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PART TWO

MODERN-DAY DISRUPTORS 1995 – TODAY

In part two of our series on real estate industry disruptors, we discuss the companies that set out to disrupt the industry between 1995 to current times.

By Steve Murray, president

Every news report you see includes the buzzword *disruptor*. The truth is that innovators and entrepreneurs have continually disrupted the industry. Let's take a walk down memory lane:

Fall 1995. HFS (today's Realogy) acquires ERA Real Estate, becoming the first major national company to own more than one franchise brand. Also, before the industry stops chatting about that move, HFS acquired Coldwell Banker in May 1996.

Microsoft launches HomeAdvisor to enter the online listings and housing information business to compete with Realtor.com and confirms that in fact "lions may be coming over the hill."

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1998. ZipRealty is launched, the first online real estate brokerage featuring employee agents and discounted commissions.

1999. HomeServices of America begins a 20-year acquisition binge, focusing on bringing large residential brokerage firms into the fold. NRT LLC, started in 1998, is formed as a joint venture between HFS and Apollo Management to do the same and over the next 20 years, these two firms will acquire dozens of the largest brokerage firms in the country.

2006. A new online portal called Zillow is launched. Trulia is launched a year later.

2007-2008. Redfin launched.

Canadian-based Brookfield acquires Prudential Real Estate Associates and Prudential Relocation. Earlier, GMAC Real Estate is sold to new owners.

2011. Acquisition activity resumes, and both HomeServices and NRT move forward with several significant acquisitions.

2012. Urban Compass, a new, private-equity backed start-up begins an aggressive campaign to build large market share in key markets throughout the United States.

Move is sold to News Corp. Zillow buys Trulia. Dozens of real estate technology firms are started and purchased within a few short years. Firms such as SkySlope and dotLoop are at the top of the list.

2015-2018. New companies offering to buy homes directly from consumers arrive. Among them are Opendoor, Offerpad and Knock.com. Other companies jump into the iBuyer movement, such as Zillow, Coldwell Banker, and Redfin.

Anxiety grows as these and other start-ups attract significant capital to fund their growth—more so than has been collected in the past.

Is There Reason To Be Concerned?

Yes, of course, there is. Compass has aggregated $1.2 billion to purchase top-performing agents and some brokerage firms. In some cases, they're raising the splits and other payments to these agents and teams forcing incumbents to do the same. At least one national brokerage firm is mimicking this practice. Every brokerage's commission costs will go up, or they will lose share. Gross margins will fall further.

Zillow and Realtor.com are headed toward far more aggressive lead development and curation activities.

We have said before that one of the challenges to delivering excellent service to housing consumers is the "last mile" or the connection to the agent. With Zillow's concierge program and Realtor.com's acquisition of Opcity, we see them moving toward a fuller brokerage package.

The so-called iBuyers will have an impact on the markets where they operate. Offering to purchase homes directly from sellers is an excellent service for those who need their equity quickly. Admittedly, there will be more entrants into this market (KW or Berkshire Hathaway anyone?) The iBuyers may end up controlling 8 to 10 to 15 percent of the market in a few years.

The Team Phenomenon

Teams are growing in number and size. In the REAL Trends' team ranking report, America's Best Real Estate Professionals as sponsored by Adwerx, the number of teams doing more than 75 sides or $30 million in volume has more than doubled in the last four years. Their average size has also increased significantly. The top 15,000 to 16,000 individuals and teams accounted for 11 percent of the transactions, and nearly 23 percent of the total volume closed in 2017.

Each of these disruptors will affect the market and peel off a piece of the pie. However, with consumers' use of agents at a 20-year high (90 percent according to the REAL Trends/Harris Insights 2018 study), this market remains a $70 billion-plus market. There are still agents and teams who see the value in being with a stable brokerage firm. There are still +/- 100,000 new real estate agents entering the business each year. The brokerage business remains a viable business. The vast majority of top individuals and teams are still associated with well-known brokerage firms, both independent and affiliated.

What Does the Future Hold?

The next few years will be more chaotic than average—and what exactly is normal anymore? The future will require that brokerage firms develop new strategies and tactics. We have said for some time that this market would likely evolve just like other retail service and product industries. In research we did for NAR in 2003, *From Homogeneity to Segmentation,* we noted that the brokerage industry would segment. In our 2014 book, *Game Changers,* we said that there would likely be a segmentation between facilitators and counselors of agents and brokerage firms.

Think Walmart and Nordstrom

There is nothing wrong with either business model—Walmart vs. Nordstrom. The big challenge for brokerage firms today and for the future is, which do you want to be? A brokerage cannot be both.

Most importantly, a brokerage firm cannot get caught in between.

Each of the new models of realty services (not brokerage per se) may well peel off a share of the market. Zillow is already influencing a certain percentage of buyers and sellers towards their preferred agents and brokers. Realtor.com will do the same.

The iBuyers will influence and direct a certain share of the market towards their in-house service organizations. Others, such as Quicken Mortgage's In-house Realty will do the same, just as USAA is doing it through their service agreement with Realogy. The business available directly from consumers will shrink as a percent of the whole. There doesn't seem to be any evidence to the contrary.

But the largest segment of the market will still be direct-from-consumers, and the only question in front of brokerage firms is, 'What will incumbent brokerage firms do to remain viable?'

To view the first half of this article CLICK HERE

THE FUTURE WILL REQUIRE that brokerage firms develop new strategies and tactics. We have said for some time that this market would likely evolve just like other retail service and product industries.

REAL ESTATE BROKERAGE FIRMS OR TECHNOLOGY BUSINESSES?

By Steve Murray, president

You may have noticed that, over the last few months, Wall Street has been punishing real estate-related stocks based on the news that housing sales are down year-over-year. As of this writing date, Realogy, RE/MAX, Redfin and Zillow are all well off their peak stock prices from earlier this year.

It's fair to say that companies like these are trading at lower prices today than a year ago due to the decline in housing sales. It makes sense. While it doesn't appear that anything like the 2006-2010 debacle is in the offing, this cyclical downturn is driven by the rise in mortgage rates, the decline of affordability and the shortage of inventory that still pervades most markets, although that too is easing.

The Market Is Catching On

What is surprisingly refreshing is that even Zillow and Redfin are affected. The market seems to have finally caught on to the fact that they, too, are deeply dependent on the housing market and the brokerage market. They are no different than Realogy or RE/MAX in that regard. While it appears that Zillow's valuation is also affected by their entry into the iBuyer segment, and the comments from Wall Street that bemoan them doing so, we think instead that Wall Street is dead wrong. Zillow's entry into this market further fulfills their mission to serve housing consumers of all kinds and monetize their audience by delivering customers and clients to their premier agent and brokerage network. We think the iBuyer program has the potential to do that extensively.

