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REAL Trends
The Trusted Source

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GREATER SAN DIEGO ASSOCIATION OF REALTORS®

Commentary

Analyzing the Data

The Magic Key to Being a Top Performer

The truth is, the best-performing brokerages have little in common from a business model perspective. What they do share is culture.

Written by Steve Murray, REAL Trends publisher

When you look at brokerage and sales agent performance data, over time you see important trends. Among the patterns are that the firms and sales agents who sit atop the rankings in terms of sales and sales growth do not have much in common—on the surface.

These top firms come from a variety of business models, whether high commission concept, graduated commission plan firms, low-cost, flat-fee firms or capped-contribution firms. They also come from independent brokerage firms as well as national brands. These top firms come from virtually every region of the country and size of metropolitan area, as well as low- and high-priced markets.

Commentary cont. on p2

INSIDE:

NAR Code of Ethics

Pay Attention!

It's possible there will be a rash of the Realtor® Code of Ethics filings this year.

Written by Terese (Terry) Penza, RCE, CAE, REAL Trends director of network membership

The National Association of Realtors' (NAR) Code of Ethics is going to be on the front burner this year. Within their new mandated core standards, NAR now requires local associations to make access to professional standards and arbitration filing processes available. In addition, locals are to adopt expedited enforcement and may use citations.

By providing information, easy access and faster results, there will probably be additional filings. The hopeful results of these new mandates will take away the threats of retaliation for filings or intimidation, as well as long delays that have hampered many cases from seeing the light of day.

REALTORS® must complete a course on the Code of Ethics every four years. Also, the Code of Ethics is not a residential Code of Ethics, it covers all forms of real estate.The best way to understand the Code is to read the interpretations. Each year, a revised Code of Ethics and Arbitration Manual is published.

Access it online: CLICK HERE

Interpretations can be found on page 263 of the 2014 PDF version. May the Code be with you!

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Commentary cont. from p1

Having further researched top performing companies through on-site reviews as well as extensive telephone interviewing, we find that the best-performing companies and sales agents have a few things in common:

- They have a strong sense of who they are and what they believe in;
- They have a well-defined objective of what they are trying to achieve, whether it is growth, market share, profitability or productivity;
- They can quickly communicate what the most important beliefs and objectives are. They don't stumble when reaching for answers when asked what makes their firm or their business unique and successful.

When we see performance level off or diminish, and we inquire or are asked to assist, we find that the leaders of such firms (or a sales agent or team) either don't have a strong grasp of what their true objectives are, have lost sight of them or have abandoned them. There are some who have not adapted to changes in their environment.

What matters first, according to our data, is a clear idea of what you are trying to achieve and the behaviors you believe in to get there.

Yes, it does matter that your culture and objectives can also be affected by the nature of competition in the market. It is not likely possible for a firm to have a profitable, low-split, graduated-commission plan in a market dominated by flat-fee brokerage models and have a high market share. For example, one could do the first two but have no realistic chance at the third. A sales agent or team may want to be the top seller in a market, and in the luxury end, but if that segment is not very large, it may not be possible.

So, yes, having the right business model and a solid brand can matter. It is just that without a solid foundation of objectives and an identifiable culture, they matter less. What matters first, according to our data, is a clear idea of what you are trying to achieve and the behaviors you believe in to get there.

The Value Proposition

There is no term more overused than "the value proposition." It is used almost daily with little explanation as to what it means. Talking with marketing professionals from outside the industry we have heard the following definition (simplified for greater understanding).

Commentary cont. on p4

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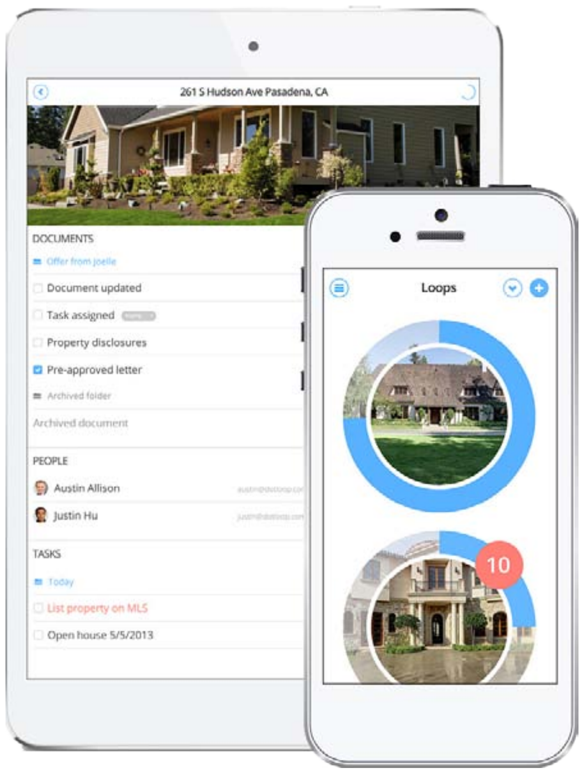

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Commentary cont. from p2

A value proposition is composed of three basic parts—trust, convenience and price. A true value proposition expresses one's view of what matters most to the proponent among these three attributes for an organization.

Are you the low-price competitor or the high-price? Are you the high-quality participant or the undifferentiated one? You cannot talk about being a full-service, high-quality firm and also have the lowest prices. One of two things will happen: you will end up broke, or your audience will wake up and understand that you cannot deliver, thus ending trust and likely your culture with it.

A true value proposition will state, in as few as words as possible, how you want to be viewed and what you believe about yourself that makes you unique, such as "Like a Good Neighbor" (State Farm) or "Everyday Low Prices." (Walmart) Those are two good examples of value statements reflecting how these firms want to be viewed. When you think about your realty firm or your sales practice, think about how you would like to be viewed.

Relationships and Trust

In one of our past research projects, we identified 16 firms that had ranked in the top 50 brokerage firms in the nation for growth in agents, closed transactions, per-person productivity and profitability on a per unit basis over a 10-year period. We then interviewed 169 sales agents and staff of these 16 firms to discover why they were with and/or stayed with their firm, how the firm communicated and made decisions and what they thought was most valuable about their firm.

We found that relationships and trust were the two most important reasons why agents stayed with their firms.

