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Commentary

Leadership and Management

Are You Developing Insights?

Controlling insights are key to success.

Written by Steve Murray, publisher

According to Marcus Buckingham's book, "The One Thing You Need to Know," having your own controlling insights is the key to achieving great success both personally and professionally. Buckingham says that "controlling insights convey the sense that although these insights don't explain all outcomes or events, they do serve as the best explanation of most events. They are the insights that underpin and control every other factor.

For a concept to emerge as a "controlling insight," Buckingham says there are three tests it must pass:

1. **It must apply across a wide range of situations.** A controlling insight must apply in all kinds of challenges, times and environment.
2. **It must serve as a multiplier.** It must explain excellence in a particular arena, not average and not mere survival and create exponential improvement.
3. **The controlling insight must guide action.** It must point to precise things you can do to create better outcomes more efficiently and more consistently.



Commentary cont. on p2

5 Steps to Shared Vision

Tips for getting buy-in from your agents.

Written by Larry Kendall, author of *Ninja Selling* and Eric Thompson, president of *The Group, Inc.*

The greatest leaders in history all had dreams. Thomas Jefferson had a dream of independence. Martin Luther King, Jr. had a dream of racial equality. John F. Kennedy had a dream of an American on the moon.

All leaders have dreams. All leaders have a vision. The great leaders get people to see and feel that vision just as strong as they do. The great leaders get their people to make the vision come true. The great leaders have more than vision; they have shared vision.



5 Steps to Shared Vision cont. on p4

INSIDE:

- p1 Are You Developing Insights?
- p1 5 Steps to Shared Vision
- p2 Challenges Revealed
- p5 Valuations, Mergers and Acquisitions
- p6 Today's Brokerage Challenges
- p8 Featured Leader: Shaun Osher
- p9 December ShowingIndex
- p11 REAL Trends Housing Market Report
- p13 Smart Search
- p14 Google Fear Index
- p15 The "5" Percent Rule and 2014



PAGE 6

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Commentary cont. from p1

Buckingham defines the difference between the role of leaders and the role of managers with the following two statements.

1. Great leaders rally people to a better future.
2. Great managers discover what is unique about each person and capitalize on it.

“The One Thing You Need to Know” is an excellent book on individual and organizational excellence. The best I’ve read in years. I recommend it to all seeking a firmer knowledge of how to be more effective in leading or in managing. ■



Survey of NAR Directors

Challenges Revealed

Find out what these NAR leaders had to say.

Written by Steve Murray, publisher

Elizabeth Mendenhall, who is a candidate for an elected office with the National Association of Realtors® (NAR), recently surveyed the directors to see their views on the association and, to some extent, the industry at large. Here’s a summary of the areas that we felt would be of most interest to the leadership of realty firms.

Too Large to Be Effective?

Half of the directors said that NAR had not gotten too large. Yet, by more than two to one, they said that NAR was out of touch with the goals and objectives of the state and local associations. By a vote of three to one, the directors said that NAR doesn’t have a favorable perception from the membership at large. Lastly, those responding said that NAR should, “be apprised and make more informed decisions on external matters affecting our industry.”

Not Too Large to Be Effective?

One final question in this area asked whether NAR has “made the necessary changes to allow us to morph into a responsive, agile organization that can truly serve its members?” The majority said no. They said that NAR has become too big to become responsive.

So which is it? Is NAR too big or not too big?

A majority said it had not gotten too large, but when asked whether its size allowed it to listen and respond to its members, the same majority said it was too large. The responses are puzzling at best but in hindsight, not so much.

Vision

Any organization that lacks a clear vision and purpose will struggle with this issue. NAR, among other things, is a technology company, an advocacy organization, an investment bank, a credit union, a university, a data provider—we could

Commentary cont. on p4



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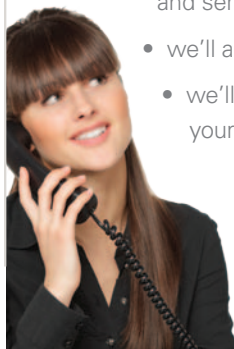
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go on, but you get the point. When an organization tries to be all things to all people, it ends up meaning less to most. Ask the members, or the leaders of the state and local associations to describe NAR, and you'll get as many answers as there are stars in the heavens. We think this is at the core of the organization's challenge. Mendenhall could have asked, "What is the one thing for which we absolutely depend on NAR?" This may have been the most helpful question of all.

National MLS

In answer to whether NAR should get behind a national MLS, it's amazing that 36 percent said, "Yes"; 44 percent said, "No" and 20 percent said, "I don't know." With the challenges and missteps that have taken place with Realtor.com and Realtors® Property Resource (RPR), 36 percent of the directors now believe that NAR should invest in and build a national MLS. It would likely turn out like the web site for the Affordable Care Act, and we know how that's going so far.

Education

We found it interesting that an overwhelming 73 percent of

the directors said, "The right education can increase professionalism." The abundance of education in our industry is astounding. There are multiple sources of education in place from NAR, state and local associations; from local and national training providers; from coaches and coaching organizations; from off-line and online sources; from large brokerage firms and national brand firms. Thousands upon thousands of courses are offered across the country. Yet, most would admit that professionalism has declined overall—not among the most productive sales professionals—but overall. Why?

