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MAY 2017 NEWSLETTER

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BEYOND 2017

WILL WE RUN OUT OF HOUSING?

The problem is not just affordable housing; it's that unless homebuilding of all kinds increases back to near its historical norm of above 1.4 million homes a year, we may simply run out of places to live and homes to sell.

by Steve Murray, publisher

Having studied recent data about inventory and sales levels, household formations, immigrant populations and other related factors, one could construe that we are, in fact, going to run out of housing for a growing population.

Here are some thoughts to consider:

We are adding 1.3 million new households per year. This is currently a number expected to grow to nearly 2.0 million per year as Millennial households enter the workforce, leave their parent's home and get their own place to live.

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Homebuilding is averaging slightly above 1.1 million starts a year, most of which is single family starts at about $650,000 to $700,000 per year. Multi-family is slowing somewhat while single family is growing somewhat—but few think this number will advance rapidly in the next few years.

According to the U.S. Census Bureau, the vacancy rate for rental housing currently stands at 6.9 percent nationally while the vacancy rate for homeowner property is 1.8 percent.

When one extrapolates the growth of households over the next 10 years against projected housing starts of all kinds, not only will we run short of houses to sell, but also of houses or apartments in which emerging households can live.

In many markets, the demand for entry-level homes far exceeds the supply, while the supply of homes in the higher end of the price segment far exceeds the demand.

Some 22 to 24 million, one to four-family homes are in the hands of private or institutional investors who have no immediate financial need or desire to sell them. This level of total housing stock held by private investors is far above any previous level. Estimates are that many of these homes are, in fact, entry-level houses, that in previous years would have been available to first-time homebuyers.

The homeownership rate has fallen from a high of just over 69 percent in 2005 to a 40-year low of just above 63 percent in 2016. The nearly 6 percent drop represents over 7 million potential homeowners who are not owners right now.

When one extrapolates the growth of households over the next 10 years against projected housing starts of all kinds, not only will we run short of houses to sell, but also of houses or apartments in which emerging households can live. The vacancy rates are already near all-time lows.

The problem is not just affordable housing, which is a huge growing problem. The problem is that unless homebuilding of all kinds increases back to near its historical norm of above 1.4 million homes a year (and likely that is not enough), we may simply run out of places to live, not to mention homes to sell. In fact, the rough average of home starts from 1990 to 2005 was 1.6 million new home starts.

Is anyone looking at this data?

CEO REDUX

WHO ARE TODAY'S SUCCESSFUL CEOS?

Traits that differentiate those leaders who excel over the long term.

By Steve Murray, publisher

After 40 years being in the residential brokerage industry—37 of them working with CEOs from across the spectrum of large and small brokerage firms, nationally affiliated and independent, full service and discount models—I've come to some conclusions about the traits that differentiate those who truly excel over the long term. And, yes, much of what is written here has been written elsewhere, in numerous best-selling business books, in multiple speeches, blog posts, etc.

- **They are passionate about their business.** This doesn't mean that they don't tire of the day-to-day challenges, and don't get as frustrated as the next guy, but they really love what they are doing most of the time.

- **They are tinkerers.** They are unafraid to try new and untested ideas, some more so than others. But, they are not fools for fads and most know the difference. They look for new ways to separate themselves from the pack.

- **They don't suffer fools.** While these top CEOs appear to be friendly and warm, they don't like having their time wasted by those who haven't thought through what they are proposing, or those who have chronic-complaining symptoms. They do have patience for those in true need of their input and somehow the best CEOs know the difference.

- **They share.** They are willing to share what they know with others.

- **They are curious and read a variety of publications daily.** While many would not be considered great readers, they are constantly seeking information. They are curious not just about the business, but about what is going on around them in the world.

- **They are great listeners.** The very best are great listeners and know they don't necessarily know the answers to all the tough questions.

- **They get it.** They understand that their culture is every bit as important as their financial and operational results.

TOMORROW'S TECHNOLOGY WAVE

NATIONAL COMPANIES TAKE CONTROL

There's been a recent move by residential brokerage leaders to take control of technology. | By Steve Murray, publisher

Based on public moves and announcements, it is becoming clear that several of the national real estate companies are seeking to take control of their own technology platforms, ending years of renting or leasing key technologies from outside suppliers. Keller Williams announced such a change in the past year, and Realogy telegraphed this change when it bought ZipRealty several years ago.

Some wise people in our industry talk about how even they are surprised that the internet wave hasn't changed our industry more than it has.

Investment Capital Flowing

Many are also commenting on the investment capital that continues to flow unimpeded into the residential brokerage industry through investments in technology firms. A few examples of those raising outside capital are Lone Wolf, Boston Logic and BoomTown. Many other real estate tech firms report success in raising capital as well. This trend has some in the brokerage industry concerned about what it means for their future, especially given the stories of sky-high valuations for some of these businesses.

We wrote some years ago that underlying some of this is the belief by those in Silicon Valley and on Wall Street that the $70 billion residential brokerage commission revenue pile can be disintermediated by the correct application of technology, capital and changing the behavior of consumers. Some of these investments, as we have found through our own research, are just dartboard-like investment pools where a fund might put $10 to $30 million into 20 to 25 different companies in different industries and then see which work. These investors know that not all of them will. But, the residential brokerage industry continues to defy the expectations of some that technology will do to this business what it has done to so many others. And, perhaps someday it will.

But the trend of substantial investment in real estate tech is not one that we haven't seen before and, by itself, will not cause fundamental change in the industry.

What is the impact?

If the move by national real estate organizations to own and operate their own technology platforms takes further shape, and regional brokerage firms follow suit, then a few things may happen. First, while it will take time to gain adoption from their hundreds of affiliates and tens of thousands of agents, they could lower the price and complexity of technology for a huge share of the market. Second, it will make it harder for new tech offerings to gain a foothold. While the national and regional realty organizations can't compel their affiliates and agents to use their technology, they can sure make it financially and operationally compelling. Lastly, with the potential roll out of Upstream, they can build their technology on one data standard which reduces complexity and cost.

Some wise people in our industry talk about how even they are surprised that the internet wave hasn't changed our industry more than it has. Then again, when they consider what they would do with unlimited funding to try and change it, these smart people are as confounded as everyone else.

It is the housing consumer that will compel change, just like it was consumer behavior that changed so many other businesses. And, changes in other industries were aided and abetted by the incumbents unwilling to change themselves.

FIRST PERSON

WHAT MAKE REAL TRENDS SPECIAL?

IT'S ALL ABOUT THE PEOPLE

By Tracey C. Velt, editor of publications

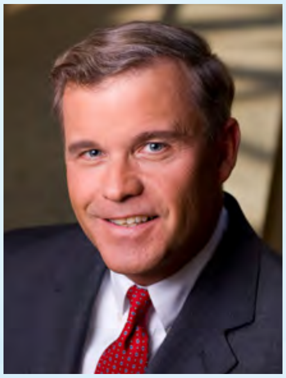
30 years—that's how long Steve Murray has been working with brokerage companies, providing vital business consulting and valuation expertise.

Through my work at REAL Trends, I've interviewed hundreds of brokerage executives about their businesses and the services REAL Trends provides. But, it's what they said about Steve Murray, founder of REAL Trends, that gets to the heart of what this company is all about—trust.

Steve's the guy who always has your back, offers straight-forward business (and personal!) advice and is usually correct, but more than that, he deeply cares about the people with whom he works. That shows in the type of company he built— a company that puts people before profits. A company that believes in serving others. A company that has high ethical standards and transparency.