The other question then is the private market value of Compass. Many have asked us how a company that is deeply embedded in the real estate brokerage space, and which, to date, has no published earnings, can be worth more at this time than Realogy and RE/MAX combined? The short answer is that they are showing far faster rates of growth than these incumbents, and, well, Wall Street loves a growth and disruptor story. How this plays out in the future remains to be seen.

The main story to us is that all of these companies are dependent on the health of the housing sales business and, ultimately, the stock market will price them accordingly.

The main story to us is that all of these companies are dependent on the health of the housing sales business and, ultimately, the stock market will price them accordingly.

CHANGING VIEWS

DO YOU PROVIDE ENOUGH VALUE TO TEAMS AND AGENTS?

Trends in the movement of top teams and agents between brokerage firms.

By Steve Murray, president

According to BrokerMetrics, as of May 2018, there are about 264,000 Realtors® who change brokerage firms each year. Also, more than four out of five of the top 15,000 agents and teams are affiliated with well-known local, regional and national brokerage entities, according to REAL Trends America's Best Real Estate Professionals as sponsored by Adwerx ranking data.

Therefore, nearly 20 percent of all Realtors® change their brokerage affiliation each year. Most of the best-performing agents and teams are affiliated with a firm likely ranked on the REAL Trends 500 and Up-and-Comers. Surely there is a movement of these top agents between such ranked firms, but generally, they stay with well-known brokerage firms.

In 2017, the California Association of Realtors® and REAL Trends conducted a study of top teams throughout the country. This study resulted in nearly 400 top teams from across the United States responding to our online survey. We interviewed another 20 teams in person and performed a 10-team focus group of just those from California.

Among the questions we asked were what they found most valuable about their brokerage firm and what additional things a brokerage could do to provide additional value. Remember, these are top-producing teams from across the country.

Here is what they said:

- The highest-valued service that brokerage firms provided was legal and regulatory guidance.
- The second-most valued deliverable was a well-known brand name.
- When asked what a brokerage could do that would add value other than legal and regulatory guidance, those surveyed said offer low costs and fees and business coaching.

It's clear to us that it's important for teams to be affiliated with a well-known brokerage based on that correlation with our national rankings. What is also clear is that they understand that the legal and regulatory service that brokerage firms provide to their agents and teams is also very valuable.

What brokerage leaders instinctively know is that what's valuable to a new agent is the same as what's valuable to a veteran agent. Further, brokerages know that over a 20-, 30-, or 40-year career, the needs of agents and teams shifts depending on what they're trying to accomplish at that particular time in their businesses.

In the past, the only variable for brokerage offerings to agents was a commission or fee program that was solely based on sales volume levels. We know of only a few with variable service programs or à la carte offerings tailored to individual agents and teams.

At this time, while competition for agents has never been so vigorous, it would appear that an examination of how a brokerage approaches its agents would be timely.

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ARE YOU PUSHING STRINGS?

Are you over-committed to an uncommitted group of sales associates?

by Larry Kendall, author of Ninja Selling and Chairman Emeritus of The Group, Inc.

Why do managers lie awake at night worrying about people who are not lying awake at night? They worry about whether their associates are going to produce enough sales to take care of themselves, their families, and to cover their share of expenses. Guess what? Many of these associates are not lying awake at night worrying about their production. They are not motivated enough to do the work required. Managers who are over-committed to this uncommitted group are trying to push strings!

Why do managers push strings? Here are three reasons:

1. Good managers care about their people and want the best for them.
2. Managers often wish success for their people more than their people want to succeed.
3. If the manager hired the associate, they don't want to admit they made a mistake and will work extra hard to help the associate succeed—even if the associate is not motivated.

A good manager is a valuable asset. Their time, talent, and energy need to be invested wisely. When they pour their heart and soul into an unmotivated associate (when they push strings) what are the potential consequences?

1. Less time, talent and energy are available for the committed associates. The manager could make a difference for them and increase their production, but the manager is busy pushing the strings.
2. Top producers resent the time managers spend with unproductive and unmotivated associates. Top people are probably getting more attention and love from competitors than they are from their manager. The manager is at risk of losing their top people. They should be investing their time with the top producers rather than wasting their time pushing strings!
3. Less time is available for recruiting, retention, and productive activities because managers are pushing strings.
4. Strings love it because they're getting all the attention. The more unproductive they are, the more attention they're getting from their manager. They love coaxing. Unknowingly, and with good intentions, the manager has created a dysfunctional feedback loop by rewarding the unproductive and unmotivated behavior.

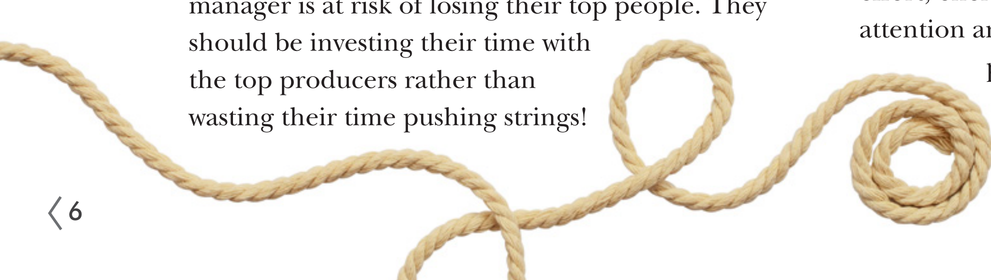
It is time for a pattern interrupt.

We've got a winning philosophy and strategy for managers:

Philosophy: I'm committed to working with people who are committed. I'm not going to lie awake at night worrying about people who don't want to put in the work to be successful.

Strategy: If I have an unmotivated associate, I'm going first to see if I can help them discover their *why*. Their *why* is their motivation. I'll help them connect their *why* with how a successful real estate career can help them achieve it. I will show them the specific activities that will lead to their success. I will know they are motivated when I see them doing the productive activities. If they're willing to do the work; I will be there to support them by giving them my time and energy.

What if the associate can't discover their passion, or can't connect it to a real estate career? What if they want to live their life by default, and I don't see them doing the productive activities? Then, I will not put time and energy into those who are not putting in time and energy. I will direct my energy to those who are committed. When I see associates putting in the effort, I will reward effort with effort, energy with energy, productive activities with attention and support. I am committed to working with people who are committed. I will give my committed people my very best. And I will sleep well tonight.



TRANSACTION DUE DILIGENCE

ADVICE ABOUT SELLING YOUR FIRM

How to clean up your financials and other data to facilitate a profitable sale.

by Scott Wright, vice president

Throughout REAL Trends' 31 years, we've brokered and advised on nearly 800 transactions in the residential real estate industry. We usually represent the sell side of the deal and work with firms that range in size from small, one-office, five-agent shops to the largest in the industry. One important thing we've learned is that if you're thinking about selling your firm, whether next month or five years from now, you must have clean data.

By data, we mean financials, organizational documents, operating metrics, third-party contracts, employment agreements, insurance documents, and more. This information becomes essential at various stages of a transaction, and when it's time to produce it, the process is radically easier if it's clean and organized.

