



**REALTRENDS**  
THE TRUSTED SOURCE

COMPLIMENTS OF



OCTOBER 2017 NEWSLETTER



**REAL TRENDS VALUATIONS**

**WANT TO KNOW**

how much your brokerage is worth?

Contact Scott Wright or Steve Murray today to get more information about brokerage valuations.

smurray@realtrends.com  
swright@realtrends.com  
303.741.1000

CHANGES

**HOW DRIVERLESS CARS AND OTHER TECH CHANGES MAY IMPACT HOUSING**

*Demographic and societal changes that may impact housing and consumers.*

By Steve Murray, CEO

At the March 2017 Association Executive Institute in Denver, REAL Trends presented on “Real Estate in the Next Ten Years”—as if anyone can know ten years out what’s going to happen.

I chose to present on three demographic or societal changes and how they might

impact housing and consumers. Those changes are driverless or autonomous cars, organ replication and other life-extending treatments and the potential securitization of the equity side of the housing market. Each could have a profound effect on housing demand and liquidity.

**1-5 FIRST PERSON**

- How Driverless Cars and Other Tech Changes May Impact Housing
- Where is the MLS Going?
- CoStar Becoming Major Player in Housing

**6-7 BROKERAGE**

- Sponsored Post: Commission Inc.

**8-10 MARKET**

- 5 Things to Know About the Next Generation of Homebuyers
- August National Showing Index

**11-12 VALUATIONS**

- Adjusted EBITDA...Confused Yet?

**13-14 REGULATORY**

- Flood Insurance Reform

**15 GLOBAL**

- European Real Estate Benefits from Globalization

**16-17 TECHNOLOGY**

- It’s Time to Join the AI Revolution

**18-19 PUBLISHER’S NOTE**



## REALTRENDS

THE TRUSTED SOURCE

7501 Village Square Drive, Ste. 200  
Castle Rock, CO 80108  
Phone: 303-741-1000  
E-Mail: [realtrends@realtrends.com](mailto:realtrends@realtrends.com)  
Web: [realtrends.com](http://realtrends.com)

### **Publisher:**

Steve Murray - [smurray@realtrends.com](mailto:smurray@realtrends.com)

### **Editor:**

Tracey Velt - [tvelt@realtrends.com](mailto:tvelt@realtrends.com)

### **REAL Trends Team:**

Alec Gress - [agress@realtrends.com](mailto:agress@realtrends.com)  
Alicia Vivian - [avivian@realtrends.com](mailto:avivian@realtrends.com)  
Brent Driggers - [bdriggers@realtrends.com](mailto:bdriggers@realtrends.com)  
Brittany Shur - [bshur@realtrends.com](mailto:bshur@realtrends.com)  
Bryan Warrick - [bwarrick@realtrends.com](mailto:bwarrick@realtrends.com)  
Cooper Murray - [cmurray@realtrends.com](mailto:cmurray@realtrends.com)  
Daniele Stufft - [dstufft@realtrends.com](mailto:dstufft@realtrends.com)  
Deirdre LePera - [dlepera@realtrends.com](mailto:dlepera@realtrends.com)  
Doniece Welch - [dwelch@realtrends.com](mailto:dwelch@realtrends.com)  
Jamie Lower - [jlower@realtrends.com](mailto:jlower@realtrends.com)  
Nikki Lindholm - [nlindholm@realtrends.com](mailto:nlindholm@realtrends.com)  
Paul Salley - [psalley@realtrends.com](mailto:psalley@realtrends.com)  
Peter Gilmour - [pgilmour@realtrends.com](mailto:pgilmour@realtrends.com)  
Rebecca Chapla - [rchapla@realtrends.com](mailto:rchapla@realtrends.com)  
Scott Wright - [swright@realtrends.com](mailto:swright@realtrends.com)

Copyright 2017 by REAL Trends. All rights reserved. Material in this publication may not be electronically stored or reproduced in any form without written permission. Violators will be punished by a fine of up to \$100,000 per offense.

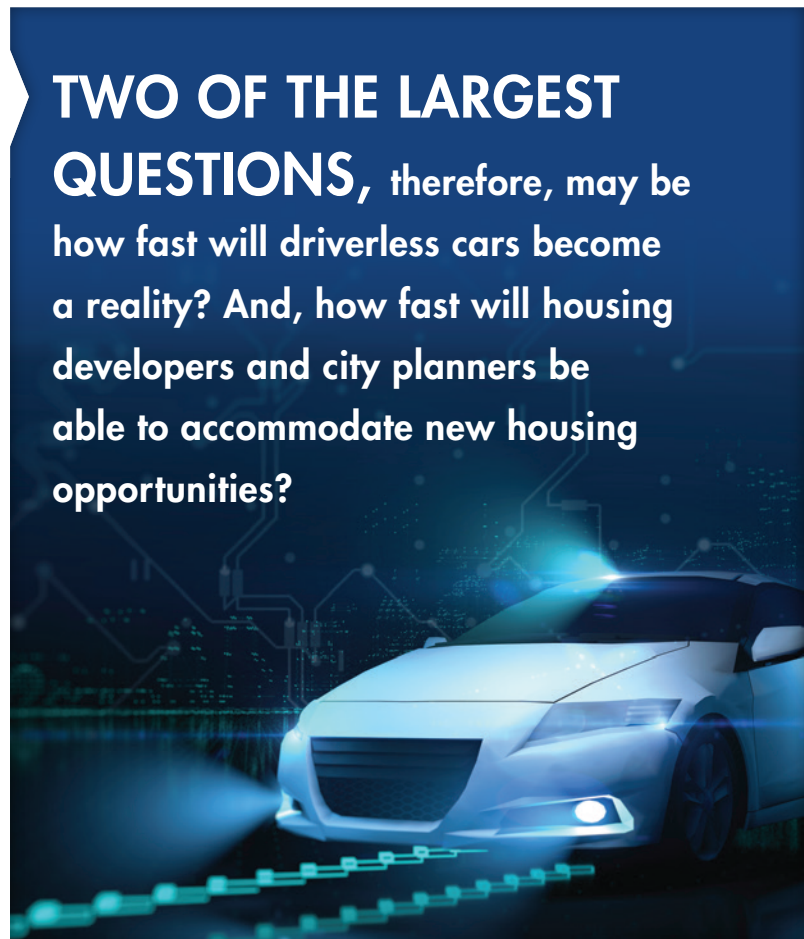
I presented along with Rick Palacios, Jr., director of research for the John Burns organization, about big housing changes thanks to driverless cars. John Burns is a well-regarded housing research organization based in California.