But, don't take my word for it. Here's what top brokerage leaders from around the country had to say about Steve Murray and REAL Trends:

"Steve is more than a business friend, he and his wife are personal friends. Through his work as an industry expert witness and his deep knowledge of company value, he's passed on that knowledge selflessly. Through him, I get to see what's happening in the world of real estate. I've created great friendships by attending the Gathering of Eagles, as well."
— *Michael Saunders, founder and president of Michael Saunders & Company, Sarasota*



"I've had a lot of communication with Steve over the years. We know each other well, and we talk about all the changes that have happened in our industry and reflect on the beginning years. He taught me that change is inevitable, but growth is optional."
— *Bruce Zipf, president and chief executive officer of NRT LLC, New Jersey.*

"Every acquisition we do has a piece of Steve in it, whether he's involved or not. From how we structure it or approach it, his research helped us grow our business in so many ways."
— *Dan Elsea, Real Estate One, Michigan*

"I've known Steve for the better part of that 30 years, and he was instrumental in me taking over this company in the mid-80s. When I was thinking about buying out my partners, I didn't have a lot of capital, so I was putting together a business plan that made sense for the bank. I contacted Steve and asked for help valuing the company. He was so helpful, and I don't think he charged me very much! Without his input, I wouldn't be sitting here today as owner of this company."
— *Bill Hurt, broker/owner, ERA Shields Real Estate, Colorado*

"I can remember being at a dinner party a few years ago. Steve and I got into a deep conversation about the industry. He gave me a poem, which continues to provoke thoughts as I continue to journey down this path. He probably doesn't even realize the impact he's had with his willingness to share."
— Tracy Hutton, president, C21 Sheetz, Indiana

"I've attended every training that Steve has provided associated with Keller Williams events. I've studied his methodologies for valuing companies and for successful mergers and acquisitions. I've participated in at least eight merger or acquisitions, all using things I've learned from him. Hiring him to help with mergers as a third party has been helpful to take some of the emotion out of the value outcome."
— Tim Minnix, operating principal,
Keller Williams Real Estate, Texas

"Steve has been a friend for more years than I can remember. In all that time, I never remember Steve offering me advice unless I asked for it. He would give it to you straight, and his advice was always good. He's one of the best straight shooters in the business. Many times, brokers get locked into certain beliefs. Steve challenged those beliefs, but not in a confrontational way. He would get me to think of other options and to step outside my box. Very few people have that ability. The ranking reports challenged me to get better and work harder. When I look at his leadership and guidance, I see only two ways to get a great real estate education—the school of hard knocks and REAL Trends."
— Eb Moore, CEO, ERA Real Estate, Virginia

These quotes are only a fraction of the feedback we received from people Steve touched through the years. They all said the same thing about him: he's trustworthy, he knows more about the industry that almost any other expert out there, he gives with no expectation of receiving, and he cares. That, above all else, makes him a great leader.

Now, Steve is training the new leaders of REAL Trends. They're a young, dynamic group with a passion for the industry. No doubt, with Steve's careful training, they eventually will be as impactful to our industry as Steve has been.

Here's to 30 more years of REAL Trends!

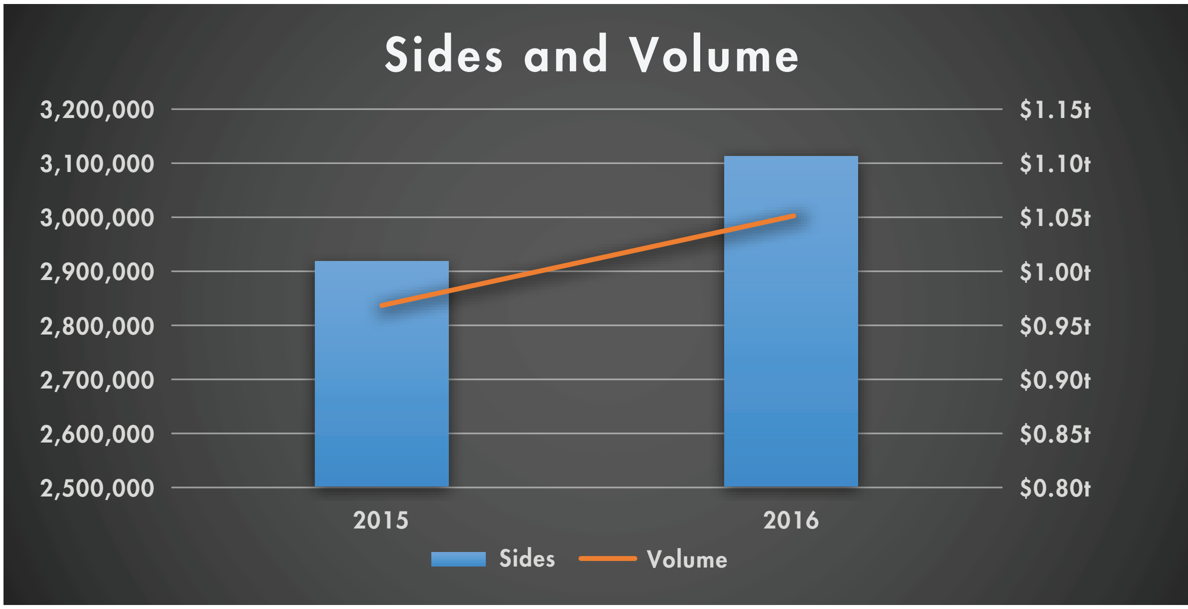
2017 REAL TRENDS 500 TOP BROKERAGES

OBSERVATIONS FROM OUR RESEARCH

Only about one-half of 1 percent of the nation's brokers were responsible for approximately one-third of the nation's residential real estate business. Here are some other fun facts.

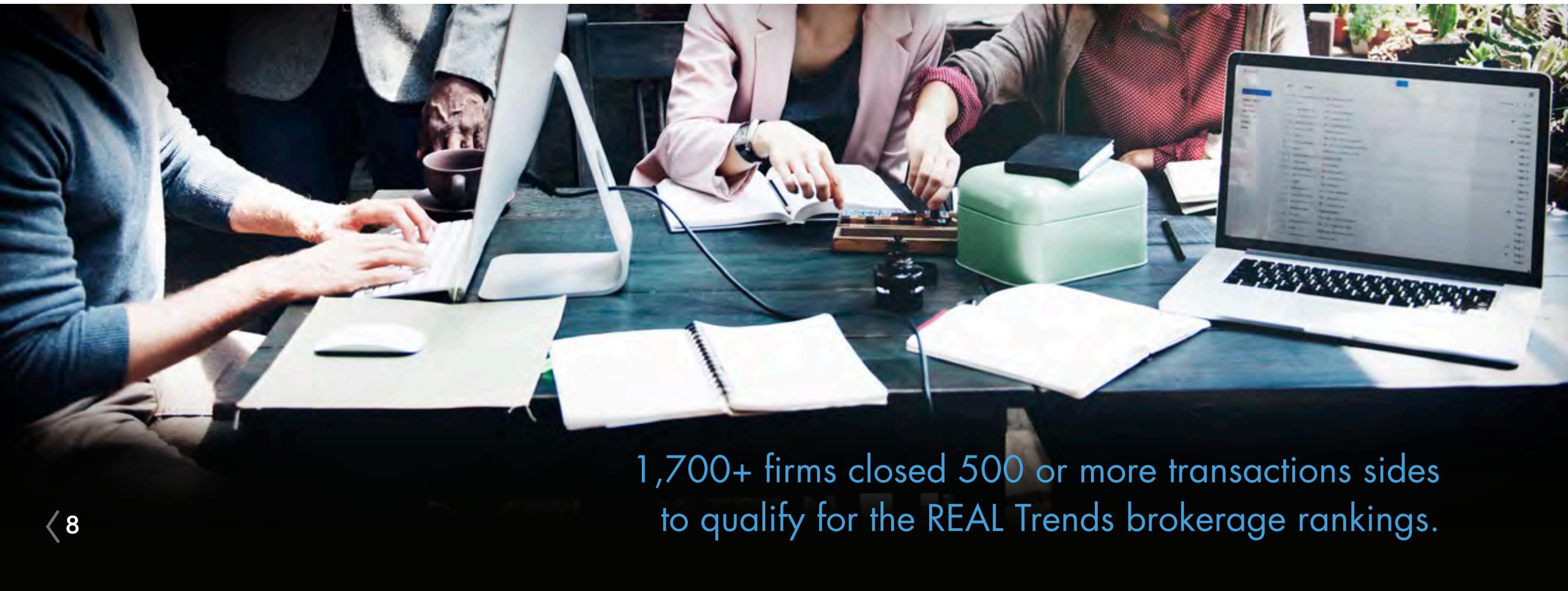
by Scott Wright, director of mergers and acquisitions