The Real Issue

The real issue is that there's no accountability for conduct. Due process through mediation and arbitration has not worked for years. NAR, along with most state and local associations of Realtors®, are in the business of maximizing membership, not holding members to a higher standard of professionalism. This is also true of many brokerage firms. The numbers of agents matter more than the overall quality of agents. More education is not the answer. ■

5 Steps to Shared Vision cont. from p1

Based on our experience in leadership and management we've found that that buy-in is essential. If you want to move your company forward and you want to achieve lofty goals, you must have the buy-in of your people.

5 Steps From Vision to Shared Vision

There is a five-step formula that we teach in Ninja Leadership that creates a powerful transition from vision to shared vision. The formula is based on five key questions that people will ask themselves as they listen to the leader's vision. We find that these questions must all be answered in the correct order for buy-in to occur.

Here are the questions:

- 1. Does this align with my values and the company's values?** Simon Sinek wrote a best-selling book called, "Start With Why." The first step in the process is to answer why. The communication goes like this, "We're going to do this because at our core we believe that..."
- 2. What is the plan?** Your people will want to know that you have given great thought to the design of the plan, and they will want to see the plan clearly laid out. A solid plan gives them confidence that the vision will come true.
- 3. What's in it for me? What's expected of me?** Your people crave an understanding of their personal role in

making this vision come true. They want part ownership of the creation and part ownership of the benefit.

- 4. How committed are you to this?** Ensure that your people know and believe that your vision is not just a passing fancy. This is a 100 percent full-on commitment to something great.

**"If you want to build a ship, don't drum up the men to gather wood, divide the work, and give orders. Instead, teach them to yearn for the vast and endless sea."
—Antoine de Saint Exupery, author of
*The Little Prince***

- 5. How will you communicate our progress?** Your people will want to see that the commitment and effort are working. They want to see progress. Communicate the progress frequently and in many different forms.

You have dreams just as Thomas Jefferson, Martin Luther King and John F Kennedy did. Your dreams cannot come true without the buy-in, commitment and effort of your people. Move the vision in your mind to a shared vision in their hearts and watch it come to life. ■

Valuations, Mergers and Acquisitions

What's happening in brokerages today.

Written by Steve Murray, publisher

There have been several acquisitions of large realty firms over the past year and a half. Among them are Prudential Connecticut Realty, Prudential Georgia, Prudential Fox & Roach Realtors, Frank Howard Allen, Charles Reinhart, Edward Surovell and most recently, Prudential Rubloff. The buyers were Berkshire Hathaway, Realogy, Howard Hanna and Real Estate One in these cases. In addition, there have been several deals for medium firms such as the sale of Llewellyn Realtors® to Long and Foster.

For the past 27 years, REAL Trends has provided valuation, merger and acquisition advisory services to realty firms. Because of this, we get asked: Why are these big mergers happening now? How is value determined? What does the market look like going forward?

Here are some of our views:

Why the Big Mergers Now?

The reasons for why an owner of a realty firm would sell are numerous. Certainly the return of meaningful profit and the return of well-capitalized buyers are two big reasons. For some sellers, it's a matter of age, a lack of succession plans or a repositioning of family wealth. All are good reasons.

When companies can purchase growth at reasonable rates of return and do so with a reasonable risk profile, then it makes sense for them to acquire. Otherwise, they depend on organic growth, which does not readily attract investment capital.

There are also some who remember where values were between 2000 and 2006. They recall what happened between 2007 and 2011 and don't want to risk another downturn. Along these lines there's an overall feeling that this recovery, while strong for the last two years, may not have a lot of room left to run. Further, the increased regulatory environment, especially in mortgage lending, has caused several leading firms to conclude that the best days of profit from core mortgage businesses are in the past.

As for the buyers, with three of the largest national realty firms now either publicly held or part of a publicly held firm, growth



is a must. They must show the ability to grow their footprint in the realty business, and they must ultimately do so at rates higher than the market as a whole and quite profitably. This is no great revelation to them or to the market. When they can purchase growth at reasonable rates of return on their investment and do so with a reasonable risk profile, then it makes total sense for them to acquire. Otherwise, they end up depending on organic growth, which, while also a must, does not attract investment capital as readily as when they experience both internal and external growth.

Factors That Impact Valuation

Valuation in the realty business is based primarily on the historical income from the business. The more income, the higher the price a realty firm will bring. There are other factors that affect the valuation. They include:

- Location of the business
- Consistency of earnings and operations
- The willingness of sellers to stay with the organization
- The compatibility of the business models of both the buyer and the seller
- Whether more than one buyer is interested (Yes, it's a competitive market for the best firms.)

This is not a complete list, but it gives some ideas of what buyers look for in a seller. Most deals are done using an

Valuations, Mergers and Acquisitions cont. on p7

2014

Today's Brokerage Challenges

A visit with a brokerage client highlights the challenges of today and solutions for tomorrow.



Written by Jeremy Conaway, contributing editor

I spent last weekend working with one of my favorite clients creating the perfect strategic brokerage business plan. She has been a franchised broker for over 20 years. She has a franchise agreement coming up for renewal in a few months. She was especially concerned that she might not have a sufficient understanding regarding the unusual forces and trends currently impacting the marketplace.

We started our process by exploring the various scenarios that are currently playing out in our industry and marketplace. It turned out to be an amazingly wonderful experience.