We found that relationships and trust were the two most important reasons why agents stayed with their firms. While technology, marketing, education, brand, management support and facilities were all mentioned, the respondents said over and over that these were a given among competing firms in their markets. It was a sense of belonging to a solid organization, with a definable culture, which mattered the most. They knew what to expect and felt like their individual talent and results were recognized.

Culture Does Matter

It starts with "knowing thyself" and being able to describe your organization in both tangible (benefits) and intangible (beliefs) ways. With all the chatter about the future and technology, every piece of research on housing consumers indicates that the use of agents in a transaction is here to stay. How consumers choose an agent hasn't fundamentally changed in 30 years. The system of paying for results (commissioned sales) remains the consumers' preference.

While it pays to stay up to date on technology and how it can be used to improve business processes, the most important objective is to build a strong culture focused on what you believe and what you want to achieve—and not on the newest and greatest app. ■

Changes

Do You See Opportunity or Chaos?

What do the recent changes in the industry mean to you?

Written by Steve Murray, publisher

Realogy announced the acquisition of ZipRealty. Zillow announced the acquisition of Trulia. For the past few weeks, these have been the focus of most of the buzz in the residential industry. What does it mean? What new power does it deliver to the acquiring parties? How will it change the industry?

These are all good questions with few answers—so far. It is a matter of possibilities. On the upside, Realogy may begin to deliver hundreds of thousands of decent leads to its affiliates, which tilts the playing field ever so slightly in their favor. ZipRealty certainly has the talent and know-how to do this. Will it pay off directly or indirectly to the health of Realogy's bottom line? Time will tell.

The Zillow/Trulia combination may create an advertising juggernaut never before seen in this industry in terms of reach. It could result in more agents at higher costs using their services to reach online consumers. It may have cemented their leadership in online portals. Will they be able to grasp all that they reach for? That, too, is uncertain. Are there truly 150,000-plus agents and brokerage firms willing to pay thousands of dollars a month to advertise with them? That outcome is possible but not certain.

Thus far, housing consumers seem content to follow historical practices in the use of and selection of real estate agents. They may spend millions of hours looking at real estate (dreaming their dream), but so far their use of agents and how they select them seems the same as in years' past. One thing is certain: a great majority of buyers and sellers still use agents to buy and sell. It seems to us that while everything that is happening on the tech frontier is interesting and challenging, successful agents and brokerage firms know intuitively that relationship and service performance still matter. ■

Clinging to Misplaced Beliefs

Real Estate's Golden Prize

The real estate industry is stuck. It will never progress until it frees itself. Here's a push.

Written by Marc Davison, co-founder, 1000Watt

The industry clings to a belief in possessing things it has not, does not, and will never own: Home search, the consumer and the data. This trinity of false idols pins the industry in place. Let me explain.

Home Search

The industry never owned the home search experience wholly. Before the Web, people searched using the newspaper and magazines. They walked neighborhoods, asked friends. People hired agents to make sense of things when the time came—to supply vision, apply negotiation skills, handle the details and provide intellectual and emotional support.

The belief that Zillow, Trulia and Realtor.com (aka ZTR) somehow appropriated search from agents and brokers has emerged from a hazy nostalgia. ZTR is a new medium for an old behavior. A better, more pervasive, and, yes, cheaper one.

Twenty years ago, the industry paid monopoly pricing to local newspapers for the privilege of ceding the *first point of contact.* Now, it can reach nearly 100 million consumers for free. If ZTR asks for more than a pound of flesh for this exposure, at some point, you take your listings and walk. For now, I'm simply calling for a little perspective.

The Consumer

The industry does not own the real estate consumer. It never did. The only thing any brand can own is hard-earned trust. Brands that earn it more consistently than others forge lasting relationships with consumers. However, the consumer is free. They belong to no one, and no entity is entitled to their attention or love. Great things will come to those who internalize this fact.

The Data

The industry has never owned the data—the bits of information produced as a byproduct of the real estate transaction. Trace a listing back to its origin—the land developer who owned the lot, the architect who drafted the blueprint, the builder who brought that blueprint to life, the first owner, the first agent who listed the property, that agent's broker, the MLS to which they both belong, and it goes on.

If there is such a thing as truly owning the data, there would be many, many claimants, each due a royalty on every transaction. That's preposterous.

The consumer is free. They belong to no one, and no entity is entitled to their attention or love. Great things will come to those who internalize this fact.

The images of the home, video, details—these aren't owned in spirit, even if they are kissed with the mark of copyright. Yes, some may add value to these things and derive profit from that. Let the best competitor win.

Spilled Milk

The industry has been seduced and distracted. It has made itself crazy obsessing over the inaccuracies of others. It suffers from an inferiority complex evident in its preoccupation with the attention consumers have given its online nemeses. It is impaired by the envy of the riches collected by outsiders who capitalized on the stuff it left unattended.

Rather than turning inward to invest in the things it can own, the industry continues to pine for the way things were. What should have been. What could have happened. What might still be possible if, somehow, we can rewind the tape. With this clouded perspective, too many focus on traffic, rankings, visits, search and politics. These things don't matter much. They were never real estate's true value proposition. Real estate needs to grab on to the things it can and often does own and hold on tight.

The Golden Prize

The one thing the real estate industry possesses is what it has always possessed: the expertise and service people require to confidently buy and sell real estate.

What real estate owns is the moment when a buyer stands outside a home, turns to his agent and asks, unsurely, "How much should we offer?" Real estate owns the moment when a listing agent prods a seller out of their home before an open house and says, "It's going to be fine. I got it from here."

Real estate owns the moments when the most important decisions are made. No portal, no apps, no Harvard whiz kids play here—just real estate professionals working with other people from whom they have earned the trust.

Too often, it seems like the real estate industry forgets, or chooses to forget, how important its role is here. It has forgotten how much the consumer needs them at these moments.

The first point of contact doesn't matter that much if you're good at the moments of weighty finality. If people gravitate to your brand, not just your listings, you've got leverage against any portal.

Being good at what really matters is hard. Building a brand people love is hard. But for those agents and brokers who want to own the future, these are the tasks at hand. Controlling the data is much further down the list.

The moments of decision the real estate industry creates millions of times each year are something to behold and something to hold with great pride.