If your data is not clean, then it's dirty. Dirty data is essentially unorganized, incomplete, and missing information that is required at the various stages of the transaction process. Plus, dirty data has prolonged, complicated and, in some cases, killed more transactions than we can count.

Three Stages of Information Gathering

When it comes to information gathering and analysis, the transaction lifecycle can be parsed into three stages; valuation, preliminary due diligence, and due diligence. The amount of data required at each stage increases as you run through the process.

In the valuation stage, we want to understand ownership structure, corporation type, operational metrics, lease information, employee information, information on affiliated services, market share information, and most importantly, financial information among the comprehensive list of data we request from our clients.

Once the initial valuation is completed, potential buyers are engaged. At this time, the preliminary due diligence phase begins. Buyers will perform their analysis and modeling to support a potential offer to the seller, usually in the form of a Letter of Intent (LOI). This preliminary due diligence typically looks at the same information that we do on the valuation front but may get more granular.

For example, many buyers like to have the income statements in Microsoft Excel and broken out monthly by office. They will take a closer look at the concentration of sales and trends in recruiting and retention. They'll also receive a close look at adjustments to EBITDA (earnings before income, taxes, depreciation, and amortization) and will seek to normalize run rates for payroll and occupancy costs. To keep the flow of information timely, sellers must have such items as historically accurate financials, detailed agent productivity reports, employee rosters, and office lease agreements.

Full Due Diligence Stage

Once an LOI is executed, the transaction enters into the full due diligence stage. Sellers must be prepared for complete transparency, to provide the intimate details of their company. In addition to what's already been offered in the first two stages, buyers will ask for such items as company operating manuals, agent level commission, fee breakdowns, tax filings, detailed descriptions of real property and fixed assets, all agreements and contracts, intellectual property information, litigation information, loan and bank information, and more.

Whether you're a broker-owner of a small firm, who does everything themselves or the owner of a larger firm with support staff, ensure that your data is clean, organized, easily accessible, and as accurate as humanly possible. Data cleanliness can make or break a transaction.

DIRTY DATA IS ESSENTIALLY unorganized, incomplete, and missing information that is required at the various stages of the transaction process. Plus, dirty data has prolonged, complicated and, in some cases, killed more transactions than we can count.

SEPTEMBER HOME PRICES INCREASED BY 5.6 PERCENT YEAR OVER YEAR

Prices expected to increase in near future despite housing slowdown.

- Younger millennials want to purchase a home, but affordability is a significant obstacle.
- Nevada and Idaho were the only states to post double-digit annual price growth in September.
- Home price growth projected to slow to 4.7 percent by September 2019.

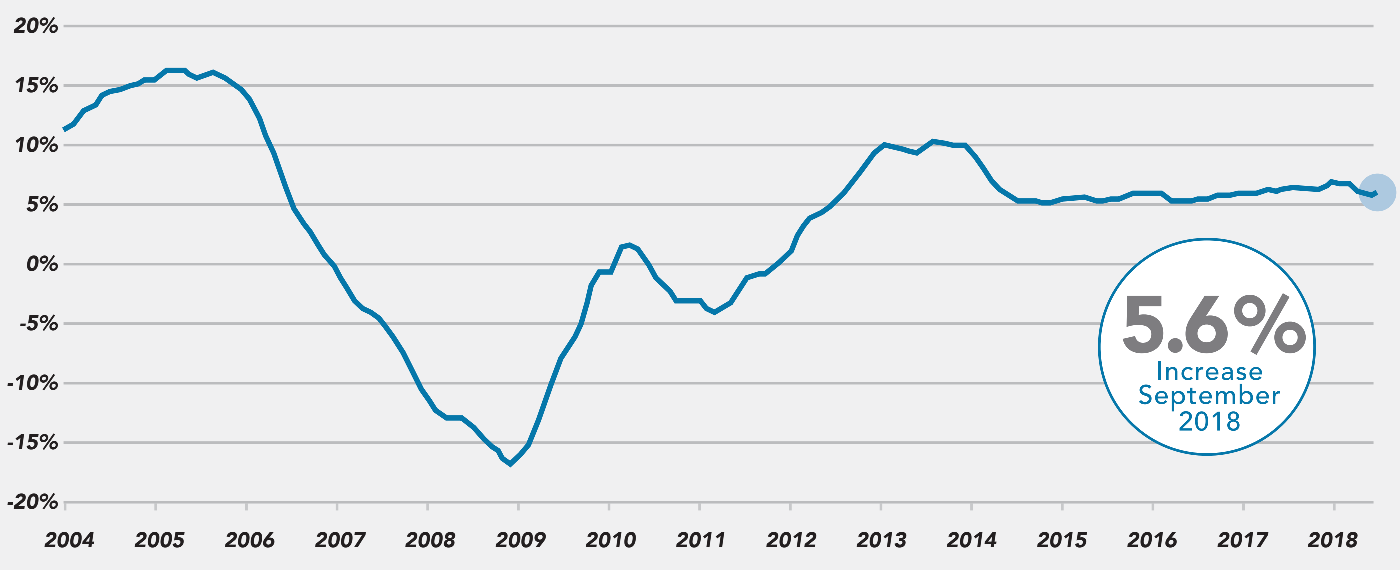
Home prices increased nationally by 5.6 percent year over year from September 2017, according to CoreLogic's Home Price Index (HPI). On a month-over-month basis, prices increased by 0.4 percent in September 2018. (August 2018 data was revised. Revisions with public records data are standard, and to ensure accuracy, CoreLogic incorporates the newly released public data to provide updated results each month.)

Looking ahead, the CoreLogic HPI Forecast indicates home prices will increase by 4.7 percent on a year-over-year basis from September 2018 to September 2019. On a month-over-month basis, home prices are expected to decrease by 0.6 percent from September to October 2018. The CoreLogic HPI Forecast is a projection of home prices calculated using the CoreLogic HPI and other economic variables. Values are derived from state-level forecasts by weighting indices according to the number of owner-occupied households for each state.

"The erosion of affordability in the highest-cost markets has begun to slow home price growth," said Dr. Frank Nothaft, chief economist for CoreLogic. "Hawaii, California and Massachusetts had median sales prices above $400,000 this summer, the highest in the nation, while annual home price growth slowed steadily between June and September in these three states. When comparing September 2018 with September 2017, annual price appreciation slowed more in these states than in the U.S overall. Nationally, annual price growth slowed 0.5 percentage points. However, in Hawaii, California and Massachusetts growth rates decreased by 1.7, 0.7 and 1 percentage points, respectively."