First Stop: CFPB

Our first stop was in Washington at the old, gray, concrete box that currently serves as the command center for the Consumer Finance Protection Bureau (CFPB). This is a new breed of regulatory agency started in mid 2011. The CFPB is using excited and engaged people along with technology and modern marketing techniques to create a new, more personal and highly efficient kind of government regulation and oversight (!).

This agency is actually going to use social media tools and techniques in a regulatory context. Believe it or not, two of its role models are Google and Apple. My client asked, "What does this have to do with my real estate brokerage?"

Good question. Among the things that the Bureau has learned over the last two years is that many of the families who lost

their homes to the anguish of foreclosure had a mortgage broker and often a real estate agent who were acting in the role of "trusted advisors." Some experts suggest that these trusted advisors not only gave advice regarding affordability (thus possibly making them financial advisors). In addition, they may have been offering that advice at a time when there was little training, supervision or oversight. Some believe that our industry is very close to getting special attention from the CFPB for this and other reasons. Is a real estate brokerage a consumer financial service or isn't it? That is a big question.

Oh, one other thing—the CFPB is also just days away from unleashing a whole new regulatory scheme onto the residential mortgage industry. Starting January 14, this action will be felt by almost every individual involved in a real estate transaction.

How's the Market?

On our way from the airport to our next stop, my client and I passed through an interesting neighborhood causing my client to ask, "How is the market doing?" We are seeing too few sellers, prices climbing all too quickly, mortgage eligibility rules that are more stringent, agents that seemed to be fixated on making up for lost time, and consumers who are convinced they have all the answers.

Consumers

Our next stop was at a mall where hundreds of consumers could be seen shopping. My client asks, "Are these the same people who come to my agents and brokerage?" Yes, they are. Interestingly enough whether they're buying clothing, food or professional services, they've become quite sophisticated with respect to both their relative status in every transaction and what they want out of their experiences buying goods and services, including real estate services.

"Do you think they are satisfied with the experience my agents and my firm are providing them?," asks my client. Some would suggest that they are not. Each month, more and more of them are approaching portals at the beginning of their real estate experience. In fact, nearly 40 percent of them are making a portal their first stop on the transaction journey.

What are Portals?

The answer to that question may depend upon one's political stance and financial philosophy. Portals represent a whole new energy in the industry. They're consumer centric rather than agent centric. The primary product of a portal is the experience they provide the consumer, not the work style they provide the agent. They seem to have built a business foundation on doing the things that make consumers happy. During the past year, portals appeal has gone beyond the consumer into the agent population. There are currently tens of thousands of agents who publicly swear their allegiance to a portal even while

they're wearing their broker's insignia. It would appear that they have discovered a unique market niche for which there is no current predator.

Off Market

My client continues to ask questions. What is this thing called off-market marketing? Well, that's a bit complicated. Sufficient to say that some agents think that they know what is better for the consumer than most other real estate professionals, including those with whom they've worked closely with for years. They demonstrate this expertise by denying their client's listed property the full exposure afforded by the MLS marketing experience.

"This would seem to be a harmful and hurtful practice for everyone else in the marketplace," she said. "Doesn't it damage the listing agent's value proposition, the MLS and these long-term working relationships? What are the legal and regulatory impacts? We're just beginning to understand the full ramifications of this quite selfish act. It will not result in positive change for the marketplace and its participants.

Angry Brokers

At one point, we happened upon a group of clearly unhappy men and women at a street corner. "What are they so angry about?," asks my client. Well, that is a tough one. It appears that their long-time business model isn't working well anymore. They're searching for someone to blame. They've hit on the idea that their misfortune is caused by one of the industry's service vendors, so they're looking for a way to get even.

"Does that make sense?," asks my client. That's a tough question. What is certain is that even if they destroy the object of their scorn, they're still not likely to win in the long run. The real source of their troubles are actually internal not external.

Investor Money

My client says that she's seen a lot of investor money going into the industry these days. That's true, especially into large

brokerage operations and portals, I responded. "What do they want?," she asked. Undoubtedly, they want what everyone else wants—a healthy return on investment. Whether they get it or not depends on if they're willing to learn from those who have failed before. Many of these investors are incredibly smart, and it defies imagination that they won't quickly see the negatives and the positives and do what has to be done.

Organized Real Estate

Now my client wants to know what happened to organized real estate. She tells me that she still has a REALTOR® card in her wallet. This is a question for which no one seems to have an answer. There are still thousands of honest, hard-working volunteers who have sworn to the cause. It isn't clear that the cause has chosen a direction yet. I'm sure organized real estate will play an important role when it gets the situation straight. Keep your card. It's a good thing.

What Can You Do?

"Well," she said, "it sounds quite confusing to me. What should I do?" I thought she would never ask! These are the great times. We are on the cusp of an industry moving toward unparalleled opportunities and rewards. We have a new economy, a new consumer, new communities, a new generation of REALTORS®, and a new world of technology-powered tools and solutions.

Decades of non-productive work habits and cursed cultures are about to disappear at the hands of a whole new class of business managers and executives.

Productivity and profitability are about to re-enter our lives and change our fortunes. Stick around, renew that franchise, stop complaining and start participating—it's your franchise. You've been awarded a new chapter in your life. It's your story; make it a best seller. ■

Valuations, Mergers and Acquisitions cont. from p5

asset purchase, while fewer are done in the form of a stock purchase. The legal structure of a seller can affect the value. Another factor in the final value is whether or not a firm is under a franchise agreement that restricts the ability of a seller to seek the broadest market opportunity.