### **Here are some of Palacios' picks for impacts on housing:**

1. Prime real estate will be unlocked for new homes (parking lots, etc.)
2. Outlying drive-until-you-qualify housing markets will become reachable and help with choice and alternatives.
3. Urban employment should continue rising as prime real estate is re-purposed for housing allowing more people to live closer to city amenities.
4. Construction costs will decline as transportation costs plummet.
5. Home sales for elderly segments may decline as the availability of transportation makes their existing homes more livable due to access to driverless cars.

Certainly, there are other impacts that driverless cars may have, but it seems clear that the limitations of the current mobility systems will give way to entirely new housing patterns. Two of the largest questions, therefore, may be how fast will driverless cars become a reality? And, how fast will housing developers and city planners be able to accommodate new housing opportunities?

**TWO OF THE LARGEST QUESTIONS,** therefore, may be how fast will driverless cars become a reality? And, how fast will housing developers and city planners be able to accommodate new housing opportunities?



### Something to Think About

In 2000, I played in a Senior PGA pro-am with Lanny Wadkins. At the time, Tiger Woods was winning virtually every grand slam event in which he played. Our group of four amateurs asked Lanny what he thought about Tiger and the professional tour. He stopped dead in his tracks and shared this with us.

“I think that these guys are going to have to step up their game big time if they ever want to compete with Tiger. In my time, we had Jack, Tom Watson, Lee Trevino, Tom Weiskopf and others. If we wanted to win on the tour or at slam events, we all had to work on our games far more than we had thought. We had to step up our games hugely. My thoughts for today’s guys are the same thing. When competition gets tougher, either you step up and improve your game or just settle for mediocrity.”

Rather than seek the protection of the National Association of Realtors® or someone else, today’s brokerage community needs to focus on stepping up their game. Rather than complain or worry about Redfin, today’s brokers need to increase their focus on strengths, of which there are many, and develop new skills. As has been written in these pages, the brokerage business is not complicated. To be successful, one has to recruit talent, develop that talent and spend less than the revenue one generates.

### A Different View

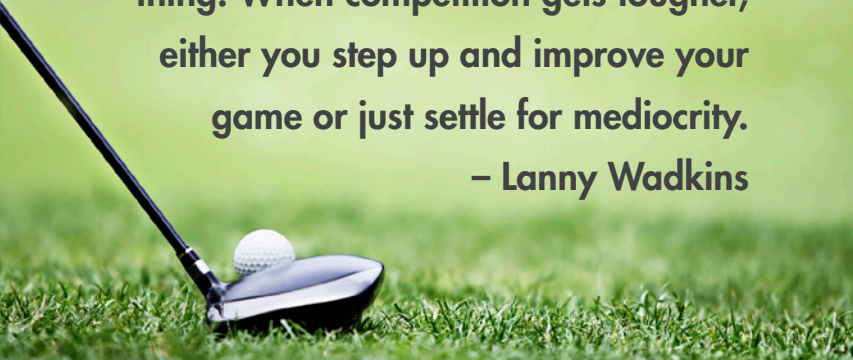
Much has been written about Redfin and their successful public offering and growth. Given that they are just about ten years old, I wanted to put some perspective around that mark and provide some other examples of growth rates in the industry.

RE/MAX took ten years before they had their breakout. It took just about ten years (between 1973-83) before RE/MAX became a force with which to be reckoned—and even then they had fewer than 5,000 agents in their system. During their second ten years, their growth exploded.

Keller Williams began franchising their system around 1987, and ten years later, they were also just beginning to set the foundation for their future growth. They also had fewer than 5,000 agents at the end of their first ten years. For the next ten years, their growth exploded.

While I could cite many other examples of firms that grew slowly in their first ten years then saw growth explode, I can also cite many that grew slowly and never saw their growth accelerate.

The point about Redfin is that now that they are about ten years old, it is entirely possible that they’ve built a platform that will enable them to grow exponentially over the next ten years. It is entirely possible that they, too, could grow far faster than the market, as did RE/MAX and Keller Williams in their second decade. It took ten years for both of the existing industry giants to establish the people, organization and systems that enabled them to experience that rapid growth. It took ten years for the industry to accept them as a legitimate business model and for brokers and agents to look at them as an option. The same thing could happen with Redfin.



**IF WE WANTED TO WIN**  
**on the tour or at slam events, we all had to**  
**work on our games far more than we had**  
**thought. We had to step up our games hugely.**  
**My thoughts for today’s guys are the same**  
**thing. When competition gets tougher,**  
**either you step up and improve your**  
**game or just settle for mediocrity.**  
**– Lanny Wadkins**

But there are no guarantees. One difference I note is that both RE/MAX and Keller Williams remained privately owned, with no one but their founders to please. Redfin has public shareholders and investors who may or may not be as patient as Dave Liniger and Gary Keller. While RE/MAX and Keller Williams had plenty of competition, Redfin has just as much and perhaps more. Their business model is based on great technology, strong internal systems and discounts on commission costs. The abundance of technology in real estate means that they will have to continue to invest heavily to stay ahead of the pack in online marketing and lead conversion. And, that is just one area where they will have increased competition.

It should be an interesting next ten years. 🐾

# WHERE IS THE MLS GOING IN THE NEXT FEW YEARS?

*Insights from two reports about the MLS and its policies.*

*By Steve Murray, CEO*

I recently read a future report developed by a group of leading MLS executives entitled *MLS 2020*, as well as reviewed some findings and recommendations by an NAR MLS group working to rationalize some MLS policies. *MLS 2020* is a series of interview responses from a wide range of MLS executives, brokerage leaders and a mixture of leaders from firms like CoreLogic, Zillow, Realtor.com and others who have some long-term experience with the industry and MLS. It was very interesting reading.

