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JANUARY 2016 NEWSLETTER

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FIRST PERSON

# FED RAISES RATES

*by Steve Murray, publisher*

The last time the Federal Reserve raised interest rates, it was 2006. They were attempting to head off an overheated housing and stock market. It's hard to remember that it has been that long ago. Oh, what a difference a decade makes.

### MET WITH A YAWN

This rate hike was long anticipated and was met with mostly a yawn when it finally came to fruition. Why? Because normally when the Fed raises rates, it is to head off either a sign that inflation is heating up, equity and asset markets are bubbling, or the economy is showing signs of overheating. None of those factors are present now, with the exception of a bit of froth in some housing markets.

### SIGNS OF ECONOMY DECELERATING

In fact, there are several signals that our economy is decelerating. Housing sales are off their highs of a few months ago, as are the stock markets. The debt markets,

*Continued on pg2*

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especially the junk bond markets, are already falling. Industrial production has fallen for the fourth month in a row and commodity prices, especially energy and food prices, have declined precipitously at the wholesale level. Farm incomes are expected to be down over 35 percent this year from last year.

### WHY THE HIKE?

So why the rate hike? Because they had said they would do so for so long now, and it was the expected thing to do after such a long period of extraordinarily low rates. They needed to do something.

Realtor.com's Chief Economist Jonathan Smoke said at a recent industry conference, that should the Fed raise rates, it would have a huge impact on mortgage rates. Like rising from the current level of about 3.95 percent to perhaps 4.5 percent by this time next year. The sky is falling; the sky is falling!

**HOUSING HAS ALREADY SETTLED DOWN** both in terms of unit sales and average price hikes. 2016 will see more of the same. We see a rather unexciting but profitable year ahead for those who carefully operate their companies.

### IMPACT ON HOUSING NEGLIGIBLE

No forecasts indicate that the rate hike will do anything in the short term to housing or the economy. In fact, given the lethargy of the economy, a rate hike is nonsensical. Don't look for any big changes. The Fed will likely continue to raise rates over the next two to three years by small increments so as to gauge whether they can do so without further weakening an already fragile economy.

Housing has already settled down both in terms of unit sales and average price hikes. 2016 will see more of the same. We see a rather unexciting but profitable year ahead for those who carefully operate their companies.

THE AGE OF FREE SOFTWARE

# THOUGHTS ON THE NAR/CAR TRANSACTION

*At the National Association of Realtors® (NAR) conference, it was announced that they were purchasing online forms and integrated transaction management systems from the for-profit subsidiary of the California Association of Realtors (CAR).*

*by Steve Murray, publisher*

NAR announced that they would be paying a fee to the California for-profit entity so that all members of the Realtors® Association nationwide would receive these products and services at no charge.

It is interesting that Realtor.com announced that they are launching agent reviews/ratings/testimonial profile page services for all Realtor members and, again, there will be no charge. Offering these services is not groundbreaking as Zillow and Trulia have been offering this service at no direct charge for some years now.

### ARE THEY THE BEST AVAILABLE?

I have no real appreciation for whether or not the online forms and transaction management services offered by CAR are the best available in the industry, but CAR does have a very large customer base, has operated well for a number of years, and, I assume, have many satisfied customers. So, they likely have a well-received service and will be able to continue to provide that level of service in the future. Likely what is being offered is at least as good as what any of their competitors are offering. My expertise is not in rating how good any tech products are in the industry.

### CONCERNS

Some of my concerns are about the trend of things. First, the offering from NAR is not free; it is just that NAR is going to pay for it. It is coming out of their funds, whether they are operating cash or reserves. And, at some point, they will have to find fund sources to continue to pay for these services. That may mean a dues increase down the road. Secondly, I wonder how much the fact that NAR owns a significant part of the CAR for-profit subsidiary affected their decision to choose this system as opposed to a competitor's system? I assume NAR did some comparison shopping, but I don't know whether they did or didn't do a request for proposal (RFP) and invite all of the available providers of online forms and transaction management firms to bid for this contract. These are just a few questions about the deal.

