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SEPTEMBER 2017 NEWSLETTER

REAL TRENDS VALUATIONS

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FIRST PERSON

A CONFUSING TIME

No leader in our business can afford not to stay abreast of what is going on in the world around them.

By Steve Murray, publisher

There's so much going on in the industry today that it's hard to keep track of it all. But, as a brokerage leader, you must. Let's learn from the companies that folded and do something before a trend becomes a reality.

We'll start with teams and an industry-wide structural wave. Let's take a look at some numbers:

- There were 4,770 teams on this year's America's Best Real Estate Agents and Teams. That was compared to approximately 1,700 who qualified three years ago.
- Of this year's teams, 2,759 qualified on the basis of exceeding $30 million in closed volume, and they did a total of $168.2 billion in closed sales, averaged $60.9 million each.

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- Some 3,934 qualified based on exceeding 75 closed sides. They closed a total of 567,345 closed sides (if they were a national brand would likely rank them 4th in the country!), averaged 144.3 closed sides each.
- Some 2,656 reported the total number of members of their team (including sales and administrative). The highest was 102 and the lowest we looked at was two.
- The top 100 teams of these teams averaged 28 total persons on their teams. These teams averaged $130.8 million in closed volume and 413.4 in closed transaction sides. The per-person productivity was, therefore, $4.6 million in closed sales and 14.75 closed transaction sides, both well above national averages.

At least for this subset of top teams, this ends the argument that they are less productive than the general individual agents of this industry. Whether they are more profitable than individual agents doing half as much business, we will leave for another discussion.

Teams and an Industry Structural Wave

At the same time that teams appear to be on their way to becoming a major industry structural wave, technology and technologists are hammering away at the industry. Amazon is either in or not. Zillow is shifting a bit of its resources from their Premier Agent program into their Premier Broker program. Redfin went public and, within two days, was worth more than RE/MAX International—somewhat preposterous when you think about it rationally. Nextdoor, a growing neighborhood and community platform, rolls out a new real estate section on their sites in certain states. There are a growing number of lead generation platforms that are already generating tens of thousands of leads a month for brokerage firms that are scarcely known by the brokerage, as well as better-known sources, such as Quicken Loans and USAA.

> The numbers and kinds of new brokerage models appearing today are too numerous to track. Most of the new ones have the words "low cost" and "technology" in them. **SOME MAY WELL BE WITH US 5 TO 10 YEARS FROM NOW, BUT MOST WON'T.**

Were USAA to be ranked as a brokerage firm, they would be the fifth or sixth largest firm in the industry—without employing a single agent in the traditional manner.

The numbers and kinds of new brokerage models appearing today are too numerous to track. Most of the new ones have the words "low cost" and "technology" in them. Some may well be with us 5 to 10 years from now, but most won't. Credit unions have owned brokerage firms for many years now, but they were few in number and only somewhat visible. That is about to change. There will be more credit union acquisitions of residential brokerage businesses as credit unions pursue cross marketing opportunities.

What Didn't They See?

Brokerage leaders can't afford not to stay abreast of what's going on in the world around them. To do otherwise is foolish. Take retail. Amazon didn't, by itself, cause the demise of Sears, Kmart, JC Penney, Macy's, Borders, Circuit City, etc. These organizations helped Amazon by sticking with a business and customer platform that clearly wasn't going to keep providing growth. Lowe's and Home Depot had as much to do with Sears' demise as anything Amazon did. Zappos and others like them did take a bite of main stream department store shoe sales, but the lack of inventory and selection at the store level hurt general department store sales as much as Zappos ever did.

Roel Smart / iStock

And, who was not aware 10 to 15 years ago that consumers were turning to online shopping? Why did none of these firms attempt to make fundamental changes to their business when everyone in the world knew what was coming?

AMAZON DIDN'T, BY ITSELF, CAUSE THE DEMISE of Sears, Kmart, JC Penney, Macy's, Borders, Circuit City, etc. These organizations helped Amazon by sticking with a business and customer platform that clearly wasn't going to keep providing growth. Lowe's and Home Depot had as much do to with Sear's demise as anything Amazon did.

Regulatory

I have a good friend who is selling the small securities firm that he built from scratch over the last 20 years. He is the most ethical hard-working guy you ever saw. The new "fiduciary" rule brought out as a *defense* against unscrupulous investment managers cut their revenues to the point that, well, there was no point in continuing. So, regulatory actions at the Federal and state level can have a significant effect on businesses, especially small businesses (which includes most of our readers).

At a recent focus group of top teams, at which legal counsel and HR counsel were present, we determined that it was more likely than not that virtually every team in our meeting was violating some kind of employment law. In research that we did with a client, teams indicated that a brokerage's ability to help them with legal and regulatory affairs was among the most valuable forms of assistance that they seek from their firm. The Consumer Finance Protection Bureau (CFPB), whether rightly or wrongly, destroyed the Marketing Services Agreement form of mortgage affiliation for residential brokerage firms, wiping out millions in earnings for brokerage firms. Mostly the medium and smaller brokerage firms were affected. Large brokerage firms can afford to be in joint ventures or own their own mortgage banks. Each additional regulatory action, regardless of what business it is in, usually hurts the small players in that market—all with the aim of protecting consumers but which ends up harming competition.

What Aren't We Seeing?

Teams are exploding in terms of the number of them in the market, their size and their business complexity. This is about as clear as can be. They need help with legal and regulatory assistance. They like well-known local and national brands (take a look at REAL Trends America's Best Real Estate Agents and see how many of the top teams are with well-known national and regional brands). The best of them are self-sustaining lead generators. Some want to build something to sell.