The highly anticipated REAL Trends 500 brokerage rankings have finally been announced, and boy what an exciting year it was for top brokers!



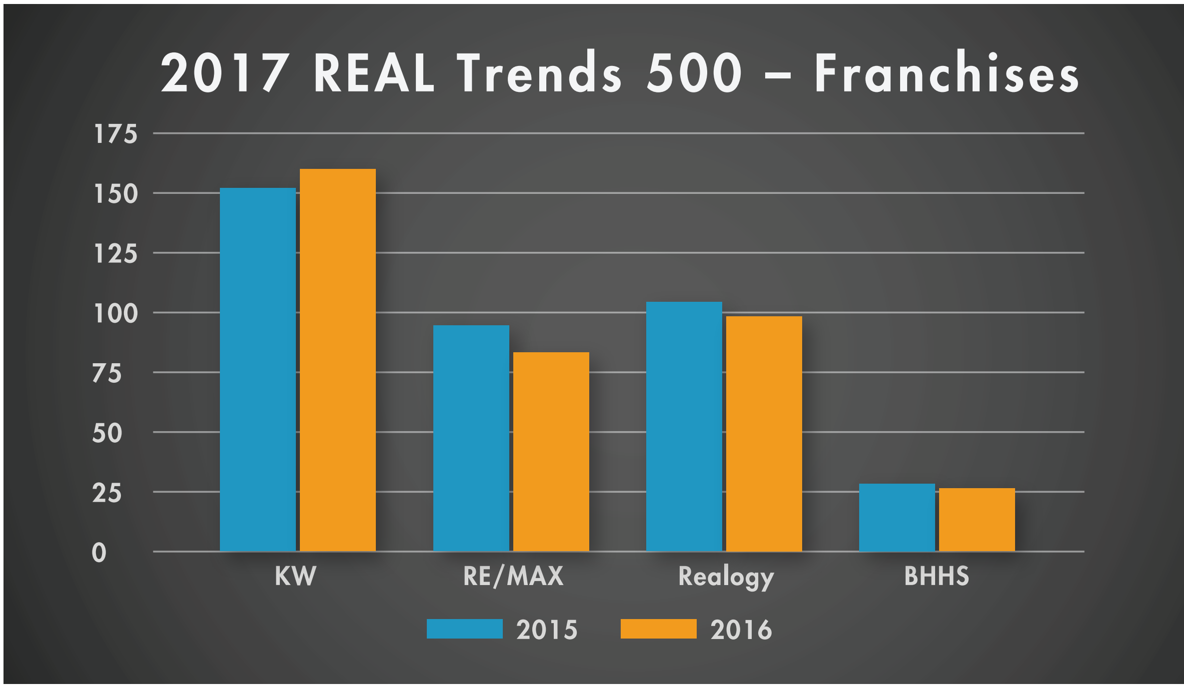
Here are some observations:

- 1,700+ firms closed 500 or more transactions sides to qualify for the REAL Trends brokerage rankings. This represents a 6.2 percent increase over the previous year.
- In order to make the top 500 by sides, firms had to close at least 1,843 residential transactions, a big increase over the 1,702 transactions last year.
- To make the top 500 by volume, firms had to close at least $505,328,075 in sales, an increase of $53,242,124 over the previous year.
- In 2016, the top 500 firms by sides closed a collective 3,110,960 transactions, an increase of 6.6 percent over 2015.
- In 2016, the top 500 firms by volume combined to close a staggering *$1,052,532,344,996* in sales. That's right folks, $1.05 trillion, an increase of 8.8 percent over 2015!



1,700+ firms closed 500 or more transactions sides to qualify for the REAL Trends brokerage rankings.

Only about one-half of 1 percent of the nation's brokers were responsible for approximately one-third of the nation's residential real estate business.



- The sides total for the REAL Trends 500 accounted for 30.4 percent of all residential transaction sides closed in the United States in 2016 (based on annual numbers from the National Association of Realtors®).
- The volume total for the REAL Trends 500 accounted for 35.9 percent of all residential sales in the United States in 2016 (based on annual numbers from the National Association of Realtors).
- To put this in perspective, only about one-half of 1 percent of the nation's brokers were responsible for approximately one-third of the nation's residential real estate business!
- Stalwarts NRT LLC (337,780 sides) and HomeServices of America, Inc. (245,154 sides) continue to dominate the industry, with their respective No. 1 and No. 2 spots.
- There was however a big upset in the No. 3 spot in 2016, with Hanna Holdings (90,016 sides) dethroning long-time triennial placeholder Long & Foster Companies, Inc. (81,032 sides). Long & Foster still maintains a firm hold of No. 3 measured by volume, but Hanna's big 2016 acquisition of RealtyUSA provided the necessary boost to leapfrog the Virginia-based giant by sides.
- The REAL Trends 500 continues to have a healthy showing by the nation's largest franchises.
- RealtyONEGroup (44,182 sides) rounds out the top five, maintaining its No. 5 position for three years running.
- Interestingly Realogy, RE/MAX, and Berkshire Hathaway HomeServices each experienced down ticks in 2016 in terms of the number of their brokers populating the top 500 by sides. Realogy (CENTURY 21, Coldwell Banker, Better Homes and Gardens Real Estate, ERA, and Sotheby's International Realty) slipped from 104 to 99, RE/MAX from 94 to 84, and Berkshire from 28 to 27.
- Keller Williams Realty was the only major franchise to see a year-over-year increase, with now 161 brokers in the top 500 as opposed to 151 in 2015.
- Collectively, these major franchises accounted for 74 percent of the firms in the REAL Trends 500 by transaction sides.

If you'd like to see the rest of the rankings including the top independents, movers, core services providers, the Billionaires' Club, the largest regional brands and the up-and-comers, purchase the magazine today.

To view the REAL Trends 500 by sides and volume, **CLICK HERE**

LEADERSHIP? BRAND?

YOUR MOST IMPORTANT BUSINESS ASSET

What, or who, is your most important business asset?

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

What is your most important business asset? Your people? Your reputation? Leadership? Brand? All are important; however, an in-depth study by the Gallup Organization of over 400 companies in multiple industries found that your most important business asset is your manager. Managers are the key players in building a strong team, office and company.

The Gallup study based their conclusion on four performance measures: productivity, profitability, retention and customer satisfaction. After separating companies into performance quadrants based on these four measures, they began to drill down to discover why the companies in the top quadrant performed so much better than those at the bottom. The clear conclusion— the quality of the manager is the difference that makes the difference.