### WHERE IS THIS LEADING?

I also wonder where this is all leading. NAR attempted to corner the market on listing portals in the late 1990s with their broker gold program in concert with Realtor.com. Then, they launched Realtor Property Resource (RPR) with assurances it would become the gold-plated source of information for the industry, as well as become a profit-making entity in its own right and, again, to become the main supplier of knowledge tools for the industry. Then, they allow Realtor.com to be sold to News Corporation even though this was to be the site to protect and defend the interests of the membership. They also signed a deal to provide all of

**“IS THERE ANY AREA OF REAL ESTATE TECHNOLOGY WHERE NAR WILL DRAW THE LINE AND NOT INVEST?”**

the funding for the development of the software for Upstream, the brokerage-owned and operated entity that will become the main repository of listing and sales data for the industry (the plan).

### A MASTER PLAN?

One can’t help but wonder whether there is some master plan to tie Realtor.com to Upstream, and Upstream to transaction management and forms and then to tie all of this into some NAR-controlled, industry-wide platform. Knowing the leaders of Upstream, I would doubt it, but who knows? This all makes for interesting reading if nothing else. One does wonder where it all leads. Where once brokerage firms were concerned about local MLSs leveling the playing field, now we may have the specter of NAR itself wanting to do the same. Did NAR consider that a fair number of brokerages provide technology packages as a service to their agents at a margin?

What happens next will be just as interesting to watch. How will the move by NAR into *free* software impact all of the other online forms and transaction management providers? What about other, related software providers who are attempting to serve the industry? Will they be as eager to invest in new tools and services when there is a chance that NAR will fund someone to compete with them? Is there any area of real estate technology where NAR will draw the line and not invest? Unknown.

Fortunately, brokerage firms know that technology platforms for their core business are not a sustainable competitive advantage. Their competitive advantage is in their culture, their relationships and their ability to help agents become successful. It is doubtful this announcement will change any of that.

BUSINESS CONCEPTS

# CULTURE EATS STRATEGY FOR LUNCH!

*The above was said by management consultant Peter Drucker and holds true for real estate, as well.*

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

The culture of an organization is one of those business concepts that is critical to success, yet hard to grasp. An organization's culture consists of widely shared values, symbols, behaviors, and assumptions. Put simply, it's "the way things get done around here." Culture comes down to an unspoken set of assumptions and a common way of thinking that drives a common way of acting on the job and in our companies. The result: culture eats strategy for lunch, according to management guru Peter Drucker.

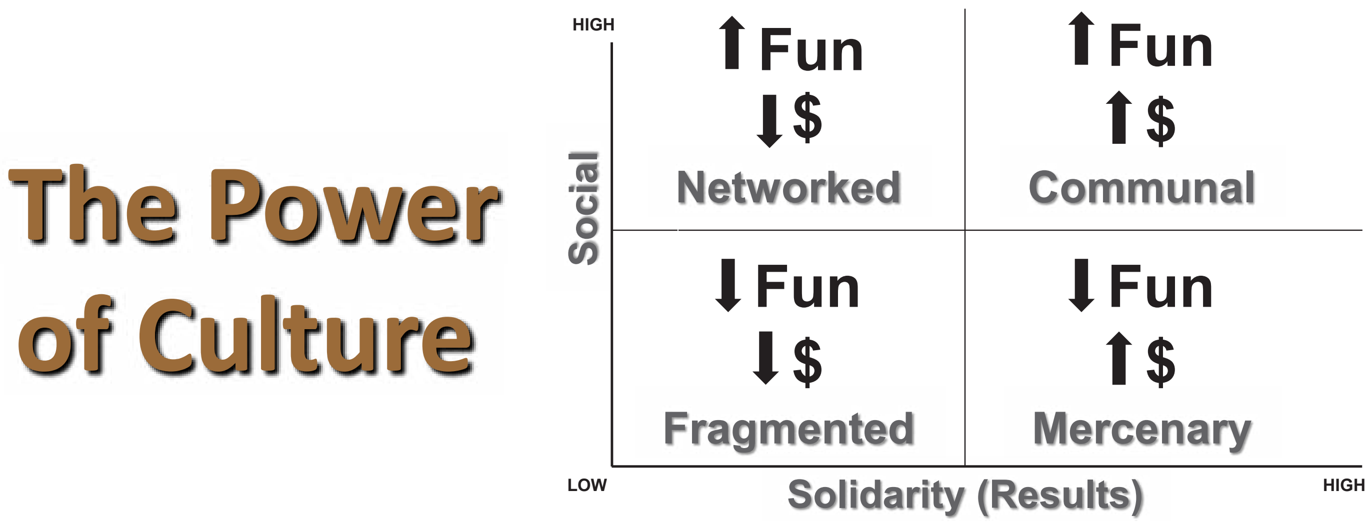
## WHAT ARE THE BEST PARTS OF YOUR COMPANY?