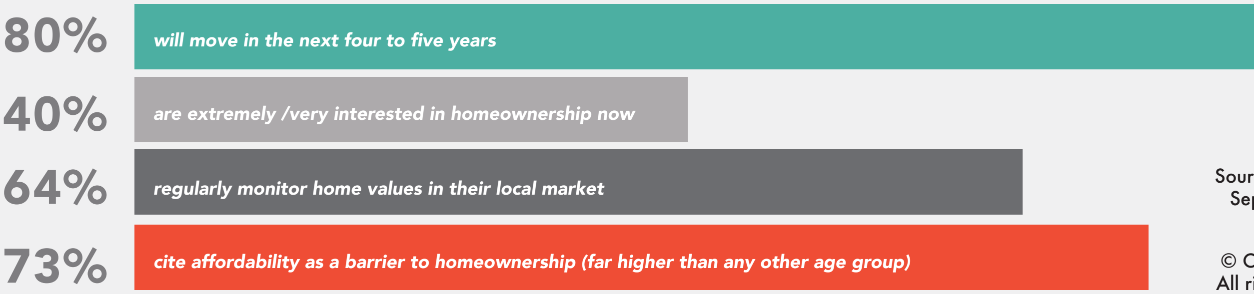
According to the CoreLogic Market Condition Indicators (MCI), an analysis of housing values in the country's 100 largest metropolitan areas based on housing stock, 38 percent of metropolitan areas have an overvalued housing market as of September 2018. The MCI analysis categorizes home prices in individual markets as

Figure 1: National Home Price Change *HPI Percentage Change Year over Year*



Source: CoreLogic September 2018 *Including Distressed Sales

Figure 2: Younger Millennials Housing Survey Results



Source: CoreLogic
September 2018

undervalued, at value or overvalued, by comparing home prices to their long-run, sustainable levels, which are supported by local market fundamentals (such as disposable income). Additionally, as of September 2018, 19 percent of the top 100 metropolitan areas were undervalued, and 43 percent were at value.

When looking at only the top 50 markets based on housing stock, 46 percent were overvalued, 14 percent were undervalued, and 40 percent were at value. The MCI analysis defines an overvalued housing market as one in which home prices are at least 10 percent above the long-term, sustainable level. An undervalued housing market is one in which home prices are at least 10 percent below the sustainable level.

In 2018, CoreLogic together with RTi Research of Norwalk, Connecticut, conducted an extensive consumer housing sentiment study, combining consumer and property insights. The study assessed attitudes toward homeownership and the drivers of the home buying or renting decision process. When asked about the desire to own a home, potential buyers in the younger millennial demographic have the desire to buy, 40 percent are extremely or very interested in homeownership. In fact, 64 percent say they regularly monitor home values in their local market. However, while, 80 percent of younger millennials plan to move in the next four or five years, 73 percent cite affordability as a barrier to homeownership (far higher than any other age cohort).

"Our consumer research indicates younger millennials want to purchase homes but the majority of them consider affordability a key obstacle," said Frank Martell, president and CEO of CoreLogic. "Less than half of younger millennials who are currently renting feel confident they will qualify for a mortgage, especially in such a competitive environment."

Table 1: Home Price Change and Market Conditions for Select Metropolitan Areas

Select Metropolitan Areas	September 2018 12-Month HPI Change Year over Year Single-Family	Market Condition as of September 2018
Las Vegas - Henderson - Paradise NV Metropolitan Statistical Area	13.4%	Overvalued
San Francisco - Redwood City - South San Francisco CA Metropolitan Division	9.9%	Normal
Denver - Aurora - Lakewood CO Metropolitan Statistical Area	7.2%	Overvalued
Los Angeles - Long Beach - Glendale CA Metropolitan Division	7.1%	Overvalued
Boston MA Metropolitan Division	4.9%	Normal
Houston - The Woodlands - Sugar Land TX Metropolitan Statistical Area	4.8%	Overvalued
Chicago - Naperville - Arlington Heights IL Metropolitan Division	3.6%	Normal
Miami - Miami Beach - Kendall FL Metropolitan Division	3.4%	Overvalued
Washington - Arlington - Alexandria DC - VA - MD - WV Metropolitan Division	3.2%	Overvalued
New York - New Jersey - White Plains NY - NJ Metropolitan Division	1.7%	Overvalued

Source: CoreLogic September 2018

** The forecast accuracy represents a 95-percent statistical confidence interval with a +/- 2.0 percent margin of error for the index

Table 2: Home Price Change by State

Source: CoreLogic September 2018

State	September 2018 12-Month HPI Change Year over Year Single-Family	State	September 2018 12-Month HPI Change Year over Year Single-Family
National	5.6%	Missouri	5.9%
Alabama	4.1%	Montana	4.4%
Alaska	2.0%	Nebraska	5.3%
Arizona	7.5%	Nevada	12.8%
Arkansas	2.9%	New Hampshire	6.1%
California	6.8%	New Jersey	2.2%
Colorado	7.6%	New Mexico	3.5%
Connecticut	1.4%	New York	4.9%
Delaware	1.8%	North Carolina	5.2%
District of Columbia	2.3%	North Dakota	-0.6%
Florida	5.6%	Ohio	6.1%
Georgia	6.4%	Oklahoma	2.4%
Hawaii	4.2%	Oregon	6.1%
Idaho	11.9%	Pennsylvania	3.8%
Illinois	3.4%	Rhode Island	6.5%
Indiana	7.0%	South Carolina	5.3%
Iowa	3.2%	South Dakota	1.2%
Kansas	5.8%	Tennessee	6.3%
Kentucky	4.5%	Texas	5.0%
Louisiana	0.9%	Utah	9.4%
Maine	3.9%	Vermont	4.1%
Maryland	2.6%	Virginia	2.7%
Massachusetts	5.6%	Washington	8.3%
Michigan	6.7%	West Virginia	8.9%
Minnesota	5.9%	Wisconsin	5.4%
Mississippi	3.2%	Wyoming	4.4%

About The 2018 CoreLogic Consumer Housing Sentiment Study

Nationwide survey of 3,001 renters and homeowners conducted in first quarter of 2018 by CoreLogic together with RTi Research. The survey has a sampling error of +/- 1.8 percent at the total respondent level with a 95 percent confidence level.

