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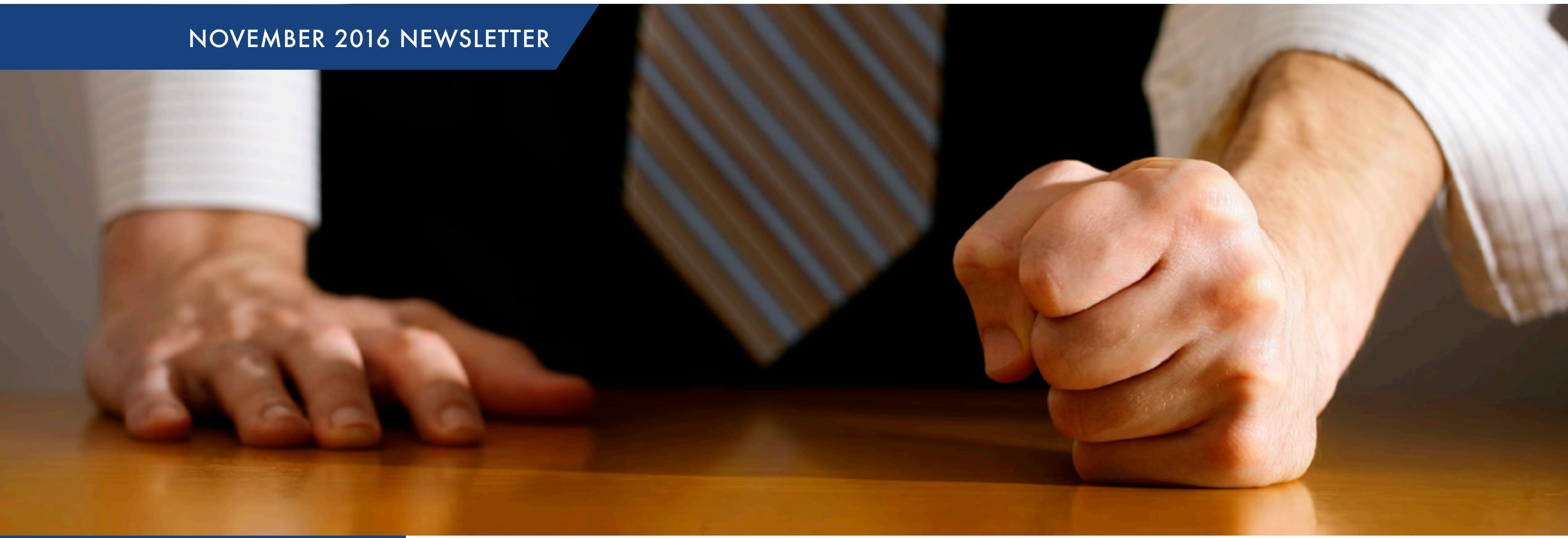

FIRST PERSON

THE THREE DEADLY BROKERAGE SINS

What are the attributes of consistently high-performing realty organizations? And, what are the threats?

by Steve Murray, publisher

In 2006, REAL Trends conducted research into the attributes that cause a brokerage to excel over a long period. The research studied over 800 brokerage firms over a 10-year period and interviewed nearly 170 agents with the top-performing firms. The result of this research was published in our 2006 booklet called "People Still Matter."

What we found was that sales associates joined and stayed with a firm where they trusted the leadership and management. Words such as vision, transparency, communication, discipline, community and accountability were repeatedly heard in the interviews with these sales associates—not technology, marketing, facilities or commission plans. The sales associates noted that while these were important characteristics of their firm, and that others likely offered something similar, it was the intangibles of interpersonal relationships that mattered more.

Continued on pg2

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High Performing Realty Organizations

We think this list needs updating. There are three other attributes of consistently high-performing realty organizations that need comment. A few years back, we were asked, "What are the greatest threats or challenges facing our firm?" In fact, we've asked that more than a few times since. Our observations lead us to conclude that for every realty firm of any size or scale, the answer is the same. The three biggest threats are not technological change or regulatory threats, but rather the three deadly sins: complacency, hubris and where leaders value financial results more than they do the culture of the organization. These are, in our opinion, the three biggest threats to the health of any realty organization.

In our 2006 research interviews, we asked the question, "Do you think your owner cares more about the people of the company or the financial results?" Virtually every sales associate we asked said that, while it was close, they felt strongly that their owner cared more about their people than their profit. Whether this was true for each firm or not, their sales associates perceived that it was the case. Clearly, these firms communicated, through words and actions, that while profitability was important, the care and concern for the people of the firm were slightly more important.

> **"Do you think your owner cares more about the people of the company or the financial results?" Virtually every sales associate we asked said that, while it was close, they felt strongly that their owner cared more about their people than their profit.**

Preparing for a Correction?

Complacency might be a challenge today. The market has had five solid years of recovery from the 2006-2010 downturn. Sales volumes are up, profits are up and, while there are pressures on commission rates and splits, business is very positive.

When we visit with brokerage CEOs, it is clear that most are taking nothing for granted. Most ask about where the market is headed and how many years of good markets are still ahead. There is a great deal of caution in the minds of most leaders of realty firms. Most leaders think

Can You See The Big Picture?

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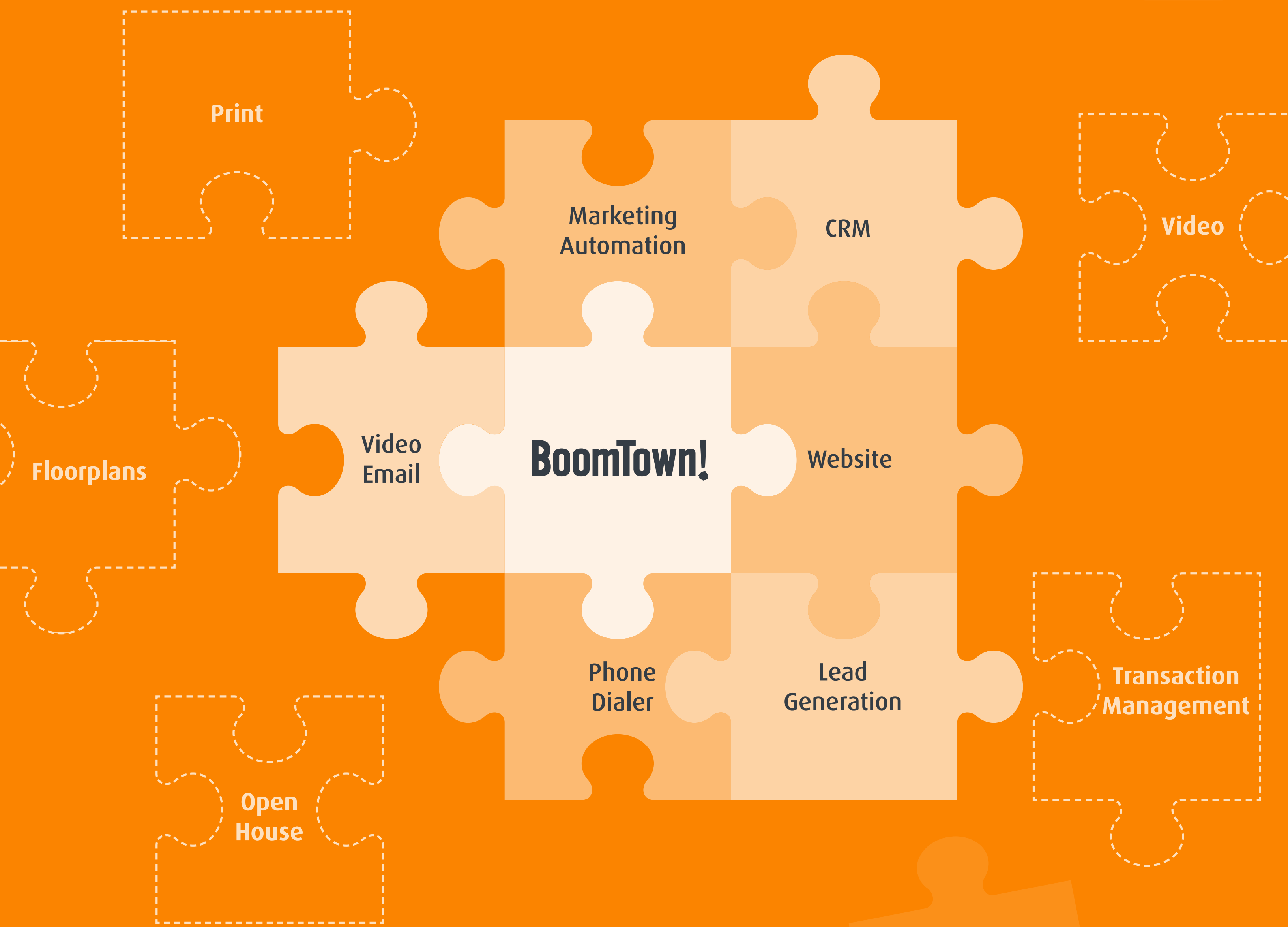