What is the culture of your company? Do you know? What parts do you want to keep and strengthen? Are there parts that you would like to change? Let's start with helping you identify and measure the culture you have.

First, we recommend you read the excellent book, "The Character of a Corporation," by Rob Goffee and Gareth Jones. The subtitle of their book, *How Your Company's Culture Can Make or Break Your Business,* tells you how important culture is to your organization. Their research shows that every company's culture revolves around just two dimensions:

**Sociability:** a measure of friendliness both on the job and outside the office
**Solidarity:** results orientation, performance, and common goals

*The power of your company is a function of your culture. As a leader, you set the tone. Invest at least as much time in your culture as you do your strategy.*




The combination of these two dimensions results in the four types of culture shown on the chart above.

**The Communal Culture** is big on sociability (having fun) and is also very focused on results (making money). Research by Goffee and Jones shows that only about 10 percent of companies are in this culture.

**The Networked Culture** places more emphasis on the people and the fun than on the results. The older and more successful your company, the more likely you are to gravitate to the Networked Culture.

**The Mercenary Culture** is all about the results and making money. It's strictly business, with very little emphasis placed on fun. Players tend to look out for themselves and are very competitive.

**The Fragmented Culture** is neither social or results oriented and is the most common culture in the real estate industry right now. Why? There are currently about 2.1 million real estate licensees in the United States, and only about half of them are serious enough about their career to join the National Association of Realtors® and their local and state Realtor associations. Even among Realtors, many are part-time and don't have an office. They are fragmented.

I observe that most of the REAL Trends 500 companies are in the Communal, Networked, and Mercenary cultures. How do you discover your organization's culture? Start by buying the book, "The Character of a Corporation," and administer to your company the short questionnaire in the book. If you have multiple offices, I recommend you administer the survey at each office. You may discover that each of your offices has a different culture!

Once you've identified your culture, how do you change, improve, or reinforce it? That's our topic for next time. The power of your company is a function of your culture. As a leader, you set the tone. Invest at least as much time in your culture as you do your strategy.

REAL TRENDS HOUSING MARKET REPORT

# NOVEMBER HOUSING SALES SHOW SURPRISING STRENGTH

*Unit sales are up 7.5 percent over November 2014.*

The REAL Trends Housing Market Report for November 2015 shows that housing sales increased 7.5 percent from the same month a year ago. The year-over-year gain is the strongest year-over-year increase since June 2015. The Northeast led the way with a 16.3 percent increase, the second month in a row that the region led the country.

The annualized rate of new and existing home sales was 5.721 million which was up from November 2014's rate of 5.245 million but down significantly from the 6.366 million rate in October 2015.

"November housing sales rose unexpectedly with year-over-year sales up 7.5 percent, the best showing since June 2015. The West and the South regions showed the weakest results in unit sales while the Northeast, which has lagged the rest of the country for the past four years in unit sales increases, once again led the nation," says Steve Murray, editor of the REAL Trends Housing Market Report. "Last month's pending homes sales report indicated that sales would be stronger than had been previously expected and that is what has happened," he adds.

