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FINANCIAL AND OPERATIONAL RESULTS

HOW ARE BROKERAGES ADAPTING TO CHANGING TIMES?

Insights about brokerage firms based on REAL Trends research.

by Steve Murray, publisher

Albert Einstein once said that the definition of insanity was doing the same thing over and over and expecting a different result. As we review the financial and operational results of brokerage firms of all sizes, locations and brand names, we are struck by a few observations.

- Until last year, the largest brokerage firms in the nation only matched or slightly underperformed the national market when times were good and gained share when times were not so good.
- Without taking into account any core services earnings, the average pre-tax margin of a majority of brokerage firms was in the range of 3.5 to 6.0 percent of gross commission revenues—regardless of brand, business model or location in the country.

Continued on pg2

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- The firms that spend the least on advertising seem to be growing the fastest, not because they don't think advertising is worthwhile, but because they think it is best left to the sales associate. In some cases, it is also because they are either the lowest cost brokerage for agents or new.
- The firms who spend the most on employment expenses have the highest gross margin (company revenue) percentage and have the highest gross margin per agent, but they also have the lowest head counts of agents per office.

Based on this and other REAL Trends data, we've commented recently that all the focus on technology has taken brokerage leaders away from what appears to be the real keys to success. It would seem that recruiting and developing agents and being financially prudent in doing so are the surest ways to grow profitability. One thing we can accurately measure is just how much time leaders are spending on technology and how much they are spending on people recruitment and development. But, we can see how much is spent by those who have had the best results in both top line and bottom line growth. For these firms, the answer is less than 10 percent of their time is spent on technology and more than 60 percent of their time is spent on people.

> **"For firms who had the best results in top and bottom line growth, less than 10 percent of their time is spent on technology and more than 60 percent of their time is spent on people," says Steve Murray, founder of REAL Trends**

The signs signal that for brokerage firms to become consistent at growth, it is going to take more than great websites and CRMs and far more time building systems for recruiting and developing talent at all levels. The challenge is that this takes enormous energy, and this is a huge challenge. Can you still get excited about this part of our business?

Adapting to the new challenges in the market should mean that a firm brings technology into a brokerage environment that pleases agents (hence helping recruitment and retention). Through our own consulting with clients on technology and digital marketing matters, the good news is that a growing number of firms are focusing their efforts in these areas on doing just that.

BoomTown!

What do all these Real Trends Top Thousand achievers have in common?

"BoomTown helped me realize my dreams! I can confidently say we wouldn't be Nebraska's #1 Team & breaking all-time Nebraska sales records without them. Our team will sell over 700 homes and $120 million in volume this year!"

Jeff Cohn
Omaha's Elite Real Estate Group
Berkshire Hathaway HomeServices
Ambassador Real Estate

"As a Team Manager and Broker/Owner, BoomTown allows me to save time, hold my agents accountable, and help them become more productive."

Ben Kinney
Home 4 Investment Team
Keller Williams Realty

"BoomTown's an integral part of what I do. About 30% of what we do comes through BoomTown, and we'll generate 100 closings this year through the lead generation system that they've provided."

Keith Beatty
Intracoastal Realty

These Top Thousand achievers (plus many more) have partnered with BoomTown to grow their business and build lasting relationships with their clients.

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NEW REGULATIONS

COLORADO SIGNS DEATH WARRANT FOR TITLE MSAs

Will this have an impact on the rest of the United States?

by Steve Murray, publisher

Colorado insurance regulators have issued a series of new regulations that effectively ban Marketing Service Agreements (MSAs) between title insurance firms in the state and other settlement service providers, including residential brokerage firms. Among the reasons cited was the lack of clear guidance from the Consumer Finance Protection Bureau (CFPB) as to what constituted a permissible marketing agreement between settlement service providers.

In comments from regulators and other interested parties, we learned that there weren't many of these kinds of arrangements in place in Colorado. We also learned that a significant number of those involved in discussing and drafting these new regulations were, in fact, from the title insurance industry. In fact, our research did not turn up any actual or claimed harm done to any consumer in the statements about these new rules.

A significant number of those involved in discussing and drafting these new regulations were, in fact, from the title insurance industry.

In fact, our research did not turn up any actual or claimed harm done to any consumer in the statements about these new rules.

Our Observations

First, this again will lead to further consolidation among brokerage firms as the larger firms can afford to build and operate their own legal title insurance businesses, but smaller firms will be unable to do so as easily. Score one for the larger brokerage firms. Second, the title insurers can now point to the regulations that prohibit them from having to make monies available to brokerage firms in promoting their services and products. Thus, they can no longer be asked to spend money on brokerage marketing and promotional activities. It even appears that they can't rent space, in most cases, in a realty firm's offices. What a wonderful deal. They no longer have to deal with brokerage firms asking them for help with marketing and promotional activities, because they got the state to say it was illegal—all in the name of consumer protection.

Funny enough, they could have said no all along to this kind of spending—not that we think the title insurers got this done for that reason.

BROKERAGE

FINDING VALUE

WHAT IS YOUR VALUE PROPOSITION?

Mastering the Law of Value is a key to success in your business.

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

"Our true worth is determined by how much more we give in value than we receive in payment." This Law of Value from Bob Burg and John David Mann's book The Go-Giver serves us well whether we are an owner, manager or sales associate.

Customers seek value. Sales associates seek value. Money flows to value. Mastering the Law of Value is a key to success in your business. Just as important as creating the value is your ability to articulate your value proposition to your customers. The diagram below is a good way to clarify your value difference, sometimes called your value wedge.

As an owner, make a list of the value wedge (difference) you offer compared to other companies. As a manager, what is your value wedge in recruiting sales associates? Can you articulate this difference? As a sales associate, what do you bring to the game that is unique and valuable to a seller? A yard sign, brochure and MLS are viewed as value parity by the seller. What is your value wedge?