See how BoomTown Integration Partners can solve your business puzzles at **BoomTownROI.com/features/integration-partners** we are in for a slowdown but not a decline. Nonetheless, they are preparing as if such a correction is in the works. Complacency does not appear to be an issue right now.

Hubris can be simply described as the state where you start believing you can't be wrong. I am right; therefore, I must be right. It is a step above confidence into a realm where huge mistakes are made because one can't conceive there is someone or some group of people who can't have a more informed opinion. This frequently happens when one seeks advice only from those who will agree with one's point of view.

Interestingly, we don't hear much of that thinking right now. The market has weeded these brokers out for the most part. Today's leading realty firms are headed mostly by those who know better, having learned the hard way about predicting the market in the future. Most leaders today spend more time asking questions than granting opinions. This is also a good sign.

Lastly, watch out for the sin of when you, in some shape or fashion, communicate in any number of ways that the financial returns or performance of the realty organization is more important than the health and performance of the people of the company. The latter confirmed by the "People Still Matter" study of better long-term performance. The former leads to stagnation in both people and financial returns. We have observed too many realty firms where the leadership let it be known that financial performance mattered more than how their people were doing.

Balance of Profits and People

Over a long time, the firms that can balance this critical relationship will tend to outperform those that can't. And, it will ultimately show up in the financial performance of the organization. Again, most realty firms that we observe closely are not afflicted with this disease, but it is an area that requires constant vigilance.

Yes, firms must earn a return. Yes, it is also good that profit is growing steadily. Neither; however, is good for the long-term health of an organization where the body thinks that it is all about the money. It may not affect short-term results, but it will affect the long term. All one has to do is look at the news today to confirm that.

Hubris can be simply described as the state where you start believing you can't be wrong.

I am right; therefore, I must be right.

LONE WOLF SPONSORED POST

ARE RECRUITMENT AND RETENTION JUST A NUMBERS GAME?

by Nick Gaede, Lone Wolf Content Developer

A recruit sits in your office—energetic, eager, wearing an Apple Watch. You've done your research. You know his numbers. And yet, projecting his success is as fruitless as forecasting the weather. He may be sharp today but what about tomorrow? How does he handle stress? Will he be respected by his peers? How long until he burns out?

To paraphrase Socrates, you only know that you don't know.

This much you do know—to meet your year-end financial goals, as well as your goals for long-term growth, you need more sales associates. Not just bodies, but productive agents. And, if you lose any of your top performers in the meantime, you'll need to recruit even more. With these goals in mind, you're not so much interviewing a person for a position as you're interviewing a split for your bottom line. You must be thinking:

Are recruitment and retention just a numbers game?

Agents aren't numbers; they *produce* numbers. Leads, listings, commissions, expenses—every single work-related activity sales associates undertake on a daily basis results is a treasure trove of data that you can trap and prospect for recruitment and retention purposes.

You've done your research. You know his numbers. And yet, projecting his success is as fruitless as forecasting the weather. He may be sharp today but what about tomorrow?

How to Find Good Recruits

There are multiple data providers that you can pay big money to but consider this: you don't work in a vacuum—you have your own data. You have an office and your office has agents. And your office does business with other offices and their agents. These interactions are rich with data that you can use to find productive, reliable agents.

Take a look at this data. You'll know the productive agents based on their involvement in multiple deals with your office. You'll know an agent is active by the sides they're typically on. You'll know an agent is reliable by the consistency of their commission rate.

> Agents are salespeople; their love language is money. The best way to keep them on your team is to help them make money and then remind them how you help them make money.

And, you'll already know this agent, personally. This familiarity puts your foot in the door to start a conversation about changing teams. Bonus: think about the pipeline. The more agents that you recruit this way, the more data you collect and the more recruitment opportunities you'll have in the future.

How to Retain Top Performers

Agents are salespeople; their love language is money. The best way to keep them on your team is to help them make money and then remind them how you help them make money (or save money).

One innovative way to do this, though it may seem counter-intuitive, is to share your agency's value on your agent's monthly statement. When you issue their monthly expense statements, add in all of the value that you provide for your agents—value that they don't think about because *it's there*. You can be creative and have some fun with it! Here are a few examples:

- Under their monthly management fee or desk rent, spell out: 'included in this fee are the costs of our office rent and utilities; Tyron and Jane's monthly salary (use their names when possible); state-of-the-art copiers and printers; 100% organic fair-trade coffee and tea service' and so on.
- If you charge a franchise fee, detail the value of the latest national or local marketing campaign, TV commercial, website, tech support, lead generation, etc. Keep in mind: if you can't articulate the value of your franchise here, then how would you expect your agents to feel it?
- Add in every item that you uniquely provide for your agents for no charge, but share the numbers of the expense. Networking events, cocktail parties, breakfast meetings, etc. Take the total cost of the event, divide by agent count, post the item on the statement and then *credit* them for it.
- Post all leads that you have passed on to your agents, either personally or through your website. These leads may not even have a value yet, but it's a great way to show them the opportunities that your partnership yields.

With the right back-office technology, adding these items to an expense statement is not only possible but easy. Doing so will help you turn this perpetual source of conflict into a source of value. Next time a discount brokerage approaches your agents and tries to lure them from under your roof, they'll be at a loss to compete with the specific financial value that you provide.

Are recruitment and retention a numbers game?

Agents are not numbers. Agents are people—your people. As such, they need to be carefully recruited, vetted and retained. But agents do *produce* numbers. And these numbers have layers upon layers of useful information that you can use to help you recruit better agents and keep your roster intact.