Here are some summary conclusions:

- The MLS may need to be restructured under some new form of ownership that takes advantage of market valuations and the capital that can be raised to fund better technology.
- There likely need to be fewer but larger, MLS entities to invest in and develop better technologies and to compete against the myriad of new information companies in residential real estate (while the world looks at Zillow and Realtor.com for homes for sale, CoStar just bought its second large online rental portal of the past few years.)
- The MLS needs a new basis for sharing rules and regulations across the many platforms and regional markets.
- The MLS needs to reform itself to better enable it and its users to compete for the *disruptive* marketplace and serve housing consumers better.

Most of these observations are plainly evident to those who have had long careers in the residential brokerage business. Everyone deserves serious consideration, and most observations have been talked about for years.

Our experience goes back to the late 1980s, when we worked with large regional brokerage firms to begin to pressure MLS to regionalize, install better governance structures and lower costs to the realty participants. Some of today's large regional MLS like Bright, MRED, the My Florida Regional MLS and regionals such as Texas, North Carolina, Connecticut and California were developed directly from efforts that were started nearly 30 years ago. It wasn't talk that got it done; it was action—collective action—by large brokerage firms working directly with the leadership of the local MLS.

Perhaps it's time for leaders to stop talking about this and put action plans forward.

## Some Thoughts

A small group of dedicated MLS leaders, brokerage firms and some capitalists should develop the framework for the monetization of MLS. These are strong businesses in a strong sector that, when organized correctly, can unlock enormous amounts of money for their shareholders and investment in their business. The range of corporate structures that could be examined are the Delaware For Profit Cooperative, an LLC, a REIT-like structure or Atlanta's First MLS.

Participants currently fund all the research and development for their MLS. As a few of the interviews in *MLS 2020* point out, participants often want the lowest cost MLS. As a result, there are few funds for such R&D available to the majority of MLSs. Most lack the scale to fund R&D.

## Too Many MLSs?

Who can argue that there are too many MLS operations in

**THE MLS NEEDS TO REFORM ITSELF** to better enable it and its users to compete for the disruptive marketplace and serve housing consumers better.

the United States? A restructuring for the purposes of accessing capital for R&D doesn't mean that certain rules and regulations can't be retained by local authorities. NAR's working group has proposed some new rules in this direction.

A restructuring needs to be done. And the MLSs behind *MLS 2020* have done the industry a service by laying out some great talking points. The challenge, as it has always been, is when does the talking stop and the actions begin? ▶

TRENDING

# COSTAR BECOMING MAJOR PLAYER IN HOUSING

*Are you overlooking the rental market? CoStar isn't.*

By Steve Murray, CEO

While most of our industry's focus has been on homeownership and housing sales, the rental market is mostly overlooked. It seems crazy to think that we overlook a market that represents about 38 percent of all households. That's right. The homeownership rate is about 62 percent (and lower in many high-priced markets) while rental households make up the rest.

CoStar hasn't overlooked this market. Already a major force in online commercial property markets, CoStar acquired Apartments.com in 2014 and just announced that they added ForRent.com to their portfolio of rental

housing offerings. The company said, "This is our bid to list every single apartment in the U.S. being marketed, whether it's someone's garage apartment up to the largest institutional property." Among CoStar's major competitors is, yes, you guessed it, Zillow Group.

Are Realtors® really the *voice for housing* or just the voice for those who own their own homes? And are any of the MLS discussions focused on this huge segment of the housing market? And what are the implications for a declining homeownership rate and the Realtor organization ignoring renters? ▶

---

It seems crazy to think that **WE OVERLOOK A MARKET** that represents about 38 percent of all households.



# GOING ABOVE AND BEYOND

*An Interview with Brittiny Howard, The Brittiny Howard Realty Group, Denham Springs, Louisiana*

## Indie Broker Invests in Technology and Learns a Lesson in Customer Service

### Investing in Her Business

Brittiny Howard, CEO of The Brittiny Howard Realty Group in Denham Springs, Louisiana, started in real estate in March 2015 on the advice of a friend. Now, she has a three-person team, and the brokerage has two agents, an inside sales agent and an office manager. "I was an entrepreneur before I got into real estate, so it's easy for me to understand that you need to invest in lead generation," she says. By June, she started with the CINC (Commissions Inc) platform and soon after, she



hired a coach. "I went from doing \$3.1 million my first year to over \$10 million last year," she says. That's because, she says, "CINC is more than a CRM and lead generation tool." In fact, Howard is excited about the possibilities of predictive analytics and is working with CINC and Agent Legend, a service that allows agents to combine the drip campaign from CINC with personalized voice, text and email messages.

### Drip Campaigns

"I'm just starting to get into email drip campaigns on a deeper level," says Howard. Each campaign lasts six to eight weeks and is fully automated and personalized to each customer. "CINC has automated action plans we launch based on where customers are in our pipeline. These are easy to use, and are managed by our inside sales person and office manager. CINC's tools and

features let our agents focus their time first and foremost on serving our customers."

And, it's working. According to Howard, "I was an early converter. I converted a lead from a drip campaign after two days. Since then, I've closed 13 CINC deals. Last year, my ROI was about 600%. CINC has paid for itself for years to come."

### Recruiting

In addition to using the drip campaigns for customers and prospective customers, Howard uses them for new hires. "When a new hire comes on, they get a congratulations email. Then, for the next six weeks, they get an email each week that links them to a training module that they can do online, such as, 'Watch a Webinar.'" Howard uses this as a supplement to the in-person training each new hire receives.

### Giving Back

Everyone remembers the big storms: Katrina, Harvey and Irma. However, smaller storms can be just as destructive. Howard shared that, "Our area of Louisiana flooded last year because it just didn't stop raining. So, two days after finishing my kitchen renovation, I had to have my house gutted because it flooded," says Howard. "CINC sent crews down to help me clean up and get back on my feet. There's a real family behind the company."