Housing prices rose an average of 0.5 percent from November 2014 showing continued moderation in home price increases and among the lowest year over year increase in prices since 2014.

"The average price of homes sold remains very moderate, showing only a slight increase," Murray added. "It is important to note, however, that month-over-month changes in unit sales and average prices are still below their recent highs and nothing we have seen changes most forecaster's views that 2016 will see moderate increases in unit sales and prices."

Housing unit sales for November 2015 increased 7.5 percent, up significantly from the October 2015 results.

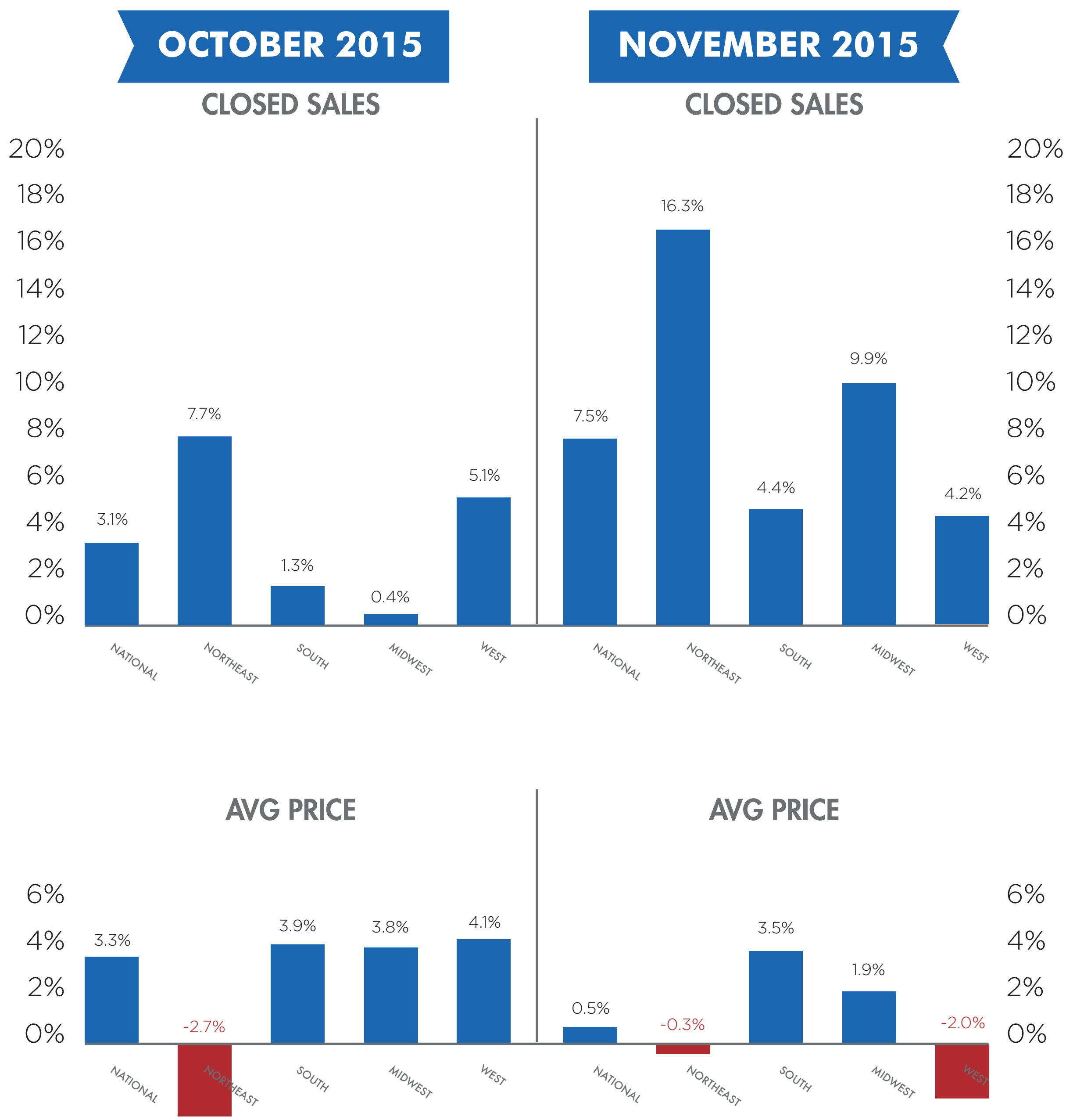
Unit sales were up 16.3 percent in the Northeast, the best performance in all regions. Sales in the Midwest region were up 9.9 percent, the South saw an increase of 4.4 percent, and the West region had an increase of 4.2 percent.