Multiples are Higher

We won't get into exact multiples of income that buyers are paying these days but will say that they are at historically high levels.

What should we expect for the next 12 months? Assuming that the experts' forecasts are correct, we'll see slower growth in housing sales in both units and prices in 2014. Many experts are calling for single-digit growth rates in both categories. Still, most believe that the market will grow.

Should that be the case, then the market should stay active for both buyers and sellers. The reasons to be a seller or a buyer should remain unchanged over the next year. ■

Focus On: Shaun Osher

Founder/CEO, CORE Group

Written by Tracey C. Velt, editor

Hailing from Johannesburg, South Africa, Shaun Osher traveled to the United States at the age of 21. He and partner, Jack Cayre, founded CORE in 2005. CORE has three offices and is a boutique, luxury real estate agency in New York City with a focus on marketing and selling new development projects, luxury resale, townhouses, co-ops and condos.

REAL Trends: Tell me about your career path.

Osher: My first love is music. I am a jazz musician. I came to New York from South Africa with \$500 in my pocket. My plan was to study jazz and perform, which I did for many years. I still play. It's my creative outlet and helps me to think outside the box when selling real estate. That creative streak is why I became frustrated with real estate in the first place.

When I started, in 1994, I needed a day job with flexible hours so I could play my music at night and support my music habits. I had a natural ability for sales. I worked on one small development project, and that's how I met my partner, Jack. We had an immediate chemistry.

I was the No. 1 producer at one of the NYC's largest real estate firms. What frustrated me is that you can walk into sales offices, and they all seem to look alike. At CORE, we want to take the art of selling to another level. We've done that by selling projects from an art gallery. We've taken our show on the road to sell development projects and even filmed documentaries to use as marketing. When I started CORE, I was inspired by other industries. I looked at those industries that were innovative in their sales and took inspiration from them.

REAL Trends: How do you do business differently?

Osher: We're not interested in being all things to everyone. We don't cover every segment of every market, and that's by design. We're small, and we provide the highest level of service. We only hire expert agents to service our clients. In addition, we sell more real estate per agent than any of our competitors. Our agents are most productive and successful

in the industry. We call it our swat team of real estate agents. That's our business model.

From a broker standpoint, we have more resources per agent than other brokerages. I have 24 staff members to support 60 agents, which is a great ratio. CORE has in-house resources for our agents and clients, such as a design team, a PR/communications team and a marketing team. We're designed more like an ad agency that sells real estate than a traditional real estate brokerage. It's not like one size fits all. We highly personalize each project, looking at the world at large and seeing what tools we have to best suit the needs of those buyers.

REAL Trends: What are you passionate about as it relates to your business?

Osher: I am inspired by marketing and business models that are creative and forward thinking. My frustration with the industry is that it is so generic. There is nothing creative or innovative about it.

That led me to design my brokerage small because, if you're small, you can make decisions quickly. It allows you to move with the market and have consistency in the level of service you offer.

“The world is moving at a faster pace than ever before. Companies that can move at that pace or even stay ahead of that pace are the ones that will stand the test of time and set the bar in their respective industries. At CORE, that’s what we hope to do.” —Shaun Osher, founder/CEO, CORE Group

I'm passionate about being innovative. We were one of the first real estate companies to have a blog. We had a real estate report that reflected real time info. We were early to embrace social media through Facebook, Instagram and Twitter. We started to market and sell new development at

the level that is now customary. We've sold entire projects at record-breaking prices without using any print ads. Early on, we realized the importance of professional photography. In fact, we sold an entire building in Chelsea through a blog. Our target market for the building was a tech-savvy buyer because Google had an office just up the road. We sold 100 percent of that building through the blog.

REAL Trends: What are your future goals?

Osher: My future goal is to continue to build the company

with top-performing agents. They are my brand and my greatest asset. I want to build a stronger team and continue to lead the industry in innovation.