"I was an early converter. I converted a lead from a drip campaign after two days. Since then, I've closed 13 CINC deals. Last year, my ROI was about 600%. CINC has paid for itself for years to come." – Brittiny Howard, CEO of The Brittiny Howard Realty Group in Denham Springs

The fact that CINC team members came to help her after her home flooded is something that impacted her deeply and matches her own personal values. As someone fully entrenched in her community, after her town flooded, she and her office team put together a list of people who they thought would need a Thanksgiving turkey. “These were people we knew who didn’t have kitchens. I didn’t have a kitchen either,” she says. Howard asked a local grocery store if they would cook the turkeys, and then she would distribute them. She also put a note on Facebook telling people to contact her if they were in need. “I delivered almost 100 turkeys that year. Next year, I’ll get someone to help me or arrange a distribution point,” she laughs. “But, I met wonderful people and it was amazing. What is the point of selling real estate if you can’t help someone?”

Not only is Howard entrenched in her community, but she believes strongly in helping others, no matter where they live. She recently spent a week helping hurricane victims in Houston. “A group of us loaded a trailer full of supplies and distributed them. We thought we’d be gutting houses, but most of that was done by the time we got there.”

Howard views CINC as a unique partner for her business. “CINC has proven that their company culture is one that meshes with mine. And, the service works. It’s nice to know that there are companies out there that still care about their customers personally.”

For more information about CINC (Commissions Inc), go to <https://www.commissionsinc.com> or call (855) 447-6919. 🐾

"What is the point of selling real estate if you can't help someone?"  
– Brittiny Howard



# 5 THINGS TO KNOW ABOUT THE NEXT-GENERATION OF HOMEBUYERS

*New study offers insight into the younger generation of homebuyers.*

*By Joe Melendez, CEO of ValueInsured*

Historically, family-ready adults have always been the driving force of housing growth. People in their 20s and 30s get their first jobs, save for a down payment, get married and buy a home. But millennials today are burdened with college debts, high rents and living expenses, mobile-driven careers and personal lives that make settling down to buy a home challenging. On the bright side, 8 out of 10 of millennials who don't already own a home say they would soon like to own one.

So what does a next-generation millennial homebuyer look like? And how can we better cater to them and get them off the sidelines? Here are some helpful insights gathered through the latest ValueInsured Modern Homebuyer Survey profiling today's homebuyers under the age of 35.

## **Their home purchase budget is less than expected.**

Three quarters of millennial homebuyers are looking to spend less than \$500,000 on their next home. And more than half

(53 percent) have a goal price of less than \$250,000. Considering a majority of millennials plan to buy their next home in an urban city where prices tend to be higher, it's no surprise that millennial homebuyers are compromising by buying smaller homes or homes that require a longer commute than planned.

## **They're taking advantage of low down payment mortgage options.**

With the proliferation of low down-payment mortgage options, more millennials are planning to take advantage of them, especially among first-time homebuyers. Some 1 in 4 (25%) plan to put 5 percent down or less to buy their next home, and another 22 percent plan to put down 6 to 10 percent.





Overall, 34 percent of millennial homebuyers surveyed say they plan to seek financial help from family to fund their down payment, and 29 percent say they plan to seek help from friends, employers or state- or federally-run grant or homebuyer assistant programs.

#### **Their household is different.**

The next-gen homebuyers don't always envision children in their next home.

- 22 percent plan to live in their new home alone.
- 41 percent plan to live in their next home without children.
- 47 percent plan to live in the next home with multiple children.

Interestingly, 9 percent plan to live in the next home they buy with a friend(s), roommate(s) or rental tenant(s).

#### **They're not looking to buy their forever home.**

Some 63 percent of millennial homebuyers plan to live in the next home they buy for six years or less, making the old "rule of seven years" obsolete for most of them. One in four plan to sell and move in under three years, another quarter plan to live in the next home they buy for three to five years.

#### **They prefer cities to suburbs.**

Over half of all millennial homebuyers plan to be urban dwellers.

- 55 percent plan to buy in a city or urban area.
- 36 percent plan to buy in the suburbs.
- 9 percent plan to buy in a rural area.

To real estate professionals, it's important to understand this next generation of homebuyers is very different from their parents as they're not looking for a home to buy and grow old in for the next 30 years. What they want in a home today—especially one that fits their budget—may not be the same that they would want in three to five years. By offering flexibility and mobility that provides today's homeowner with control along with an exit plan, real estate professionals could earn serial clients for life and future referrals instead of a one-off transaction.

---

*Joe Melendez, CEO of ValueInsured, which provides simple, affordable solutions that protect homebuyers against unpredictable, negative market changes. ValueInsured's flagship product, +Plus by ValueInsured, is the only product that reimburses homeowners up to their full down payment should the market go down. 🏠*



Real estate professionals could earn serial clients for life and future referrals instead of a one-off transaction.

# AUGUST NATIONAL SHOWING INDEX SHOWS 7.1% YEAR-OVER-YEAR INCREASE

*Northeast Region exhibits largest increase, while West Region increases for first time since May.*

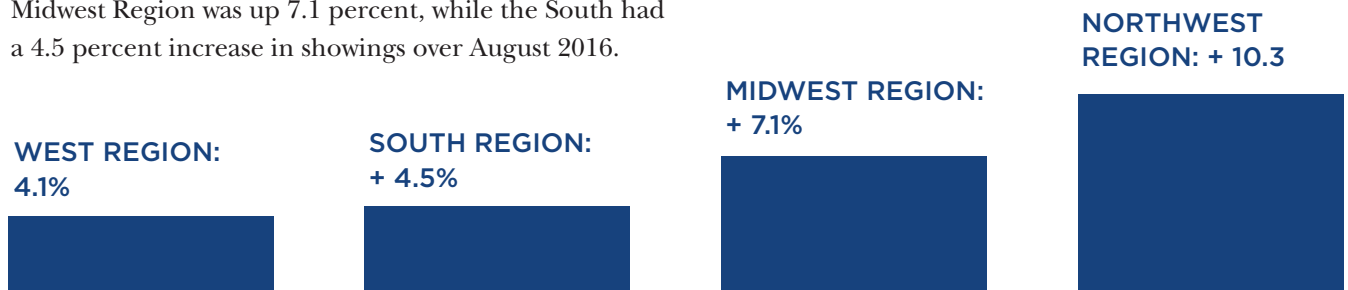
## Key Points:

- Northeast Region increases 10.3 percent year over year.
- Midwest (7.1 percent), South (4.5 percent) and West (4.1 percent) also show increasing demand this year.
- ShowingTime will release a local MLS version of the index in October to select markets.