If a seller asks you to discount your fee, 85 percent of the time it is because you have not clearly articulated your value proposition. Most people will pay your fee if they see the value. Research shows that 5 percent will not pay for value as they make all buying decisions based strictly on price.

Do your sales associates know their value wedge? Are they trained to articulate their value proposition? Here's a dialogue that will help your associates. They should rehearse it until they have it down cold.

- **Seller:** "I'm looking for a discount."
- **Associate:** "Tell me more about that."
- **Seller:** "I'm seeing homes selling quickly in my

neighborhood. You won't have to spend as much on advertising. I think that is worth a discount.

- **Associate:** "What is your goal?"
- **Seller:** "I think it should be worth 1%."
- **Associate:** "Do you believe your home will sell for a fixed price, or do you believe there is a range of value based on the marketing and negotiating skill of your Realtor?"
- **Seller:** "I guess I didn't think about that. There is probably a range of value."
- **Associate:** "My job is to help you get the most value at the top of the range. There are five ways I do this:

1. We'll walk through your property together, and I'll show you ways to enhance the value, so you get top dollar for it.
2. I'll help you with a pricing strategy—not pricing it too high, so you scare buyers away or too low so you leave money on the table.
3. My marketing plan will give you maximum exposure, so we attract more buyers and more contracts. The more buyers and contracts you have; the higher your property will sell.
4. I'll help you negotiate the best contract. Negotiation is an important skill in any market.
5. I'm your transaction manager. There are a lot of moving parts. My job is to handle those parts, so your contract closes on time.

My fee to deliver this level of value to you is _____.

Articulated this way, 85 percent of sellers will see the value you bring is far greater than the extra 1 percent discount. In fact, if you are in a seller's market with multiple contracts, you can say this, "In this kind of market, your greatest expense is often the money you don't make. Great marketing and negotiating will make you money."

When everyone—owners, managers, sales associates and staff—have the value creation mindset and can articulate that value then you will attract the best talent, the best customers and be highly profitable, as well. You have created a value driven organization.

85 percent of sellers will see the value you bring is far greater than the extra 1 percent discount.

TECH AND REAL ESTATE

COMPASS RAISES $75 MILLION IN NEW INVESTMENT ROUND

New funding fuels national expansion, enhanced technology developments for agents and consumers.

Compass, a technology-driven real estate platform, has closed a new round of funding, company executives announced recently. The new $75 million round, led by Wellington Management Company LLP, comes nearly one year after the company's $60 million Series C financing in September 2015. To date, Compass has raised $210 million in capital.

The round also included new investments from existing key investors including IVP, which led Compass' last round, Thrive Capital, Founders Fund, and 406 Ventures.

"When it comes to technology, the real estate industry is fragmented and regional systems don't talk to each other. There is no reason the real estate process shouldn't be transparent, convenient, expedient and intuitive." —Compass Founder Ori Allon

"This funding will provide us with additional resources to accelerate our growth into new markets and inject transformative technology to improve the experience for consumers and agents," said Ori Allon, founder and executive chairman of Compass. "When it comes to technology, the real estate industry is fragmented and regional systems don't talk to each other. There is no reason the real estate process shouldn't be transparent, convenient, expedient and intuitive. Compass is aiming to change that."

Launched in New York in 2013, Compass has expanded throughout the country in the last 18 months to Washington, D.C., Miami, Boston, the Hamptons, Cambridge, Beverly Hills, Malibu, Pasadena, Santa Barbara, San Francisco and Aspen.

Compass now operates 24 offices nationwide and represents approximately $7 billion in annual sales. This year, REAL Trends The Thousand, as advertised in *The Wall Street Journal* named Compass' Leonard Steinberg Team the No. 1 team by transaction volume in the country.

Earlier in 2016, Compass launched the first national real-time market report via a mobile app. Called Compass Markets the app is designed to replace stale quarterly market reports with up-to-the-minute housing data so consumers and agents can make better real estate decisions. The firm was also the first to offer an agent-only app designed to simplify the entire real estate process through one-stop marketing, property valuation, and open house capabilities. The consumer and agent-facing web and mobile applications combined with the proprietary suite of agent tools bring actionable intelligence to the process of buying, selling, and renting homes.

In addition to unveiling technology, Compass has achieved several milestones in the past year including:

- A national new development division with a $3+ billion pipeline headquartered in New York and Los Angeles
- Launching a global sports and entertainment division catering to the specific real estate needs of celebrities and professional athletes
- Becoming the No. 4 largest brokerage in NYC, No. 1 in East Hampton, No. 3 in DC and No. 2 in Cambridge by sales volume
- Transacting the 5th largest residential sale in USA history—a $110 million East Hampton estate on Lily Pond Lane

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Compass was founded by Allon, who sold two previous companies to Google and Twitter, and business partner Robert Reffkin, a former White House Fellow and Chief of Staff to Goldman Sachs' President & COO.

JARROD GRASSO, CEO, NEW JERSEY ASSOCIATION OF REALTORS

PROVING VALUE WITH ASSOCIATIONS

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

By Steve Murray, publisher

"Just like brokerage firms and agents work incredibly hard to prove their value to each other and to consumers, so too, do Realtor® organizations, both to our members and the consumers," said Jarrod Grasso, CEO of the 47,000+ member New Jersey Association of Realtors®. "This is not a new trend, but it seems to be intensifying over the past few years."

Grasso grew up in New Jersey, son of a family who owned a three-generation appliance store in town. He attended Castleton State University in Vermont and, along the way, his involvement in student politics gave him the chance to meet then-Governor Howard Dean and then-Congressmen Bernie Sanders. After moving back to New Jersey, a chance meeting with a U.S. House member led to an internship. Eventually, he became a full-time staff member. Another chance meeting led him to become the Government Affairs Director for the New Jersey Association. After nine years in that position, he became the CEO, among the youngest to ever achieve that position.