The average price of homes sold in November 2015 in the South region increased by 3.5 percent, the best result in the nation. The Midwest saw average prices increase 1.9 percent, average prices in the Northeast were down 0.3 percent while the West experienced a decline in the average price of homes sold with prices dropping 2.0 percent.

"We expect that housing unit sales increases will continue to slide on a year over year basis and that prices will continue their recent trend of moderate increases," said Murray.

# REAL TRENDS HOUSING MARKET REPORT

OCTOBER & NOVEMBER 2015 EDITION



2016

# THE FIFTH YEAR OF THE HOUSING RECOVERY

*Trends in the recovery of the housing market.*

*by Steve Murray, publisher*

2015 was a great year. Unit sales are going to end up showing growth in the high- single digits at the end of the year, and the average prices of homes sold will show mid-single digit increases. 2015 will be the best year for the total volume of sales since 2006.

### SOFTENING?

However, the market started to soften after June 2015 when unit and price increases hit their year-over-year peak. Since then, year-over-year unit increases have fallen from 15 percent to less than 4 percent. Year-over-year price increases have fallen into a consistent range between 2 and 3 percent, nationally.

Most national forecasts indicate that 2016 will see milder unit sales increases than were the case in 2015 and that prices will continue to trend upward modestly in the low single digit range. There are, of course, markets that will be stronger or weaker.

### TIGHT INVENTORY

One disturbing trend is that while inventory remains very tight in the entry-level price points, it is accumulating rapidly in the upper price brackets. Some markets show less than 60 days of inventory in the under $300,000 price bracket while the same markets have more than 20 month's supply above $1 million. This trend appears to be widespread across all regions.

## FACTORS TO WATCH

Factors to watch in 2016 that will have an impact on housing sales:

- Interest rates may start to rise although they should have a modest to negligible impact.
- Household incomes have grown sluggishly for the past six years since the official end of the recession, coming in less than 2 percent per annum.
- Should there be any softness in this key measurement, it may signal a slowdown in sales.
- Inventory at the entry level will need to increase to have any sizable increase in housing sales.
- Any further tightening in this key segment of the market could have a negative impact on sales.
- Price increases have been tame on a national average, but affordability has been decreasing for several years now. Unless incomes pick up, further price increases will make purchasing harder for young families.

# THE BEGINNING OF ANOTHER SOLID YEAR

*by Steve Murray, publisher*

2015 was a solid year, one of the best since the last downturn started in the fall of 2005. Unit sales were up in the high, single-digit range and average prices of homes sold were up in the mid-single–digit range as well. Overall, 2015 was one of the best years in housing volume sales since the early 2000s.

2016 will be a continuation of this upward trend although not as strong as it was in 2015. Most forecasters believe that unit sales will be up in the low, single-digit range while prices will be up at that same level. Overall, the country should see mid- to high-single digit sales volume increases in housing sales. Of course, each market is unique; some will be up more than others.