The number of lead-generating sources are also growing rapidly and some are gaining significant insight into how to predict which housing consumers are ready to transact and which aren't. While today these sources are a relatively small part of overall transactions, they are slowly and steadily growing.

The REAL Trends 500 just gained market share for the second year in a row in an up market. This has never happened before in the 25 years that REAL Trends has tracked the top 500 brokerage firms. In some ways, the larger firms are growing because they have the capital to be competitive in agent bidding wars. They also have the capital to make acquisitions. For one national brand, their expertise and success in recruiting is making the difference. Is this growth in share a real, long-term trend or simply the last gasp before technology and online consumer interface really starts to bite into traditional broker market share?

The Pillars

We believe that there are three pillars that are the foundation of the U.S. brokerage market. First is the fact that consumers think using an agent is a smart move. Second, slightly more than 60 percent still chose an agent because they personally know an agent or one was referred to them. Lastly, most consumers think the commission-at-closing compensation system is a good system (without commenting here as to whether they think the rate is fair). A significant change to any one of these would erode the role of the agent and hence the financial health of our industry. Which one do you think technologists are attacking? (Anyone vote for Amazon Hire-an-Agent?)

THREE PILLARS that are the foundation of the U.S. brokerage market:

1. Consumers think using an agent is a smart move.
2. More than 60 percent chose an agent they know or to whom they were referred.
3. Most consumers think the commission-at-closing compensation system is a good system.

TWO VIEWS ON WHY REDFIN GOT SUCH A HIGH VALUATION FROM WALL STREET

By Steve Murray, publisher

Yep, that's right. You didn't misread it. As of the close of the second day of trading on July 31, 2017, a 10-year-old firm with about $270 million in revenues and nearly 15 percent operating loss margin is worth just shy of $2 billion, more than RE/MAX with a large global footprint and enormous profitability. What gives? Here are two different views of this:

1. The Future Potential View

Wall Street, flush with cash, is driven not by earnings, but by potential down-the-road potential—sometimes way down the road. Wall Street is also 100 percent enamored with technology businesses, even where the firm is only tangentially involved in technology. Having now read three different analyses of Redfin's offering and future, it's clear that they will have to grow at double-digit rates for years into the future, improve their operating margins significantly, grow their market share exponentially, compete for great agents and more. That's just to justify their valuation today.

Possible? Everything in Wall Street's view is possible hence the huge bets on Redfin. They grew by over 40 percent from 2015 to 2016. Can they do that every year for the next 6-10 years? You be the judge. Yes, it is possible. They did about 26,000 transactions in their brokerage (another 9,000 or so were referred to other brokerage firms) in 2016. They say they did it with about 935 "lead" agents. They didn't say how many other agents they have, but it's certainly a large number. They say they have huge productivity. Well, yes, if you only count "lead" agents.

Could Redfin grow to 50,000 or 100,000 closings and have earnings that justify a $2 billion valuation? Sure. But, everything has to go not only perfectly, but really perfectly, for six to 10 years.

The wild card is this: About 65 percent of buyers and sellers choose an agent because they know one or someone referred them. That leaves 35 percent who find an agent through other means, including online. Could Redfin capture 10 percent of the 35 percent of consumers who don't use someone they know or who was referred to them? That would be a 3.5 percent share of all purchases or sales of homes. If they got that share, nationally, and run their business rationally (not for Wall Street's benefit), they could be enormously profitable and justify the valuation.

2. The Other View

Redfin says they got about 20 million unique visitors per month to their website last year. Simple math says 35,000 closings (about 3,000 per month) divided by 20 million indicates a conversion rate of 0.0145 percent of unique visitors to closings. Assuming that they are already among the best in the industry at attracting visitors to their website and converting them (among the prowess's they claim to have), to double their closings they have to double their unique visitors. And then do it again and again. So, from 20 million to 40 million, then to 80 million and 160 million in the next four years. Or, approximately as many as Zillow does today.

They will have to move into low-priced markets to grow their share. They will be dealing with markets constrained by low inventories. They will be dealing with a brokerage market with low commission rates, low gross margins, high agent costs and strong competition for great agents. They offer rebates and low commissions, but there are tens of thousands of agents and brokers doing the same.

One analyst said that Redfin burned through $57 million in cash in 2016 and, prior to the public offering, had just over a year of cash left. The offering will give them "three to four years" of cash with which to fund the growth they need.

PROFITABLE BROKERAGES

FIVE STEPS TO CREATING MORE VALUE IN YOUR BROKERAGE

What can you do to get the highest dollar for your brokerage when you're ready to sell?

By Steve Murray, publisher

In REAL Trends' work on valuations, mergers and acquisitions, we often are asked, "What are the things a brokerage can do to create higher value in their businesses?" Based on our work in this area and general consulting with brokerage firms, here are the five steps that we most recommend:

Step 1: Determine who you are and what you want your firm to mean to agents and housing consumers. Pick a spot and focus on that—don't try to be all things to all people. For instance, not only is it hard to be a *high-quality, low-cost* brokerage firm, it is nonsensical; no one will believe you for long.

Step 2: Determine the reason you own a brokerage. Do you do it for the income, equity, or is it for personal satisfaction? Most would say that it's a combination of all three. But, you have to pick one as the highest priority goal. One great example of this confusion is firms that say, 'I want to have solid profitability,' but all their behaviors scream, 'I want the highest possible market share.' One of the rarest things in our business is a firm that has a high market share and also the largest profit margin.