It's yours and yours alone.

This is real estate's golden prize to claim. ■

Being good at what really matters is hard. Building a brand people love is hard. But for those agents and brokers who want to own the future, these are the tasks at hand. Controlling the data is much further down the list.

Trending in Teams

Preparing For Your Managed Real Estate Team

Are agents focused on the long-term profitability of the brokerage? Should they be?

Written by Jeremy J. Conaway, contributing editor

At a recent lunch program dedicated to the purpose and practice of the agent team, I had more than one aha moment.

The first happened when a panelist arranged to be introduced as the "CEO of the XYZ team." It was one of those moments when reality loses focus and confusion sets in. She looked like one would expect the CEO of a real company to appear. I did my homework before the event and researched the current status of the agent team. However, I was not prepared for the concept of pretending that this is a real "entrepreneurial" activity or for the program that followed. The program included 60 minutes of finite detail and collective wisdom on how to negotiate various benefits, concessions and allowances from brokers whose brokerage was being blessed (my words, not the team CEO's) by the presence of a team within their business sphere.

The second moment happened at the curb as I waited for an overworked parking valet to retrieve my vehicle. Standing next to me was a local broker of considerable progressive substance. I asked him what he thought about the program and if it felt familiar. In response, he rolled his eyes said, "This has gone too far."

The industry's consciousness regarding profitability and return on investment is aggressively refocusing itself.

Has it Gone Too Far?

Perhaps. However, this article is not about the agent team movement that is sweeping the industry. Let's talk about a new kind of agent team—one that will soon mark the industry's return to a common sense approach to profitability. Let's talk about an agent team that will be playing for the brokerage.

The past month we've seen powerful trends become industry realities. There are four events shaping the industry today:

1. Zillow-Trulia transaction. The traditional industry greeted this new reality with amazement on the first day and then dutifully agreed that it had no relevance to their lives on the second day.
2. NRT's announcement regarding its "Operation Flanker" was of equal importance.
3. The National Association of Realtors®' (NAR) organizational realignment and the release of its manifesto.
4. Berkshire Hathaway's continued low profile relative to the potential of the company's massive holdings and powerful culture to impact the American real estate marketplace.

These events provide an opportunity to wonder what gives them a common feel and collective influence on the industry. Consider the following:

The industry's consciousness regarding profitability and return on investment is aggressively refocusing itself. The centerpiece of this focus will be "the bottom line." With a record level of public ownership of brokerages and support entities currently in effect, profitability has moved to the head of the priority line. With record numbers of traditional brokers reaching or passing retirement age the opportunity to sell a profitable brokerage is increasingly becoming an issue.While some amateur visionaries are promoting new and inventive ways to generate profits, the fact is that lower commission splits and universal core services remain odds-on favorites in the feasible classification.

Few brokerages of substance have hit upon a formula or management format that can deliver any appreciable level of agent sensitivity or responsiveness regarding what is best for the overall brokerage moving forward. Agent teams and off-MLS marketing are two examples of the fact that agents in general, and certainly high-performance agents, are not focused on either long-term industry financial health or the need to work together.

A strong argument can be made to support the proposition that the more knowledgeable industry players will be expending their energies and effort in a manner that will drive business practices that generate and sustain profitability rather than consumer centricity or agent happiness.

Zillow has spent the past several years following this path and currently has more than 60,000 agents (paying at least $360 per month), designated as premier agents. There are now shadow Zillow teams within most brokerages.

NRT's recently announced Operation Flanker will be focused in the same direction. In the next 18 months, one would anticipate that significant numbers of select REALOGY agents will be working in this new format.

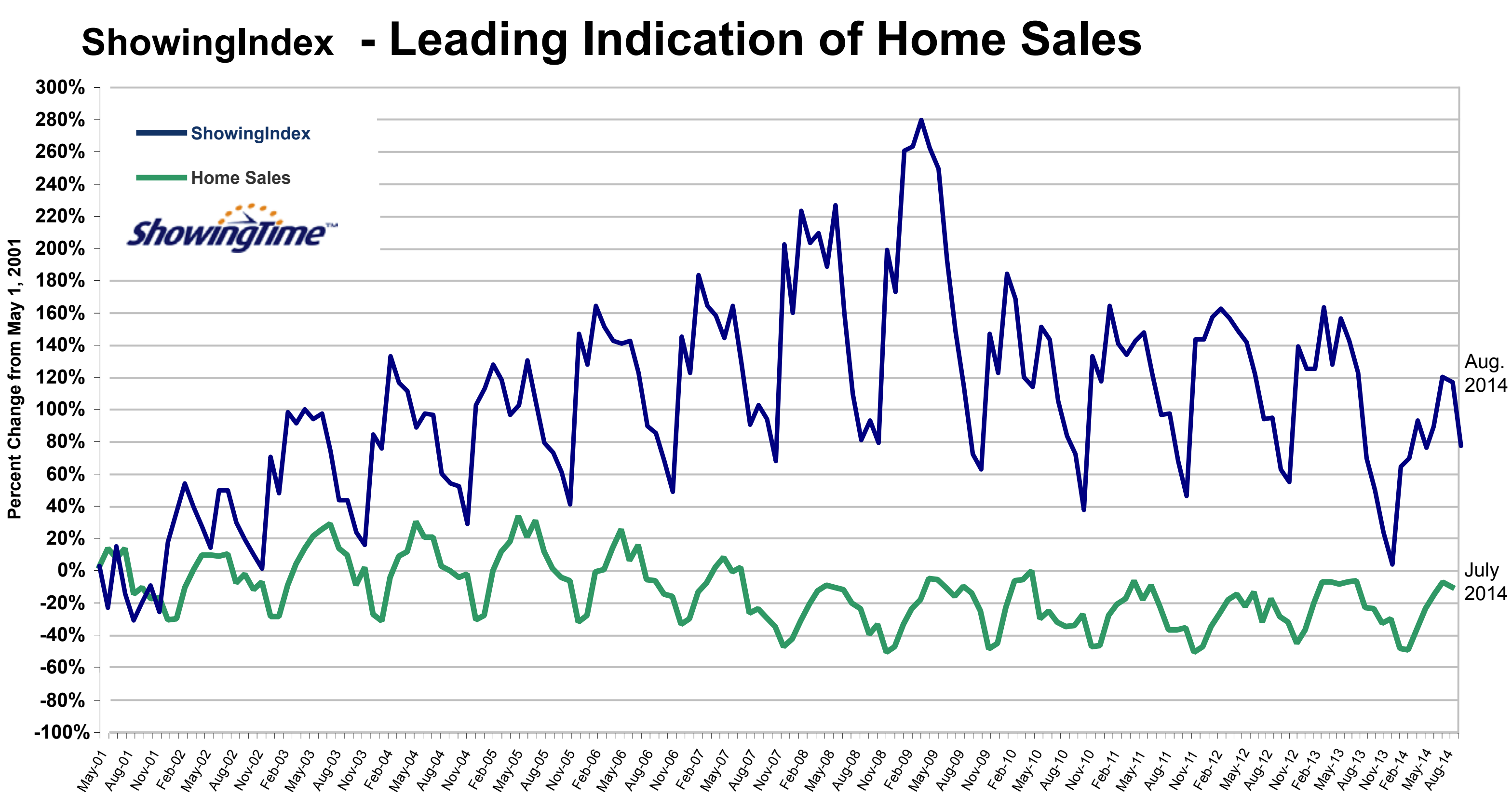
NAR's recent organizational reorientation demonstrates a realization that these and other recent events suggest that the industry is nearing a new phase that will see a substantial shift in the nature of its basic relationships, including those of organized real estate.