What are the great managers doing? There are four keys.

1. **Selection.** When selecting someone, they select for talent, not for experience, intelligence or determination.
2. **Setting Expectations.** When setting expectations, they define the right outcomes, not the right steps.
3. **Motivation.** When motivating someone, they focus on strengths rather than weaknesses.
4. **Development.** When developing someone, they help them find the right fit, not simply the next rung on the ladder.

How can you measure the quality of your manager? Success leaves clues. The Gallup study found the great managers (the ones with the highest performance on productivity, profitability, retention and customer satisfaction) rated 5s on 12 questions asked of their employees. Poor performing managers rated 3s or less. Can it be that simple? According to Gallup—yes! Here are the dozen key questions (on a scale of 1 to 5 with 5 (Strongly Agree) and 1 (Strongly Disagree):

1. Do I know what is expected of me at work?
2. Do I have the materials and equipment I need to do my job right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days, have I received recognition or praise for doing good work?
5. Does my supervisor, or someone at work, seem to care about me as a person?
6. Is there someone at work who encourages my development?
7. At work, do my opinions seem to count?
8. Does the mission and purpose of my company make me feel my job is important?
9. Are my co-workers committed to doing quality work?
10. Do I have a best friend at work?
11. In the last six months, has someone at work talked to me about my progress?
12. This last year, have I had opportunities at work to learn and grow?

We administer this 12-question survey every year to both our sales associates and staff. Just as in the Gallup study, we find a direct correlation between the manager's rating and the performance of their office in the four key areas: productivity, profitability, retention and customer satisfaction. The 12 questions help our managers get clear on what is important and how to get results. The questionnaire is also used in the manager's performance evaluation.

Can great management be as simple as these four keys and 12 simple questions? We believe so and highly recommend you read the book on this study, *First, Break All The Rules, What the World's Greatest Managers Do Differently* by Marcus Buckingham and Curt Coffman. It will be worth your investment. After all, your managers are your most important business asset.

BROKERAGE

NEW STUDY!

HOW REAL ESTATE PROFESSIONALS WORK

by Deirdre LePera, director of business development

Real estate professionals are independent contractors. For many, the huge perk of running their own business is being the boss. A broker-owner or office manager can encourage, request and even beg a sales associate to come to the office, but there is nothing that forces them to come in unwillingly. For many broker-owners, there is no reason to force a sales associate to come to the office.

Peter Crowley, broker and co-owner of RE/MAX Alliance Group, shared that about half of his 300-person sales force in Sarasota, Fla., works from home and the other half works in the office. Crowley said that, "some agents need the office to feel productive," but that all sales associates have paperless options and don't have to come into the office. He admits that it is harder to get people face-to-face due to technology, but that food and drink are still the common elements that bring people together to create camaraderie and collaboration. RE/MAX Alliance Group periodically hosts training or social events to keep the sales force engaged.

Mobility is a Perk

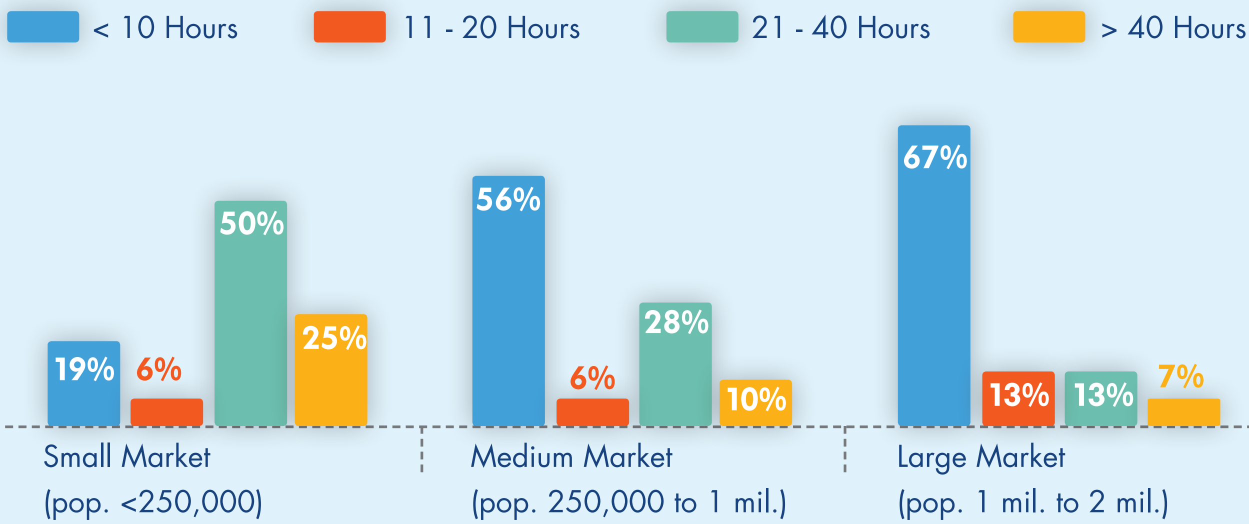
Sales associates who don't want or need to come into the office is a perk for some companies. Of the 520 sales associates at Your Castle Real Estate in Denver, Colo., President Charles Roberts estimates that 75 percent of them never step foot into one of the seven offices each week. For those who do come into the office, they are likely there about an hour or less each week, unless they are attending training. According to Roberts, he and others in leadership would rather see their sales associates out of the office working with new or established clients. That's not to say that Your Castle Real Estate doesn't provide workspace. Roughly 6 percent of their sales force has a designated office, and the remaining sales associates have professional drop-in space available.

Rural and Urban Office Challenges

Logistics may also play a part in whether or not a sales associate makes it to the office on a regular basis. Sales associates in rural or urban areas face similar challenges in accessing office space; a lengthy commute to the office may not make sense given the sales associate's schedule for the day. Michael Golden, co-founder of @Properties in Chicago, Ill., said that most of the 2,100 sales associates are in one of @Properties 20 office spaces for 10 hours or less a week, but that sales associates in urban offices tend to spend less time in the office. Golden shared that they encourage people to spend time in the office—the leadership team thinks it is important—but they don't force it.

HOURS SPENT BY SALES ASSOCIATES IN THE OFFICE

Based on Market Size



According to REAL Trends' recent study, *Redefining the Relevancy of Workspace*, the percentage of sales associates who spent 10 hours or less a week in the office increased as the size of the market increased. Seventy-five percent of sales associates in small markets indicated that they spent more than 20 hours a week in the office. Molly Iversen, a Realtor® and part of the leadership team at Coldwell Banker Hedges Realty in Cedar Rapids, Iowa, said that of the 100 sales associates who work out of their two locations, the regular users spend about 35 hours a week in the office. For Coldwell Banker Hedges Realty, the sales associates who spend more time in the office have higher sales volumes than those who work from home.

To read more about the correlation between the productivity of real estate professionals based on their interaction with broker provided workspace, **CLICK HERE**.

NEW PODCAST SERIES LAUNCHING IN MAY

The Secret Lives of Real Estate

QuantumDigital and REAL Trends partnered to create **The Secret Lives of Real Estate Podcast Series**, where we pull back the curtain to share the personal passions, philanthropic efforts, community spirit and industry insights from real estate leaders, trendsetters and legends.

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SECRET LIVES OF REAL ESTATE

NEW STUDIES

MILLENNIALS MOVE LESS BUT RENT MORE THAN OLDER GENERATIONS

New data from the Census Bureau and analysis by the Pew Research Center found that Americans are moving at the lowest rate on record and that a primary reason is that Millennials are moving significantly less than earlier generations of young adults.