Nick Gaede is a content developer with Lone Wolf Real Estate Technologies. He's been writing, filming and editing videos since 2008. Nick enjoys spending time with his partner and two boys, as well as reading, writing and living a healthy, humble life.

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SUCCESSFUL COMPANIES

DOES YOUR LEADERSHIP TEAM HAVE THE 3 ESSENTIAL VIRTUES?

Are you a smart and healthy organization?

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

At the 2015 Real Trends Gathering of Eagles Conference, author and consultant Patrick Lencioni gave a riveting presentation on the importance of our leadership teams being *healthy* as well as *smart*.

Smart teams have a great strategy, marketing, finance and technology. Healthy teams have minimal politics, minimal confusion, high morale, high productivity and low turnover. His observation was that most companies are smart but fewer are healthy. Being healthy is "The Advantage," the title of one of his recent books.

Lencioni's latest book is "The Ideal Team Player." It is another brilliant work that gives us even more clarity on building great teams in both leadership and sales. Patrick's research shows that great (smart and healthy) teams have three essential virtues—team members are humble; hungry and smart.

1. **Humble.** Great team players lack excessive ego or concerns about status. Ego destroys organizations. It is no great surprise, then, that humility is the single greatest and most indispensable attribute of being a team player.

   Being humble does not mean a lack of self-confidence. Truly humble people do not see themselves as greater than they are, but neither do they discount their talents and contributions. C.S. Lewis addressed this misunderstanding about humility when he said, "Humility isn't thinking less of yourself, but thinking of yourself less."

2. **Hungry.** Hungry people are always looking for more—more things to do, more to learn, more responsibility to take on. Hungry people almost never have to be pushed by a manager to work harder because they are self-motivated and diligent. Hunger in this context is the healthy kind—a manageable and sustainable commitment to doing a job well and going above and beyond when it is truly required.

3. **Smart.** Smart is not about intellectual capacity; it's about people *smarts*. In the context of a team, smart simply refers to people's common sense about people—their ability to be interpersonally appropriate and aware. Smart people tend to know what is happening in a group situation and how to deal with others in the most effective way.

These three virtues seem somewhat obvious. What makes humble, hungry and smart powerful and unique is not the individual attributes themselves, but rather the required combination of all three. If even one is missing in a team member, teamwork becomes significantly more difficult and sometimes not possible.

What do we do if a team member is missing one or more of the three essential virtues? Can these virtues be developed? Lencioni provides us with a brilliant model for developing our team members in these three essential virtues as well as for interviewing and hiring based upon them.

Are you serious about building a great team? **"The Ideal Team Player"** will help take you there.

Are you serious about building a great team? "The Ideal Team Player" will help take you there.

HELP FOR BROKERS

COMPLEXITY IN HUMAN RESOURCES DRIVES NEW BROKERAGE SERVICE

The HR Shield announces outsourced human resources expertise for brokerage firms.

By Steve Murray, publisher

The challenges of managing your employees have grown hugely more complex over the past few years. Whether it is health care, overtime, minimum wage, workmen's compensation rules or maternity/paternity issues, small- to medium-sized firms have more issues than ever before to manage as far as employees are concerned.

The fact is that the flood of new employment regulations is just beginning. The National Labor Relations Board (to name one Federal agency) has changed the level of compensation where overtime is due; the relationship between franchiser and franchisee as far as employment practices are concerned and are moving in other areas as well. And, this is just one Federal agency and doesn't count changes at the local level with dozens of new regulations regarding employment law.

Now come two experts in this area to offer outsourced HR consulting to those firms who do not have the size to have full-time HR resources on their staffs. Ross Anthony, a 30-year veteran of the residential brokerage industry in operations and management and Patty LeClair, who has a B.A. in Organizational Behavior and M.A. in Psychology and nearly 20 years of practical human resource experience (much of it in the residential real estate field) have teamed up to form a new company called The HR Shield.

Both have extensive experience in human resources matters as it pertains to residential brokerage firms. Their services cover the full range of compensation, benefit programs and packages, hiring processes and all the areas that can affect small- to medium-sized firms.

Their goal is to offer outsourced expertise in these areas to brokerage firms who are not large enough to afford it. Anthony said, "Those who have done a lot of work in human resources and employment regulations know that the laws and requirements on all employers of almost any size can catch realty firms unaware, especially when they find out they were not in compliance and didn't even know they might have a problem. That is where Penny and I think we can provide a valuable service—from auditing a firm's employment practices, reviewing employee handbooks, and all of the areas where small businesses can be caught unawares."

"We can provide a valuable service—from auditing a firm's employment practices, reviewing employee hand-books, and all of the areas where small businesses can be caught unawares."—

Ross Anthony, The HR Shield

CRAIG CHEATHAM, CEO, THE REALTY ALLIANCE

THE REALTY ALLIANCE AND UPSTREAM

Lessons remembered—learn from leaders where tomorrow's opportunities and threats lie.

By Steve Murray, publisher

While The Realty Alliance is not as large in members as most national real estate organizations, what it lacks in the number of members it makes up for in the reach and influence of its membership. The Realty Alliance has been instrumental in affecting policy at NAR, was at the core of the effort to start and launch Upstream, and some of its membership were also instrumental in founding the Broker Public Portal (BPP).

Cheatham has both a Bachelors of Arts degree from Harding University and a Master's of Business Administration from Samford University. He worked for several years for a newspaper, then was COO of a state association of Realtors® and, just before assuming his role at The Realty Alliance, he was the CEO of the international federation of real estate regulatory agencies known as ARELLO. Under Cheatham's leadership, The Realty Alliance has grown to 68 member firms throughout the United States and Canada. We caught up with Cheatham to find out what he sees ahead. Here's what he had to say:

REAL Trends: How is Upstream proceeding from your point of view?

Cheatham: As brokers continue to understand what Upstream is and is not designed to do, support from real estate practitioners grows significantly, and that is vital for such an ambitious project. In fact, the best way to steal a headline these days is to play the outlier and question whether Upstream is needed. The latest trend is for outside vendors to issue press releases that incorrectly claim their new product will do what Upstream plans to do.

However, every vendor attempt to help clean up real estate's data problems falls far short of what brokers have set out to solve by working together through Upstream. Outside vendors focus on listing data and on working through MLSs. While Upstream will work with MLSs and handle listing data, those aspects are just a small part of a broker's data management responsibility. In early 2017, we will expand from the current five test markets to several more and momentum will build throughout next year as more brokers—of all sizes and business models—in more markets get a taste of the huge potential of the Upstream project.

Vendors and MLSs will continue to make progress and launch improvements in data management, but our industry will never completely solve its data limitations with any solution short of the broker-owned, broker-managed Upstream cooperative.

RT: What about the Broker Public Portal project?

Cheatham: For an initiative with such tremendous potential to alter the conversation in our industry, chatter around the Broker Public Portal has been incredibly quiet. The Realty Alliance and our industry coalition partners are excited to see a site that complies with our "fair display" standards (fairdisplay.org/guidelines.html), which will keep this portal from misleading or confusing the public. The structure and contracts between the industry players and their chosen vendor are complicated and take time to draft and negotiate.

My best estimate is that these will be locked down around the time of the 2016 National Association of Realtor's Convention. Homesnap.com's site design will require some tweaks, but it has a great head start. So, once the agreements are finalized later this year, I expect the Chicago market to push the site harder and then additional markets to launch in fairly rapid succession as we get into 2017.