"Among the challenges we notice and hear about in the brokerage business is the struggle with a wide variety of new business models and the pressure on profitability," Grasso commented. "We also sense that there may be new regulations or legislation that could affect the independent contractor status, whether new safe harbor provisions or new taxation. We are watching this carefully at all levels.

I am also concerned about the levels of student loan debt and how that continues to negatively affect household formation and the ability of young families to buy their first home. Related to this, is the impact of rising mortgage rates. Some members think this could be positive in the short run but more negative in the longer term. There is great uncertainty in each of these areas."

As to what keeps him up at night, Grasso said, "We are always going to be challenged to change and adapt. I look at what has happened to other industry associations, like the home builders and travel agents, and I worry that we will miss the shift, where we go from [membership] being a [professional] requirement to an option. What happens should we to lose a significant part of our membership who are low-end producers? Where would the funds come from to pay for the benefits that we provide now? Are there key things we should be working to head off? What will keep us valuable and relevant to our members?"

Grasso added that while challenges have always been present, it seems as if the range of them keeps growing and each has more importance than in the past. "We have to keep an open mind about what we will have to do as a Realtor organization to stay relevant. That is going to matter in the years ahead."

QUIZ

HOW WELL DO YOU KNOW YOUR RESPA?

Test your knowledge of what may or may not trigger RESPA.

By Sue Johnson, strategic alliance consultant

In its simplest form, Section 8(a) of the Real Estate Settlement Procedures Act (RESPA) prohibits a real estate broker or agent from giving *or* receiving any "thing of value" for referring settlement service business. But, its potential reach is complex and more encompassing. Here are a few common scenarios involving real estate broker/agent practices that will test your knowledge of what may or may not trigger RESPA.

1. **Box Lunches at Seminars.** A loan officer holds a seminar for real estate professionals on the pros and cons of current loan products and provides box lunches at the seminar.

   As long as the box lunches are offered to all agents who attend the seminar and are not dependent on whether the agent refers business to the loan officer, this would be considered a "promotional and educational activity" that would be exempt from RESPA.

2. **Snacks at Open Houses:** A local title agency reimburses a real estate professional for snacks provided at an open house.

   Unlike the first scenario, this does not meet RESPA's "promotional or educational activity" exemption because the title agency has defrayed an expense that otherwise may have been incurred by the real estate professional. The defraying of expenses is considered a "thing of value" that should not be provided to someone in a position to refer settlement services.

3. **Hiring Real Estate Agents as Employees.** A mortgage lender offers to hire a real estate professional as a W-2 employee for performing certain mortgage origination services on behalf of the lender.

   RESPA regulations exempt any payment by an employer to a *bona fide* employee. However, a 1999 RESPA

RESPA prohibits a real estate broker or agent from giving *or* receiving any "thing of value" for referring settlement service business. But, its potential reach is complex and more encompassing.

Policy Statement provides specific guidance on how to compensate *any* person who performs mortgage origination activities: the agent must complete the application and perform at least five other services on a provided list; the mortgage services must be actual, necessary and distinct from the primary services performed by the agent; and the compensation to the agent must be for the fair market value of mortgage services performed. A real estate agent hired for title work must provide "core title services" outlined in a 1996 RESPA Policy Statement. Finally, some states prohibit real estate licensees from receiving two fees in the same transaction.

It always is advisable for a real estate broker to seek the counsel of an attorney knowledgeable in RESPA and applicable state law before implementing any program to encourage real estate professionals to use affiliated services.

4. **Joint Advertising:** A real estate broker and a loan officer agree to jointly place an advertisement on a web site.

   RESPA's former regulator, HUD, has stated that nothing in RESPA prevents joint advertising, but "if one party is paying less than a pro rata share for the brochure or advertisement, there is a RESPA violation." In other words, each provider should pay for the advertising in proportion to the degree he/she is featured.

5. **Gift Cards to Consumers Who Use the Affiliated Company.** A real estate broker provides its agents gift cards to give to buyers who use its affiliated mortgage company.

   A gift card, discount, or free service *to a consumer* who uses an affiliated service generally is allowed under RESPA as long as the consumer is not required to use the affiliated service; it is bona fide (meaning that its value is not made up by increasing costs elsewhere in the transaction); and the affiliated service is separately available at prevailing market prices. It's also advisable to check with state real estate, title, and mortgage regulators, which sometimes have their own rules regarding consumer incentives.

6. **Drawings for Real Estate Agents Who Use the Affiliated Company.** A real estate broker tells his agents that for each buyer they send to its affiliated title company, it will include their name in a monthly drawing for a weekend hotel package.

   An opportunity to win a prize is considered a "thing of value" that should not be paid to a person who is in a position to refer settlement service business.

7. **Advanced Payment of Real Estate Commission.** A real estate broker offers to pay its agents their portion of the real estate commission in advance of the closing if its affiliated mortgage company is used in the transaction.

   The payment of money in advance of closing is a "thing of value" that should not be provided to a person who is in a position to refer settlement service business.

Naturally, the application of Section 8(a) will depend on the unique facts of any situation. Therefore, it always is advisable for a real estate broker to seek the counsel of an attorney knowledgeable in RESPA and applicable state law before implementing any program to encourage real estate professionals to use affiliated services. Many real estate brokers also find it valuable to provide RESPA compliance training for their agents to encourage compliance awareness in all of their day-to-day activities.

HOME PRICES AND STOCK MARKETS

PRICES UP; BUBBLE POSSIBLE?

While the market is showing signs of slowing, things are different today than during the last downturn.

By Scott Wright, manager of business analytics

Home prices have had an epic run since 2012, up a staggering 36.1 percent through June 2016, according to the S&P/Case-Shiller U.S. National Home Price Index. This run has been so impressive that home prices are now only within about 1 percent of their 2006 apex, nearly erasing that brutal six-year run that had such devastating effects on the real estate industry and the economy as a whole.

Sellers, investors and real estate sales professionals have all enjoyed this run, but how long will it continue to endure? Is this another bubble that will be subject to a powerful reckoning? Nobody knows what the future will hold, but there are some signs that demand attention.