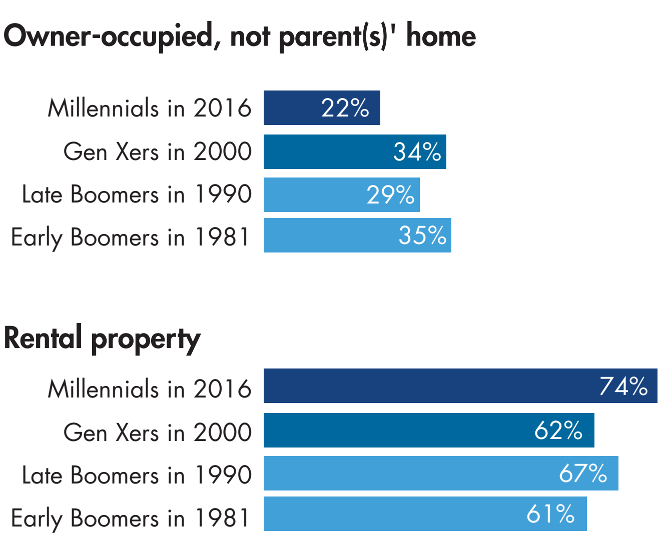
By Steve Cook, editor of Real Estate Economy Watch

Though younger adults typically move more often than their older peers, Millennials (ages 25 to 35) are moving significantly less than Gen Xers and Boomers, yet they still are more likely to rent than buy than older generations at the same age.

In 2016, only 20 percent of Millennial 25- to 35-year-olds reported having lived at a different address one year earlier. One-year migration rates were much higher for older generations when they were the same age. For example, when members of the Silent Generation were ages 25 to 35 back in 1963, 26 percent reported moving within the prior year. And in 2000, when those in Generation X were the age that older Millennials are

ARE YOUNG ADULT MOVERS RENTING OR BUYING?

% of 25- to 35-year-old movers who were living in________following their move



today, 26 percent of them reported having moved in the previous year. (The analysis is limited to older young adults because the census data source does not accurately capture moves to and from college dormitories, which are more prevalent among 18- to 24-year-olds.)

It may seem counterintuitive that Millennials would be contributing to a trend toward less geographic mobility. After all, according to Pew Research Center analysis of Current Population Survey data, they are less likely than earlier generations to have three things that tend to be impediments to moving for a young adult:

A spouse. Millennials are less likely than previous generations of young adults to be married, so that should give them more flexibility than earlier generations. Married young adults are less likely to move than unmarried ones, in part because a married couple's move may entail two people lining up new employment. Only 42 percent of Millennial 25- to 35-year-olds were married and living with their spouse in 2016. By comparison, 82 percent of Silent 25- to 35-year-olds were married and living with their spouse in 1963.

A house. Today's Millennials are less likely to be tied down by owning a house. It is presumably less disruptive and potentially less costly to move from a rental unit than it is to sell a house, so one would expect renters to be more mobile than homeowners. Older generations appear to be significantly *more* likely to have been tied down with a house when they were young adults than Millennials are today. For example, 56 percent of early Baby Boomer 25- to 35-year-olds lived in owner-occupied housing (not owned by their parents) in 1981, whereas only 37 percent of Millennials lived in such housing in 2016.

A child. Young adults also are more likely to migrate if there are no children present in the household. In 2016, a majority (56%) of Millennial 25- to 35-year-olds were childless (regarding not having a child living with them). Fewer than half of Gen Xers and Boomers were childless at a similar stage of life.

So, if Millennials are less hampered by spouses, houses and kids, why are they moving *less* than previous generations did at their age?

Labor market opportunities may be a factor. Millennials were hit hard by the Great Recession regarding job-holding and wages. For many young adults who moved in the past year, job opportunities were a prime motivation for moving, and the modest jobs recovery may not be providing the impetus Millennials need.

When they do move, Millennials' motivations for moving are significantly different from those of earlier generations of young movers. One incentive for moving is to buy a home, but Census Bureau migration data suggest Millennial movers are doing so at significantly lower rates than earlier generations. In 2016, homeownership among younger households was at its lowest level in at least 40 years. On the one hand, the different family demographics of Millennials – such as not having children – may undercut their desire to own a home. But financial considerations may play a role as well. Compared with Gen X young adults around 2000, lending standards are much tighter, making it more difficult for Millennial 25- to 35-year-olds to get a mortgage. Student debt may be deterring young adults from home ownership.

According to the Census Bureau survey, in 2000, 14 percent of Gen X movers said that their primary reason for moving was that they wanted to own a home, not rent. Just 6% of Millennial movers in 2016 were so motivated.

Among Millennials who moved in 2016, 22 percent owned their home after their move. In contrast, earlier generations of young movers were more likely to move into homes that they owned. For example, 35 percent of early Boomer 25- to 35-year-olds who moved in the year before 1981 lived in an owner-occupied home.

So, whether by choice or by circumstance, Millennial migrants appear to be significantly less likely to buy a home than earlier generations of 25- to 35-year-old movers.

CONSUMER FINANCIAL PROTECTION BUREAU (CFPB)

TRUMP SETS REFORM INTO MOTION

On February 3, President Trump took the first step towards Dodd-Frank reform in an Executive Order asking for a comprehensive Treasury Department review of the financial regulatory framework.

By Sue Johnson, strategic alliance consultant

The Executive Order instructed the Treasury (in consultation with several other agencies) to produce a report within 120 days that will identify (and recommend changes to) any laws, treaties, regulations, guidance, reporting requirements and other government policies that inhibit Federal financial regulation in a manner consistent with "Core Principles," which include:

- Empowering Americans to make independent financial decisions and informed choices.
- Preventing taxpayer-funded bailouts.
- Fostering economic growth through more rigorous regulatory impact analysis.
- Enabling American companies to be competitive in domestic and foreign markets.
- Making regulation efficient, effective and appropriately tailored.
- Restoring public accountability within Federal financial regulatory agencies.

No one knows exactly which parts of Dodd-Frank will be on the chopping block once Treasury presents its report on June 2. The list of potential issues is long and sweeping in its potential impact on the financial regulatory system.

One of the issues to be addressed is how to revamp the Consumer Financial Protection Bureau (CFPB), the Dodd-Frank–created agency with unprecedented regulatory authority over the housing industry. Here's what to watch for in the coming months:

CFPB Regulations: A Long Road Ahead

We can expect the Treasury report to nibble at the edges of Dodd-Frank reform by identifying regulations that should be revised or eliminated. This process was already set into motion by Trump's January 30 Executive Order requiring that two existing regulations be stricken for every new rule put in place.

The White House only can direct agencies under its authority to target over-reaching or unnecessary regulations.

While Richard Cordray remains as an independent director of the CFPB, he is not subject to either Executive Order.

But, the White House only can direct agencies *under its authority* to target over-reaching or unnecessary regulations. While Richard Cordray remains as an independent director of the CFPB, he is not subject to either Executive Order. This could change if the appeals court in *PHH vs. the CFPB* upholds a 2016 three-judge panel decision that the CFPB director should be under the authority of the President. At a minimum, the President would be able to nominate a more business-friendly CFPB director when Cordray's term expires in July 2018.

It's important to keep in mind that a CFPB director who is subject to the President's authority—or is more pro-business—must follow the same process when amending or eliminating a regulation that he does when issuing a new rule. This means publishing a proposal and providing for a public comment period, which would require months even under the most expedited schedule. The CFPB director' however, would have more flexibility regarding regulatory guidance (as opposed to rules), such as the 2016 RESPA bulletin on Marketing Services Agreements (MSAs).