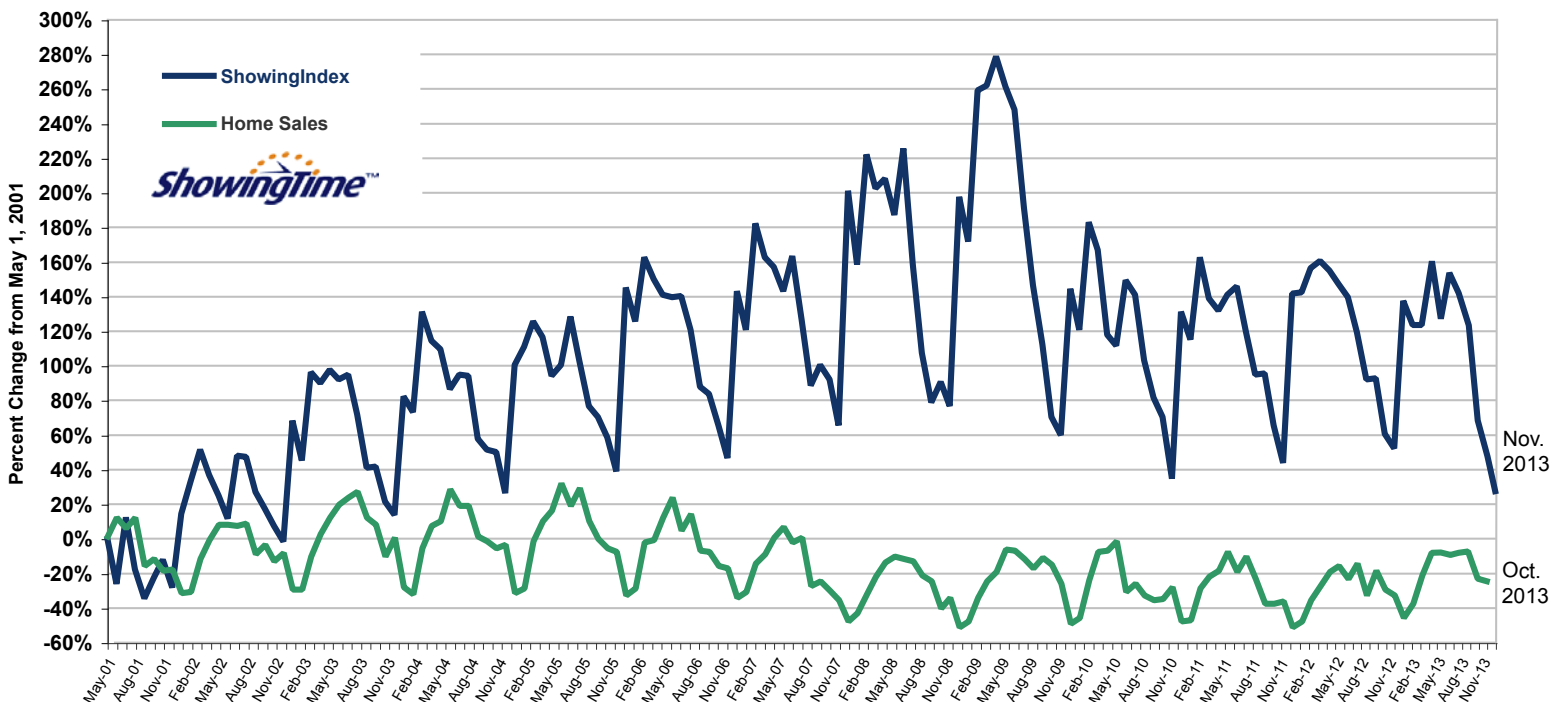
My secret to recruiting is building a live company. We have a culture that is transparent. It's more like a family than a team. Once you've built that culture and identity, people who are attracted to that culture come to us. We don't have quotas. We attract like-minded people who benefit from our business model and want to grow their personal brands. It's a very organic and natural thing. ■

NOW YOU KNOW

California holds 13 of the top 25 spots for the most expensive markets in the United States. All top five of the most expensive markets are in The Golden State, with the two most expensive markets in the country located minutes from Los Angeles—Malibu (No. 1) and Newport Beach (No. 2). In contrast, 60 percent (15) of the 25 most affordable markets are in the Midwest. New York is the only state that had markets ranked on both the most expensive and most affordable lists.

—Source 2013 Coldwell Banker U.S. Home Listing Report

ShowingIndex - Leading Indication of Home Sales



Source : "Housing Sales" is the actual property sales statistic as reported by the National Association of REALTORS. The "ShowingIndex" is a moving trend statistic that tracks the rate of showing appointment requests from the websites of more than 60 real estate companies throughout the U.S. 40 of the companies are Top 100 companies as reported by REAL Trends.



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HOUSING MARKET REPORT



REAL Trends Housing Report Shows Sales Increase

Housing sales continue to be strong.

The REAL Trends Housing Market Report for October 2013 shows that the rate of housing sales increased moderately in October 2013, growing 3.3 percent from October 2012, a continuation of the powerful surge in housing sales that started in October 2011.

The annual rate of new and existing home sales for October 2013 was 6.08 million up from 5.887 million recorded in October 2012 but down slightly from the rate in September 2013.

The average price of homes sold increased by 9.3 percent in October 2013 compared to October 2012.

“October 2013 sales of new and existing homes confirmed that housing sales are slowing. The increase in year-over-year unit sales was the lowest since nearly two years ago,” says Steve Murray, editor of the REAL Trends Housing Market Report. “However, even with the slowdown in unit increases the average price of homes sold continued to increase in high single digit rates. We believe that unit sales are nearing a normal level given employment, the number of households, mortgage rates and household income and that other factors such as the Federal government shutdown or the rise in mortgage rates were not as important to the slowdown in year over year increases in housing sales,” he says.

The average price of homes sold in October increased 9.3 percent across the country, up measurably from the results in September 2013.

Housing unit sales for October 2013 were up 10.7 percent in the Northeast, the strongest showing in the country. The next highest region was in the South region at 5.6 percent, the Midwest region was up 5.4 percent and the West decreased by -5.9 percent.