RT: What are the major concerns of your members these days when they look out ahead?

> "Lack of job creation and inventory ultimately could threaten the health of markets if nothing significant changes over the coming months." — Craig Cheatham, The Realty Alliance

Cheatham: Lack of job creation and inventory ultimately could threaten the health of markets if nothing significant changes over the coming months. An increase in interest rates later this year would erode affordability and hurt momentum. Increased regulation over the last several years, which was designed to help consumers, has instead made things more difficult, time-consuming and expensive for the public. Our members will be concerned if that trend continues with a new administration. We have some hope that the courts will help swing the pendulum from egregious and ineffective regulation back to something more balanced and reasonable for all involved.

RT: What new technologies or business models are you watching closely? What do you think your members might say on this?

Cheatham: Tools that help our sales teams connect with people earlier in the transaction timeline and help keep them in contact long after the transaction closes are the most valuable technologies. We are moving earlier on that timeline by analyzing data to identify the future buyers and sellers who are closest to making a move.

We also are moving later on that timeline by using technology to maintain those relationships as customers for life. Few, if any, of the new technologies, platforms or business models that generate headlines these days actually make any substantive, lasting impact on our industry. Firms in The Realty Alliance continue to focus on building solid relationships and delivering excellent service, which is why they have been around for generations and only grow in market share while others fade. Technologies that protect consumers, agents and brokers from fraud are in great demand today, as our data and transactions—especially wire transfers—seem under attack.

RT: What do you think the market will bring regarding consolidation activities?

Cheatham: Increased, downward pressure on real estate margins will keep us moving toward even greater consolidation as the economies of scale offered by larger models may be the key toward future profitability. And, as many brokers move closer to retirement, putting their life's work in the hands of a strong, capable company can make a lot of sense as an exit strategy. Mid-size and large real estate firms will be buying firms, not just the traditional holding companies, in the years' ahead.

CFPB STRUCTURE UNCONSTITUTIONAL

WHAT THE PHH-CFPB DECISION MEANS

How does the recent court decision impact your business?

By Sue Johnson, strategic alliance consultant

On October 11, a three-judge panel of the D.C. Circuit Court of Appeals issued a landmark decision that declared the Consumer Financial Protection Bureau's (CFPB) structure to be unconstitutional and rejected the agency's recent interpretations of RESPA.

The case is *PHH Corporation vs. the CFPB;* the first major legal challenge to a CFPB enforcement action. The CFPB brought an administrative action against PHH in 2014, claiming that it violated Section 8(a) of RESPA by receiving kickbacks from mortgage insurers to its captive reinsurance subsidiary. PHH countered by saying that the payments fell within a RESPA exemption (Section 8(c)(2)) that permits payments for the fair market value of services performed, and that it had relied on previous guidance published by HUD (the former RESPA regulator). CFPB Director Richard Cordray overturned parts of an Administrative Law Judge's decision by declaring that Section 8(c)(2) is *not* a RESPA exemption and that even payments for the fair market value of services are illegal if made with an understanding that referrals will follow. He ignored HUD's prior published guidance and disregarded RESPA's three-year statute of limitations by claiming that it does not apply to administrative actions. PHH appealed Cordray's decision to the D.C. Circuit Court of Appeals.

In a strongly-worded decision, the Court ruled that:

- The structure of the CFPB is unconstitutional because it is run by a single Director who is not subject to the authority of either the President or a multi-member Commission. The agency should still be allowed to operate, but the President should be allowed to terminate the Director at his discretion.

- The Section 8(c)(2) exemption of RESPA is a safe harbor that allows compensation to be paid as long it is for the fair market value of the goods provided or services performed.

Richard Cordray overturned parts of an Administrative Law Judge's decision by declaring that Section 8(c)(2) is not a RESPA exemption and that even payments for the fair market value of services are illegal if made with an understanding that referrals will follow.

- The CFPB cannot bypass RESPA's three-year statute of limitations merely by bringing an administrative action instead of a lawsuit.

- The CFPB violated PHH's due process rights by disregarding HUD's past RESPA interpretations and retroactively applying its new interpretation.

So what does this decision mean for the industry? Its full impact still is being digested by lawyers and the involved parties, but here are some preliminary thoughts.

The Constitutional Ruling

The Court's narrow remedy of subjecting the CFPB Director to the President's authority after finding the agency's structure to be unconstitutional means that the CFPB will function normally for now. In fact, the CFPB issued a public statement in response to the ruling saying that it fully intends to do so.

Neither is Director Cordray in danger of any removal in the short term, unless Republican Donald Trump wins the election and says, "you're fired." A President Hillary

Clinton likely would allow the Obama-appointed Director to stay until his term expires in July 2018.

Nevertheless, CFPB advocates likely are concerned about the long-term impact of the ruling, since future presidents who are not sympathetic to the CFPB could pick their own Director as they do Cabinet heads. A future Republican Presidency could breathe new life into Republican efforts to reform the CFPB, which so far have floundered under strong Democratic opposition.

The Rejection of the CFPB's Aggressive RESPA Interpretation

By clearly rejecting the CFPB's view that payments for services can violate RESPA even if they are for the fair market value of services performed, the court has given businesses more ammunition to challenge overly-aggressive CFPB enforcement actions against Marketing Services Agreements (MSAs) by shifting the burden of proof, which could discourage enforcement actions relying on these interpretations in the foreseeable future.

It is important to note; however, that the decision also does not change the CFPB's negative opinion about marketing arrangements. Faced with an obstacle in one area, it may take another route to challenge such agreements, such as claiming that services provided are not distinct or necessary. Finally, it is important to realize that the decision did not address CFPB enforcement actions taken under its Dodd-Frank authority to prevent unfair, deceptive and abusive trade practices, which it used in its recently-publicized investigation of Wells Fargo Bank. Therefore, participants in MSAs and other marketing arrangements should exercise the same attention to compliance that they always have.

The Statute of Limitations

By holding that the CFPB is bound by RESPA's three-year statute of limitations in both judicial and administrative enforcement proceedings, the court reduced the exposure of companies facing CFPB enforcement actions. The ruling applies to all 19 consumer protection statutes over which the CFPB has jurisdiction, so the agency is subject to the statute of limitations provided in each law.

Past HUD Interpretations

In ruling that the CFPB violated PHH's due process rights by ignoring published HUD guidance under RESPA that was relied upon by the industry, the court prevents the CFPB from adopting new RESPA interpretations without notice and retroactively applying the interpretations to conduct that already had occurred. Thus, businesses that rely in good faith on HUD's published RESPA regulations and policy statements regarding affiliated businesses, office leases, and other RESPA issues are less likely to face CFPB enforcement actions based on new interpretations.

What Happens Next?

At the time of submission of this article, it was uncertain if the CFPB will appeal the decision; and if it does, whether it will appeal only the constitutional finding or the entire decision.

If the CFPB does appeal, it could request a hearing en banc by the full D.C. Circuit, which has Obama appointees who did not participate in this ruling by three Republican-nominated judges. It also could directly appeal to the U.S. Supreme Court or either party could appeal a decision resulting from the hearing en banc to the Supreme Court.