Finally, while there is nothing new about Keller Williams and its continuing triumph, its success can be traced to the levels of organizational loyalty and systems compliance demonstrated by its agents, management and support personal. For KW agents, the profitability of their market centers is a critical part of their responsibility to the organization that they have elected to support.

There is nothing new here, but the events of the past month have probably moved us to a new industry expectation. As this new force and attitude take effect look for the following:

- Industry incentives will be about profitability, not data.
- Broker profitability and ROI will become the primary factors in making operational and marketing decisions.
- A key element of this new environment will be a whole new kind of agent team. It will not have its own CEO. It will have a high level of loyalty and compliance.
- The leading industry entities will begin to design, develop and implement standards sold as consumer centricity, but managed and implemented as profitability waymarks. This overall process will be known as managed real estate.
- Agent accountability will become a key factor. A responsible agent is not by definition an employed agent.
- Transparency will be used to demonstrate the results to both Wall Street and the consumer.
- This process will require universal transaction management, consumer reporting, a whole new manager profile and a supportive consumer experience.

Dispute the observations, argue about the details, but move quickly to incorporate these principles. The time is now to design and implement a managed real estate brokerage. ■



Source : "Housing Sales" is the actual property sales statistic as reported by the National Association of REALTORS. The "ShowingIndex" is a moving trend statistic that tracks the rate of showing appointment requests from the websites of more than 60 real estate companies throughout the U.S. 40 of the companies are Top 100 companies as reported by REAL *Trends*

Business Loyalty

Will Your People Stay With You?

There are three reasons that agents stay loyal to your brokerage. Once you know that, you can better your agent retention.

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

I recently heard a brilliant young researcher and author, James Kane, speak about why people are loyal, and why they are not. Whether it's the loyalty of customers, employees or sales associates, this is a very important topic. Kane says your people will stick with you for three primary reasons:

1. **They like your purpose and vision.** In earlier articles, we've talked about the importance of having a clearly stated vision and how to help your people buy into the vision, so it is a shared vision. Kane's research confirms it. Without a vision, your people will perish—or leave you.

2. **They feel a sense of belonging.** Kane's research isn't the first to state this fact. Marcus Buckingham, author and founder of the research firm, The Marcus Buckingham Company, also found that there is a direct correlation between work performance, happiness and loyalty if the person has a best friend at work.

   This is where culture becomes huge for a sales organization. Is this a fun place to work? Do they enjoy being with the people here? Do they sense that they're valued? Does their manager know they exist and what they're doing? Does anyone care? I always had a goal to have a one-on-one interaction with every person in our organization at least once a week. As we grew to several hundred, it became once a month. This takes commitment and focus but is probably one of the most important roles for a manager and leader.

3. **They trust you.** Kane found that trust is more complicated than just character. Character is a big part of it, but there are three other ingredients in trust as well. Trust consists of:

   - **Character.** Are you honest? Will you tell the truth? Will you not talk about me behind my back? Are you transparent (same on the inside as you present yourself on the outside)?

- **Competence.** You may be honest, and I like and trust you, but are you competent at what you are doing? I want to work with somebody who is smart, can put us in a position to be successful, can make it easier for us to do our jobs and can execute a plan.

- **Consistency.** Consistency of look and demeanor is critical in trust. Are you presidential in your look and demeanor? Do you have a non-anxious presence? Do people know what they can expect from you, or is it a moving target? Emotional and volatile behavior, as well as inconsistent decision making, destroys trust. I want to work with somebody I can count on who is rock solid consistent.

- **Capacity.** Do you have the resources to help me be my best? To solve my problems? I always encourage our staff to do whatever it takes to make it easier, better, faster for our sales associates. Our real estate customers are asking themselves, 'Can my Realtor® solve my problem?' Have you ever heard a customer ask an agent, 'How's the market?,' and the agent responds, 'I'm just so busy right now!' That answer makes the consumer think you don't have time for them. Your sales associates can feel the same about you if you're not paying attention to them—if you don't have time for them.

The four components of trust (character, competence, consistency and capacity) form an excellent road map for training sales associates on how to build customer loyalty and referrals. They also serve as an excellent template to teach leaders and managers how to relate to our sales associates.

There is a great emphasis in our industry on recruiting new people to our organizations. Recruiting from within (loyalty and retention) is even more important. It's a simple formula: vision, belonging and trust. ■

Focus On: Nikki Ubaldini

Broker-South Florida regional operating owner, Keller Williams Realty Keller Williams Gulfside and Keller Williams Tampa Properties

Written by Tracey C. Velt, editor

As a broker with more than 500 sales associates and three offices, Nikki Ubaldini, CRS, still runs a successful husband-and-wife real estate team. REAL *Trends* interviewed Ubaldini. Here's what she had to say:

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

Ubaldini: We got into real estate because we had purchased homes in Florida and Canada. When we moved to Florida, we sold our Canadian home and had to come to closing with a check for $10,000! We felt we had been mislead by our real estate agent, so we thought, if we want to continue buying real estate, we should get our own licenses.
We were in entertainment at night and saw an ad from a real estate company saying they would pay for our licenses if we hung them there for one year. We didn't plan to sell real estate, just invest. We went to an office meeting, and they challenged us to start lead generating. We started getting listings! In fact, we got three listings from one of our first appointments. We were hooked.