Step 3: Do these three things. To be successful, brokerage firms have to do three things. First, they have to recruit talent continuously. Second, they have to develop their people's prospecting and selling skills. And, third, spend less money than you have coming in. Too many brokerage firms don't do the first and second well at all. Want to increase your value? Get good at all three. This means having a plan to do so.

Step 4: Stop chasing technology. Likely, your existing CRM and transaction management systems are fine. Leading brokerage firms have determined that technology does not provide a sustainable competitive advantage. They know that having such systems is important, but not the most important attribute of their firm. Yes, work to improve your web site, but don't think that any advantage you may create will last long. It won't be the reason your value goes up.

Step 5: Stop spending money on brand advertising. The fastest growing and most profitable brokerage firms in the country do not spend much money on brand advertising. In fact, they spend very little. The most profitable brokerage firms in the country spend the least on occupancy costs. Want to raise your value? Stop wasting money on institutional brand advertising and office space.

There are other areas where brokerage firms can work to raise the value of their firms. In our experience, these are the most important determining factors in value.

TO BE SUCCESSFUL, BROKERAGE FIRMS HAVE TO DO THREE THINGS. First, they have to recruit talent continuously. Second, they have to develop their people's prospecting and selling skills. And, third, spend less money than you have coming in.

WHO'S YOUR COMPETITION?

You have fewer competitors than you think. Consider the facts.

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

There's very little real competition in our industry. Bold statement? Let's look at the facts.

1. An analysis of 1.3 million Realtor® MLS members indicates that approximately 45 percent of them did not have a single real estate transaction in the past year. Nearly half of our industry is not even in the game! (REAL Trends Newsletter, August 2017)

2. Only 25 percent of sellers and 12 percent of buyers use the same Realtor® on their next transaction—a sign of poor service follow-up and client retention. (NAR Profile of Buyers and Sellers, 2016)

3. An amazing 74 percent of buyers and sellers report they *never* heard from their real estate professional again after closing! Twenty percent heard from them occasionally and only 6 percent heard from them consistently. (Zillow Consumer Housing Trends Report 2016)

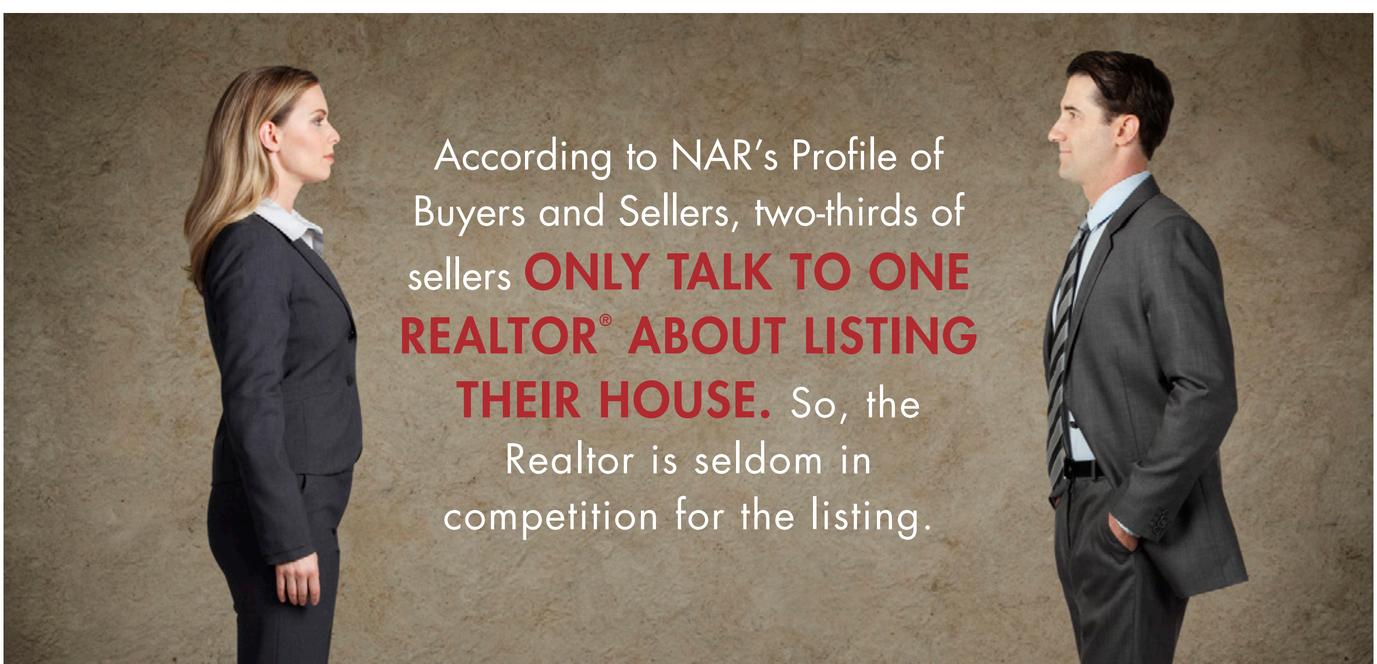
   This statistic indicates that most real estate professionals are transaction driven versus relationship driven. They give lip service to relationships but operate their business as a series of one night stands. They prefer to chase leads rather than stay in touch with their customers who could send them referrals.