CFPB Legislative Reform: New Life for the Financial Choice Act

In the long term, the White House will need Congress to pass legislation to achieve significant CFPB reform.

Dodd-Frank pundits in Washington, D.C. expect the Treasury's legislative recommendations to mirror provisions in the Financial Choice Act, Dodd-Frank reform legislation long advocated by House Financial Services Committee Chairman Jeb Hensarling (R-TX).

Hensarling is expected to introduce this year's version of the Financial Choice Act at any time. The original version would:

- Rename the CFPB as the "Consumer Financial Opportunity Commission" (CFOC).
- Require that it ensures competitive markets in addition to providing consumer protection.
- Replace the CFPB's single director with a bi-partisan five-member commission.
- Subject it to the Congressional appropriations process, which would give a Republican Congress the ability to reduce its funds.
- Eliminate its authority to enforce against abusive practices.
- Require a cost-benefit analysis of CFPB rules.

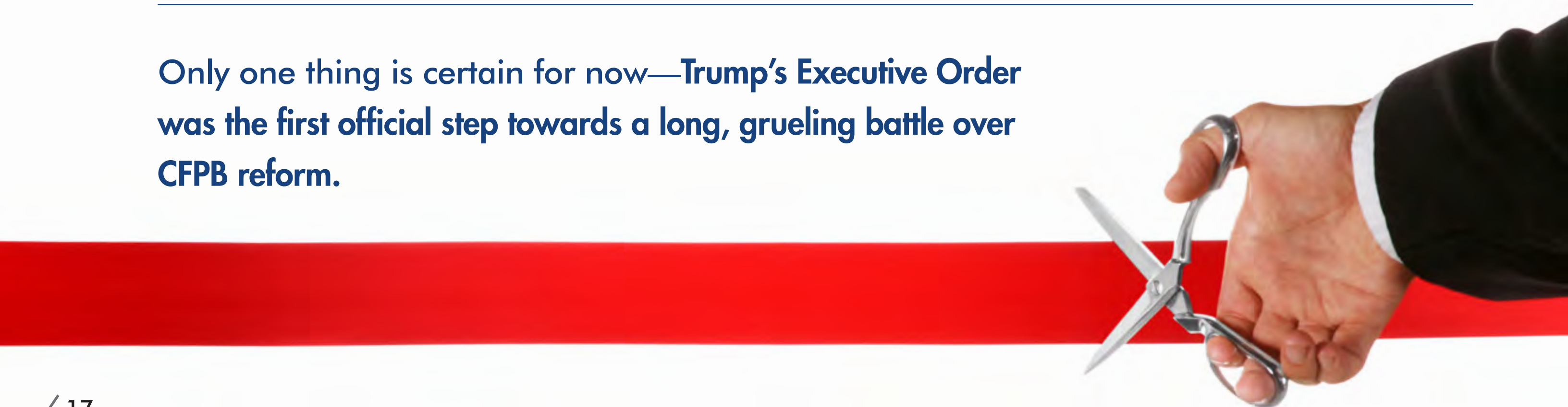
According to a recent CNBC article, an energized Hensarling is circulating an internal memo that outlines a more aggressive version of the Financial Choice Act. This memo reportedly turns the CFPB director into a political appointee subject to the authority of the President (the outcome of the PHH decision that is being appealed) and takes away the CFPB's UDAAP authority to pursue enforcement actions against unfair, deceptive and abusive practices.

But the Financial Choice Act faces tough obstacles even in a Republican Congress. Senator Elizabeth Warren (D-MA) has made it clear that she will aggressively defend the agency, and she is backed by most Democrats. A Warren-led Senate filibuster would require 60 votes to overcome.

So, unless Republicans find an alternative legislative process to rein in the CFPB, compromise will be necessary. This begs the question: Are Democrats willing to suffer through a five-year term of a Trump-appointed CFPB director to preserve the long-term independence of the CFPB, or can they be persuaded to negotiate?

Only one thing is certain for now—Trump's Executive Order was the first official step towards a long, grueling battle over CFPB reform that could ultimately change the consumer financial services regulatory landscape.

Only one thing is certain for now—**Trump's Executive Order was the first official step towards a long, grueling battle over CFPB reform.**



DEMONETIZATION: THE IMPACT IT HAS ON REAL ESTATE IN INDIA

A revolutionary step to demonetize to clamp down on black money hoarders will impact India's economy.

by Peter Gilmour, REAL Trends chief foreign correspondent

Demonetization is the most repeated word used in India in current times. Since November 8, 2016, the day that Prime Minister Narendra Modi announced this revolutionary step affecting India's economy, demonetization has dominated the conversation. The government's surprise decision to ban the use of Rs 500 and Rs 1,000 currency notes is a move to clamp down on black money hoarders and clean up the system.

Safe Haven for Black Money?

The real estate market, which is largely fragmented and unorganized, has had the reputation of being a haven for black money but does; however, contribute 5 to 6 percent of the country's GDP. The real estate sector consists broadly of the primary and secondary markets.

Developers on the Fringes Take Hit

The primary market consists of new homes and projects built by developers with buyers of these homes funded by mortgages provided by financial institutions. In the eight major Indian cities, developers with good reputations and transparent business practices have been largely insulated from the currency ban. Primary markets in tier two and tier three cities and emergency corridors on the fringes of the major metros look likely to take a bigger hit because these areas are full of small developers, some of who lack transparency and who expect buyers to provide large cash deposits.

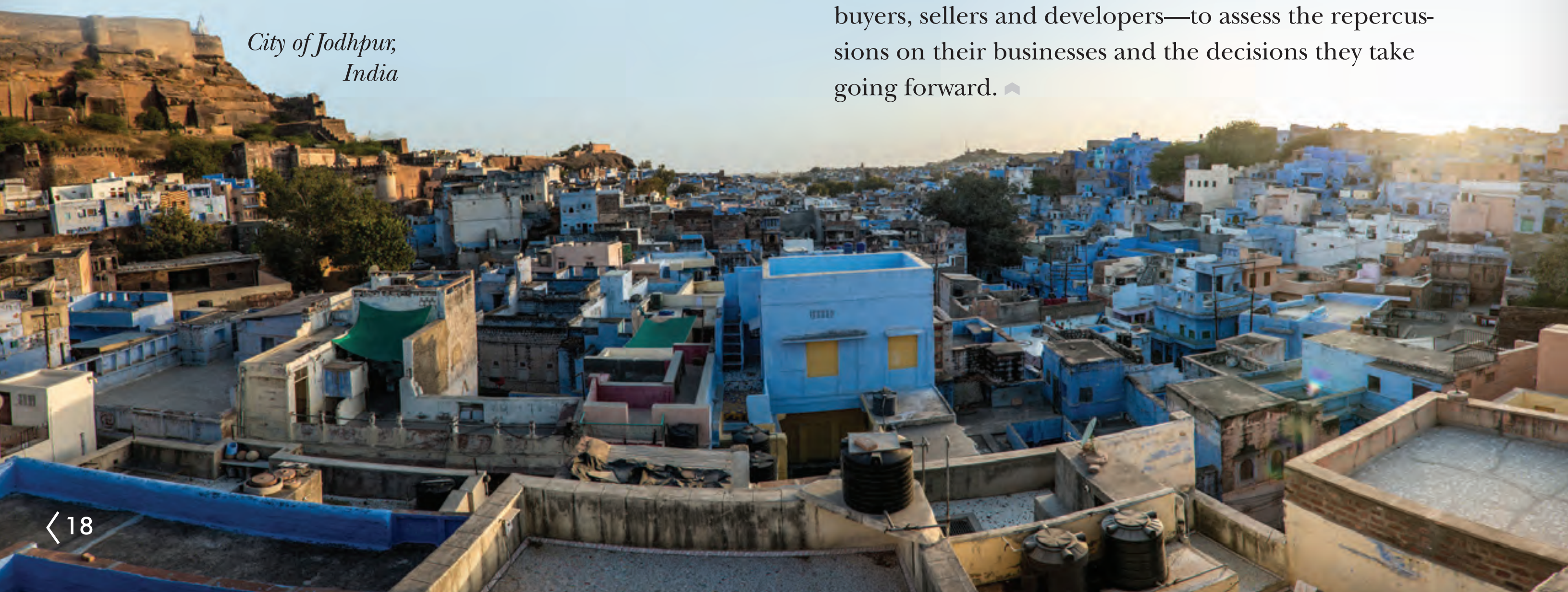
Fly-by-night developers have for years exploited homebuyers who often fall prey to one-sided sales agreements, delays in project delivery and changes in floor sizes, specifications and amenities without prior consultation. Many of these problems will be addressed shortly when the Real Estate Regulation and Development Act 2016 is introduced.