SHOWING TRAFFIC DECLINES FOR THE FIRST TIME IN 12 MONTHS IN THE SOUTH

West Region declines year-over-year for ninth month in a row; Midwest, Northeast also record consecutive-month decreases

Key Points:

- The South Region recorded a 3.8 percent year-over-year decline in showing activity in October, its first decline in 12 months, while the U.S. declined 5.0 percent, the third consecutive month showing traffic decreased vs. 2017
- Rising interest rates—which reached a seven-year high, according to data from the Federal Home Loan Mortgage Corporation (Freddie Mac)—likely impacted showing activity
- ShowingTime combines showing data with findings from its MarketStats division to provide a set of benchmarks that track demand for active listings throughout the country

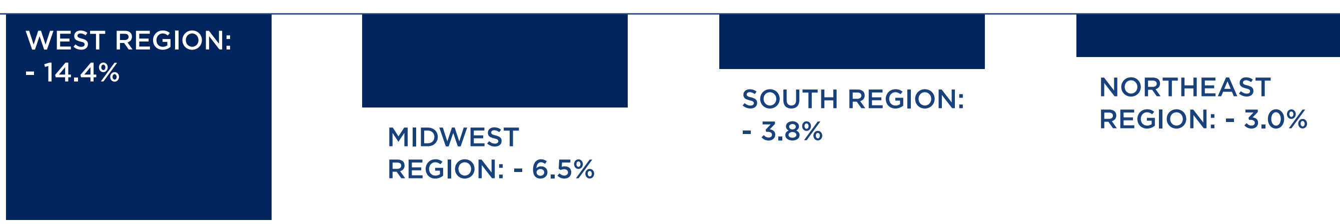
Showing activity in the South Region declined for the first time in 12 months when compared to 2017, the West Region recorded its second consecutive month of year-over-year double-digit declines and activity throughout the rest of the U.S. declined for the third month in a row from 2017's record numbers, according to the ShowingTime Showing Index®.

The South Region reported a 3.8 percent decline in October 2018 compared to the same time last year, while the U.S. Index decreased 5.0 percent year over year from 2017. October showing activity decreased in the Northeast (-3.0) for the fifth straight month compared to 2017, while the Midwest (-6.5 percent) recorded its third straight month of year-over-year declines.

The West Region Index recorded a second consecutive double-digit decline, with showing activity off 14.4 percent compared to the same time last year. It was the ninth consecutive month the region has exhibited year-over-year declines.

Rising mortgage rates, which reached a seven-year high according to data from the Federal Home Loan Mortgage Corporation (Freddie Mac), likely contributed to fewer buyers going on showings. The National Association of Home Builders' affordability index reported a 10-year low, another contributing factor.

"This is a continuation of the trend we've been seeing for the U.S. since spring," ShowingTime Chief Analytics Officer Daniil Cherkasskiy said. "Despite a relatively healthy economy, all regions of the country reported slower buyer traffic when compared to 2017's record numbers. We'll be closely tracking showing activity in January and February as an indicator of buyer demand for 2019."



"This is a continuation of the trend we've been seeing for the U.S. since spring. Despite a relatively healthy economy, all regions of the country reported slower buyer traffic when compared to 2017's record numbers."
— Daniil Cherkasskiy, ShowingTime Chief Analytics Officer

THE SHOWINGTIME SHOWING INDEX

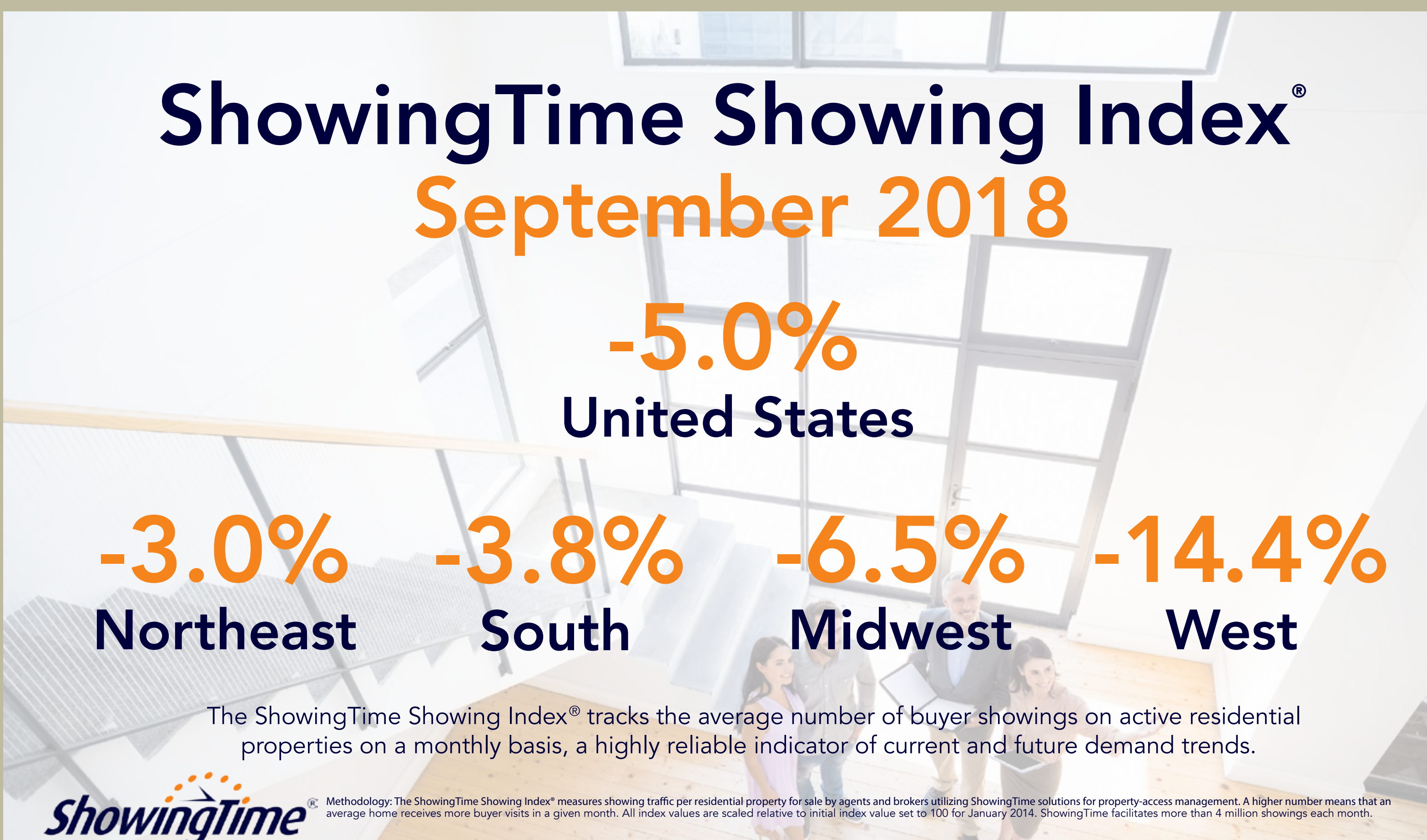
The ShowingTime Showing Index, the first of its kind in the residential real estate industry, is compiled using data from property showings scheduled across the country on listings using ShowingTime products and services, which facilitate more than 4 million showings each month.

Released on or around the 20th each month, the Showing Index tracks the average number of appointments received on an active listing during the month. Local MLS indices are also available for select markets and are distributed to MLS and association leadership.

To view the full report, visit **www.showingtime.com/index.**

About ShowingTime

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. Its MarketStats division provides interactive tools and market reports for MLSs, associations, brokers, agents, and other real estate companies, along with recruiting software that enables brokers to identify top agents. Its showing products take the inefficiencies out of the appointment scheduling process for real estate agents, buyers and sellers. ShowingTime products are used in more than 250 MLSs representing over 950,000 real estate professionals across the U.S. and Canada.