The Banking Sector

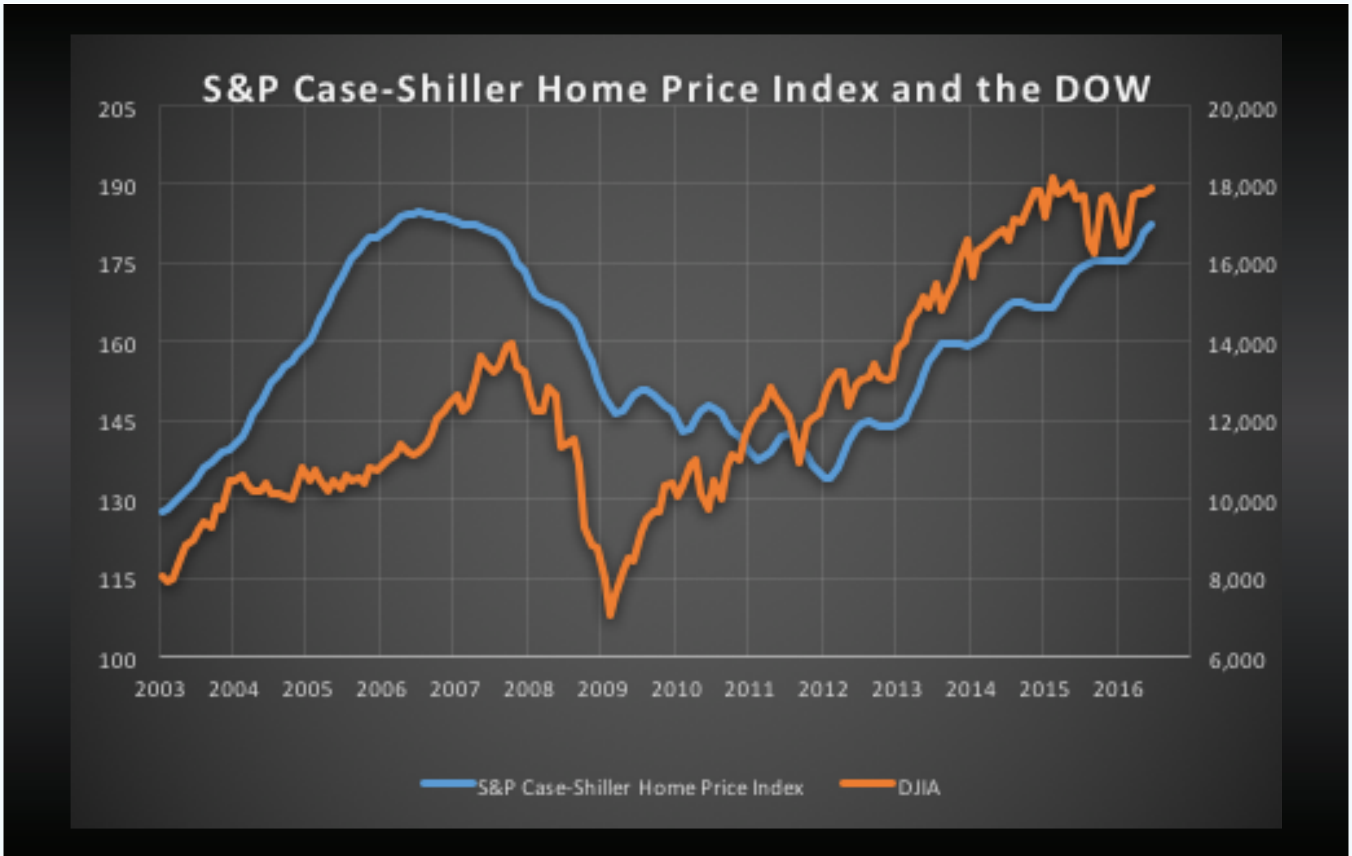
One thing that should ease your mind is the state of the banking sector today compared to 10 years ago. More subprime loans (nearly $2 trillion) were originated from 2004 to 2006 than in the previous 10 years combined. Such appallingly low lending standards allowed people, who couldn't afford them, to secure loans. When home prices declined and adjustable-rate mortgages reset at higher rates, defaults were widespread. A tidal wave of defaults naturally crushed the securities that were backed by these mortgages, which ultimately wreaked havoc on the global economy.

Things Have Radically Improved

Fast forward a decade and, as you know, things have radically improved. The Great Recession has come and gone; investors have regained confidence, and after taking its lumps, the banking industry has instilled smarter lending practices while the investment community has been more cautious in creating instruments that leverage these loans. There is much debate as to the bubble status of the current housing market boom, there is; however, no denying that risk is much lower as it relates to the mortgage market.

Watch the Stock Market

While historically there hasn't been a super-tight positive correlation between the stock markets and home prices, a more recent trend does indeed warrant some attention. Have a look at this chart that shows the Dow Jones Industrial Average overlain by the S&P/Case-Shiller U.S. National Home Price Index from 2003 to June of this year.



The housing bubble and bull stock market that developed in the early 2000s fed off one another. Everyone felt rich as their primary physical asset and stock portfolios skyrocketed. From its late 2002 low to the 2007 high, the Dow soared a whopping 94 percent over which time home prices increased by nearly 50 percent.

By 2007, home prices and the stock markets were in tailspins that dizzied investors. The Dow went into major correction mode, getting cut in half as home prices continued their precipitous decline. This rough patch coincided with the Great Recession and created gnashing of teeth across all markets.

The Dow finally bottomed in early 2009, giving way to a much-needed recovery. This recovery unfolded at a time when the United States and global economies were still on edge, hence home prices continuing to trend downward as many still didn't quite trust the turnaround. Stock market investors were the first to trust it as they witnessed a dearth of capital hitting the economy via the Federal Reserve's aggressive Quantitative Easing (QE) campaigns. QE along with the Fed's unprecedented Zero Interest Rate Policy (ZIRP) provided a backstop for investors, so, with money falling from the sky, there was no way the economy couldn't improve, and the stock markets responded.