4. J.D. Power's Home Buyer/Seller Satisfaction Survey reports that real estate professionals who invest time in keeping their customers informed during the transaction and are responsive to their customer's concerns and questions, have a much higher satisfaction rating.

   The best real estate professionals know this and are proactive in their communication, knowing that "if the client calls us first during a transaction, we are failing." Unfortunately, the research shows that most real estate professionals are not proactive. One of the seller's and buyer's biggest complaints is, "I never hear from my real estate professional about my listing/transaction. I always have to call them first."

5. One of the most important resources a buyer or seller wants is a packet of information that explains the process *before* they buy or sell a home. Several years ago, a study by REAL Trends and Harris Interactive found that only about 20 percent of real estate professionals use these important packets. Eighty percent don't provide this resource.

6. According to NAR's Profile of Buyers and Sellers, two-thirds of sellers only talk to one Realtor® about listing their house. So, the Realtor is seldom in competition for the listing. Interestingly, of the one-third who talked to more than one Realtor, half of them only wanted to talk to one, but the first one they met with was so awful that they felt they needed to meet with someone else. The seller's response to this real estate professional is usually, "Thank you so much. This has been great. We are going to think about it." Then, they call a second agent.



Who's your competition?
LOOK IN THE MIRROR.
You are your only competition!

Here's the good and bad news: The bad news is our industry is generally failing to address basic customer needs, let alone create a wow customer experience. The good news is that there's very little competition in our industry for those who are client-centric and deliver the basic services and communication described above.

This is a very simple business. It does not take a big financial investment in new technology or lead generation systems. It does not take more people. All it takes is training your sales associates to do the following:

- Be client-centric. "If you take care of your clients, your clients will take care of you."
- Use buyer and seller packets. Make it easy by providing a basic company packet.
- Be pro-active in their communication by always calling their customers first. Encourage your associates to have a set time each week to communicate with their customers during the transaction.
- Have an efficient follow-up system for your associates to use after the closing. Help them by creating newsletters, market updates, events, etc. for them to use.

Again, this is a simple business. It's easy to do! Unfortunately, it's also easy not to do—which is probably why most of our industry isn't doing it. Teach your team to do the basics better than anyone, and you will have all the business you can handle.

Who's your competition? Look in the mirror. You are your only competition!

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As the granddaughter of Sid Syvertson, past owner of RE/MAX of California and a well-known figure in the California real estate industry, Kelly Levine talks about the lessons she learned from him along the way. Syvertson passed away in 2008, leaving a legacy of success in his path.

LESSONS FROM MY GRANDFATHER
PEOPLE FIRST, ALWAYS!

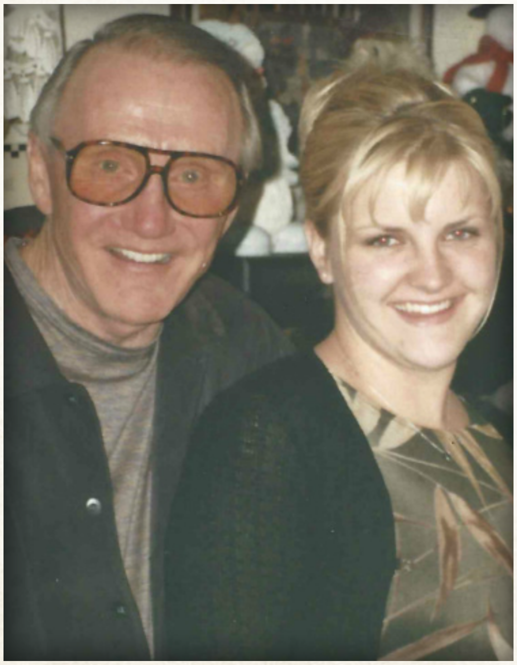
Growing up in a real estate family, this sales associate learned lessons from some of the best in the industry.

By Kelly Levine, Graham and Kelly Fine Homes, RE/MAX Associates

Real estate is often mistaken as a business about houses, but I disagree. To me, real estate is a business about people and service. As real estate professionals, we get the rare privilege of walking alongside our customers through their greatest life changes. When people get married, they hire a wedding planner. When they have their first baby, they work with a registry consultant. Investing or retiring—they work with a financial planner. As real estate professionals, we have the opportunity to assist with all of those life events. We are people's advisors and advocates through some of the most exciting and challenging times of their life. We have a massive opportunity to impact our customers and a huge capacity to care.

You Have to Care

One of the first persons who taught me the magic of caring was my grandfather. He was the quintessential *people person*. He was exceptionally good at quickly connecting with people on a deep level. Most people thought of him as a classic extrovert, but it didn't come naturally. He read Dale Carnegie's "How to Win Friends and Influence People" several times. He worked on being gregarious and often thought of himself as *just* a farm boy from Wisconsin—though you'd never know it. He achieved massive success within the real estate industry, and I think it was due, in large part, to his gift for caring and connection.



My grandfather told me many times that we have two ears and one mouth for a reason, so we could listen to people twice as much as we talked. And, he was an exceptional listener. He had this incredible ability to listen in such an intense way that it felt as if you were the only person in the room. I knew it was something I wanted to practice in my own real estate business. It sounds simple, but in our fast-paced world and tech-driven industry, it doesn't come easily. Even though it isn't easy, it's still incredibly important. Making people feel heard is a powerful tool that can have a huge impact on our business.