In the meantime, this decision by what is considered to be the most influential Circuit Court of Appeals—while not nationally enforceable until decided by the Supreme Court—provides a valuable precedent for businesses defending enforcement actions based on aggressive interpretations of RESPA.

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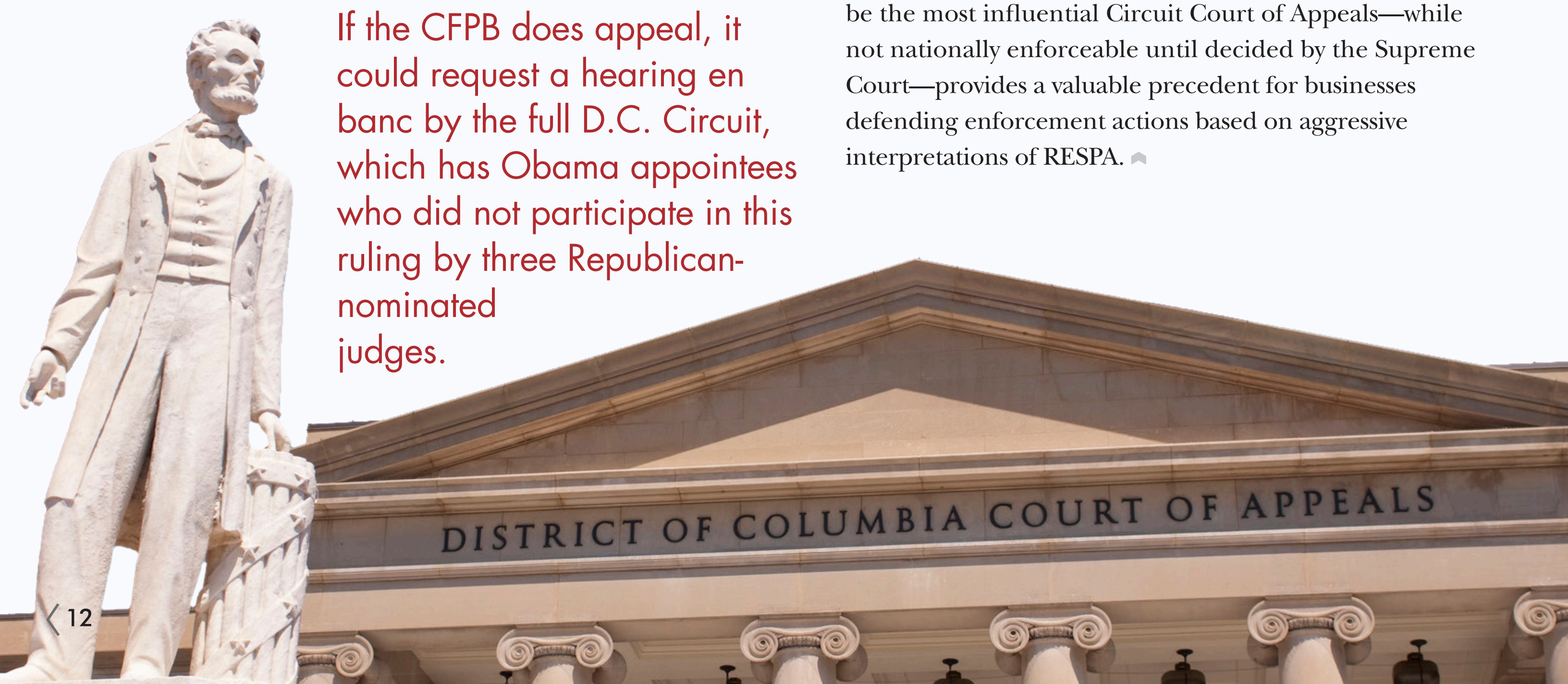


SAVERS UNDER ATTACK

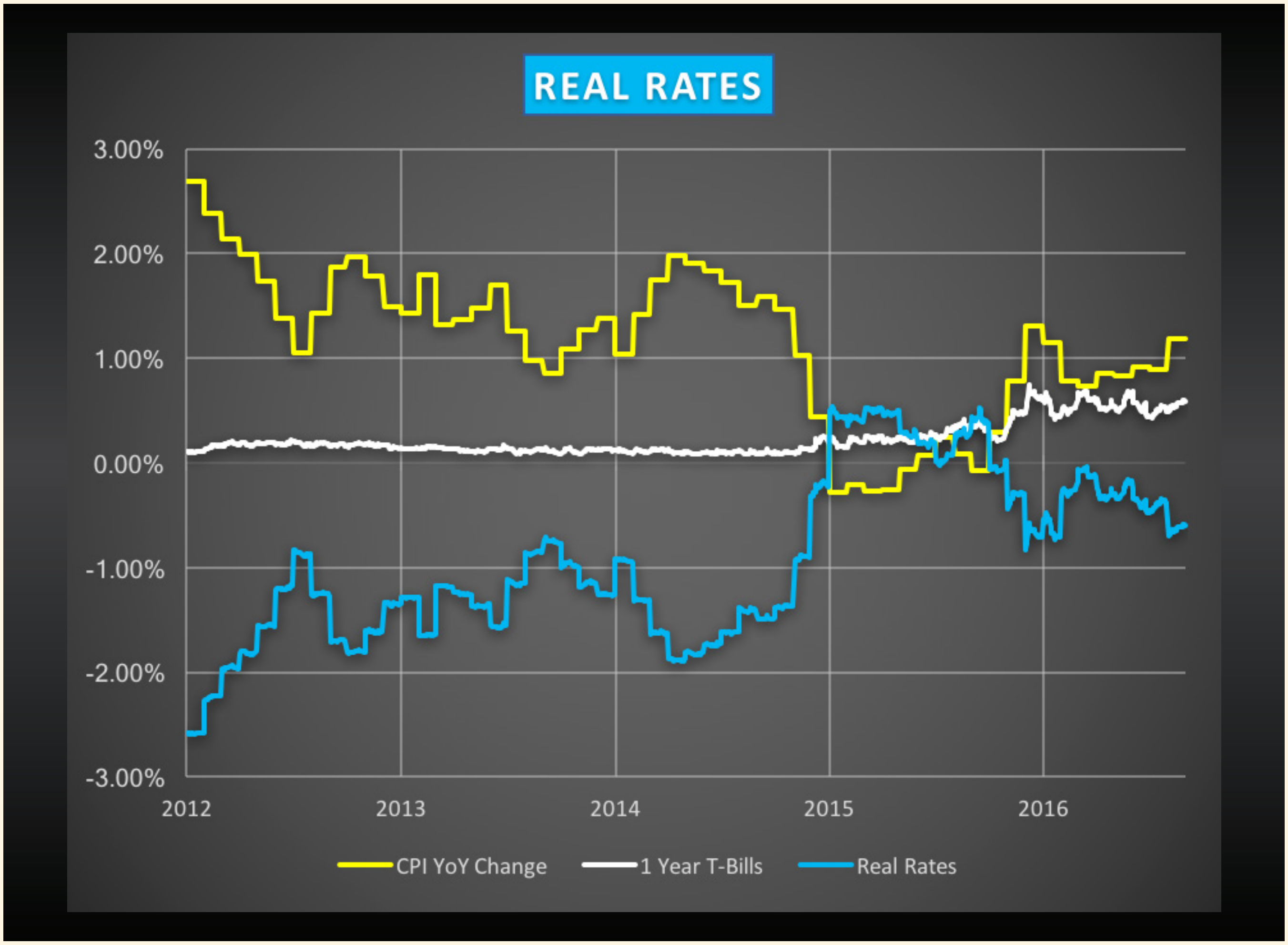
THE TARGET IS REAL ESTATE

By Scott Wright, manager of business analytics

When the subject of investing came up, one of my old business school professors always told us, "If your outflow exceeds your inflow; then your upkeep will be your downfall." I can still hear his gruff voice saying, "Folks, it doesn't matter how much money you make, just spend less than you take home, save the rest, and life will be good!" It's such a simple concept, but sadly we live in a leveraged generation where it is lost on the vast majority.