The gun-shy real estate markets finally responded to the Fed backstop, and beginning in 2012, home prices started to soar. Now, in the summer of 2016, there's been no letup. Tight inventories, low interest rates and the perception of a strong economy have created the perfect storm for home prices.

It is the perception of a strong economy that is worrisome. Interestingly, greater than two-thirds of U.S. GDP is driven by consumer spending. And, the primary reason consumers are spending is the wealth effect that's been created by the ongoing stock market bubble. Yep, these record high stock markets are now creeping into bubble territory measured by valuations. The Dow's unprecedented run with nary a material correction to blink at for years on end has consumers feeling rich.

This is a dangerous position that could end badly, but the Fed is trying everything in its power to prevent a recession from happening. As if their open manipulation of rates isn't enough, there are now rumblings of NIRP, a *negative* interest rate policy.

The Fed's reckless meddling in the economy will eventually backfire. There's only so much funny money you can pump into the system and only so much that interest rate finagling will accomplish. The Fed backstop will eventually come crashing down, and the stock markets will have their day of reckoning. Investors who have been convinced that the stock markets are as safe as a money market fund will see their dreams dashed in quick fashion.

The bottom line is that a major stock market correction is long overdue. And, possibly, once the stock markets crumble, home prices will turn downward. Recession or not, in declining stock markets people naturally feel less rich, and they won't spend as much on homes. And if a recession does hit, which is also likely since it's been over seven years since the last one, it will put even more downward pressure on home prices. We're not doomsayers, but we do believe in market/business cycles. For those of us in the real estate industry, perhaps it would behoove us to pay attention to what's going on in the stock markets.

THE FED'S RECKLESS MEDDLING IN THE ECONOMY WILL EVENTUALLY BACKFIRE.

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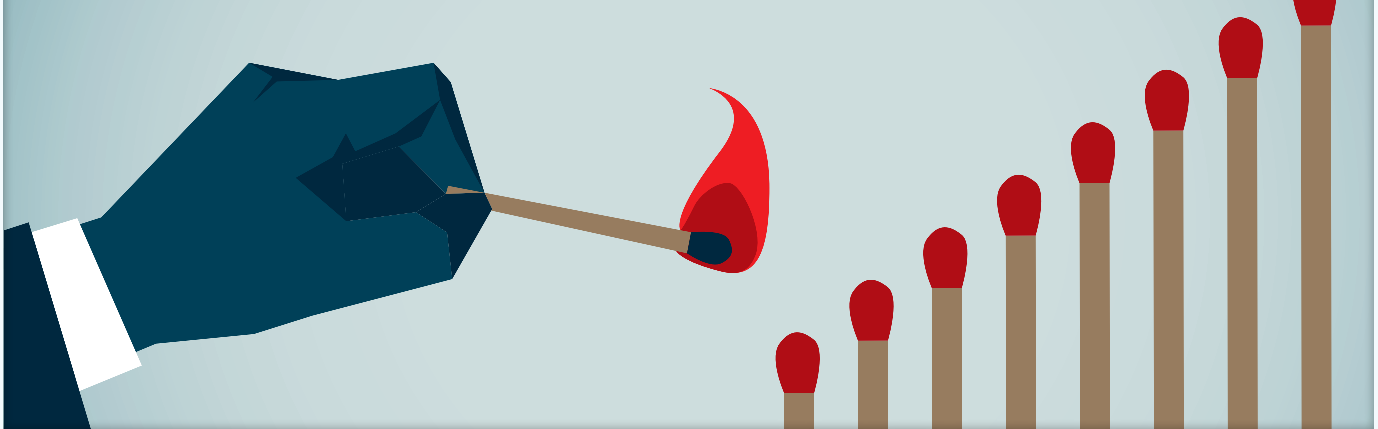


MORTGAGE INTEREST DEDUCTION

IS IT TIME TO REVISIT THIS DEDUCTION?

The Mortgage Bankers Association changes course on its support of the mortgage interest deduction.

According to a recent interview, President and CEO David Stevens of the Mortgage Bankers Association said that the organization is "not religiously wed" to the mortgage interest deduction, so long as any change comes as part of a comprehensive tax reform proposal rather than a one-off change to the tax code.

"If the entire tax code were to be looked at through a formal process and it was thorough, and the mortgage interest deduction then became part of that dialogue, we certainly would support that," Stevens said in a television interview.

Nearly 33.6 million taxpayers deducted $72.4 billion in mortgage interest from their 2014 taxes, and that figure could rise to as much as $96.4 billion by 2019, according to estimates by the Congressional Joint Committee on Taxation. That makes it one of the largest tax breaks taken by individuals.

Middle-class homebuyers benefit the most from the deduction. About 43 percent of taxpayers who took the deduction had adjusted gross incomes between $100,000 to $200,000, according to the committee's estimates, while another 40 percent of taxpayers who took the deduction made less than $100,000.

Stevens' statements are a departure from the MBA's previous opposition to any attempt to eliminate or even reduce the deduction.

The group opposed a November 2010 proposal on scaling back the deduction, citing the fragile state of the housing market. The group called the deduction "one of the pillars of our national housing policy, and limiting its use will have negative repercussions for consumers and home values up and down the housing chain."

At the start of 2013, the deduction survived contentious negotiations on a deficit reduction bill. But it has remained a target for those looking to increase revenue for the government.

So why the change in course?

"Entry-level homebuyers typically don't deduct, don't itemize, and wealthy borrowers won't really care," Stevens said, adding later, "You can't say, 'touch everybody else's pocketbooks, but not mine.' So I think it needs to be part of the discussion."

"I do think that everybody needs to recognize that the American that benefits from the mortgage interest deduction is a middle-class homebuyer and not on either end," Stevens said. "So ultimately, that impact needs to be understood so we can understand what that's going to mean to household demand and affordability. As long as that's considered in the overall dialogue, we're eager to participate."