Economists say that absent a few outliers (2008 comes to mind) most presidential election years are stable economic years. While we have recently seen a rate increase, most mortgage market experts believe it will have only a modest impact on mortgage rates. Income growth, while sluggish, is still growing as is employment. Housing sales should follow this general trend line.


# GINO BLEFARI

## CEO, BERKSHIRE HATHAWAY HOMESERVICES, IRVINE, CALIF.

*Learn from leaders where tomorrow's opportunities and threats lie. 2016 will be a year of surprises for the industry.*

*by Steve Murray, publisher*

"We have a powerful brand behind us, one that has been received exceptionally well by real estate professionals and housing consumers, alike," Gino told REAL Trends. "Just as important, however, is that our organization has strong, highly skilled and motivated leaders at all levels."

REAL Trends asked Blefari, who has had a remarkable 30-year career in the residential real estate brokerage business, how he was adapting to life in a large corporation as opposed to a privately owned brokerage firm. "I am so psyched by what I have found. We have all these resources; that is a given. But, inside our network, we have some very good brokerage operators, a lot of them. I don't mean just the large market leaders; we have solid operators and good people. That is what gets me out of bed in the morning that I am doing the best I can to serve them.

I have this lifelong experience in residential brokerage and what I am trying to do is share my experiences with our affiliates to improve their knowledge and mine. When you get to work with those who are already a cut above, it is a great experience."

We asked on what he is focused. "We want to do everything possible to align ourselves with the No. 1, 2 or 3 firm in a market. And, if we have a good affiliate who is not there, we can help them get there whether through recruiting assistance or merger and acquisition assistance. I think our team is well equipped to stand shoulder-to-shoulder with our affiliates to do just that."

### THE FUTURE

What about the future? Blefari said, "You know we certainly have to pay attention to what is going on in the world around us, whether the demographics of consumers or real estate technologies. Those who know me know that I think that building a culture of teamwork and accountability and having a positive outlook will carry you further than having the hottest technology. We know that it is the culture you build, maintain and nurture that is going to be the biggest determinate of your success. Our view is that we have the benefit of a great brand and it is our responsibility to build a great culture, both here with our staff and with all of our affiliates. We have to focus on that first."

What's on the horizon for Berkshire Hathaway? "We are going to become a major global player. The brand strength that Berkshire Hathaway has here in the United States also exists overseas. It is amazing to discover that so many people around the world know our name and have great respect for it, especially in the business communities and leaders. That is just one of the big new steps we will be taking in the future."

For those of us who have known Gino for years, we also know that he has more energy and more focus than 10 people. Our observation is that he sounds more excited and is having more fun than ever before. "Steve, this is a great time for our company and a great time for our industry," says Blefari. "There are just so many opportunities that I have a hard time believing that we won't achieve everything we are after."

# CAROL CONWAY BULMAN

## PRESIDENT AND CEO
## JACK CONWAY REALTOR
## NORWELL, MASS.

With 32 offices and more than 600 agents, Jack Conway & Company provides one-stop real estate and mortgage services to customers and clients.

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

**Bulman:** The company was founded in 1956, by my father, Jack Conway, who left his job as a sportswriter to open the first office in Hingham Square. In December of 2009, my dad officially turned over the CEO position to me.

I started working with my father on the mortgage side, right out of college. I did go out on my own for a period and worked in the mortgage business. That was a great part of my journey. I returned to the company in 2009, and that was when the transition happened with me as CEO and president, fully on the real estate side.

It was a great parallel experience working with my father and agents on his team.

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

**Bulman:** This is my dad's company. So, when the time came for me to transition to CEO, we had this incredible, rich legacy. I had a wonderful opportunity to continue this legacy, celebrate it and modernize it. My dad was very innovative in his time, but when I came on it was time to re-innovate. It was a challenging time as I was writing the next chapter for the company. I wanted to celebrate the foundation my father built while growing and creating a more efficient company.

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

**Bulman:** There is nothing I would have done differently. I made some mistakes, in timing and decisions, but the growth has been exciting. We have a great team, so if we do something that isn't exactly right, we shift. Even the things that aren't perfect help to make us strong.