THE CFPB'S NEW RULEMAKING AGENDA IDENTIFIES PRIORITIES

New agenda identifies regulatory matters and insight into the Bureau's priorities.

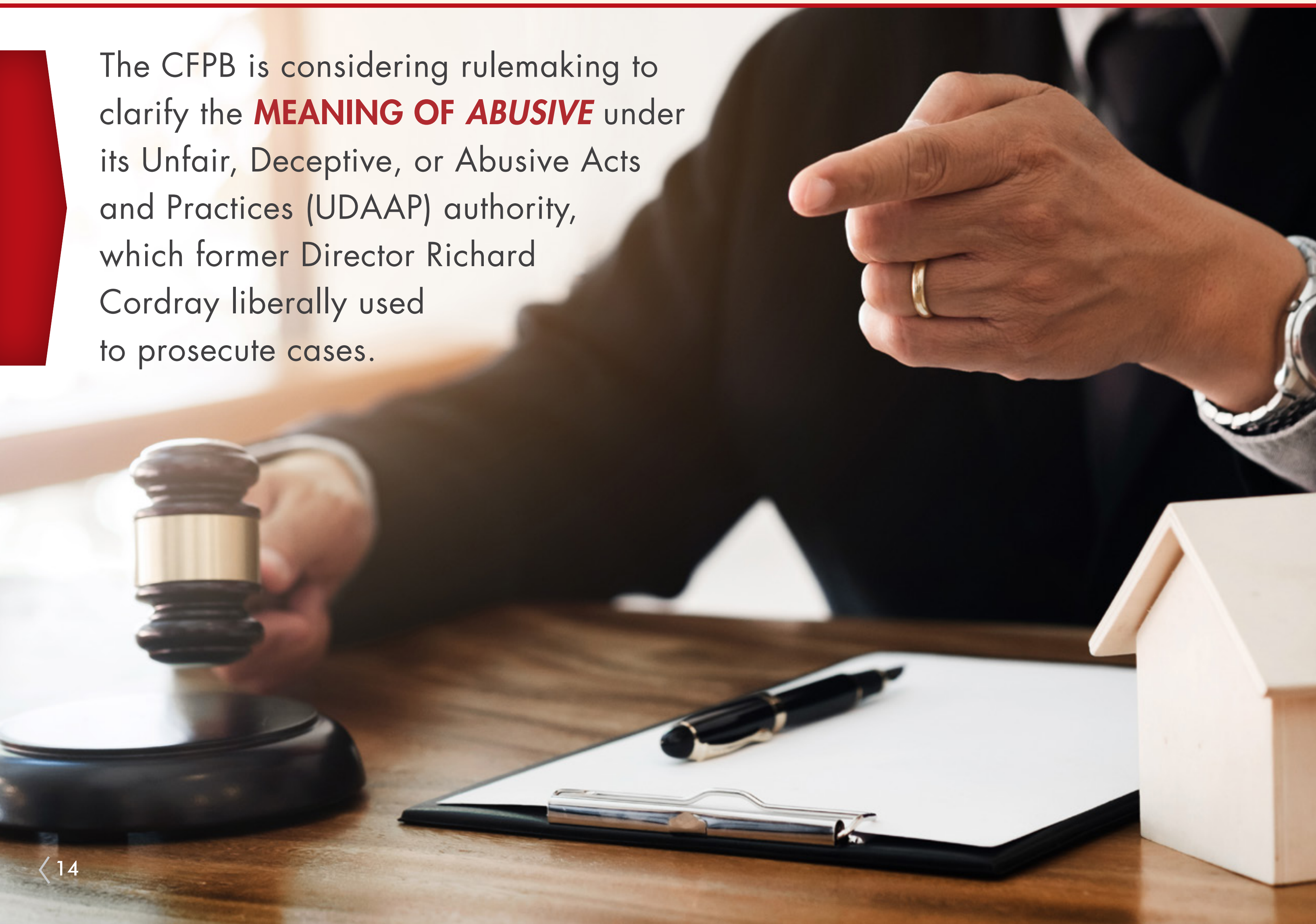
By Sue Johnson, strategic alliance consultant

On Oct. 17, the Consumer Financial Protection Bureau (CFPB or Bureau) released its 2018 Fall Rulemaking Agenda, its second agenda under Acting Director Mick Mulvaney's leadership. The 2018 Agenda identifies regulatory matters that the CFPB "reasonably anticipates" considering during the period from Oct. 1, 2018, to Sept. 30, 2019.

When coupled with other recent CFPB announcements, the 2018 Agenda provides insight on the Bureau's regulatory priorities for the mortgage industry over the coming year. Here are some of the highlights.

Abusiveness Standard

The CFPB is considering rulemaking to clarify the meaning of *abusive* under its Unfair, Deceptive, or Abusive Acts and Practices (UDAAP) authority, which former Director Richard Cordray liberally used to prosecute cases. In remarks to the Mortgage Bankers Association in October, Acting CFPB Director Mick Mulvaney said that actions that constitute *unfair* and *deceptive* are well-established in the law, but that the term abusive is not.



Qualified Mortgage (QM) Rule

The Dodd-Frank Act required the CFPB to assess the effectiveness of each "significant" federal consumer financial protection law within five years of its effective date, after receiving public comment. The final QM rule was issued on Jan. 10, 2014, and the CFPB says in its 2018 Agenda preamble that it plans to complete its assessment of this rule by January 2019.

Moreover, the CFPB asked in March 2018 for public comment on "Adopted Regulations" it previously issued under the authority of the Dodd-Frank Act, which include the QM rule. The comments it received, together with the comments it received in response to its 2017 solicitation of comments on the QM rule, have built a foundation on which to recommend changes to the rule when the Bureau's five-year assessment is complete.

TILA-RESPA Integrated Disclosure Rule

There have been several signals pointing to possible future changes to the Truth-in Lending Act (TILA)-RESPA Integrated Disclosure rule (TRID). First, the CFPB stated in the 2018 Agenda preamble that it expects to begin work in 2019 on its five-year assessment of TRID, which is a "significant" rule that became effective on Oct. 20, 2015.

Second, the 2018 Economic Growth, Regulatory Relief, and Consumer Protection contained a "Sense of Congress" provision that urged the CFPB to provide clearer, authoritative guidance on certain issues in connection with the TRID regulation.

Finally, TRID is an "Adopted Regulation" that amended an "Inherited Regulation," both of which were the focus of the 2018 CFPB Requests for Information to help it decide whether to amend rules that fall within either of these two categories.

HMDA Data

The CFPB expects to issue final guidance in late 2018 on how its 2015 standards governing consumer privacy of HMDA data should be applied to 2018 HMDA data. It also will publish a Notice of Proposed Rulemaking with a public comment period in the spring of 2019 to govern the disclosure of HMDA data in future years.