"The American that benefits from the mortgage interest deduction is a middle-class homebuyer and not on either end." – David Stevens

AFRICA OFFERS OPPORTUNITY FOR BROKERAGE GROWTH

A report on some recent trends in Africa.

by Peter Gilmour, REAL Trends chief foreign correspondent

Mark Zuckerberg, CEO of Facebook, recently visited a number of African countries and praised the continents innovative spirit, saying "this is where the future is going to be built," at a meeting in Lagos, Nigeria.

Africa is known as a continent with great entrepreneurial energy and huge potential in all areas, particularly technology and real estate, with many countries planning to grow their infrastructure and formal housing sector over the next 10 years.

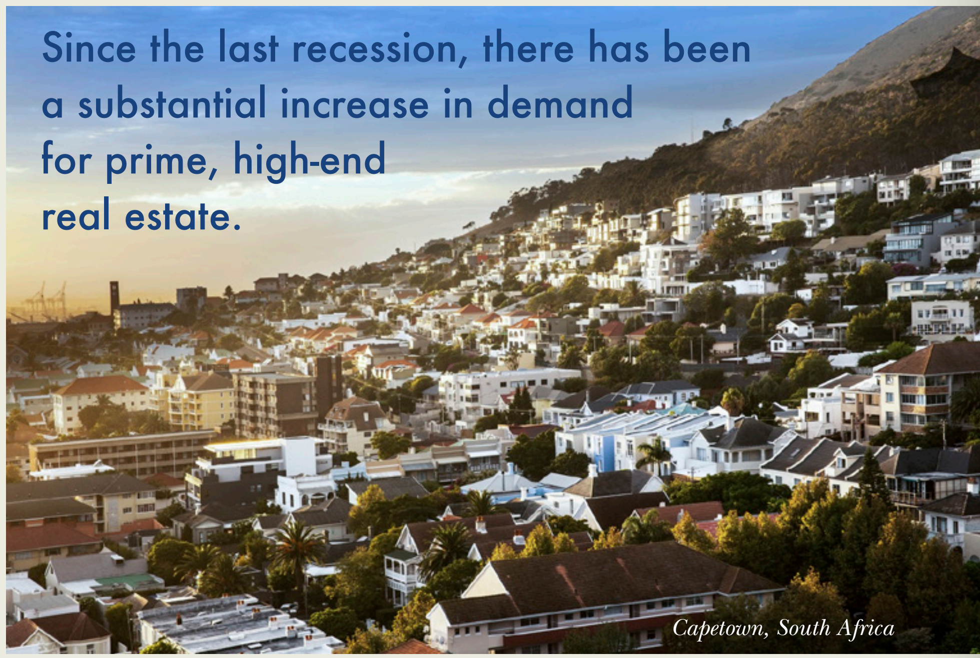
In the United States, technology has had a great impact on the real estate industry over the last decade, and it is technology that will drive the growth in Africa in the future, especially considering that the continent is not weighed down with obsolete infrastructure. Already countries like Nigeria and Kenya have over 50 percent of their population using the Internet, according to Internet World Statistics. Also, Africa has one of the highest mobile penetration rates in the world.

South Africa has the most sophisticated real estate market on the continent valued at $300 billion with over 8 million formal properties, of which 80 percent are residential properties. Real estate sales are conducted similarly to the United States and many of the most prominent trainers, including Brian Buffini and the late Howard Brinton, have visited the country to train broker-owners and sales associates over the last 20 years.

Industry organizations in Ghana and South Africa have been recognized by the National Association of Realtors® (NAR) as Global Alliance Partners. Recently, a high profile delegation from NAR, which included President Tom Salomone, Past President Chris Polychron, CEO Dale Stinton and Senior Vice President of Global and Commercial Services, Janet Branton, conducted speaking engagements and meetings throughout South Africa emphasizing the importance of homeownership and the role of NAR globally.

In most African countries, housing demand has always outstripped supply, particularly in the lower segment of the market. However, since the last recession, there has been a substantial increase in demand for prime, high-end real estate in cities such as Cape Town, Lagos, Nairobi and the islands of Mauritius and Seychelles.

Over the last two decades, there's been a strong influx of international real estate companies establishing in Africa,



Capetown, South Africa

such as Century 21, ERA, RE/MAX, Keller Williams, Sothebys, Leading Real Estate Companies of the World, Christies, Hamptons, Savills, Harcourts, Knight Frank, Engel & Völkers and others. A number of these multinationals have established significant market shares in the countries where they are represented, and there is no doubt that with significant growth of the middle class and strong urbanization, other global companies will establish on the continent soon.

With nearly 40 percent of the African population below the age of 15 and estimates that the population will grow to over two billion people in the next 40 years, Africa represents a real estate opportunity that must be taken seriously.

MULTIPLES AND CAP RATES

WHAT DETERMINES THE MULTIPLE?

Why do some firms trade at price/earnings multiples higher than the EBITDA multiples of other firms?

by Steve Murray, publisher

Many in the industry talk about what the multiples are for real estate brokerage firms. It comes up consistently, of course, in our own consulting with clients on the valuation of their firms.

Brokers want to know why firms, such as Realogy and RE/MAX, two pure real estate brokerage players, trade at price and earnings multiples far higher than the EBITDA (earnings before interest, taxes, depreciation and amortization) multiples of other brokerage firms. Further, some ask, 'When a multiple of four times EBITDA is considered a fairly good one, and the inverse of that represents a cap rate of 25 percent, why is this a good thing for a seller when cap rates are so much lower for other kinds of investments?"

The answer is risk. Realogy and RE/MAX have much larger footprints than any individual brokerage firm and gain most, if not all, of their revenues and earnings from franchising fees and royalties. They have thousands of brokerage firms and tens of thousands of sales associates in their systems. For the most part, neither firm has the burden of the fixed business liabilities of a brokerage firm, such as office and equipment leases, and the employees it takes to manage a realty firm.