When I first returned, it was larger than life. It's a big company, and I had to figure out my next steps. The first thing I did was by accident! I put together focus groups with agents representing each office. I met with them every two months, and it was an open forum. They would tell me what works and what doesn't work. That became the best lesson of all. If you're listening to your agents, and they're telling you what works and what doesn't, it allows you to build a roadmap for the next six years. As a result, we're very agent-centric, and that's why people stay, and that's why people join us.

**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?

**Bulman:** When we were stumbling out of the recession, we had the opportunity to acquire and open a new office on the north shore of Boston. Traditionally, we had been in South Boston and Cape Cod, so this was a different approach for us. While financially it wasn't the best time to open a new office, it worked. It made the rest of the company see that things were happening, and it gave them confidence about the brokerage. Shortly after, we started acquiring companies. However, that first one set the tone for the real estate professionals at our company.

A GROWING PROBLEM

# THE IMPACT OF ONLINE DIRECTORIES FOR REAL ESTATE

*By Travis Saxton, vice president of technology*

Real estate firms have a growing problem—literally. I recently met with a top brokerage. The morning of our meeting, I used Google Maps to get to their office. When I arrived, the receptionist told me they had moved two years ago. Luckily, I gave myself plenty of time. I walked about a mile further and found their main office with plenty of time to spare.

To illustrate this further, REAL Trends has been at its current location for nearly eight years. Before that, we were located on University Boulevard. When we plug REAL Trends into a new tool that cross-checks online directories, some 50 percent of our companies' listings are inaccurate. Many display our old address and others have an incorrect company name.

## A DIFFICULT CONCEPT

The world of online addresses, directories, yellow pages and business pages is extremely complex. Currently, there are nearly 100 main online directories where you can find business information, such as Google, Google Local, Google+, Facebook, Yelp, Yahoo, Bing, Yellow Pages, CityPages and more. It would be nearly impossible for you to stay on top of your business location on all of these sites. These sites aggregate information much like the listing portals.

One bad piece of information from one site can resurface on other sites, even when you think you have the problem solved.

You may be saying to yourself, "If I take care of the big sites, I don't care about the other 75 or so that nobody visits." Not true, you should care. Here's why.

Imagine you are in an unfamiliar city and you want to find a great restaurant. You ask a few friends, and they all mention one restaurant. Several people knew the name, others were hazy, and the location wasn't clear. You go online, and you see several different locations. So, where the heck is this place? You get so confused that you don't even bother going there.

## INACCURATE LISTING=LOW GOOGLE RANKINGS

If you search your business, and you have inaccurate listings, Google will spot that and give you lower confidence in their search results. Let me apply this to your business the real estate brokerage. Let's say you have 100 agents, 5 offices, and mortgage, title, and commercial divisions. You moved a couple of your offices once or twice. How many times have agents claimed your offices? Agents come and go, sometimes they have inaccurate information and sometimes you have agents that no longer work at your company showing up on these sites. With the example above of 100 agents and 5 offices, you can potentially have 42,000 entries online.

## THE SOLUTION

What is the solution? And, who has the time to monitor and change information on all these sites? The big chain stores learned early on that they need a service to do this for them. Of course, many of those services charge $1,000 per year, per office—not very economical.

Good news, in 2016, REAL Trends is privately rolling out a tool to our clients that has a direct API connection to all of these sites. We can take an office, get the correct information, and connect with every site to update your information all over the web. And, we're doing it for a lot less than other services.

Eventually, we will make this available online through Realtrends.com for use in our industry. REAL Trends is the trusted source for accurate and timely information in real estate, and this new tool is a great fit for us with our position in the industry.