Nurture Your Customers

This concept of *people first, always* doesn't just apply to customers; it applies to colleagues and staff as well. My grandfather nurtured his customers and empowered his staff. The people who worked for him *wanted* to perform, and I work to inspire the same dedication in my team. I was recently told when discussing my team, that all of its members are "replaceable cogs in a wheel." That doesn't sit well with me. I understand that we all have a role to play, and if someone is not a good fit with our team's culture or doesn't believe in our mission, then they may not be a good fit. But, when I heard that, I couldn't help but wonder what my grandfather would think. He would probably feel like I do, that people aren't replaceable parts, but the heart and soul of what we do. The people we work *for* and the people we work with.

I have found that the more I care; the more I give. And, consequently, the more I thrive as a real estate professional. It's why my team donates to The Children's Miracle Network, St. Jude and Shoes That Fit. It's why we do everything we can to support and nurture our community. It's why we work to provide five-star service to our customers and why I do what I can to encourage my team members. I learned this from a man who gave his time, energy and resources to people all around him—and loved being able to do it.

SPONSORED ARTICLE: BRIGHTWAY INSURANCE

EDUCATING HOME BUYERS AND SELLERS ON INSURANCE

Kady Dieker, Realtor, HomeSmart Cherry Creek in Littleton, Colorado

According to *Forbes*, real estate was the second happiest industry in which to work in 2016. Reasons people cite for becoming a real estate agent include getting to see houses all day long, flexible work hours, and the empowerment of being self-employed.

And, while lots of real estate professionals cite the satisfaction they get from helping other people find their dream homes as a reason for choosing their profession, REAL Trends recently met a real estate professional with a relatively unique goal for becoming a professional real estate agent.

Meet Kady Dieker, a real estate professional at HomeSmart Cherry Creek in Littleton, Colorado, who earned her real estate license because she wanted more home sellers and buyers to understand homeowners and other types of insurance better.

"I realized that many buyers, sellers and real estate professionals don't really understand insurance, the need for certain coverages and how a policy works," says Dieker. "Most people think it's boring and will stick with a company just to avoid the unknowns related to changing companies. Unless you take the time to understand it, it can be confusing."

That's her niche. You see, Dieker is prepared to change that mindset.

"Insurance can help protect everything our customers have ever earned and acquired in their lifetime—and everything they ever will earn. Education is key. People must understand their insurance options," she says.

Dieker got her start when she joined friend and Brightway Insurance franchise owner, Kandie Landers.

"Kandie, a friend for 14 years, owns two Brightway Insurance franchises, one in Denver and one in Fort Lauderdale, Florida. I jumped at the chance to join her, managing the Denver Brightway location," says Dieker.

After all, Landers is no slouch, earning Brightway's *2016 Rookie of the Year* award and prior to joining Brightway, earned a leading personal lines insurance company's distinction as the fastest-growing agency in her region. She racks up those accolades by building all-star sales teams.

"Investing in a Brightway Agency has been the best decision I have made for my career and my clients," said Landers. "I get to own my own business, be my own boss and provide more choice in insurance brands and expert counsel than I was ever able to offer as an insurance agent representing only one brand."

Dieker and Landers both like that, at Brightway, customers have options.

According to Michael Miller, co-founder of Brightway Insurance, "Many times, insurance agents can only represent one insurance brand or a limited number of brands. Brightway Insurance represents the most brands, which means our Agency Owners can offer their customers the broadest selection. This is important because insurance policies need to be customized to each customer's unique needs. If you only represent a handful of brands, you're not able to fully customize a package that provides total protection. "

He adds, "Once a franchise owner sells a policy; we handle all of the service work centrally. It's been estimated that agents spend 60 to 90 percent of their time servicing existing customers—this activity doesn't produce any revenue. We take that service work away and provide our franchisees with a system of support so they can focus on selling. This is how Brightway agents outsell all others 3:1."

When Dieker joined Brightway, she started building her referral sources in Denver.

"Initially this is a business-to-business sale. The idea is to line up referral sources and earn their loyalty," Dieker said.

Dieker's referral sources include title companies, mortgage brokers, financial advisors, other insurance agents (who can't write certain policies because their choices are limited) and real estate agents. In working with real estate customers, it became clear to Dieker that there was a real need to help them better understand insurance, coverages and how policies worked so that they could be more informed insurance buyers.

So, a year after she joined Brightway, Dieker decided to earn her real estate license so she could help customers in that role, and at her role at Brightway.

"My husband started flipping houses as his full-time job. He's a contractor and works with investors. I started working with him to sell those houses and started helping all of my real estate clients better understand insurance. It's turned into a very lucrative second business that feeds my first business—the Brightway Insurance agency I run," says Dieker.

The transition from insurance to real estate is a natural one, she says.

"So many buyers and sellers need those experienced in insurance sales to help them understand the process and what products make sense for them," she says. "I educate buyers, sellers and other real estate professionals about insurance. Because of my experience, I'm able to put the information in context so that people can more easily understand it."

> These two industries are made for each other. Everything we do as a [real estate agent] is about helping people. The same is true with insurance. — **Kady Dieker**

"These two industries are made for each other," Dieker says. "Everything we do as a [real estate agent] is about helping people. The same is true with insurance."

Her advice for real estate professionals? "You're giving the insurance referral to someone today who is earning money from the sale of the insurance policy," Dieker says. "Keep the revenue from the real estate sale and the insurance sale by opening up a Brightway agency."

But, you're wondering, what if I have no insurance experience? According to Miller, 40 percent of Brightway's top-performing agencies had no prior insurance experience before joining Brightway. That, he says, speaks the quality of the onboarding, training and support the company provides.