The risk of agent departures is the single biggest risk of owning a brokerage firm. As someone once said, your main assets go home at night, and there is no legal requirement that they show up the next day. Since the early 1980s, we've seen three new forms of brokerage show up; each has caused a material shift in where agents are located. The 100 percent commission concept, the capped company revenue concept and the flat-fee brokerage have each shifted agents from traditional graduated commission-based brokerage firms. The risk of agent movement has been highlighted once again by Compass and its acquisition of top producing agents in several of the nation's largest and most expensive markets.

So, whether you refer to the *multiple or the cap rate,* both reflect the same thing. It shows the risk of an investment in a business that generally owns few defensible assets—no trademarks, no patents, few sustainable competitive advantages.

But brokerage firms do have some assets that make them worth more than they used to be. With size comes the advantage of offering multiple services, such as mortgage, title insurance, escrow services, property management, property casualty insurance, and others related to homeownership. The CFPB killed off the easy money in this area, but they didn't kill it off entirely.

Getting back to RE/MAX and Realogy, they will almost always trade at higher multiples and cap rates because they are less risky to own than brokerage firms.

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CHECKLIST

MAKING YOUR WEBSITE ADA COMPLIANT

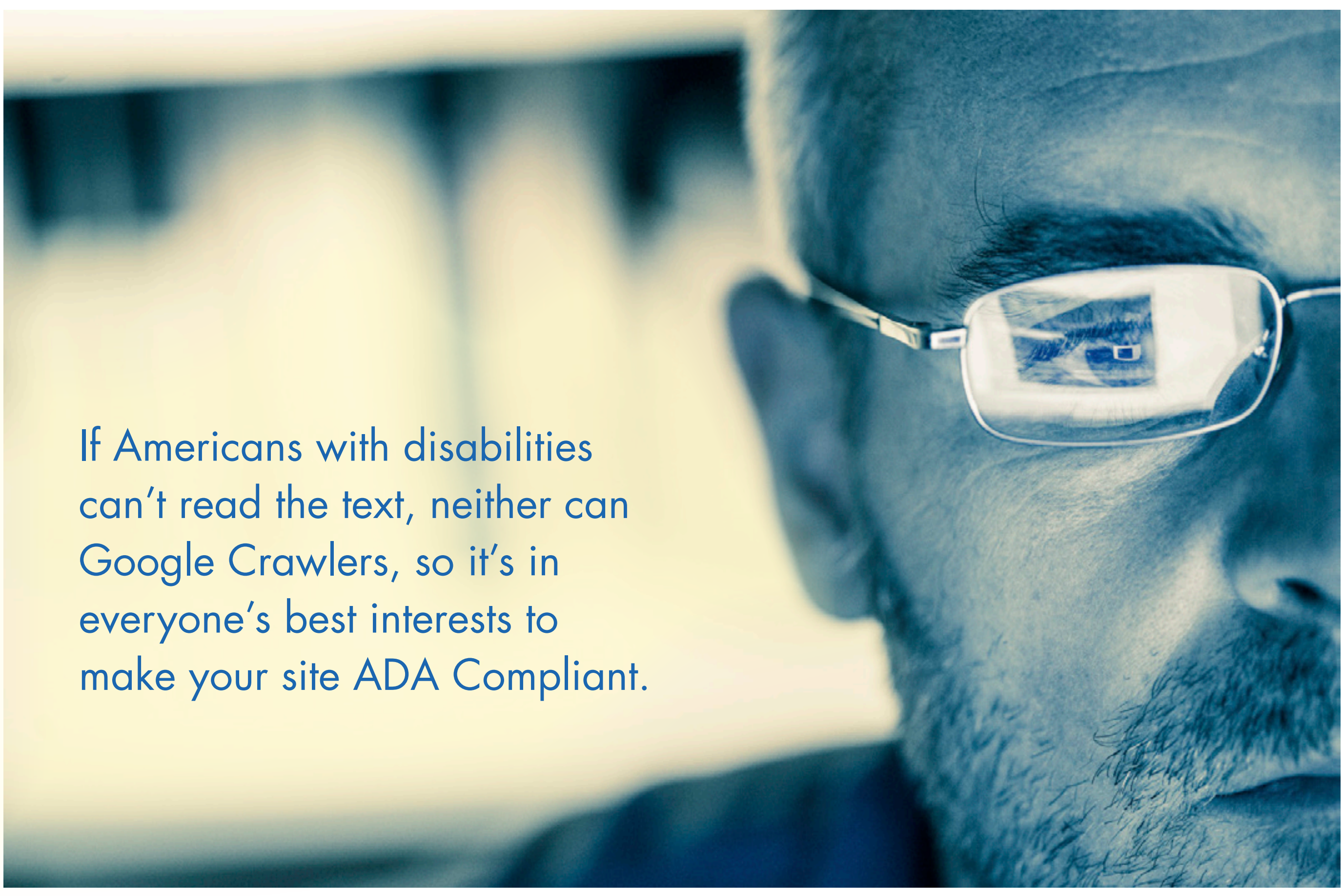
Best practices and takeaways for your website.

by Travis Saxton, vice president of technology

More businesses are using their websites as a digital storefront, where they conduct business. Government agencies and programs are starting to push their content online, and this has created a problem for Americans with Disabilities. Under Title II of the Americans with Disabilities Act (ADA), website accessibility falls under the nondiscrimination requirements.

So what does this mean? The truth is that many of your business practices may need to change. Many American's with disabilities use assistive technologies to read webpages. This may include text-to-voice, Braille interpretation devices, text enlargers and more. These devices all rely on the ability to interpret the text to be effective. Search engines operate mostly in this fashion as well. So, if Americans with disabilities can't read the text, neither can Google Crawlers, so it's in everyone's best interests to make your site ADA Compliant. Here are the common areas in which websites fall short: images, PDFs, videos, navigation and buttons, iFrames, widgets and embedding content.