Off-the-books Cash Deposits

In the secondary market, a significant part of the purchase price is paid in cash with the intention of keeping that part of the transaction off the books and avoiding paying capital gains tax. This cash can then be recycled into purchasing other properties. This off-the-books cycle is part of the parallel economy the government is trying to crack down on by demonetizing the large denomination notes. With the scarcity of cash, a large number of buyers have left the market. Thus, in the short term, sales in the secondary and the luxury market will drop substantially.

On to More Realistic Prices

Homes are likely to be on the market longer, and in time this will lead to more realistic prices which is good news for consumers who have not been able to afford to buy and stay in rented properties. Most analysts say that the impact of the government's decisions will be positive in the long term. In the short term, liquidity has been impacted leading to reduced sales volumes. The move has taken the industry by storm, and it will take time for all stakeholders in the sector—brokers, agents, buyers, sellers and developers—to assess the repercussions on their businesses and the decisions they take going forward.



City of Jodhpur, India

FUTURE LOOK

VALUATIONS, MERGERS AND ACQUISITIONS GOING FORWARD

National real estate firms are becoming more strategic and selective in their acquisitions.

By Steve Murray, publisher

In the first quarter of 2017, a trend is developing. While the national firms continue to be acquisitive, as we said in an earlier REAL Trends newsletter, they are becoming far more strategic and selective. While they continue to pay a fair price and offer normal terms, they will stretch when it's a special opportunity. Otherwise, they are doing some deals that augment their existing footprints.

What Has Changed?

What has changed is that more regional firms have entered the picture, and we are seeing many more regional brokerage firms acquiring other regional and local brokerage firms. Often, these are strategic, for instance, entering an adjacent market or expanding into a price or service niche. Given the nearly six-year favorable market, they have access to the capital to expand through acquisitions. Some of the national realty organizations are assisting in this roll up by offering capital to their affiliates.

While most regional deals are not priced where the national firms are; they are still historically at fair prices and terms. Many of these transactions do not have national competition, so this is an expected outcome. Still, regional firms are paying fair prices and offering fair terms.

Factors Driving Desire to Acquire

There is no one factor driving the desire by brokerage firms to be either a buyer or seller. On the sale side, one factor is the heightened competition for agents—tough competition. Another is the aging of the housing sales expansion, and the concern that a downturn is around the corner. And, yes, one other reason is the age of some owners of brokerage firms.

On the buyer side, it is the desire to continue to grow, gain market share and entrance to new markets and further some economies of scale.

We expect this market to continue to be above average regarding activity, prices and terms through at least the end of 2017. Beyond that is unknown.

YOUR DIGITAL MARKETING STRATEGY

HOW TO TAKE ON THE BIG BROKERAGES

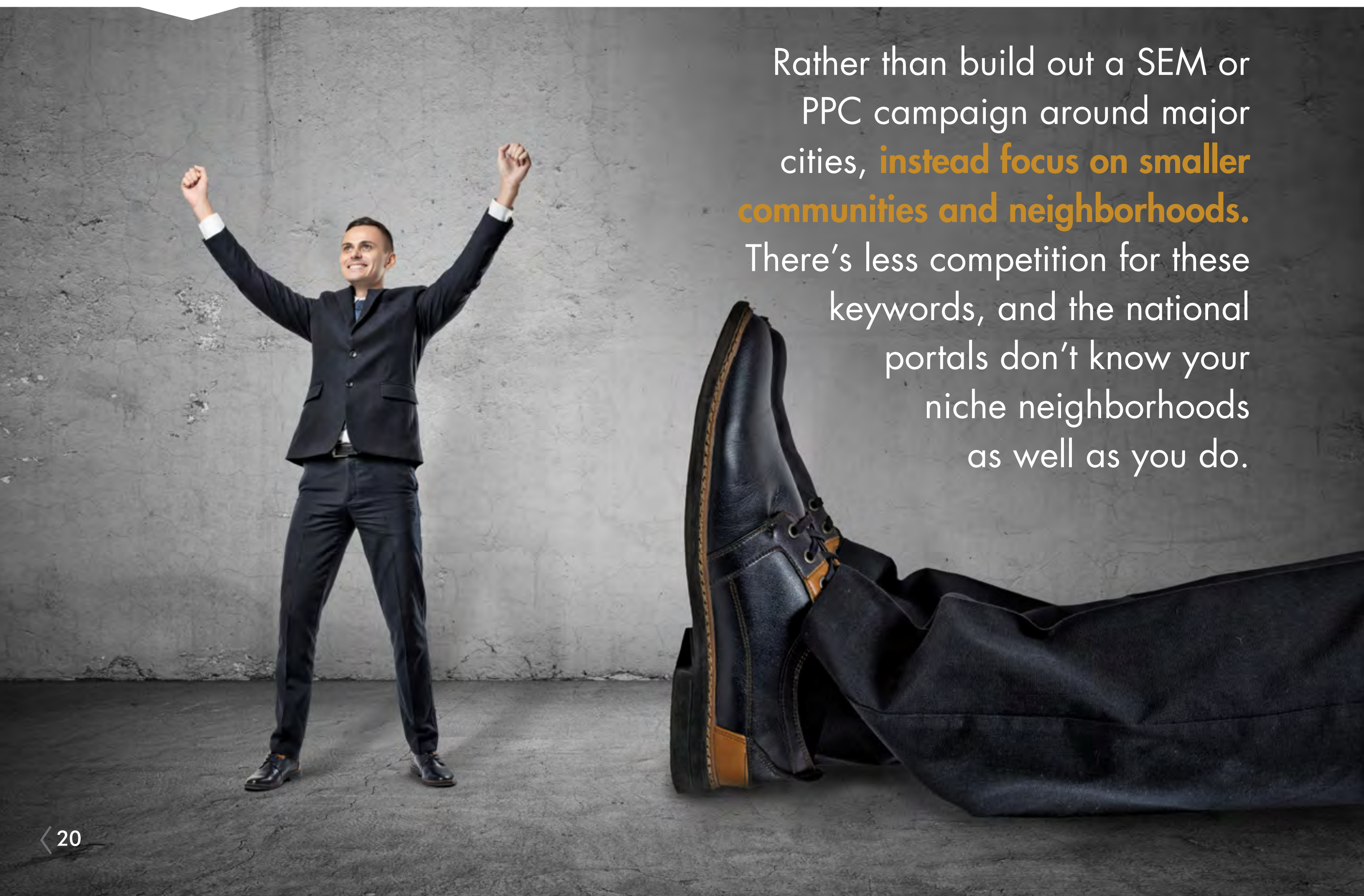
Focus on narrow, hyper-local results and your smaller brokerage can compete with the massive brokerages.

by Paul Salley, manager of marketing strategy & business development

As a small- to medium-sized brokerage, how do you play on the same digital marketing field as the national franchise and syndicate websites? You can't, so don't bother. After all, most large franchises and portal sites have annual marketing budgets that exceed a traditional brokerage's budget, grabbing them millions of site visits and dominance on an SEO front. Instead, your key to success is to approach your marketing strategy from a tactical standpoint.