Now, it's certainly not easy being a saver, but if you figure out how the rewards indeed should be plentiful. Unfortunately, savers have been mercilessly attacked in this age of Central Bank meddling. It used to be that savers could get fairly good yields by parking their money in a savings account, a savings bond, a CD or a conservative money market or guaranteed income fund. These days, you *lose* money by putting it in vehicles such as these. With Real Interest Rates in the *negative*, savers and investors have been forced to seek yield elsewhere.

The Real Interest Rate is the rate you receive after allowing for inflation, calculated simply by subtracting the inflation rate from the nominal interest rate. The best representation of the nominal interest rate is the yield from one-year U.S. Treasury bills, represented by the white line in the chart below. For the inflation rate, we use the U.S. Consumer Price Index, its year-over-year change represented by the yellow line. Then, when you subtract the CPI from the one-year T-Bill, you get the Real Interest Rate, which is in blue. If you're a saver and this chart doesn't induce a feeling nausea, then check your pulse!



Up until 2001, it had been over 20 years since investors were faced with negative Real Rates, and the impetus was policy changes by the Federal Reserve to combat the stock bear market that was unfolding. This was the start of a 15-year stretch where the Fed's overbearing action has left investors' heads spinning. Blatant manipulation really has cast a pall on folks' understanding of what healthy markets truly are.

Real Estate and Real Rates

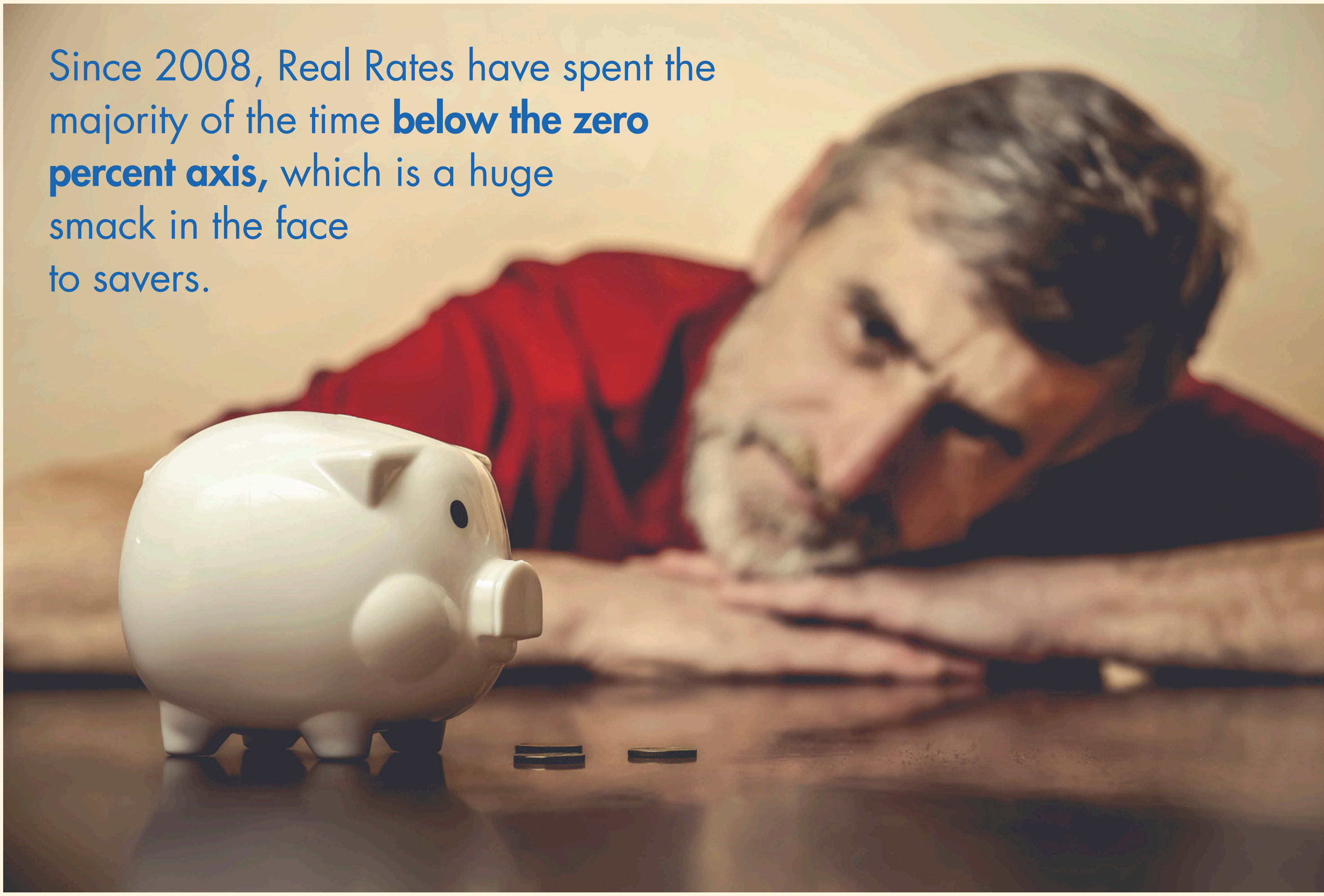
Since 2008, Real Rates have spent the majority of the time below the zero percent axis, which is a huge smack in the face to savers. Fortunately, the smart investors understand that with the inflation rate higher than the nominal rate, which has been teetering near zero percent, they are losing money by leaving it alone in safe investment vehicles. They've been forced to get creative in how they've deployed their capital, and real estate has been a huge beneficiary of this.

The chart on page 13 shows Real Rates since 2012, the year housing prices started trending upwards following the big declines spurred on by the Great Recession. Faced the grim reality of negative Real Rates some investors took to acquiring real estate, not only for long-term appreciation potential but also for instant yield given the hot rental market in most places.

Hungry Investors

It's no secret there's been a staggering inventory issue, but provocatively it's not because of population growth or a huge influx of first-time homeowners. The inventory issue is due to investors gobbling it up. It's also important to understand that this is not just a United States phenomenon. Central Banks all over the world are bleeding out savers, which has sent them on a global search for somewhere to park their capital. As we've seen, a lot of this country's real estate has been acquired by foreigners.

Overall, what's happening with Real Rates is not going to be the primary driver of secular trends in the housing market, but it is a big factor. While Real Rates are creeping back to par as you can see in the chart, par still isn't acceptable for investors. Until Real Rates rise materially higher, you aren't likely to see a radical shift in where investors are funneling their capital. Real Rates and how they affect the housing market is something on which we need to keep an eye.