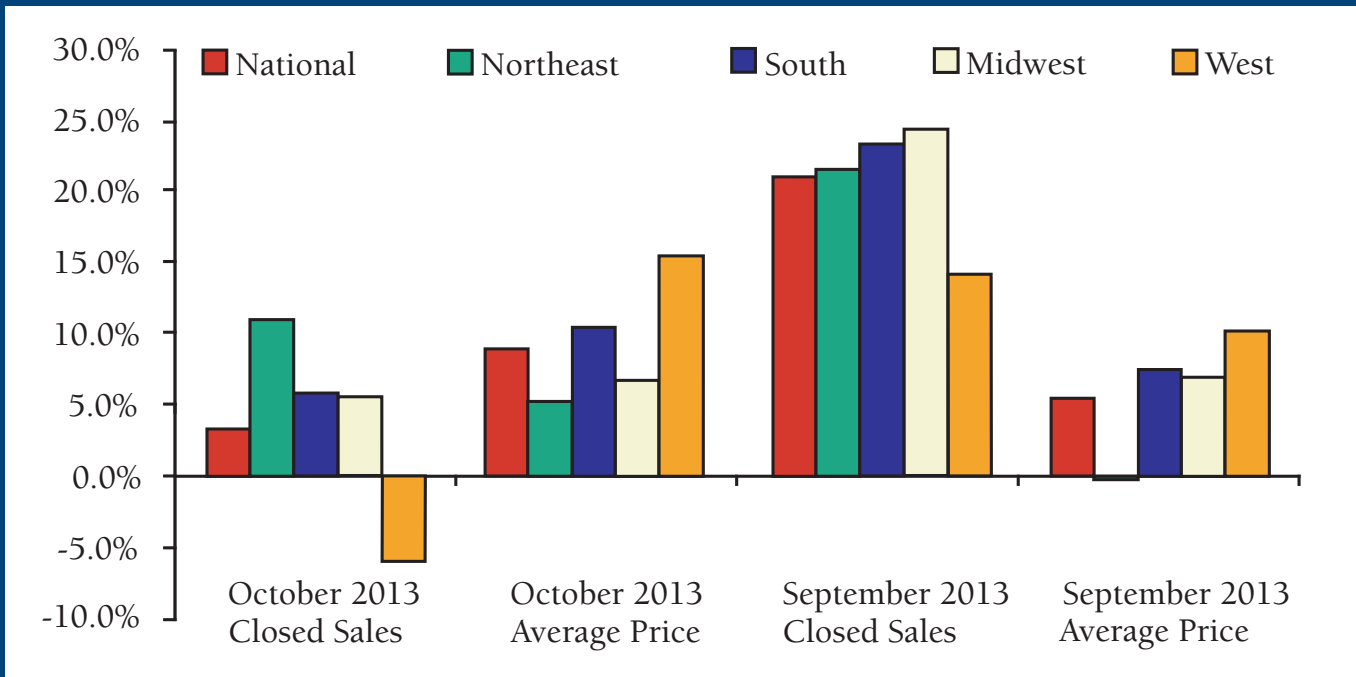
The average price of homes sold in October 2013 increased 9.3 percent across the country, up measurably from the results in September 2013. The West had the best results with the average price of homes sold increasing 15.3 percent followed by the South region at 10.4 percent and the Midwest at 6.5 percent. The Northeast region saw prices move upward by 5.1 percent.

“We expect that year over year increases will continue to be in the low single digits or even flat as 2013 ends and we move into 2014. We do, however, expect sales prices to continue to recover due mainly to the tightness in inventories,” says Murray. ■



REAL Trends October/September Housing Market Report (Versus same month a year ago)

	October 2013 Closed Sales	October 2013 Average Price	September 2013 Closed Sales	September 2013 Average Price
National	+3.3%	+9.3%	+20.9%	+5.5%
Regional Report				
Northeast	+10.7%	+5.1%	+21.5%	-0.3%
South	+5.6%	+10.4%	+23.3%	+7.3%
Midwest	+5.4%	+6.5%	+24.4%	+7.0%
West	-5.9%	+15.3%	+14.2%	+10.2%



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Smart Search

Forget the data dump and make your data user friendly.

Written by Travis Saxton, marketing and technology manager

I recently wrote a piece for our weekly REAL Trends TechTouch that stresses the importance of sharing insights and not hard facts and data with your real estate consumers. Consumers are looking to you to explain the data, not just post it. This is especially true with housing market data and trends reports. All too often we see brokerages data-dumping housing market charts and statistics onto websites. It's very difficult for a busy consumer to digest this data.

This has become evident in real estate property searches. Too many brokerages are making the consumer sift through a ton of search fields before getting to the data for which they're looking. Newsflash: It's why many consumers prefer the big listing aggregators to the real estate brokerage/agent sites. The solution? Smart search. This booming new trend, labeled Smart Search, gives the data to the consumer in a user-friendly way. An example, when you start typing into Google's search bar, words are automatically offered to "fill in the blanks" based on analytics gathered from the searches you've done before.

A Better Search

One of the most popular real estate search trends on brokerage sites in 2012 and 2013 was the implementation of Smart Search. This is a simple Google-like interface that can

predict and yield results on what the consumer wants as they are typing their desires in a text box.

After all, we've become conditioned to this type of search, so why not bring it to real estate? Several companies are implementing this strategy, and it's reducing the amount of time it takes to conduct a search. Plus, it delivers a better consumer experience. While there's a need for an advanced search, most consumers just want the basics, and they want it fast. In this on-demand society, entering just about any search criteria in your initial search and getting instant feedback reduces user error, erroneous clicks and enhances their experience. ■

Smart Search Examples

Want to see how Smart Search works?
Visit these sites for a test run:

www.comey.com

www.dicksonrealty.com

www.ziprealty.com



Category	LAST YEAR	THIS YEAR
Quality	\$ 500.00	\$ 1,000.00

Home Searches

The Google Fear Index

Internet searches paint a clearer picture.