Showings on the national level increased 7.1 percent in August from the same period last year, according to the August 2017 ShowingTime Showing Index™.

The Northeast Region had the highest year-over-year increase in showings at 10.3 percent, while the West Region posted a slight month-over-month increase, unusual for August, resulting in a 4.1 percent gain. The Midwest Region was up 7.1 percent, while the South had a 4.5 percent increase in showings over August 2016.

“August continued to be busy across the country compared to last year,” ShowingTime Chief Analytics Officer Daniil Cherkasskiy said. “The South Region, as a whole, still saw a year-over-year increase despite Hurricane Harvey hitting Houston and other areas of the region. We anticipate seeing a bigger impact from Hurricane Irma on the South Region in next month’s Showing Index.”



## THE SHOWINGTIME SHOWING INDEX

The Showing Index, released the third week of each month, will eventually be released on a weekly basis. Local MLS indices will also become available for select markets in October, distributed to MLS and association leadership to provide them with another resource to share with members and to communicate to local media.

"The local MLS version will show a more complete view of buyer activity," ShowingTime President Michael Lane said. "Over time, MLSs, associations and their subscribers will be equipped to measure buyer demand week over week, month over month and year over year."

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 month. ShowingTime facilitates more than 4 million showings each month.

To view the full report, visit [www.showingtime.com/index](http://www.showingtime.com/index).

### About ShowingTime

ShowingTime is the leading market stats and showing management technology provider to the residential real estate industry, with more than 1.2 million active listings covered by its services. Its products are used by more than 180 MLSs and associations representing more than 900,000 real estate professionals across the United States and Canada. 🐾

# ADJUSTED EBITDA ...CONFUSED YET?

*Figuring out the income approach to valuation.*

*By Scott Wright, director of mergers and acquisitions*

The most common approach used in valuing real estate brokerage firms is called the income approach. This approach establishes value by methods that capitalize future anticipated benefits by a rate that reflects market rate of return expectations or conditions, as well as the risk of the relative investment. This is typically accomplished by capitalizing a normalized level of historical earnings (almost always the last 12 months). In simple terms, this approach utilizes a *multiple* of earnings.

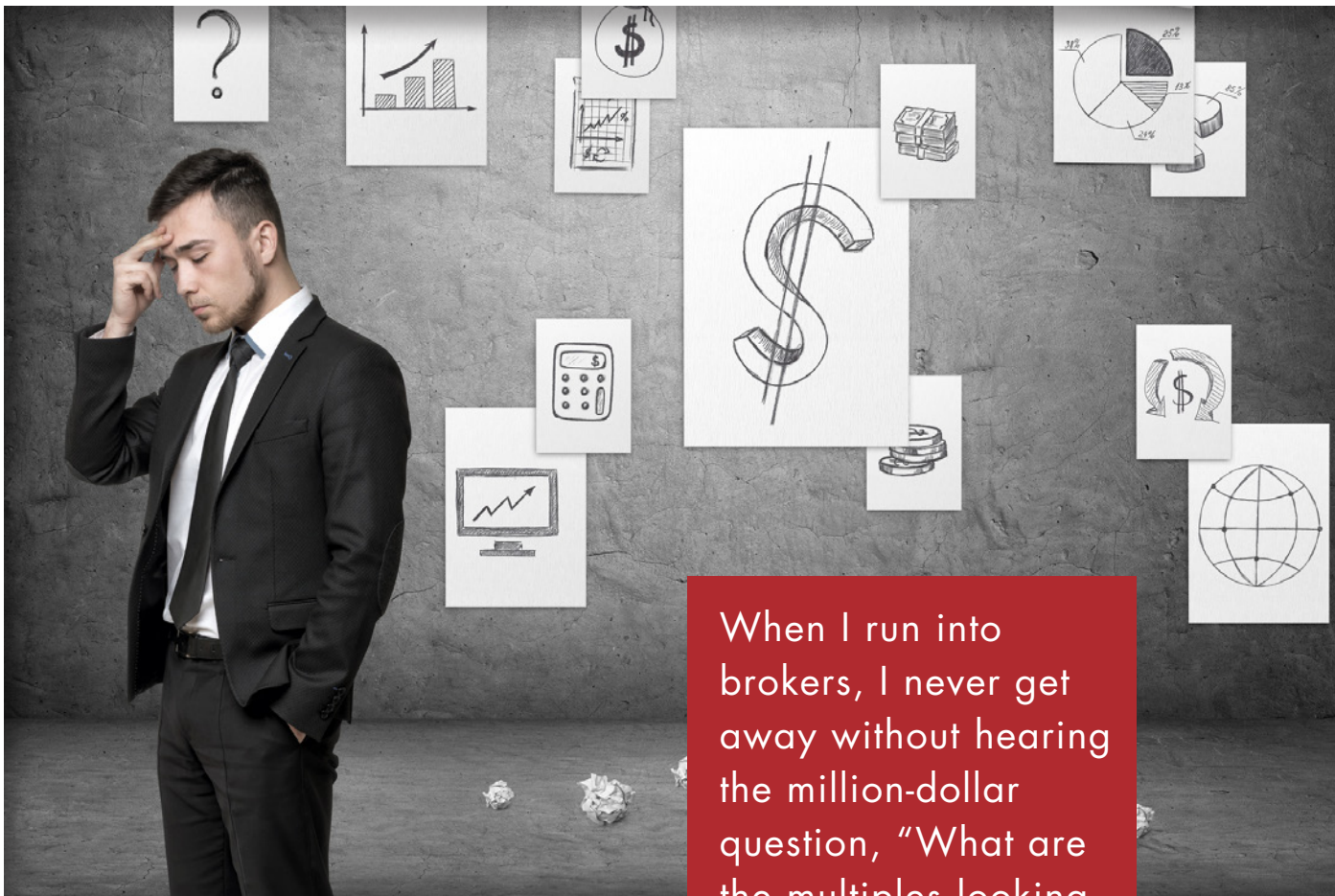
When I run into brokers, I never get away without hearing the million-dollar question, “What are the multiples looking like these days?” Multiples naturally ebb and flow with what’s going on in the market. Of course, there are numerous other factors REAL Trends considers when applying multiples as part of our valuations. The focus of this piece though is not multiples, but rather the other important component of the income approach—earnings.