DEMAND FOR AUSTRALIAN RESIDENTIAL REAL ESTATE IS CHANGING

Affordability, land scarcity and other factors are changing the real estate landscape in Australia.

by Peter Gilmour, REAL Trends chief foreign correspondent

Demand for Australian residential real estate, both to buy and rent, is being affected by a combination of factors, including affordability constraints, land scarcity, population growth and a population becoming more focused on lifestyle and convenience.

The Australian population has shown steady growth—around 24 million people today. In recent times, as with many other countries, there has been a migration to the major cities, and today nearly 80 percent of the population live in the country's 20 major cities. These are mostly situated on the Eastern seaboard from Brisbane, south to New South Wales, Victoria and across to Adelaide.

In recent times, there has been a strong move to living close to employment, education, transportation and recreational amenities.

OWNING A HOME is still a big part of the Australian Dream, but what home will look like in the future will be different than what was perceived by older generations.

Surge in Apartment Construction

The surge of apartment construction since 2012, and the increased cost of housing have been factors in why many Australians are moving away from the traditional Australian detached home with a 10,000-square-foot garden. Young adults between the ages of 18 and 35 years old have embraced high-density living, with empty-nesters also a driving force behind the increased demand for apartments. Many are looking to cash out of an oversized dwelling to relocate to a more centrally located, secure apartment or some age-appropriate housing.

Due to affordability constraints, people over 30 years of age aren't trading up to detached housing as frequently as before. Members of Gen Y (18 to 29 years old) have become accustomed to high-density living and its lifestyle benefits, so there will be a decline in move-up buyers into traditional housing.

Rentals Show Small Increases

The Australian Bureau of Statistics released dwelling approval statistics in July 2016, which showed that 50 percent of approvals nationally in the last 12 months were for apartments. The Australian market is still heavily influenced by rental property. Currently, there are more than 2 million rental households in the country, of which 55 percent are detached homes, 30 percent apartments and 15 percent detached homes and townhouses.

Rentals have only shown small increases over the last 12 months, which can be attributed to low inflation, softening interest rates and landlords opting for better tenants over higher rentals. Another trend affecting demand is that Australians are remaining in their homes longer. In 2014, it was estimated that in 20 major cities, detached houses were owned, on average, for over 10 years, and apartments, on average, for over eight years—nearly 25 percent higher than 2004.

Owning a home is still a big part of the Australian Dream, but what home will look like in the future will be different than what was perceived by older generations.

MERGERS AND ACQUISITIONS

THE MARKET BEGINS TO COOL

For the first time in nearly four years the market for the sale and purchase of brokerage firms has started to cool off.

by Steve Murray, publisher

Major purchasers have started to back off on the prices they are willing to pay; the terms have tilted in favor of less cash and more years in earn-outs, and most firms of all sizes are far more particular about what firms in which markets they are willing to consider.

Why the Slowdown?
Some of this is due to, of course, the slowdown in residential housing sales. While many allocate blame for the slowdown on the national elections (as does the NFL for its decline in TV viewership, for instance), it doesn't appear that this alone is the causal factor. The imbalance of supply in the entry-level portion of the market versus the demand and the supply/demand imbalance in the upper end may be far more important. Another big issue may be that despite affordability factors to the contrary, price increases have outrun income increases for several years now. The slowdown may be a result of that.

A Short-term Adjustment
Valuations, therefore, are likely to be lower than they have in the past three years and the resulting prices and terms are likely to be more favorable to the purchasers. This is not a huge change and is more likely a short-term adjustment rather than a long-term trend. The underlying desire of large regional and national firms to grow, and the challenges of doing so in an organic manner remain. So, we expect that while there may be a tightening in the market short term, it doesn't mean that there won't be deals done. It does mean that purchasers are pickier and more careful about which deals get done.

As we have said before, we also expect that successful system–driven teams will become more attractive. They offer a means of adding measurable business volume without the challenge of additional fixed overhead and other impediments in normal brokerage transactions. Often the purchaser is in a position to scale the system and incorporate the business system within the firm without too much disruption.

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DIGITAL MARKETING

MEASURING THE SUCCESS OF YOUR CAMPAIGNS

Strategies for quantifying the performance of your digital marketing campaign.

By Paul Salley, manager of marketing strategy and business development

The age of digital marketing has made it easy for business owners to reach a new audience—a digital one. Gone are the days of relying solely on flashy billboards or rectangle ads in the local newspaper. Technology has allowed business owners to reach their intended audience using popular display networks and social channels. We now have the ability to predict behavior and an algorithm to attract new customers. While this is great news for any business owner, there are some questions left unanswered.

As digital marketing professionals, we are often asked the best way to quantify the performance of digital marketing campaigns as well as how to track return on your investment (ROI). While there is no silver bullet when it comes to tracking the success of any digital campaign, there are things you can do to monitor performance.

Above all, set your objectives early. Is your goal to increase brand awareness? If so, you're probably less focused on metrics such as click-through rate (CTR) and more focused on reaching as many people as possible (impressions). On the other hand, if your goal is to convert as many clicks into leads as possible, then you have some strategizing to do. While I won't dive deep into conversion tracking, you should make sure your site, or at the very least the landing pages you're using for your campaigns is optimized for conversion tracking. I recommend implementing as many lead-capture opportunities as possible without creating a poor user experience (think simple calls to action with enticing lead capture forms). Make sure you have a Google Analytics tag installed on your site and, if necessary, a conversion pixel implemented and tracking on your chosen marketing platform.

Aside from conversions, other important performance indicators will help you understand the effectiveness of your campaigns. Here are a few to consider:

1. **Traffic to Your Site.** Regardless of your chosen objective, only positive things can come from driving more people to your site. Of course, the age old rule quality over quantity still applies here, but your site traffic can play a big role in truly understanding your marketing efforts. If your traffic increases 20 percent, that's great! Now, harness that traffic and establish a strategy for capturing leads once your visitors land on your site. Pay close attention to which pages are driving your traffic to increase. If they are campaign related, chances are your digital marketing efforts are paying off.

2. **Average Time on Site and Bounce Rate.** If you're driving more traffic to your site, your goal is to keep them there as long as possible. Pay close attention to the number of clicks your campaigns receive; the page users land on and how long they stay there. If the bounce rate is high, chances are visitors are landing on a page that does not accurately reflect information for which they were expecting or looking.

3. **Monitor the Traffic Sources to Your Site.** Mobile users are increasing and slowly taking over as the No. 1 device used when browsing the web. However, this may not be true for certain sites or even specific pages on your site. If your driving traffic to a page that is not optimized for mobile and your campaign traffic is primarily mobile; you have a problem.

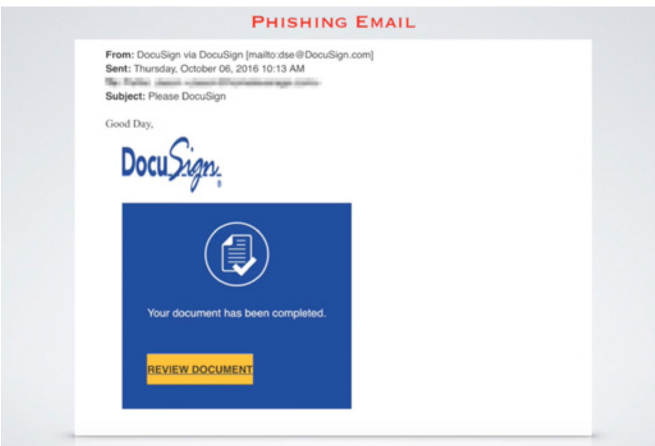
The old metrics are still important, as well. Make sure you understand the numbers generated from your campaigns. Metrics such as CTR and Impressions are still important and must be evaluated. Understand the averages for your particular market or industry, as well as campaign type. Display campaigns will usually have a lower CTR than search, so do your research before jumping to conclusions when evaluating campaign reports.