Dieker says, "I got into real estate to help my husband with his business. My goal is to continue to be the go-to insurance expert who real estate buyers and sellers trust. When I find them their dream home and their dream coverage we all win," she says.

To learn more about how you can join Brightway, call 855-723-5348 or go to **BrightwayDifference.com** today. It's just one more way that, as a real estate professional, you can leverage your skills and connections to become an invaluable resource in your community.

JULY NATIONAL SHOWING INDEX SHOWS 7.8% YEAR-OVER-YEAR INCREASE

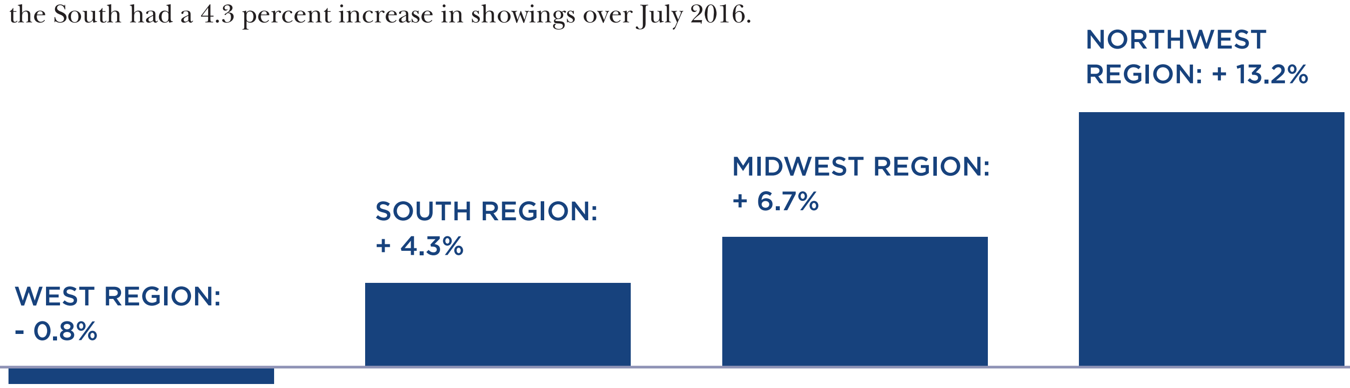
Northeast Region exhibits largest increase, while West Region declines for third consecutive month

Key Points:

- Northeast Region increases 13.2 percent year over year, West Region declines 0.8 percent
- Midwest (6.7 percent) and South (4.3 percent) also show increasing demand
- ShowingTime combines showing data with findings from its MarketStats division to provide a new set of benchmarks and metrics on demand for active listings throughout the country

Showings on the national level increased 7.8 percent in July from the same time period last year, according to the July 2017 ShowingTime Showing Index™.

The Northeast Region had the highest year-over-year increase in showings at 13.2 percent, while the West Region experienced a slight decline of 0.8 percent compared to last July. The Midwest Region was up 6.7 percent, while the South had a 4.3 percent increase in showings over July 2016.



THE SHOWINGTIME SHOWING INDEX

The ShowingTime Showing Index, the first of its kind in the residential real estate industry, is compiled using data from property showings scheduled across the country on listings using ShowingTime products and services. It tracks the average number of appointments received on an active listing during the lifecycle of the listing. ShowingTime facilitates more than 4 million showings each month with its technology.

"Property showing activity is a highly reliable leading indicator of current and future demand trends," said Michael Lane, President of ShowingTime. "The data from showings can be used to forecast market trends, facilitate better decision making for buyers and sellers and assist real estate professionals in identifying and capitalizing on hot spots."

ShowingTime is the leading showing management and market stats technology provider to the residential real estate industry, with more than 1.2 million active listings subscribed to its services.

The Showing Index, released the third week of each month, will eventually be released on a weekly basis. Work is also underway to release indices tailored to local markets.

"MLSs and REALTOR Associations have a huge appetite for data and analytics," Lane said. "Our clients have asked us to research, design and implement analytical tools for their business-to-business services with real estate agents and brokers. This is an example of that work on behalf of our clients."

View the full report: **www.showingtime.com/index**.

BROKERAGE VALUATIONS

WHAT IS FAIR MARKET VALUE?

Everything (almost) you need to know about the fair market value of your brokerage.

By Scott Wright, director of mergers and acquisitions

Have you ever heard the phrase, *you're only worth as much as somebody is willing to pay?* At a high level, that's one way to describe *Fair Market Value.* It's simple economics—a matter of supply and demand. This principle applies to oil, baseball cards, candy bars and businesses—including real estate brokerage firms.

The IRS Revenue Ruling 59-60 describes Fair Market Value (FMV) a little more eloquently. FMV is the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy, and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

The IRS goes on to further say that both parties are well informed about the property and concerning the market for such property. When it comes to most businesses, including real estate brokerage firms, being well informed involves performing a valuation, which is something we specialize in at REAL Trends.

Factors to Consider

When valuing a business, there are numerous factors to consider, and again Revenue Ruling 59-60 offers a guide. We're told to consider the nature of the business and the history of the enterprise, the economic outlook, both industry-specific and structurally, the financial condition of the business, the earnings and dividend-paying capacity of the company, whether or not the enterprise has goodwill or other intangible value, the size of the block of stock to be valued, and the market price of other corporations engaged in the same line of business.