Disparate Impact and the ECOA

The Bureau announced in May 2018 that it was "reexamining the requirements of the Equal Credit Opportunity Act (ECOA) in light of recent Supreme Court case law," and also listed this project as a potential future activity in the 2018 Agenda's preamble. The referenced Supreme Court case is *Texas Department of Housing & Community Affairs vs. The Inclusive Communities Project, Inc.*, in which the Court held that disparate impact claims may be brought under the Fair Housing Act but set standards to ensure that racial imbalance alone does not create a prima facie case. The Supreme Court has never ruled on whether a claim based on disparate impact is valid under the ECOA, and Cordray brought numerous ECOA enforcement actions under the doctrine.

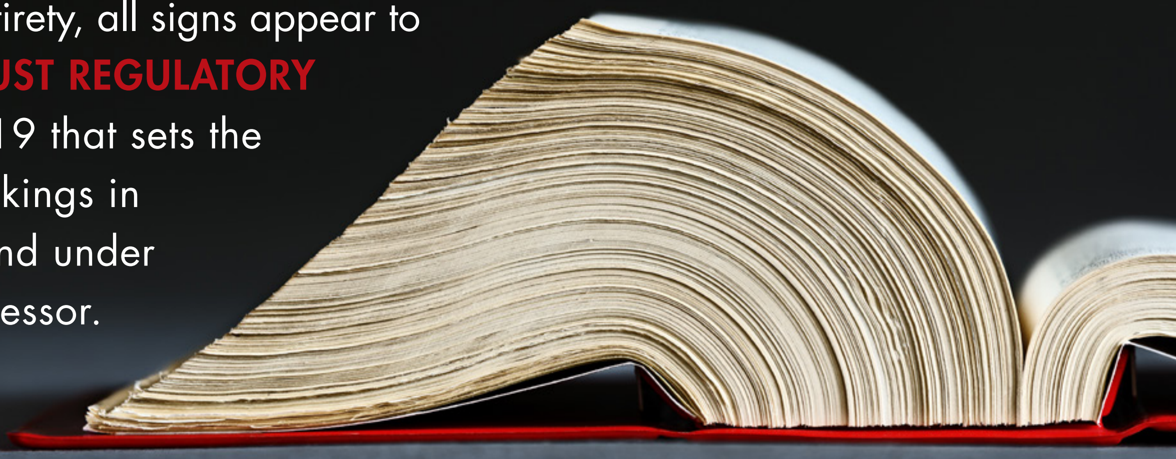
CFPB Enforcement & Supervision Procedures

The CFPB launched a "Calls for Evidence" earlier this year that sought public feedback on its enforcement processes, supervision program, civil investigative demands (CIDs), and rules of practice for adjudication proceedings. It says in the 2018 Agenda preamble that it is analyzing the 86,000 comments it received and will take them into account in future rulemaking agendas.

More to Come

The CFPB says it expects to issue a more comprehensive statement of priorities in its 2019 Spring Regulatory Agenda. Taken in their entirety, all signs appear to point to robust regulatory activity in 2019 that sets the stage for rulemakings in 2020 and beyond under Mulvaney's successor.

Taken in their entirety, all signs appear to **POINT TO ROBUST REGULATORY ACTIVITY** in 2019 that sets the stage for rulemakings in 2020 and beyond under Mulvaney's successor.



WHICH CITIES ARE AT RISK?

San Francisco, LA are at the highest risk of a housing bubble.

By Peter Gilmour, chief foreign correspondent

The price of housing has experienced a boom in many cities in North America and around the world over the last few years. Many of these cities are now experiencing reduced housing demand as potential home buyers struggle to afford to buy in previously affordable communities and existing homeowners can't afford to buy the home they are living in if it were currently for sale.

Rising interest rates around the world and tighter lending criteria imposed by lenders and banks can indicate the end of a housing boom, as is currently the case in Sydney, Australia.

Cities Most at Risk

UBS Switzerland AG issued its Global Real Estate Bubble Index Report in September 2018 which reveals the cities where the price imbalances are currently the greatest. Price bubbles are a regular occurrence in most property markets—signs of this include the imbalance of housing prices from incomes and rents, excessive mortgage lending and over-heated new home construction.

The report concludes that bubble risk is highest in North America cities like San Francisco, Los Angeles, Toronto, and Vancouver, and globally in Hong Kong, Munich, London, Amsterdam, Stockholm, Paris, Frankfurt, and Sydney. The median price-to-income multiple of the cities in the study increased from 5.5 in 2008, to 7.5 today—an increase of nearly 40 percent in 10 years.

Housing Prices on the Rise

Housing prices of the 20 major cities surveyed increased by 35 percent on average over the past five years according to the report. Hong Kong was identified as the city with the highest risk of a housing bubble with house prices rising over the last five years at an annual rate of almost 10 percent per annum.

The report rated Toronto and Vancouver to be high on the list but noted that higher stamp duty on foreign buyers has not dampened the price rises in Vancouver but has had a more significant effect in Toronto.

Boston was the only U.S. city surveyed that was 'fairly' valued, and Chicago was the only U.S. city that the report considered undervalued.

Singapore was the only city surveyed where there was no difference between housing prices and income growth over the last 30 years. London's risk rating declined for the second year in a row due to affordability and the ongoing uncertainty with Brexit negotiations with the European Union. New York experienced an average price decline for the first time in many years due to the increase in local taxes and rising mortgage rates.

The report concludes that, in the past, rising interest rates have been the primary cause of price corrections together with affordability, but overpriced markets have been known to exist for many years and to predict corrections in prices is always a difficult task.

To download the entire report CLICK HERE

Downtown San Francisco and Oakland Bay Bridge

WHY IS REAL ESTATE SO UNIQUE?

What are tech companies missing when it comes to serving the real estate industry?

By Warren Dow

In one month, eight separate vendors contacted me in an attempt to pitch new technology and services for my brokerage and agents. I've gotten phone calls, emails, requests to join webinars and more. Some of these companies provide services that supplement our current tech stack; others are offering solutions that would replace our existing infrastructure. Throughout these interactions, it's become clear that some of these sales models fit the real estate industry better than others.

As more companies break into the real estate industry and as executives from other sectors step into leadership roles, we'll continue to see sales techniques evolve, or we'll see those same vendors fall flat. There's tremendous value in having a fresh perspective that other industries can provide; however, being flexible in those perspectives is critical to success in our industry.

Real Estate Is Prime for Tech Sales

My career started in consulting, leading managed service companies providing software to a variety of industries including automotive, manufacturing, high finance, health care, government, and real estate. When it comes to B2B (business-to-business) sales, the more businesses in an industry, the better the odds of success. The real estate industry is a paradise because every agent is their own business in addition to the 70,000+ brokerages across the country. However, those same techniques of reaching and engaging businesses don't work the same in real estate. My theory on why real estate is so unique comes down to two main factors:

1. We are an industry of sales professionals
2. We have a never-ending and always growing list of things to do

There's tremendous value in having a fresh perspective that other industries can provide; however, being flexible in those perspectives is critical to success in our industry.