## The Income Approach—Earnings

If *earnings* were as simple as net income on a corporate financial statement, then we wouldn’t be having this discussion. In the valuation world though, the term *earnings* actually means Adjusted EBITDA. EBITDA, which stands for Earnings Before Interest, Taxes, Depreciation and Amortization, is a non-GAAP measure commonly used to assess financial performance.

As indicated by its name, EBITDA takes the cost of debt out of play (interest). It also evaluates performance without factoring in the tax environment via federal and state tax add-backs as well as standard tax deduction expenses (depreciation and amortization).

Establishing EBITDA is only half the battle. You then need to make the appropriate *adjustments* to get that final Adjusted EBITDA number. Why do we make adjustments



When I run into brokers, I never get away without hearing the million-dollar question, “What are the multiples looking like these days?”

to EBITDA? We do so in order to project profitability more accurately. When doing valuations, it's important to put yourself in the shoes of a potential buyer. If I buy this company, what kind of profits can I expect? From a seller's perspective, you can ask a similar question. If my company were under different ownership, what's the true picture of profitability?

Adjustments can affect EBITDA in both directions, and below are some of the more common adjustments we see with real estate firms.

### Negative Adjustments

- **Comparable Cost of Management.** If an owner is properly compensated for his or her duties, then there won't be a huge net effect here. But, sometimes we see an owner who either doesn't take a salary or underpays himself. If the owner departs, or upon an acquisition is working for somebody else, then we need to adjust for a fair-market salary for his role.
- **Non-Recurring Income.** Sometimes there are certain incomes that run through an income statement that are non-recurring. Examples would be income from a legal settlement, income from a sub-lease at an owned building that wouldn't transfer under new ownership and discontinued transaction fee income.
- **Rent Normalization.** If a broker opened a new office within the last 12 months, the full cost to operate that office won't be reflected in the income statement. Thus, an adjustment would be made to reflect the full expense of running that office.
- **Salary Normalization.** This is the same as rent normalization. If new employee positions were created within the last 12 months, an adjustment would be made to reflect the cost of that employee(s) over a full year.

### Positive Adjustments

- **Owners' Compensation.** Sometimes owners compensate themselves well above fair-market rates. In this case, we would add back anything above what we deem as Comparable Cost of Management.
- **Owners' Benefits.** Many brokerages are small businesses owned by either one person or a small number of people. It is their right to run what we'll call discretionary expenses through their company. Believe me, we've seen it all. Any expense we determine wouldn't be paid for under new ownership, we add back.
- **Non-Recurring/One-Time Expenses.** We'll add back any expense over the last 12 months that is truly non-recurring or one-time. Examples would be the cost of developing a new website, the cost of remodeling or refurbishing an office (those expenses that are not capitalized) and extraordinary legal expenses.
- **Rent/Salary Normalization.** Using the same logic as above, if an office closes or an employee position is eliminated over the last 12 months, we'll make the proper adjustments to reflect the savings from such occurrences.

When we've made all the appropriate adjustments, the product is called *Adjusted EBITDA*. When using the income approach for valuation, it is this number to which we apply our multiple. If the *Adjusted EBITDA* is \$1 million and our multiple is 3.5, then the Fair Market Value of the firm is \$3.5 million.

We'll make sure to ask all the right questions when we perform a valuation, but if you own a brokerage firm, it will behoove you to keep well-documented records and appropriately track any income or expense that may need to be adjusted. ▲



When doing valuations, it's important to put yourself in the shoes of a potential buyer. If I buy this company, what kind of profits can I expect?

## FLOOD INSURANCE REFORM

# WILL HURRICANES HARVEY AND IRMA BREAK LOGJAM?

*The flood insurance program must be reformed. Will the recent hurricanes force the issue?*

*By Sue Johnson, strategic alliance consultant*

On September 8, President Trump signed a three-month extension of the National Flood Insurance Program (NFIP) that was due to expire on September 30. The signed legislation also authorized \$15.25 billion in emergency funding for disaster relief and rebuilding that includes \$7.8 billion for victims of Hurricane Harvey.

These short-term fixes, however, just bought time for a larger Congressional debate over comprehensive flood insurance legislation, which has been bogged down for years. Advocates of flood insurance reform hope that the devastation caused by Hurricanes Harvey and Irma finally forces Congress to make the tough decisions necessary to shore up the federal program and prevent future taxpayer bailouts.

Here's a look at the program and some of the issues that Congress will need to address in 2018.

## **The National Flood Insurance Program**

Congress created the NFIP in 1968 to assume the growing expense of natural disasters that private companies were reluctant to insure given the costs and lack of profitability. It's administered by the Federal

Emergency Management Agency, which falls under the Department of Homeland Security.

Until recent years, the NFIP was able to pay for itself through the \$3.3 billion in annual premiums paid by more than 5 million homeowners and businesses—over half of which are in Florida, Texas and Louisiana. But hurricanes and superstorms like Katrina, Sandy and Matthew made it necessary for the program to borrow from the U.S. Treasury to cover the huge payouts. By 2017, the program only had about \$7.5 billion in cash and available credit and a debt of about \$25 billion.