For more information contact tech@realtrends.com

*You may be saying to yourself, "If I take care of the big sites, I don't care about the other 75 or so that nobody visits." Not true, you should care.*

# REAL TRENDS 500 SURVEY

The REAL Trends 500, now in its 29th year, remains the undisputed leading report ranking the performance of the top residential real estate brokerage firms. Firms are ranked by both transaction sides and sales volume. Due to the requirement that all information be independently verified, the REAL Trends 500 remains the trusted source for information about the performance of these firms. Don't miss your opportunity to be included in this prestigious ranking. There is no fee to apply, but you must meet the minimum of 500 closed residential transaction sides for 2015 to be considered. You must also supply outside, independent verification.

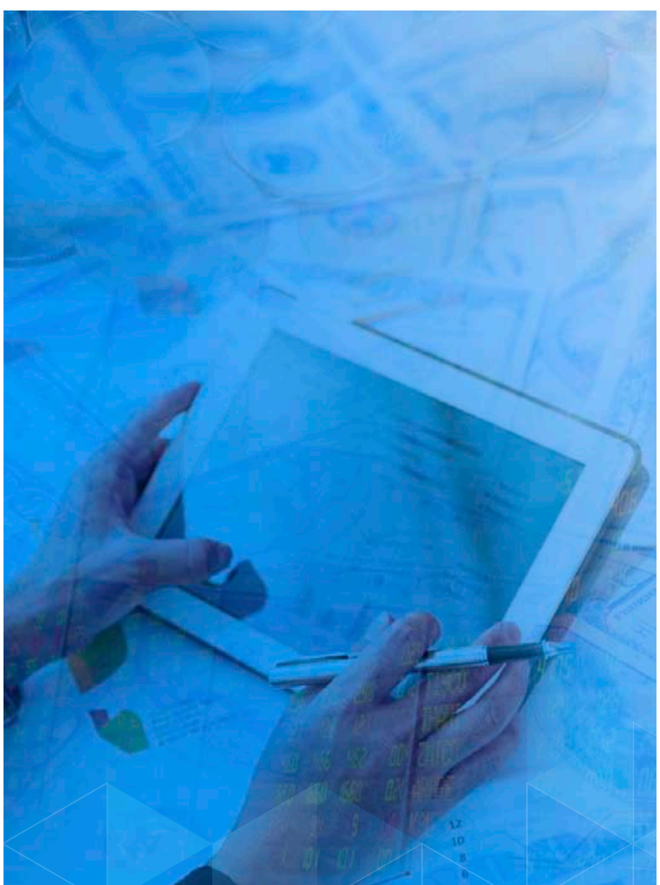
To complete a survey for your brokerage, **click here.** The survey will remain open until March 1, 2016.

Please note, if you are a broker with Keller Williams, RE/MAX or Reology (ERA, Sotheby's International Realty, Better Homes and Gardens, CENTURY 21, and Coldwell Banker), please DO NOT complete this survey as they will submit on your behalf.

Please contact Scott Wright with any questions at swright@realtrends.com or by phone at 303.741.1000.

# 2016 REAL TRENDS RESEARCH

REAL Trends annually publishes the rankings of the nation's top brokerage firms, agents, and teams. Also, we have periodically published special reports on issues, such as brokerage performance, compensation practices, consumer trends and online performance. 2016 will be a special year because we will be publishing all of these reports throughout the year. We will release a new Brokerage Compensation Study, a second annual brokerage website performance ranking, benchmark studies of Realtor® association financial and operational performance and special reports on the future of agents teams and the online performance of residential brokerage firms.



The volume of reports represents more than just a continuation of what we have done in the past. It's a new level of commitment to our readers to produce useful, trustworthy information that can be used to improve their knowledge of our industry and how well they stack up against their peers. Deirdre LePera, REAL Trends research strategist, working with the REAL Trends team, intends to deliver no less than four studies that will address key areas of brokerage and agent performance in 2016.

We look forward to a great 2016 and to achieving our goal of continuing to be "The Trusted Source" in the residential real estate industry.

REALTRENDS | 2016

# GATHERING OF EAGLES

PASSING THE TORCH

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