Written by Chandler Lutz, assistant professor, Copenhagen Business School

The financial concerns of homeowners are of paramount importance to mortgage and real estate investors. Yet traditional measures of housing distress, such as foreclosures or delinquencies, are subject to large measurement errors, limited frequency and availability, and are only released after a substantial lag, often leaving practitioners with a murky picture of the direction of housing market.

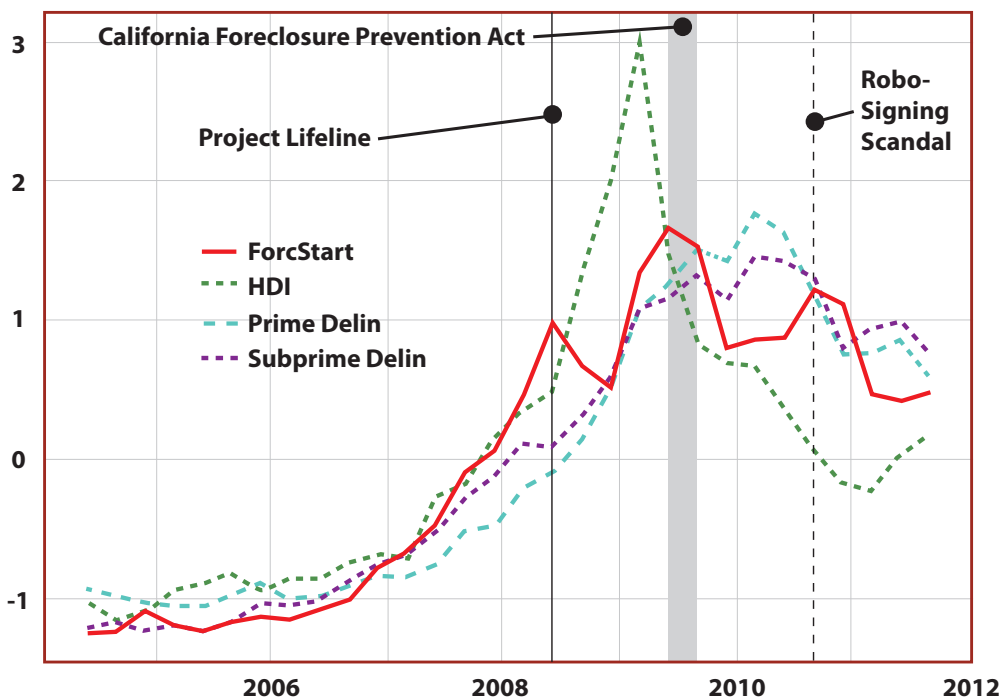
In a recent academic paper, I (along with Marcelle Chauvet, professor of Economics at University of California, Riverside and Stuart Gabriel, director, UCLA Ziman Center for Real Estate) develop a novel – and

potentially more accurate – measure of housing distress using Google search queries. This new Housing Distress Index (HDI) captures previously unobserved household behavior and yields key insights to the direction of the housing market. To build the HDI, we combine the frequency of Google search queries for keywords such as “foreclosure help,” “mortgage help” and “government mortgage help.” Thus, we collect sensitive information directly from individuals searching the Internet on issues of housing or mortgage default.

When an Internet user enters a search term into Google such as “mortgage foreclosure help,” he divulges his concern about mortgage failure or foreclosure. This makes the HDI unique compared to other mortgage or housing indices. Those housing proxies arise from surveys or market outcomes. Surveys by organizations such as the University of Michigan or The Conference Board do not ask sensitive questions about mortgage distress and it is not clear that respondents would answer such questions truthfully. Furthermore, proxies such as the foreclosures depend on decisions by banks and government agencies in addition to household finances, obfuscating any potential signal of homeowner distress.

Moreover, other indicators of distress, like the VIX stock market fear gauge, may reflect influences unrelated to housing markets. Our housing distress index is related to these measures, but responds differently to market events. Indeed, this Google-based index can be interpreted as a “fear index” for housing markets.

We examine the relationship between the Google HDI and foreclosures and delinquencies as shown in the figure. Even though the HDI is highly correlated with foreclosures, the two series differed dramatically throughout the sample period. During the housing crisis and its aftermath, the path of foreclosures was dramatically altered by legal challenges and public programs designed to aid defaulted borrowers and slow



evictions. These programs included Project Lifeline (black vertical line in the figure) and the California Foreclosure Prevention Act (grey shaded bar in the figure). Further, foreclosures fell markedly in the US in 2010 and 2011 after the discovery of widespread lender abuse of foreclosure practices (so called “robo-signing” scandal; dotted vertical line in the figure). In contrast, despite some temporary abeyance of foreclosure activity, the HDI continued along its previous trend. This implies that although the government programs managed to temporarily limit foreclosures, they had less of an

effect on actual behavioral measures of financial distress. Moreover, we find that the Google HDI predicts foreclosures, prime delinquencies, and subprime delinquencies. Thus, households signal their concerns regarding their financial distress via Google Searches before they become delinquent or enter foreclosure.