The flooding caused by Harvey and Irma will only add to the NFIP's financial distress. A September 2017 Congressional Budget Office report found that the program (written before the back-to-back hurricanes but accounting for foreseeable flood events) has an expected one-year shortfall of \$1.4 billion.

## **The Issues in Flood Insurance Reform**

Critics of the NFIP as currently structured say that the program must be completely overhauled to ensure it is financially sustainable. The Smarter Safe Coalition, a



A September 2017 Congressional Budget Office report found that the program (written before the back-to-back hurricanes but accounting for foreseeable flood events) has an expected one-year shortfall of \$1.4 billion.



The real question is whether Hurricanes Harvey and Irma will bring a new urgency among lawmakers for long-term flood insurance reform in 2018.

national coalition of taxpayer advocates, environmental groups, insurance interests and housing organizations, argues that NFIP policies encourage people and businesses to build and rebuild in dangerous floodplains. It also says that NFIP premiums are not priced to be actuarially sound and that FEMA should be required to set rates that reflect the actual cost of insurance. Finally, it recommends legislation to encourage more competition by a private insurance sector that now has the technology to provide products and coverages unavailable through the NFIP.

Industry groups and Congressional representatives of coastal areas agree that the NFIP needs to be reformed if it is to be financially sustainable in the long term, but tend to oppose legislative changes that could make flood insurance less affordable. The National Association of Homebuilders also has successfully fought efforts by reform advocates to halt policy coverage for new construction in high-risk areas.

#### **Congressional Action to Date**

The most outspoken Congressional advocate of broad flood insurance reform is Jeb Hensarling (R-TX), Chairman of the influential House Financial Services Committee.

In June 2017, the House Financial Services Committee passed several flood insurance bills, the most significant of which was The 21st Century Flood Reform Act. Combined, these bills would:

- Reauthorize the NFIP for 5 years
- Set the annual rate increase floor at 8 percent (currently at 5 percent)
- Set the annual rate increase ceiling at 15 percent (currently at 18 percent) and limit maximum flood insurance premiums to no more than \$10,000 per year for residential properties
- Preserve the practice of *grandfathering*, which protects homeowners from dramatic rate increases when new flood maps are put into place
- Encourage development of a private flood insurance market as an alternative to NFIP
- Better align NFIP rates to the risk
- Drop NFIP coverage for any properties with *excessive lifetime claims* exceeding twice the replacement cost of the property
- Allow the development of private or community flood maps as an alternative to NFIP's maps

The Hensarling legislative package has been stalled since June, reportedly because of a reluctance of Republican leadership to bring it to the House floor. While there are competing flood insurance reform bills in the Senate, none has seen Committee action.

With the new extension, the NFIP will now expire on December 8, 2017. It would not be surprising to see another short extension pass before that time expires. The real question is whether Hurricanes Harvey and Irma will bring a new urgency among lawmakers for long-term flood insurance reform in 2018. 🏠

# EUROPEAN REAL ESTATE BENEFITS FROM GLOBALIZATION

*International investors see value in real estate across many parts of Europe.*

*By Peter Gilmour, chief foreign correspondent*

A new research report, “Emerging Trends in Real Estate: Europe 2017,” by Pricewaterhouse Coopers (PwC) and the Urban Land Institute, has provided a comprehensive outlook on real estate across Europe for 2017 and beyond. International investors continue to see value in real estate across many parts of Europe despite some believing prime European real estate is fairly priced and others believing it is overvalued, according to the report. We will have to wait, as post-Brexit negotiations take place, to see which group’s perceptions play out.

## **Where are the Safe Havens?**

Pricewaterhouse Cooper’s (PwC) survey director, Garth Lewis, said that the report ranks the real estate markets in major European cities according to their overall investment and development prospects in the current risk-averse investment climate—where investors are willing to sacrifice yield for lower risk.

According to the results, Germany emerged as Europe’s new safe haven for capital with four of Europe’s top five investment and development cities in the world’s fourth largest economy. Germany’s domination prompted one European investor to say that the country had replaced the U.K. as Europe’s No. 1 safe haven. Berlin, Hamburg, Frankfurt and Munich feature prominently due to their high-quality urban districts, prospects for growth in rentals and sales and government investment into public transport.

The report reveals that Denmark, Iceland, Sweden, Norway and Finland are also emerging as new safe havens. Their economies are growing, and they all have a high quality of life, which is attracting global capital.

## **Portugal Revives Property Market**

Portugal has recently made various reform initiatives that have revived its property market. Looking at long-term growth in attracting international investment, the government changed its pro-tenant leasing market giving landlords more incentive to invest. Portugal has also launched its residency and citizenship program that allows non-EU citizens to acquire

Portuguese citizenship in exchange for real estate investment.

Dublin, the capital of Ireland, still holds a position in the top five European cities for investment and development and is viewed as a beneficiary of Brexit. Strong economic growth, foreign investment and strong housing demand are keys to Dublin’s prospects in 2017.

## **Industry Prepared to Innovate**

Lewis acknowledges that the report raises questions as to whether or not the European real estate industry is prepared to innovate; whether it will be current real estate leaders or new players who meet the challenge or whether the market is entering a period of change or merely redefining what constitutes quality real estate. “However,” he says, “if Europe is going to thrive in a fast-changing and uncertain world, it will need to make bold decisions.”

According to most industry leaders canvassed for this global report, there is great faith in the virtues of globalization—involving financial and human capital—despite the rhetoric around protectionism and de-globalization. As one global investment manager quipped: “Rolling bank globalization is likely pushing water up a hill.”



# IT'S TIME TO JOIN THE AI REVOLUTION

*Artificial intelligence can give brokers insight into operational relationships and patterns.*

By Rob Keefe

The business world is undergoing a quiet revolution on a scale not seen since the advent of industrialization. The past decade has been marked by significant advances in computing power and statistical science, along with the explosion of data. Advanced software has used these advances to reveal patterns in data and events too complex or intertwined to be detected previously.