All these factors and more apply to real estate firms, but it is the latter that is by far the most dominant when it comes to establishing value. Real estate brokerage is a unique business in which the primary assets are people, people who are independent contractors who can come and go as they please. So, when a purchaser acquires a firm with such assets, the majority of the price is allocated to intangibles. The biggest factor in determining the value of intangibles is the market price of other corporations engaged in the same line of business.

Since brokerages aren't publicly traded securities (Realogy and RE/MAX aside), we can't get instant stock quotes that provide comparables for multiples. Thus, we need to rely on data we get from industry-specific mergers & acquisitions (M&A) activity. What are the buyers of these firms paying at any given time?

As an industry leader in M&A advisory and brokerage services, we're privy to the kind of multiples being paid, which supports our valuation expertise. Whether acquisitions by the major national companies, regional brokers buying other regional or local brokers, or local brokers buying other local brokers, we see the multiples being paid at any given time. This intimate knowledge allows us to determine Fair Market Value accurately. Currently, we're seeing multiples still close to their highs amidst this ongoing housing bull market.

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THE CFPB SUFFERS A DEFEAT IN AN ABA LAWSUIT

The Consumer Financial Protection Bureau (CFPB) suffered another RESPA defeat in July when a Kentucky federal district court ruled in favor of Borders & Borders, PLC.

By Sue Johnson, strategic alliance consultant

The decision in favor of Borders & Borders, PLC (Borders) over whether its nine title joint ventures complied with RESPA's affiliated business arrangement (ABA) standards is a reminder that courts in Michigan, Ohio, Kentucky and Tennessee can be expected to follow the Sixth Circuit Court of Appeal's 2013 ruling in Carter v. Welles-Bowen Realty, Inc. That ruling says that if a joint venture meets RESPA's statutory safe harbor for ABAs, it does not necessarily need to satisfy RESPA's Sham Joint Venture Guidelines. It also confirms that the CFPB—at least for now—still is willing to actively pursue enforcement actions against ABAs it believes to have violated those guidelines.

The ABA Safe Harbor, the Sham Joint Venture Guidelines & Carter

RESPA law provides what is commonly referred to as a safe harbor for ABAs from RESPA's anti-kickback provisions. Under this statutory exemption, an ABA does not violate RESPA if:

- **ABA Disclosure:** The person referring business to the affiliate discloses the arrangement at or before the time of the referral (RESPA regulations provide a model ABA Disclosure Form);
- **No Required Use:** The consumer is not required to use the affiliate; and
- **Return on Ownership Interest:** The only "thing of value" that is received is a return on an ownership interest or franchise relationship.

In response to complaints about sham ABAs, HUD (RESPA's former regulator) issued Sham Joint Venture Guidelines in 1996 to provide guidance on how it would determine whether an ABA is bona fide and not a sham.

It set forth ten factors it would consider, including whether the ABA is staffed with its own employees, manages its own business affairs and provides substantive services.

In 2013, the Sixth Circuit ruled in Carter that if an ABA satisfies the statutory safe harbor's three conditions that it need not satisfy the 10-factor sham ABA test. The court refused to apply what it considered to be a fourth condition to the statutory safe harbor.

The CFPB Lawsuit Against Borders

Dodd-Frank transferred jurisdiction over RESPA to the CFPB in 2010. The CFPB filed its lawsuit against Borders in 2013, one month before the Carter decision. While it said in its subsequent briefs that it was not relying on the Sham Joint Venture Guidelines (presumably aware that Kentucky is under the Sixth Circuit in which Carter had become a binding precedent), it claimed that Borders could not rely on the ABA statutory safe harbor because RESPA regulations require that only bona fide returns on ownership interest are protected and that dividends paid to Borders' owners were not bona fide. It also claimed that the joint ventures were not bona fide because they did not have a full-time employee, did not have separate office space, phones and emails and did no substantive title work—all of which are factors in the Guidelines.

Finally, the CFPB claimed that Borders did not satisfy the statutory safe harbor because its ABA disclosure was provided at closing which was not "at or before the time of the referral" and that it did not conform to the precise wording of the model ABA Disclosure Form.

The Ruling

The court did not analyze whether the Border joint ventures met the Sham Joint Venture Guidelines, but instead addressed whether they met the three statutory safe harbor criteria:

1. **ABA Disclosure:** The court determined that Borders provided the essential information in its ABA disclosure and that any deviances from the model ABA Disclosure Form did not impair its effectiveness. It also stated that providing the disclosure at closing was sufficient because it was the first contact that Borders had with its customers.

2. **No Required Use:** It found that customers were not required to use the affiliated title joint venture.

3. **Return on Ownership Interest:** It found that the CFPB failed to show that Borders received any *thing of value* outside of returns on the principals' ownership interests.

Therefore, it ruled that the joint ventures met the three conditions of ABA statutory safe harbor and granted Borders' request for a summary judgment.

Summary

While this is a favorable ruling for ABAs, it comes with two caveats. First, the CFPB could appeal the decision to the Sixth Circuit on the grounds that the joint ventures do not meet the statutory safe harbor because of the timing/content of the ABA disclosures and/or because the returns on ownership interest are not bona fide under RESPA regulations. Second, the CFPB's willingness in Borders to pursue violations of the 10-factor Sham ABA test within a jurisdiction that is so skeptical of their applicability shows that it would not hesitate to pursue similar actions in administrative proceedings or in states not bound by Carter.