As an industry of sales professionals, we value the art of the sale because we live it. We appreciate a good sales pitch and a respectful cadence in communication. At the same time, we can be highly critical when someone calls too often, or not enough, when they stumble with what would appear to be an easy question, or when they keep driving you to a webinar instead of wanting to engage one-on-one.

It's About Relationships

It can also be frustrating when you're bounced around once you've expressed interest in a particular product. What you may not know is that the business development rep may sit in a marketing department and not in sales. Their job ends once they open that door and qualify you as a buyer. This doesn't make sense to a lot of real estate professionals because we do it all. We open and close the deals, and we continue to stay in touch after the transaction closes, sometimes for decades, so we'll be top-of-mind the next time our client is ready to buy or sell. The life of a lead is never over. It requires regular contact and maintenance to keep the relationship. With most software companies, there's a division of labor. One team sets up the opportunities, one team closes them, one team trains and on boards, and another continues to market and upsell. Real Estate professionals maintain those relationships personally because the majority of our industry is doing it all themselves.

We're Busy!

The second reason real estate stands apart is that we are always busy. We all have to-do lists that could keep us busy for months. The difference is we aren't working from our desk every day. We're in the car, meeting clients, jumping from one showing to the next, going to a listing appoint-ment, to the office, or a networking event. We could get 20 calls from the same vendor and never pick up, while another vendor calls or emails just once, and we pick up the first time. We don't know when we're going to have free time, so more touch points should be expected. Some sales experts suggest that you need to touch a prospec-tive client at least eight times (calls, emails, etc.) before you can determine whether they're interested in buying or selling. Others have that number as high as 15. But, if a real estate professional hasn't responded, the only fact that you can take away from the lack of response is that they're busy, not that they aren't interested. Develop a respectful cadence in communication. I would say that an email every week might be too much, while only one email per month may not be enough. Mix in phone calls with emails. Find your balance and be consistent. And, when you ask, "Is now a good time?" you create an instant level of rapport!

The real estate industry requires time, patience, and the ability to build and maintain strong relationships. It also requires a strong understanding of how the agent and company operate. When you're focused on selling to an industry filled will sales professionals, expect to be held to a higher standard.

Remember, the real estate companies you're trying to sell to are in the business of helping their clients achieve their dreams; they got there by building a strong relationship, and you must do the same.

The same turnkey process to sell in other industries will require more work, more follow-ups, more hand-holding, and more time. Remember, the real estate companies you're trying to sell to are in the business of helping their clients achieve their dreams; they got there by building a strong relationship, and you must do the same.

Warren Dow is the VP of Business Development at Peabody & Smith Realty based in New Hampshire. Warren has over a decade of leadership experience in real estate software and services. Warren sits on the Board of Advisors for several real estate technology startups, including VoicesterPro and LetsButterfly.

SPONSORED CONTENT

HOW TO GIVE BUYERS AND SELLERS A COMPETITIVE ADVANTAGE

By Tracey Velt, publisher

Closing Transaction Sides In-house

Some 65 percent of brokers surveyed say closings/GCI is the most important factor when evaluating a product's return on investment. Buyside is able to show client's ROI based on added closings. On average, Buyside clients see a 42 times ROI.

Northwood Realty Services, Pennsylvania
39 offices

Around the country, inventory is tight. "We want to give our sellers and buyers a competitive advantage. Buyside allows us to premarket to buyers that a house that fits their needs is coming on the market," says Tom Hosack, president, and CEO of Northwood Realty Service in Pittsburgh, PA.

He says that agents can register what their buyers are looking for, so when the brokerage gets a listing, agents can match buyers with sellers for an in-house transaction.

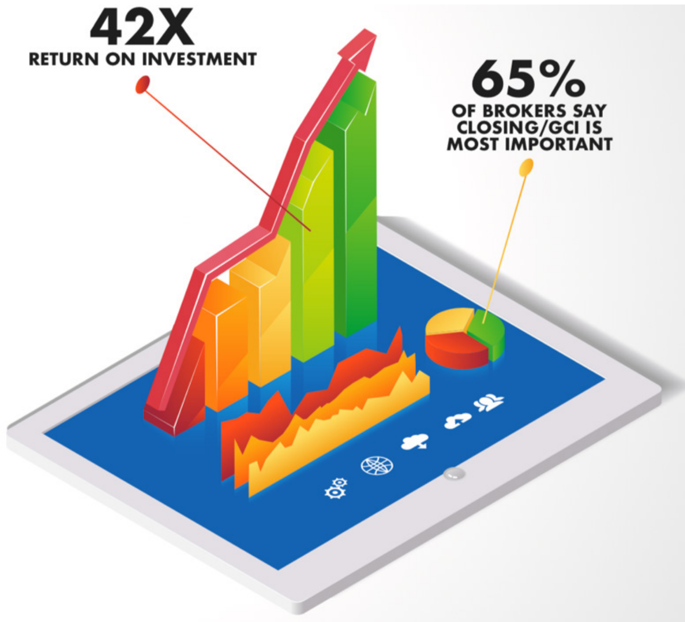
Real-time Buyers

"On a listing presentation, our agents like that they have the ability to tell the seller that they have real buyers who want to buy. They can even show them a graph of what buyers are looking for as it pertains to bedrooms, bathrooms, and price," says Hosack.

This is especially important in this low-inventory market. Gone are the days of weekly sales meetings announcing listings coming to market soon. Instead, with Buyside, agents can see at a glance what matches their buyer's criteria. "It's great for our buyers to know what's coming on the market before it actually hits the market. That way they can stay competitive with the offers," he says. "These tech tools are a modern version of what used to happen at sales meetings."

Building a Buyer Database

Hosack says Buyside imports their buyers' requirements into the system, listing everything from which school districts they may want to price, number of bedrooms and more. So, when agents go to a listing presentation, they can show potential sellers the demand for the product. "Pricing is all about supply and demand. In the past, we didn't know the demand. Now we do," he says.



Getting Both Sides of the Transaction

For Hosack, the buyer matching is important because it allows him to sell more transactions in-house. Since using Buyside, he's listed over 252 properties.

"Even more important than buyer matching is the ability to predict demand. It's a market changer when you can sit with a seller and talk about what the demand looks like," he says. The report is dynamic, so you run the report before the listing presentation and then go live with the seller showing how prices and demand are changing. "It's a powerful tool in the listing process and it's something different to offer. When we work with a seller and can tell them that we have real buyers who want a home similar to their home, it's great. But, we want the home sold no matter what for the highest and best deal. If we can help the buyers find a house early, it's a huge bonus."