Artificial intelligent (AI) systems have the uncanny ability to learn and improve over time—in essence, programming themselves. While not a replacement for human judgment and business intuition, AI systems can act as a “bionic enhancement” for business leaders allowing superhuman insight into operational relationships and patterns.

## What is AI?

Anyone who has accepted a Netflix recommendation, used Waze to avoid a traffic jam, or had a conversation with Amazon’s Alexa has seen AI in action on a consumer scale. Unseen are the machine-learning algorithms driving airline pricing and scheduling, the systems which route and direct the flow of raw materials for just-in-time inventory supply chains in factories, and the computer vision system used to detect and reject improperly assembled parts.

Of America’s largest industries, real estate is lagging far behind. With the exception of automated valuation models (AVMs) and market analysis software for commercial real estate applications, AI-driven solutions for residential real estate are just beginning to hit the market. Rather than addressing the needs of industry leadership, these first AI platforms are almost universally geared toward agents and teams.

## Impact on Brokerages

How can AI impact how executives run real estate brokerages?

- 1. Forecasting profitability.** An AI system can run a forecast of cash flow and profitability based on your pipeline and market activity. With some basic agent-level production forecasts, well-trained AI could do a much better job of constructing next year’s commission schedule than the typical “raise the tiers X percent” approach.

**“With the exception of automated valuation models (AVMs) and market analysis software for commercial real estate applications, AI-driven solutions for residential real estate are just beginning to hit the market.” — Rob Keefe**



2. **First pass contract review.** Computers excel at rote and mundane tasks. Let's put them to work doing a first pass on contract review. It could flag obvious errors and omissions as the agent creates the contract. Offers and counters that appear to be those involved in difficult deals in the past will be flagged for extra management attention in the same way that certain credit card transactions are flagged by card issuers.
3. **Marketing.** In marketing arena, AI-enabled solutions directed at the larger customer pool of agents and teams abound. Is it hard to envision software that, relying on commercially available data sources, could better identify the demographic and psychographic sweet spots for an entire brokerage based on past history and demographic trends and use that data to do more intelligent outbound digital marketing? That same analysis could drive office expansion or placement decisions.
4. **Guide business decisions.** Agents are the heart of the real estate business and the main, often sole, channel of service delivery from brokerage to customer. They also differ enormously in skill, specialization, work ethic, geographic coverage, and seasonal pattern of effort. Brokerages pay agents in a dizzying variety of ways, often with great variation between individuals in the same office.

A company's roster of agents is its biggest business asset. AI can be used to guide decisions related to this incredibly complicated and heterogeneous element of

the brokerage business. With these systems, brokerages can identify, recruit, and retain talent by looking at agents' pattern of sales and listings over time and geography. This same approach could characterize the strength of a company's agent pool in different market segments and geographic areas and make recommendations for recruiting and commission schedule design.

The practice of running a real estate brokerage is every bit as complex as running a factory or transportation company. Ours is a data-rich business with no shortage of information on our markets, agents, customers and transactions. We have the raw materials for creating AI systems to help manage this complexity. It's time for the companies which drive our industry to embrace the data revolution. The survival of our business model may depend on it.

---

*Rob Keefe (rob@relitix.com) is the founder and president of Relitix, a startup data analytics firm serving the residential real estate industry. Keefe has led organizations in real estate brokerage, development, mortgage banking, title and relocation management. He served as Chairman of the Wisconsin Realtors® Association and as a board member of the National Association of Realtors. He is a graduate of the U.S. Naval Academy and holds masters' degrees from MIT, Woods Hole Oceanographic Institution and an MBA from Northwestern's Kellogg School of Management.*



LIVE!  
**REAL Trends  
 PODCASTS  
 TO GO**

Get your information on-the-go! REAL Trends Podcasts are live! Access a wide variety of residential real estate content from your mobile device or desktop. To log on, **CLICK HERE** or visit iTunes or Google Play and look for REAL Trends. Topics include business tips, current trends, market updates and more. 🏠

# A KEY DRIVER IN BROKERAGE PRODUCTIVITY

## ZILLOW'S PREMIER BROKER PROGRAM



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. Take a closer look at the stories of how these four firms used online leads through Zillow’s Premier Broker platform to achieve growth.

Download *A Key Driver in Brokerage Productivity*

[CLICK HERE](#)



SAVE THE DATE

# 2018 GATHERING OF EAGLES

Wednesday, May 16 to Friday, May 18, 2018

Grand Hyatt Denver

1750 Welton Street

Denver, Colo. 80202

RSVP BY REGISTERING  
AT [RTGOE.COM](http://RTGOE.COM)



NEED HELP WITH YOUR DIGITAL MARKETING?

## LOOK TO REAL TRENDS'

### SPECIALIZED UNDERSTANDING OF THE REAL ESTATE INDUSTRY.

At REAL Trends, we work with some of the nation's top-performing brokerages to enhance their digital footprint by using Google AdWords and Facebook to put the right ad in front of the right person at the right time. Using our unique experience in the real estate industry, we can align your goals with a well-rounded marketing strategy to increase your web presence, drive traffic to your website and increase the number of online leads funneled to your sales team. Here's how we do it:

- **Needs Discovery.** REAL Trends will evaluate the platforms your brokerage is using and what strategies your marketing team has deployed. Based on that information, we will evaluate your pain points and areas of opportunity.
- **Digital Marketing Summary and Action Plan.** Following a kick-off call with your technology and marketing team, REAL Trends will deliver a comprehensive marketing progression summary which outlines the platform, audience, budget and strategy to meet your goals. Additionally, this document will outline a detailed timeline (with dates) of action items and deliverables to maintain

clarity and consistent expectations on a month-to-month basis.

- **Digital Marketing Plan Implementation.** Using the marketing progression summary as a roadmap, REAL Trends will implement, facilitate and oversee all digital marketing campaigns from ad creation and



design, landing page experience and evaluation to lead capture review, campaign launch and campaign management and reporting. Think of us as an extension of your online team. ▲