CAPE TOWN

AN AFRICAN CITY WITH A GLOBAL OUTLOOK

By Peter Gilmour, chief foreign correspondent

Cape Town is a port city established by the Dutch in 1652 at the south-western tip of Africa. It's situated on a scenic peninsula and nestled below the world-renowned, flat-topped Table Mountain. Featured in its 52 places to visit in 2014, the *New York Times* described Cape Town as "one of the world's most beautiful cities that few other cities can mimic, due to the scale of its mountain and ocean convergence, complex history, world-class wine region, diverse culinary landscape and some of the most spectacular real estate on the African continent."

Cape Town is truly an African city with a global outlook and was voted in 2014 by the World Design Organization as the World Design Capital—a place to reflect on the iconic legacy of Nelson Mandela.

Single-family Homes

Trendy, cosmopolitan suburbs on the Atlantic Seaboard and the larger more traditional single-family homes in the Winelands of the Constantia Valley and Bishopscourt, have attracted strong investment from foreign buyers. These areas have also gained the attention of buyers from Johannesburg and other inland cities of South Africa, who are in search of a relaxed outdoor lifestyle, work/play balance and a solid level of safety and governance. Other draws include solid capital growth on property investments, growth in tech and creative industries and growing international tourism acclaim.

Rising Home Prices

First National Bank (FNB) data shows that on average Cape Town house prices are up nearly 80 percent since the start of the post-2008 recession recovery as opposed to less than half of the price growth in the other two major cities of Johannesburg and Durban. Cape Town Waterfront precinct, which is the premiere tourist attraction consisting of shopping malls, hotels, restaurants, museums and waterside apartments is now commanding residential prices in excess of $1,600 per sq ft. Recently, the largest residential sale to date in Cape Town was concluded when a German buyer purchased a Bantry Bay home for $22 million.

First-time Buyers Priced Out

Existing homeowners have, of course, benefited greatly from Cape Town's rapid price rises, but similar to London and other international cities, new home buyers are increasingly being priced out of the market. According to FNB statistics, in the last year, only 8 percent of all housing transactions concluded in Cape Town have gone to first-time buyers as opposed to 27 percent in Johannesburg. To counter this, and assist locals to buy in the city, the local government is calling for bids to develop a large tract of land as part of the Foreshore Freeway Precinct Project. The area extends 650,000 sq. ft. of prime land, and the focus for developers will be to provide affordable housing units for households earning modest incomes who would be able to purchase a home close to the CBD and well-situated for transport and lifestyle benefits.

This vision to create affordable city housing is in line with recent campaigns by London's mayor Sadiq Khan and New York's mayor Bill de Blasio—two strong, affordable housing advocates.

ONLINE LEADS

OVERCOMING THE PAIN POINTS

by Deirdre LePera, director of business development

Roughly one-third of all housing consumers find a real estate professional on their own, and listing portals are most likely their first point of contact in that journey. In the first quarter of 2017, Zillow had 166 million unique users across its mobile apps and websites, making it the most-viewed residential website in the United States. To give you perspective, according to Realtor.com, they "achieved record traffic in the [same] quarter with 55 million average monthly unique users."

It is no secret that quantity of online leads presents a massive opportunity for sales associates, teams and brokerages. Why then do most real estate professionals consider single digit conversion rates a success for online leads?

REAL Trends visited with four brokerage firms in four different markets to understand their goals when working with online lead providers, including their views and experience with Zillow's Premier Broker program. All firms interviewed use a multi-platform approach to online leads, including, but not limited to, Zillow, Realtor.com, Facebook and their company website.

Each firm expressed varying reasons for supporting the Zillow Premier Broker program. Finding that the system reduced or eliminated three main pain points.

Pain Point No. 1—Lack of Control Over Lead Response
A broker's lack of control over how or when an agent responds to a lead creates an unpredictable experience for the consumer as well as the brokerage. "I like the fact that the Zillow Premier Broker program allows us to focus on the customer—not just on leads, but on serving the [customer] in a professional manner," says Ken Carter, principal broker of Bakersfield, Calif.-based Watson Realty ERA.

Pain Point No. 2—No Central Hub for Lead Opportunities
Brokerages are no longer the primary starting point of a home search; thus, brokerages are no longer the central hub for lead opportunities. A brokerage's ability to be a consistent lead source is particularly important in jump-starting the careers of newer sales associates. Mike Balsitis, principal of Bellabay Home Team, Caledonia, Mich., said that his firm uses Premier Broker primarily for new agents.

Pain Point No. 3—Lack of Agent Accountability
Tracking progress in any platform is near impossible without user accountability. Premier Broker requires principals and sales associates to actively operate in the Zillow system to remain eligible for leads. Eddie Berenbaum, CEO of CENTURY 21 Redwood said, "We've worked with online leads for years and believe we have a good system for servicing these kinds of customers. The Zillow Premier Broker program enhances what we've done, and we have learned to become more efficient [in converting leads] with their assistance."

The end goal for all firms interviewed can be boiled down to their commitment to profitable growth. These firms are working to attain profitable relationships, not only with Zillow but also with the online consumer. The firms interviewed said that Zillow is invested in the consumer experience. As Scott Parker, vice president and sales manager at John Greene Realtors said, "[John Greene Realtors and Zillow] both work to generate more leads and increase our capture rates and [improve] customer service."

Take a closer look at the stories of how these four firms used online leads through Zillow's Premier Broker platform to achieve growth. *A Key Driver in Brokerage Productivity*

REAL TRENDS ANNUAL WEB SITE RANKINGS AUGUST 2017

2017 REAL ESTATE WEBSITE RANKINGS
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