We continued in our entertainment jobs by night for the first five years of our real estate careers. For years I was a salesperson. It wasn't until I found Keller Williams did I decide to venture into brokerage. Along with my husband, Gary, I run a 10-person team, specializing in residential real estate. We've done that since 1986. I grew up in the Tampa Bay area. Our team and our brokerage have one main goal: to create raving fans of our clients. I'm also a Keller Williams trainer.

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

Ubaldini: I learned that you must choose the correct real estate model. I didn't do that right out of the gate. I made the mistake of going with a model that didn't allow me to find influential agents so we struggled growing that brokerage. Finally, I chose a franchise that was profit centric versus franchise centric. When you do that you focus more around the influencers to help you build it. Once we did that, the brokerage thrived.

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

Ubaldini: I believe my greatest challenge was navigating the learning curve. For so many years, I was a salesperson and then I moved into leadership. It's a big learning curve and requires you to find the other leaders who can help you grow and run the offices. It requires a new set of skills.

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?

Ubaldini: You must have consistency and focus. We look at growth and productivity. If an activity doesn't fit with our goals, then we don't do it. It's too easy to have squirrels running around. We have a clear goal, and if something does not fit with our focus, then we don't do It.. ■

July Fannie Mae Housing Survey

Why Aren't Americans More Excited About Housing?

Americans' attitudes toward the housing market remain mixed, according to results from the Fannie Mae July 2014 National Housing Survey.

Consumer attitudes about the direction of the economy overall have grown more negative and the share of respondents who believe the economy is on the wrong track increased by five percentage points from last month to 59 percent.

"The continued cautious sentiment expressed across the range of consumer indicators this month gives weight to our view that the first phase of the housing recovery is decelerating, and 2014 will be a year of mixed housing outcomes with home prices rising more slowly and home sales falling slightly," said Doug Duncan, senior vice president and chief economist at Fannie Mae.

Prices Decline Slightly

The 12-month home price change that consumers expect declined again in July, falling to 2.3 percent, and the share of respondents who expect home prices to climb in the next year also continued on a downward trend, falling to 42 percent.

"We have always believed that for the housing recovery to be considered robust, we will need strong and sustained full-time job and income growth. Recent data indicating the creation of more than 200,000 jobs over each of the last six months, combined with this month's improvement in the share of consumers reporting significantly higher household income than a year ago, does provide some reason for optimism. If these trends continue, they could lead to some upside in housing in 2015," said Duncan.

The Bright Spot

One bright spot for housing is that the gap has narrowed between the share of consumers who say now is a good time to buy a home versus those who say it is a good time to sell, indicating a better balance of supply and demand in the market.

In addition, the consumers who say their home has increased in value since they bought it rose to an all-time survey.

Consumers' rising optimism about their personal financial situation also may foreshadow more positive housing sentiment. Those who say their income is significantly higher than it was 12 months ago increased four percentage points to a survey high of 28 percent, while those who say their personal financial situation has gotten worse within the last year declined to a survey low of 17 percent.

Homeownership and Renting

- The average 12-month home price change expectation fell to 2.3 percent.
- The share of respondents who say home prices will go up in the next 12 months continued its downward trend, falling to 42 percent. The share who say home prices will go down also decreased—to 8 percent.
- The share of respondents who say mortgage rates will go up in the next 12 months fell by one percentage point to 54 percent.
- Those who say it is a good time to buy a house fell to 67 percent, and those who say it is a good time to sell a house rose to 43 percent—tying the survey high.
- The average 12-month rental price change expectation decreased to 3.8 percent.
- The percentage of respondents who expect home rental prices to go up fell to 51 percent.
- Half of respondents thought it would be difficult for them to get a home mortgage today.
- The share who say they would buy if they were going to move fell slightly to 67 percent.

The Economy and Household Finances

- The share of respondents who say the economy is on the wrong track increased by five percentage points from last month to 59 percent.
- The percentage of respondents who expect their personal financial situation to get better over the next 12 months dropped to 40 percent.
- The share of respondents who say their household income is significantly higher than it was 12 months ago increased by four percentage point to 28 percent—a survey high.
- The share of respondents who say their household expenses are significantly higher than they were 12 months ago fell two percentage points to 36 percent. ■

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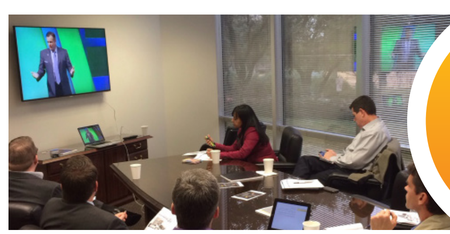

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REAL *Trends*

HOUSING MARKET REPORT

July Sales and Prices Rise

Written by Steve Murray, REAL Trends publisher

REAL Trends Housing Market Report for July 2014 shows that housing sales increased 1.1 percent from the same month a year ago. The annual rate of new and existing home sales for July 2014 was 6.632 million units up from a rate of 6.558 million in July 2013.

Housing prices rose an average of 4.6 percent from July 2013, a slight improvement from the previous month which was the slowest rate of home price appreciation in the past six months.

Housing unit sales for July 2014 increased 4.4 percent in the South, the best performance in all regions. The Northeast saw sales units increase 2.6 percent, and the Midwest had a 0.1 percent increase. The Western region had a decrease of 4.1 percent.

Absent dramatic easing of underwriting standards, a significant increase in employment or a lowering of mortgage rates, it is likely that we will see this pattern of modest growth for the foreseeable future. Flat growth puts pressure on businesses of all kinds, not just brokerage and not just in the real estate industry. Businesses must look for organic growth as well as strategic opportunities to expand and succeed.