That means your focus should be on narrow results—what the national portals and franchise websites aren't focusing on. You do this by leveraging local expertise and hyper-local strategies. REAL Trends' studies find that 90 percent of sellers and buyers are searching within their local market. That makes it easy to strategically reach your audience in a cost effective and efficient manner.

By combining local knowledge with digital marketing, you gain the advantage on the digital marketing front line. For example, rather than build out a SEM or PPC campaign around major cities, instead focus on smaller communities and neighborhoods. There's less competition for these keywords, and the national portals don't know your niche neighborhoods as well as you do. Incorporate these keywords into polished landing and community pages to boost your SEO presence in the organic search results.



SOCIAL MEDIA PLATFORMS

WHERE SHOULD YOU INVEST YOUR MARKETING DOLLARS?

Photo: mattjeacock/ iStock

The pros and cons of different social media platforms.

by Brittany Shur, manager of marketing strategy & communication

While social media is not a new concept, the marketing capabilities of social platforms, such as Facebook, Pinterest and Twitter are expanding to meet the needs of a quickly evolving digital marketing landscape. It can be difficult to know which platforms are worth the marketing spend and which might leave you with less ROI. Here are the pros and cons of several marketing platforms:

Facebook

Pro: Facebook is the heavy hitter when it comes to social media advertising. Not only is it the platform with the greatest number of users, but also the detailed profile information makes it a great tool to help you connect with your desired audience. Using Facebook Ads Manager, you can target your audience geographically—a capability that has expanded since advertising became available through Facebook—or by profile information.

Con: While Facebook can generate a lot of impressions and higher-than-average click-through rates, the conversion rates from the social media giant seem to fall flat. Most people are using the platform to read their friends updates or interesting articles on their timeline. This can make it a challenge to engage a user.

Twitter

Pro: With Twitter, you can use the interest categories to segment to whom your ads are shown. You can also use multiple types of ads using Twitter, such as promoted trends, timeline or profile ads.

Con: One of the cons to advertising through Twitter is the limited reporting and analytics capabilities when compared to other social media platforms. This can make it difficult to accurately track your ROI and associate a click on your ad with a completed action on your site.

Pinterest

Pro: The biggest pro to using Pinterest for your company's advertising is the ability to raise brand awareness by engaging your audience in a fun and social environment. Using Pinterest, advertisers can access top placements. Furthermore, you can continually target an audience that has shown intent or interest with your advertisement and content.

> Did you know? Some 22% of the world's total population uses Facebook. —Statista.com

Con: Similar to other social platforms, Pinterest has a low conversion rate and may not be the best platform if your overall goal is engagement and lead capture. This platform is best used for brand awareness. Additionally, Pinterest tends to attract more female users which can make it difficult for advertisers to reach a diverse audience.

GOOD THINGS COMING

REAL TRENDS IN THE NEXT 30 YEARS

Laurie Moore-Moore and I started the company in 1987. Originally, we focused on a monthly trends newsletter, and the two of us also did our own consulting work. Along the way, REAL Trends has changed somewhat! Laurie is no longer a partner, all four publications are online, and we have more readers than we could have ever hoped. We manage the rankings of the leading brokerage firms and agents in the industry. We host 13 CEO conferences a year, including the Gathering of Eagles. And, we've built a reputable and respected consulting practice in valuations, mergers and acquisitions as well as in digital marketing.

In other words, we change with the times by adding new services and leaving others behind as the market dictated.

We will follow this path into the next 30 years, as well. We now have a tremendous team of young, talented professionals who are learning more about the brokerage business, and faster, than the founders ever did. They will be the ones to determine the shape of REAL Trends in the future.

One thing that the founder and the next generation agree on is this—when the choice is between solidifying our position as The Trusted Source or chasing size and monetary returns, they agree that there is no choice.

REAL Trends will always remain The Trusted Source.

We owe a debt of gratitude that we can never repay to the hundreds and thousands of clients and readers. Thank you for all that you mean to us.

NEW! REAL TRENDS 500

SHARE YOUR BROKERAGE SUCCESS WITH A CUSTOMIZED VIDEO

Each year, REAL Trends ranks the most successful brokerages in the nation. These top 500 firms by sides and volume are published in our acclaimed magazine—The REAL Trends 500.

Firms that make the 2017 REAL Trends 500 are eligible to order an exclusive, unique and personalized congratulatory video that can be shared via social media, placed on your website and more.

This customized video will be unique to each brokerage and features footage of your brokerage leader answering select questions that highlight what makes each brokerage special. Brokerages may also use this video to attract new customers and sales associates.

The cost of the video will be $1,000 and includes full copyrights and usage of the video. Once all information is collected from the brokerage, the customized video will be ready in about three weeks.

If your firm ranked in the 2017 REAL Trends 500 or as a Up-and-Comer, you are eligible to purchase a customized promotional video. To learn more, **CLICK HERE**.

YOUR ONLINE MARKETING

BUILD YOUR BUSINESS **DIGITALLY**

Are you considering a new website or in desperate need of a site tweak? Unsure how to piece together the technology and digital marketing foundation for your brokerage? Perhaps you're tired of getting pushed down further and further on Google search results?

Don't worry, we can help!

REAL Trends Technology and Marketing Consulting provides a team of industry-specific experts to assist in all facets of digital marketing and technology consulting.

From navigating tech platforms to designing a new logo and branding, we're here to help. Let's talk. For a complimentary consultation, please contact a member of the REAL Trends Technology and Marketing team at tech@realtrends.com

WHAT IS YOUR BROKERAGE FIRM WORTH?

What's your brokerage firm worth? How can you make it more valuable? If these thoughts have ever crossed your mind, contact REAL Trends today to find out about our valuation services!

There are a myriad of reasons why real estate brokerages and teams need valuations, such as for mergers and acquisitions, the sale of partial shareholder interest, insurance, gifting and transferring of shares, legal or partnership issues, business planning and more.

Regardless of the reason, REAL Trends has been The Trusted Source in providing valuation services to the residential real estate industry for 30 years. During this time, we've performed in excess of 2,500 valuations for firms of all sizes, across the United States and Canada.

Each assignment starts with a **free initial confidential consultation** to determine your needs and each valuation comes with:

- *A three-year financial analysis.*
- *A benchmark report.*
- *A full narrative report that describes our findings.*
- *Up to four hours of consulting time.*
- *Peace of mind!*

Our promise to you is that you will understand how value is created, which will help you make better decisions on how to run your business. Our highly sought after **Benchmark Report** provides invaluable insight into how your company compares to peers operating in your region. How does your company dollar measure up? Is your return on revenue and gross margin up to par? How are you managing your operating expenses? How are your offices and sales associates performing relative to your peers? Find out these benchmarking answers and more as part of your valuation!

For more information, please call Scott Wright or Steve Murray at 303-741-1000 or email Scott at swright@realtrends.com

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