1. **Images.** This is one of the most commonly overlooked areas in general. Images cannot be read by assistive technologies and search engines if they aren't properly loaded into the site. Most content management systems, like Wordpress, allow you to name the image and add alt text and captions below the image. So, be careful when loading images straight from a camera or SD card that are labeled DSC12345.jpg.



If Americans with disabilities can't read the text, neither can Google Crawlers, so it's in everyone's best interests to make your site ADA Compliant.

For example, when loading the REAL Trends Logo, the name of the file is REAL Trends Logo.JPG and the alt text would be "REAL Trends Logo—The Trusted Source." If you want to add a caption, common for photos, not logos, here is an example. If you are uploading a photo of an annual gala, you can caption it "party goers taking in the annual gala." If you label the images properly, it will help with SEO.

2. **PDFs.** Reports produced in PDF format are usually uploaded to your website as a link for people to read. The problem is that most PDFs are unreadable to the assistive devices and search engines. It's best to load that content onto web pages as stories and break them out into a navigable section of your website.

3. **Videos.** Typically, videos are hosted on a hosting platform, such as YouTube or Vimeo, and embedded on your website. While this is easy, it doesn't take into consideration those who can't see or hear. It doesn't give them the context they may need to digest your content. Two ways you can overcome this is to use a tool that naturally embeds the video with full descriptions or write a caption below the video describing what is covered.

4. **Navigation and Buttons.** Many times, these are uploaded images, so without proper labeling, assistive devices can't navigate or read these buttons. Your menu should be ADA compliant, but if you use a lot of buttons or images to navigate your site, you may need to re-evaluate those practices or label properly.

5. **iFrames, widgets, Embedded Content.** This type of content is usually embedded on your site to add value and keep the visitor engaged. It is also used to prevent a reader from leaving the page. Some iFrames, widgets and embedded content are not meant to be read by search engines. The problem is assistive devices can't read that content either. So, provide a link to the original content in addition to embedding it.

Here is a simple guide:

- **Run Focus Groups with American's with disabilities.** Every year, engage this audience and have them go through your site working through challenges.
- **Determine if you are properly loading content.** CLICK HERE to see what search engines can read on your page. Then, see if it matches up with your intentions on the page. Make sure the five areas above are represented in that text.
- **Show your intentions and growth.** Create a page, plan and post it. Create a page dedicated to informing your audience about your ADA Efforts. Publish what you will be doing in the five areas above and how you are running tests. This is a big step in your internal accountability and legal compliance with your website.
- **Visit the ADA site:** CLICK HERE

2017 GATHERING OF EAGLES

DON'T MISS LEADERSHIP EXPERT JIM COLLINS, AUTHOR OF "GOOD TO GREAT"

On April 26-28, 2017, we will be hosting our annual Gathering of Eagles Conference at the Four Seasons Hotel in Denver, Colorado. As always, we limit attendance to 300 people total.

This year's agenda includes well-known and respected author and consultant Jim Collins of "Good to Great" fame, as well as the author of numerous other chart-topping management and leadership books.

Also, we have three noted leaders—Ron Peltier, Dave Liniger and Hoddy Hanna— who will discuss what they've learned in their combined 140 years in real estate. They'll also tell us where they think the industry is heading. There will be panels on the future of brokerage from young, successful leaders with different models; a session on business metrics and a panel on what is working in online digital marketing.

To register, CLICK HERE Questions? Email Dani Stufft at dstufft@realtrends.com, 303-741-1000.

REALTRENDS GATHERING OF EAGLES

2016 WEB SITE RANKINGS REPORT

On December 7, we release the results of our examination of more than 500 real estate brokerage websites, ranked in numerous categories of performance. Use this report for ideas on improving your website and comparing what you're doing with other brokerages.

COMMEMORATIVE MAGAZINE

CHEERS TO 30 YEARS OF REAL TRENDS

Happy birthday to us! REAL Trends is 30 years old and during this year's Gathering of Eagles, April 26-28 2017, we'll be celebrating! As a part of that celebration, we're producing a 30-year commemorative magazine on the events, lives and stories of the last 30 years.

For this publication, we need your help! Please send us (rchapla@realtrends.com) your stories and photos of the leaders of your company over the last 30 years. The older the photos; the funnier the stories, so be creative!

We will publish and release this special 30-year commemorative issue at the Gathering of Eagles. It would be wonderful to have you with us.

To register, CLICK HERE Questions? Email Dani Stufft at dstufft@realtrends.com.

CELEBRATING REAL TRENDS 30TH ANNIVERSARY

OCTOBER 1987: THE STOCK MARKET CRASH AND FORD MOTOR COMPANY'S SAVINGS AND LOAN NETWORK

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

By Steve Murray, publisher

While the October 1987 REAL Trends newsletter was out before the largest single-day stock market crash in history (October 19 when the market fell 22.6 percent in a single day), no one in real estate foresaw it happening.

But, we reported on Ford Motor Company's expansion of its savings and loan network. Imagine that—a car company in consumer financial services. Then again, the 1980s were all about peddling financial services, such as clothes, cars and investments, insurance, etc. It's hard to remember what they were thinking at the time. Sears had just announced a new magazine, Great Moves, which they were using to reach relocating families.

Discount brokerage was becoming the rage with a special report on Help-U-Sell and Homeowners Concept, both of which had doubled in size in the previous two years. Lastly, in a presage into what would become an enormous headache for the housing market, the Federal Savings and Loan Insurance Corporation opened its first REO office in Dallas. What appeared to be a minor surge in foreclosures would soon turn into a flood as the housing market headed into a swoon that would last through the early 1990s in many parts of the country.

Ford Motor Company Headquarters, Dearborn, Mich.

It's amazing that, in some regards, the same trends and fads that show up periodically keep repeating themselves. We'll have more on the past 30 years of REAL Trends in later editions.