend.

VALUATIONS

NEED A VALUATION? WE'RE THE EXPERTS

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

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

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

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

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