The HDI is also inversely related to house prices. In a predictive model, we find that an increase in the HDI predicts a drop in future national housing prices. These effects are more pronounced during times of crisis. Thus, the HDI is a barometer of fear associated with the implosion in housing. The Google HDI also predicts housing prices across FHFA divisions and Case-Shiller cities. More specifically, increases in the HDI lead to larger drops in future housing prices for the

most-speculative and poorest-performing local housing markets.

Overall, the “fear index” approach has important implications for mortgage and real estate investors. Through the HDI, practitioners can gain valuable, real-time insights into housing and mortgage market performance, especially during times of financial distress for homeowners.

Yet the HDI is not the only potential practical application of search query data: Google data can be used to gain key insights into various dimensions of household behavior, offering businesses and investors a stronger signal of the direction of a variety of markets from Wall Street to Main Street. ■

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A Look at Normal

The “5” Percent Rule and 2014

REAL Trends discovers that the number of households and number of housing sales correlate.

Written by Steve Murray, publisher

In 2009, REAL Trends was retained to assist financial firms in their attempt to understand the housing market and what a *normal* housing market would look like in terms of unit sales. After compiling significant amounts of data on housing going back to 1980, REAL Trends found that there was a strong correlation between the total number of households and the total number of housing sales, both new and existing. This should not have surprised us but, in fact, it did.

A REAL Trends study found that, on average approximately 5 percent of all households purchased a home each year over the nearly 30 year period.

One Home a Year?

What we found was that on average approximately 5 percent of all households, both renters and homeowners, purchased a home each year over the nearly 30-year period. Even when we took out the boom years and the bust years, the average came to about 5 percent. We also tested this data in nearly a dozen metropolitan areas and found that it remained fairly consistent.

Getting Back to Normal

Applying that to today’s housing sales data and the household data, we find that the market slowdown that started 30 to 60 days ago may be a sign that we are back to normal. There are about 122 million households in the United States and the annualized rate of new and existing home sales (REAL Trends Housing Market Report September/October 2013) is about 6.2 million. Thus, it appears from the data that we are at the level of housing sales that would be predicted were we in a *normal* market.

Some Things Aren’t Normal

There are quite a few things that are not normal. While rates have risen, they are still near historical lows. Housing prices have risen in most markets but remain below the peaks reached in 2005-2006. But, unemployment is officially 7.3 percent (really double digits the way it used to be counted), job and income growth are sluggish and mortgage-underwriting requirements remain tighter than at any time in the past 15 years.

We think it’s quite possible that we are at the normal level of sales. Absent other shocks to the economy or interest rates, this normal condition should continue for some time. What this also means is that, in the short run, we may not see housing sales rise any faster than the rate of growth in total households or about 1-1.5 percent per year. Additions to sales such as those from investors and from foreign buyers will continue to add to the total sales, but neither looks to grow further at this time. ■

The Year Ahead

Don't Miss These Important 2014 Dates!

REAL Trends Gathering of Eagles

Special guest, President George W. Bush, will keynote the 2014 Gathering of Eagles conference, held April 30-May 2, 2014, at the Four Season Hotel in Irving, Tex. On Thursday evening, we will have a reception at the George W. Bush Presidential Library. To register, go to realtrends.com, call 303-741-1000, or email us at realtrends@realtrends.com.

2014 REAL Trends Leadership Institute Emerging Leaders

This annual event is being held January 22-24, 2014, at the Westin Tabor Center Hotel in downtown Denver. Attendance is limited to 60 participants. This is a working session covering the fundamentals in leading residential brokerage firms. Topics include recruiting, online marketing, growth through mergers and acquisitions and lead management. Go to realtrends.com, call 303-741-1000, or email us at realtrends@realtrends.com to register or for more information.

REAL Trends 500 and Up-and-Comers Survey and Report

We will launch the survey on January 6, 2014, and, as always, publish the findings online April 1. The *REAL Trends 500 Magazine* will be released at the REAL Trends Gathering of Eagles.

The minimum number of closed sides to qualify to be included in the *REAL Trends 500* is 500 closed residential transaction sides of the purchase or sales of housing in the calendar year 2013.

Please note, leases and rentals are not included in this report.

REAL Trends Canadian 250

We will launch the survey on January 6, 2014, and, as always, publish the findings online April 1. *The REAL Trends Canadian 250* will be released at the Gathering of Eagles.

The minimum number of closed sides to qualify to be included in the *REAL Trends Canadian 250* is 500 closed residential transaction sides of the purchase or sale of housing in the calendar year 2013.

Please note, leases and rentals are not included in this report.

Top Agent Surveys and Rankings

REAL Trends/The Wall Street Journal The Thousand

We will launch the survey on January 13, 2014 and will publish the results on June 27, 2014.

REAL Trends America's Best Real Estate Agents

We will launch the survey on January 13, 2014 and will publish the results in early July.

The minimum required for inclusion in either of these reports is 50 closed residential transaction sides for the purchase or sale of residential real estate or \$20 million in closed sales volume on the same basis for individual sales agents and 75 closed transaction sides or \$30 million in closed sales volume for teams. This is based on the calendar year 2013 results. Leases and rentals are not included in this report.

Go to realtrends.com, call 303-741-1000, or email us at realtrends@realtrends.com for more information. ■

Holiday Greetings from all of us at REAL Trends