You should make sure your site, or at the very least the landing pages you're using for your campaigns is optimized for conversion tracking.

IS TECHNOLOGY FRAGMENTATION LEADING TO **SECURITY VULNERABILITIES** IN REAL ESTATE?

By Travis Saxton, vice president of technology

Security vulnerabilities and scams, such as phishing and wire fraud is on the rise in the residential and commercial real estate industries. These may be so sophisticated even a technology expert can be fooled. Below is a link to a video outlining a specific type of phishing/wire fraud scam from Brandon Wells, chief technology officer of The Group Inc. in Fort Collins:



Notice the level of sophistication in this combo phishing and wire fraud scam. It's such an issue that some firms have halted wire transfers and will only permit old-fashioned bank checks. The goal is to help the consumer avoid the headaches that go along with fraud. It can dramatically impact a transaction and have a domino effect on the next home as well. It can slow down the transaction in an already lengthy process. In a fast-paced market where contingencies are looked at as a major inconvenience, every minute counts to the seller on the other end of that transaction.

The National Association of Realtors® has also been watching this trend and has posted several articles on the subject. This article outlines prevention: CLICK HERE

Finally, RE/MAX of Reading, Penn., has put in place layers of security to prevent this type of fraud. Information Technology Operations Manager, Tavia Ritter offers some valuable insight into their setup. "We have been using Mimecast since February 2016," says Ritter. "It works with Office 365, the G-Suite (if enterprise) and self-hosted servers. It blocks spoofed emails based on the preferences we set, so it helps to minimize the chances of these [fraud] situations that we have heard so much about." Mimecast also provides email continuity during outages and is flexible enough to allow each user to create his or her own *allowed* and *blocked* sender lists while still allowing such lists at a global level.

In addition to the Mimecast for email filtering (which also scans URLS within the email against an always-updated list of bad URLS), Tavia has a firewall and a three-tier software program on each person's computer. The three-tier process works like this: First, a program called N-Able pushes necessary updates to Windows machines. Second, Webroot, a malware software, tracks the behavior of programs. If something isn't operating within certain perimeters, Webroot notifies Tavia (ransomware-like behavior.) Finally, a DNS Umbrella is constantly scanning user web traffic against known issue lists updates in real time.

In a day where many brokerages are using multiple email platforms or relying on sales associates to take care of these issues on their own, you are in dire risk of being scammed. If you find that technology or email fragmentation is leaving you vulnerable, it's time to take action. The Innovativ Group, a REAL Trends CTO group, is pushing one of the largest transaction technology companies to implement a two-step verification authentication for computer sign-ins. Avoidance is key. While some insurances cover some of these attacks, the process is likely to be lengthy.

CELEBRATING REAL TRENDS 30TH ANNIVERSARY

NOVEMBER 1987: QUESTIONING THE 100% PLAN AND REALNET

To celebrate REAL Trends' 30th anniversary year, we will bring back old articles from our early years to see how much (or little) has changed about the industry.

By Steve Murray, publisher

The stock market had just experienced its worst one-day loss (percentage wise) in history—22.6 percent in one day. Believe it or not, we wrote about how the industry needed to learn how to accommodate the 100 percent plan. Can you believe that it was still an issue more than 14 years after RE/MAX was launched and years more since Realty Executives had been founded? REMAX had over 1,400 agents at this time and was growing 40 percent per year. It was not like nobody didn't know what they were offering or doing.

In other news, Boston RealNet began to offer computerized access to housing listings through dial-up modems. Sellers would pay to have their homes listed on the service. Buyers paid nothing for access (some things never change). In Washington, D.C., the Consumer Housing Libraries were offering two retail locations where consumers could access information about new-home communities throughout the metro area along with information on schools, taxes, shopping and health care.

The news from November 1987 shows us a few things. People were already seeking ways to deliver housing information outside the Realtor® channel and doing so in new and innovative ways. Secondly, we are reminded that for all of its history, this industry has a tough time dealing with internal structure challenges to the existing way of doing business. In many ways, the more things have changed; the more they have stayed the same.

GROWTH MODE

REAL TRENDS IS NOW 19-EMPLOYEES STRONG

REAL Trends is growing. Recently, we added strength in both our technology and merger, acquisition and valuation work. We also strengthened our editorial team. Somehow, we have grown to 19 employees, up from just eight people just four years ago! I would like to say it was all part of a long-term plan, but, the truth is, we have found opportunities to grow every part of our business in areas that are closely related to what we have always tried to do—serve the residential industry with trusted information and consulting services.

We are very pleased that Amy Broset has rejoined the company after a year's hiatus to move to Fort Collins with her fiancé. Her 10 years of expertise in valuation work is invaluable to our clients. Jamie Lower has joined Tracey Velt to assist with our publications. Peter Gilmour has joined us as our first foreign correspondent covering housing issues outside of the United States. He spent years building the largest residential realty business in South Africa. Brent Driggers, an expert in search engine optimization, also joined us to expand the digital marketing services we offer brokerage firms and Realtor® associations.

When REAL Trends was founded in 1987, one of my original goals was not be so large as to have to have meetings. That plan failed! But, the result is a strong group of young, smart, driven professionals who can continue to offer more and better service to all of our clients. And, that is a wonderful outcome.

LORE MAGAZINE FEATURE

DON'T MISS LEADERSHIP EXPERT JIM COLLINS, AUTHOR OF "GOOD TO GREAT"

On April 26-28, 2017, we will be hosting our annual Gathering of Eagles Conference at the Four Seasons Hotel in Denver, Colorado. As always, we limit attendance to 300 people total.

This year's agenda includes well-known and respected author and consultant Jim Collins of "Good to Great" fame, as well as the author of numerous other chart-topping management and leadership books.

Also, we have three noted leaders—Ron Peltier, Dave Liniger and Hoddy Hanna— who will discuss what they've learned in their combined 140 years in real estate. They'll also tell us where they think the industry is heading. There will be panels on the future of brokerage from young, successful leaders with different models; a session on business metrics and a panel on what is working in online digital marketing.

To register, CLICK HERE Questions? Email Dani Stufft at dstufft@realtrends.com, 303-741-1000.

REALTRENDS

GATHERING OF EAGLES

DOWNLOAD TODAY!

HOW TO IMPROVE YOUR BROKERAGE'S TECHNOLOGY SPEND

In today's real estate market, technology tools change quickly. Without paperless transaction systems, lead capturing websites and mobile apps, items such as fax machines, up desks and filing cabinets would still be in hot demand.

Today's brokerage leaders clearly understand the need for technology systems. However, it's much more difficult for brokers to know what this technology should cost or how to measure its success. REAL Trends in partnership with Moxi Works recently researched which technology systems are vital to brokerages to help them determine where to spend their money and what those systems should cost. To download the free whitepaper, CLICK HERE