The average price of homes sold in July 2014 in the Western region saw an increase in sales price of 8.3 percent that was the best-performing region in the country in this measurement. The Southern region saw average prices rise 4.2 percent followed by the Northeast region where prices were up 3.9 percent. The Midwest region saw average prices for homes increase by 2.9 percent.

"The July housing data show that the market has reached a plateau for the time being. Unit sales were up slightly from a year ago while price increases continue to soften," said Steve Murray, editor of the REAL *Trends* Housing Market Report. "This appears to be a market that has reached it's potential given mortgage rates, pricing and affordability. Unless and until there is easing in rates or underwriting standards, we expect that year over year results will continue to be a range of slightly up to slightly down on a year over year basis for the remainder of the year," said Murray. "There do not appear to be any short-term drivers that will cause short term housing results to vary greatly from the pattern of the last few months." ■

REAL *Trends* July/June Housing Market Report

(Versus same month a year ago)

	July 2014 Closed Sales	July 2014 Average Price	June 2014 Closed Sales	June 2014 Average Price
National	+1.1%	+4.6%	+5.1%	+3.2%
Regional Report				
Northeast	+2.6%	+3.9%	+4.3%	-1.4%
South	+4.4%	+4.2%	+8.4%	+4.3%
Midwest	+0.1%	+2.9%	+7.3%	+5.5%
West	-4.1%	+8.3%	-1.7%	+7.4%

The Future of Real Estate Technology

Transparency is the Name of the Game

The newest technologies provide more transparency to both the agent and broker.

Written by Travis Saxton, REAL Trends manager of technology and marketing

There are thousands of new real estate-related gadgets, technologies and strategies available to brokers and agents right now. Mobile apps, mobile websites, instant chat solutions, big data tactics, CRM platforms and transaction management systems—the choices are overwhelming. REAL *Trends* analyzed these tools from a macro perspective. We found that the real estate industry is moving closer to a real-time smart solution.

Solutions such as smart websites that collect consumer data, demand for instantaneous response times and communications, actual drive times, live-chat and predictive marketing platforms show a trend toward a more transparent real estate communication process.

Real-time Info

The Zillow and Trulia merger will likely echo this real-time strategy. Zillow and Trulia represent close to half of all real estate traffic. By adding tools such as customer relationship management (CRM), mobile solutions, the data and real-time solutions this company will deliver to both the consumer and agent will be unparalleled. Consumers want transparency when it comes to the buying and selling process.

Here are a few examples from the REAL *Trends* Business Accelerator of this transparent technology in action:

RealAnalogics. This technology can decipher the complex world of MLS search and, based on data, deliver actual suggestions to the homebuyer or seller. They mash up existing data, which leads to predictive solutions. For example, based on the data, the seller can see how likely they are to sell.

ReadyChat. This company offers live, concierge-style support. It simply doesn't get more real time than that. Capturing leads and delivering instant live responses to your clients has never been easier. ReadyChat leaders tackle a fundamental problem in our industry—lack of communication—and deliver a solution for brokers that even the portals can't deliver right now.

Clearview Elite. This product connects prospective buyers and potential new sales agents with the brokerage in real time. When a consumer visits an agent's listing presentation, website or luxury property site, the agent (through a mobile app) receives an instant notification telling who opened the information, what that person is looking at and more.

HomeKeepr. By delivering home maintenance reminders and information that the consumer needs post sale, the team at HomeKeepr is delivering a broker- and/or agent-branded experience to the consumer. This follow-up gives your brokerage top-of-mind awareness.

VScreen. The executives at VScreen launched listingvideos.com, which pulls in real-time data, such as school and neighborhood information, walk scores and mortgage rates and overlays the virtual tour and property data to give the consumer a true look at life in a new home.

HomeNdo. This company is delivering a mobile office complete with consumer-facing tools, agent marketing, follow-up tools and a transaction management/paperless solution. This new platform, built for a mobile device, allows the agent to engage consumers, gain important insight, close transactions and even engage mortgage and title on the go.

These are just a few of the companies that are delivering a real-time real estate process experience. As more of these technologies collaborate with established brokerages, the landscape will truly shift to a real-time industry. ■

Study

Best Cities for First-time Homebuyers

Texas and Colorado top affordability lists.

To determine which housing markets most favor first-time homebuyers, WalletHub, a personal finance social network, assessed the affordability of homes as well as the conditions of the real estate market and community environment in the 300 largest U.S. cities.

They did so using 17 key metrics, ranging from median house prices and real estate taxes to median home price appreciation and price-to-rent ratios.

Best Cities for First-Time Home Buyers

1. Broken Arrow, OK
2. Allen, TX
3 Norman, OK
4. Denton, TX
5. Frisco, TX
6. Plano, TX
7. McKinney, TX
8. Centennial, CO
9. Thornton, CO
10. Richardson, TX

Key Stats

- The **median household annual income** (adjusted for cost of living) is five times higher in Frisco, Texas than in Paterson, N.J.
- **Housing affordability** is 14 times higher in Flint, Mich. than in Santa Barbara, Calif.
- The **real-estate tax rate** is 12 times higher in Waukegan, Ill. than in Honolulu.
- The **price-to-rent ratio** is six times higher in Santa Barbara, Calif. than in Detroit.
- The **property crime rate per capita** is eight times higher in Miami Beach, Fla. than in Mission Viejo, Calif.
- The **average energy cost per household** is three times higher in Honolulu than in Denton, Texas. ■

For the full report and to see where your city ranks ▶ CLICK HERE

The Truth about Mortgage Underwriting

In the aftermath of the housing crisis, the reality is that we are lending aggressively to the poor and conservatively to the rich.

Written by Lisa Marquis Jackson, senior vice president, John Burns Consulting

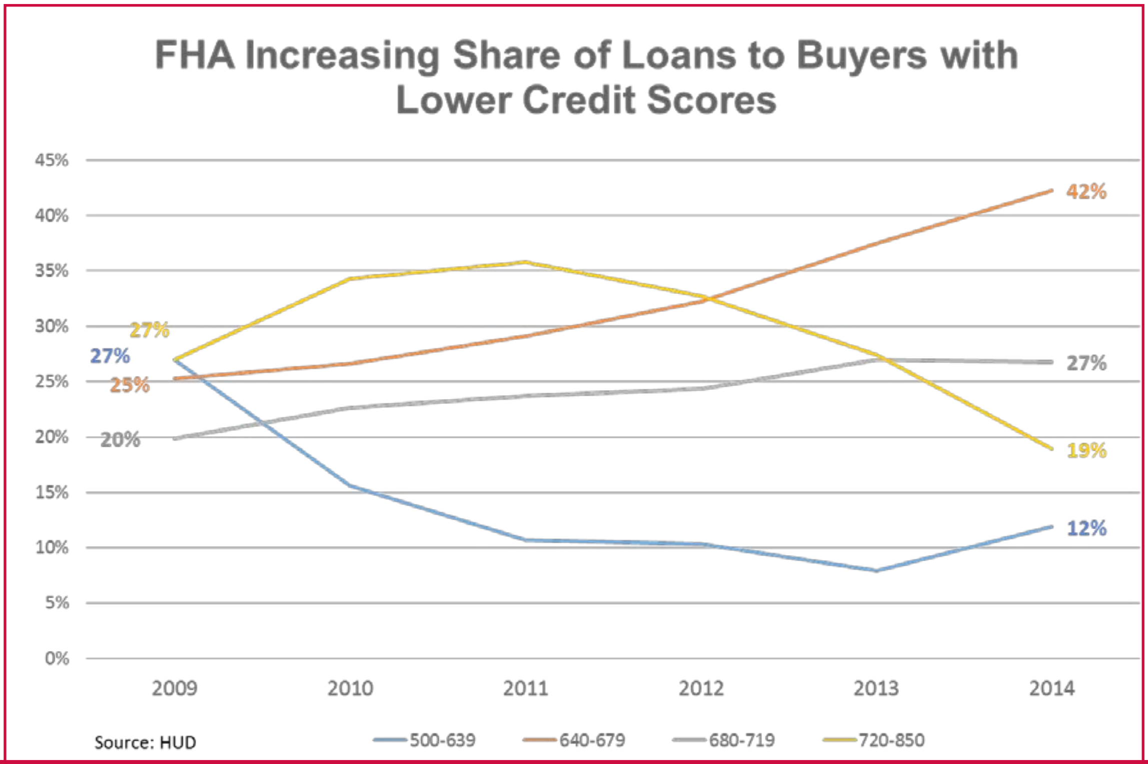
The world is awash in inaccurate sound bites related to mortgage credit. We spoke with numerous industry executives and identified three truths that need to be clarified:

- Low-income buyers have it easy. Buyers with poor credit and low income are finding it quite easy to buy a home below the FHA limit.
- Many affluent buyers find it very difficult. Automated underwriting prevents many highly qualified borrowers, especially affluent retirees, self-employed, or commissioned salespeople from getting a mortgage because their income situation does not fit squarely in the credit box.
- Industry executives are unintentionally preventing a recovery. Mortgage industry executives lobbying for the good old days where FHA limits were higher, fees were lower, and documentation was easier need to stop whining because they look very unreasonable to regulators and politicians who are not sympathetic.

Our purpose here is to shed some light on what is happening because if there were clarity around this, we would have:

- **More entry-level homebuyers.** Many qualified people are not even shopping for a home because they presume they cannot get a mortgage. We provide several examples of easy qualification below.
- **More affluent homebuyers.** More good loans to very qualified buyers would be made if underwriters were allowed to use good business sense rather than fill in automated forms. As we did our research, we heard many stories of buyers reluctantly paying cash or deciding not to move at all and telling their friends who then also elect not to move. These include business owners, retirees, and commissioned salespeople.
- **More relocating homebuyers.** Many relocating employees are renting because they cannot provide historical pay stubs at their new employer. Given their track record of steady employment and desirability to multiple employers, does that make any sense?

In the aftermath of the housing crisis, the reality is that we are lending aggressively to the poor and conservatively to the rich. While the Dodd-Frank rules were written with good intent, let the truth be known so more first-time buyers can take advantage of current programs to buy homes. Let the bankers use good judgment again so that more affluent buyers can get a mortgage.



Easy Money through FHA

FHA federally insures 95%+ loan-to-value (LTV) mortgage loans made to people with poor credit and low incomes.

Here are three recently approved loans, all through FHA or VA:

- Recent foreclosure. 96.5% loan on a $170,000 house, coupled with $36,000 in income, a foreclosure three years ago contributing to their 620 FICO score, and debt service equal to 55% of their gross income
- 57% of income needed to pay debts. 96.5% loan on a $165,000 home, coupled with $38,000 in income, a 642 FICO score, and debt service equal to 57% of their gross income
- Fixed income and disabled. 100% loan on a $160,000 home to someone permanently disabled with a 601 FICO score and a $34,000 fixed income

Tight Money above FHA Limits
Affluent commissioned salespeople, self-employed, newly employed, and retirees who don't have steady paychecks have tremendous difficulty getting a mortgage because they either: report inconsistent income to the IRS; cannot provide extended income history from a new employer or do not have sufficient current income to qualify but are trying to keep some cash in the bank or delay paying taxes on an IRA distribution.

Here are six borrowers who were denied a mortgage:

- 27% LTV. A couple with a 780 FICO score who wanted a $300K loan on a $1.1 million house and would have $300K in reserves after closing, but whose verifiable income was only 30% above the proposed mortgage payment.
- 801 credit score. Newly retired couple with fantastic 801 credit score, $1 million in retirement accounts, and $400,000 in savings after they were going to put down $350,000 on a $550,000 home purchase, but whose Social Security income was less than double the proposed mortgage payment.
- Affluent business owner. Owners of a small retail business who were turning the business over to their children to manage, with the intent of collecting dividend income; who had $500K in cash savings and wanted 50% LTV.
- Relocating borrower. A US citizen who has been working overseas takes a job in the United States, has a 700 FICO, 20% down payment, and plenty of reserves, but cannot produce a W-2 because he does not exist in the country in which he was working and hasn't started his new job yet.
- New employee. A prospective borrower qualified in every way except she had only been in her current job for five months and had worked in the family business previously where she did not get a W-2.
- Loan = 15% of applicant's assets. A retiree who wanted 50% LTV and had assets six times the proposed loan amount was turned down and eventually paid cash.

We expect the borrowers and outcomes profiled above will be surprising to many. We also want to share the following sound bites from mortgage industry veterans to offer surprising clarity on other areas of debate:

Loans today are easier than the 1990s. For the average borrower, I believe it was more difficult to qualify for a mortgage in the 1990s.

Huge improvements are being made in conforming loans. For a while, if you didn't have a credit score over 720 and you wanted a loan with less than 20 percent down, you were pretty much looking at an FHA loan. During this period, it's fair to say that sales were seriously impacted by 20%+. Slowly at first, and now more rapidly, things are changing. Credit requirements for 95 percent conventional financing are as low as 620, and MI companies have lowered premiums and relaxed guidelines. Banks have been peeling back overlays. You aren't likely to get a conventional loan with a ratio above 45 percent anymore, but nor could you get that back in the 90s either.

Disposable income is more important than gross income. Our industry needs to focus more on disposable income versus debt-to-income ratios, meaning a borrower who makes $2,200 a month with a 40 percent debt-to-income ratio is riskier than someone who makes $12,000 a month with a 50 percent debt-to-income ratio. The first borrower has very little cushion after income taxes, utilities, car insurance, food, etc. for emergencies. However, the person making $12,000 a month would have much more left over after all of these other debts.

Stated income should have its place. There is a time and a place for stated income, not no-doc loans, but Stated Income loans. They were a great tool back in the 2000s that rarely went bad if they were used properly because the borrower had a lot of their capital invested in the home.

Income is the problem. The challenge is not credit based; it's income based. Home valuations have increased at a steeper trajectory than income. Also, the new buyer pool is saddled with student loans and other debt, which has created the (disposable) income issue. I believe credit is much more accessible than the media/public portrays (in terms of credit scores, LTV's, etc.) My opinion will remain our immediate challenge is income/debt/DTI.

When Lobbying Hurts the Industry More than It Helps

This analysis would not be complete without addressing the many frustrations we heard from people wishing the good old days would come back. We believe those who share these complaints are hurting the mortgage recovery because they provide ammunition for the interest groups that do not want to see large levels of default ever again. Here are a few common complaints that we believe need to stop, at least until we fix the major problems. In reality, most regulators and decision makers do not agree that federally insured institutions should:

Help tax cheats. Affluent people who report low incomes to the IRS are not going to get much sympathy in today's regulatory or political environment. They will need to make large down payments.

Lower FHA limits. FHA dramatically increased their loan limits in 2008 to help stem the housing crisis and then dropped them to more normal limits this year. While that has hit a few home builders in a few markets particularly hard (and it has slowed economic growth in those markets), FHA is now back to historical normal limits. Given all the assistance FHA is already providing and the housing recovery that is taking place, it is unlikely Congress will decide to revert to another loan limit increase.

Stop or reverse FHA fee increases. FHA has increased their insurance costs, particularly on high LTV / low FICO loans. All in, a borrower with poor credit and low savings is still paying the equivalent of less than a 5.5 percent interest rate, so there is little sympathy here as well. If fees were 75 basis points lower, and rates were 75 basis points higher, the borrower would be in the same place. While underwriters may not like it, many folks in D.C. believe that now is the time in the recovery for the FHA to shore up their reserves.

Bring back seller-funded down payment assistance and closing costs. The government determined these programs resulted in risky loans that may have even been above 100 percent LTV on day one. Now is not the time to lobby for these programs.

Loosen documentation. Several industry veterans said that today's documentation is not more difficult to get than it was in the 1980s before automated underwriting took place. While costly and perhaps a bit overboard for many, less than full documentation is not going to garner much sympathy today either.

Have sympathy for those who sold short. Short sellers include very honorable people who did everything they could to help the bank recover as much as possible, as well as less honorable people who strategically forced the banks to take huge losses even though they could have kept their mortgage current. At this point in the recovery, asking short sellers to wait four years to get a federally insured or guaranteed mortgage is not viewed as unreasonable.

Offer FHA terms on homes above the FHA limit. There are borrowers who cannot qualify for an FHA loan, but want to buy a home above the FHA limit and do not qualify for a conforming loan. They are not going to get much sympathy right now either as homes above the FHA limit are more expensive than half of the homes being sold in the market.

To the extent that any of these scenarios above can produce good loans, banks or non-banks will start making them and charging the appropriate risk-based return. We could go on and on with respect to loans that industry executives think banks should be making, but instead we hope to focus people's attention on the paradox in today's lending environment and the current reality that could help buoy sales.

In conclusion, let's get the word out that loans below the FHA limit are readily accessible, with monthly payments that are a great historical value in comparison to gross incomes. Let the bankers use manual underwriting in instances where they can document that the loan has a very low likelihood of losses.

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2015 Gathering of Eagles • April 29–May 1, 2015

Building Great Organizations

Next year, we return to Denver for our first-ever conference at the new Four Seasons Hotel in downtown. We are excited to announce that Patrick Lencioni, a world-renowned organizational consultant and editor of more than eight books on the topic, will be leading a two-and-a-half hour workshop on building healthy organizations.

Any football fans out there? Even if you aren't a fan, you won't want to miss Peyton Manning, quarterback of the Denver Broncos and four-time NFL MVP, who will address guests on leading great organizations.

The program will have six sessions; all focused on how to build and develop great organizations. As always, we will have significant time for networking. On Thursday night, join us for a fun tailgate party.

Partick Lencioni

Peyton Manning

Registration is limited to 300 people this year due to hotel restrictions. You may register online at Realtrends.com/conferences or call us at 303-741-1000.

The Thousand and America's Best Real Estate Agents

Outstanding Agents

The ranking of REAL *Trends* Americas' Best Real Estate Agents has grown from less than 6,500 agents two years ago to more than 9,500 agents who were verified and ranked for 2013.

This year, we added the ability to search the rankings by name, city, state and company name. In the years to come, we will continue to enhance the rankings with additional features so that these top-performing agents and teams can get the recognition they deserve.

The minimum level of sales for individuals is 50 closed sides or $20 million in closed volume. For teams, the minimum level of sales is 75 closed sides or $30 million in volume.

Should you know of anyone who qualifies and did not get ranked this year, please tell them to contact us at realtrends.com/best-real-estate-agents-america, or call us at 303-741-1000.