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DENVER METRO
ASSOCIATION OF REALTORS®

FEBRUARY 2020 NEWSLETTER

CONTENTS

1-5 FIRST PERSON

- How Will The Industry Address the Issue of Affordability?
- The Use of Big Data and AI in Brokerage

6-9 BROKERAGE

- Ninja Nine Success Habits
- 7 Reasons Your Database Will Net You Fewer Sales Next Year

10-11 MARKET

- December ShowingIndex

12-13 REGULATORY

- What to Expect From the CFPB in 2020

14 GLOBAL

- Update on the Singapore Real Estate Market

16-17 VALUATIONS

- The Challenges of Valuing Today's Brokerage

SIGNS OF THE TIMES

HOW WILL THE INDUSTRY ADDRESS THE ISSUE OF AFFORDABILITY?

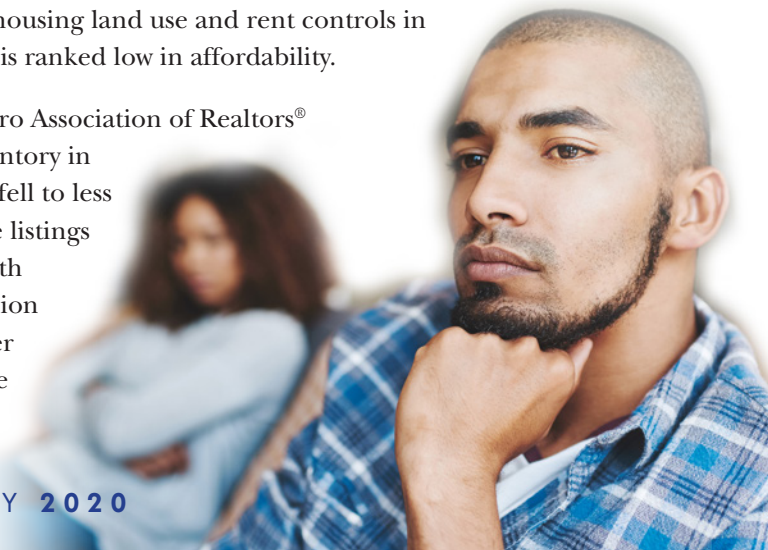


When there is a deficit between household formations and housing construction, we must understand that this is not just an industry issue but a huge societal one.

By Steve Murray, president

The Wall Street Journal reports that housing starts in the state of Oregon have fallen to a 50-year low. Oregon has some of the most restrictive housing land use and rent controls in the country and is ranked low in affordability.

The Denver Metro Association of Realtors® reports that inventory in December 2019 fell to less than 5,100 active listings—in a market with nearly three million citizens (and over 15,000 real estate professionals).



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FIRST PERSON

Yet, the city of Denver and some surrounding communities continue to enforce draconian building codes on those building attached housing.

California, which has some of the nation's lowest affordability factors, added a new requirement—that all new homes must have solar power on rooftops, adding costs to each home estimated at \$6,000 to \$9,000 (or more) per home.

Many states seem to think that regulating builders and investors will somehow increase the supply of homes and raise the affordability for families. Current facts on the ground suggest otherwise.

"There is a girl in New York City

Who calls herself a human trampoline.

And sometimes when I'm falling,
flying or tumbling in turmoil

I say "whoa, so this is what
she means"

— Paul Simon,
song lyrics from 'Graceland.'



It seems like the political class thinks that restraining supply is the way to increase supply, which of course, makes no sense and does nothing to acknowledge how those who can build or invest in housing react to such incentives.

It would also seem to me that the Realtor® organization, together with the mortgage, building, and other housing-related trade associations, would be pouring all of their efforts into getting important facts to local and state politicians about this current crisis. It's not just a current crisis; it's been building for a decade, and it's not going to get better. When there is a deficit between household formations and housing construction of 250,000 to 400,000 units per year, someone needs to wake up and understand that this is not an industry issue (which it is) but a huge societal issue. Left unaddressed, or not confronted, our country will run out of places for our citizens to live.

Lastly, this is not just a Realtor organization issue. At the national and local levels, brokerage firms need to get involved. Not only because it is in our best interests for our business, but because it is the best interest of families everywhere. 🍷



KEYNOTE SPEAKER

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“The 2000s were a time for the most popular American sports leagues to recognize the power of data. The 2010s were about implementing those analytics and letting numbers dictate strategy. It was an inevitable progression—for better and worse.” – Billy Beane

The 2010s were about implementing those analytics and letting numbers dictate strategy. It was an inevitable progression—for better and worse.”

WHAT ABOUT BROKERAGE?

We’ve seen AVM increase over the past 10 to 15 years. The Zestimate wasn’t the first, but it became the most widely known. There are numerous others. The iBuying companies are using this data to purchase more efficiently and sell more effectively, which is an essential part of their value proposition.

Recently, we see Keller Williams, RE/MAX, and others building out massive data platforms that will capture and analyze large databases of consumer information to provide the opportunity for agents to market their services more efficiently. Companies like Redfin, Zillow, and Realtor.com have been doing this for years, and presumably, they are making good use of the data they have to target consumers more efficiently.

The next area is data about agent behavior so that brokerage firms can develop profiles of them in an attempt to discern the likelihood that they will succeed in real estate brokerage or whether they are prone to move from one brokerage to another. Companies, such as Terradatum, Trendgraphix, and Real Data Strategies, offer tools to give some insights already. They are now joined by firms like Relitix, which is going even deeper in the use of intelligent systems to provide even more

granular advice and targeting than ever before in these two areas. We also know that some of the national brands are looking at this kind of data closely.

If we are to learn from the experience of major league sports, first, we have to develop the information systems to find out what it tells us about where to invest our time and efforts. Then, those who use this learning will use it to gain an advantage over those who don’t. Then, and only then, will the new practices and tactics become embedded in the industry’s fabric.

WHERE ARE WE IN THIS EVOLUTION?

It seems to us that we are at the very front end of this development, and that assumes that leading brokerage firms embrace data as a way to recruit, develop, and retain their agents. While we don’t see a market for trading agents and teams as in professional sports, we do understand that leading firms will begin to use data to know better when to do so through specific commission policies and other related practices.

Further, we know from work with a client that the use of data to identify the most likely potential recruiting opportunities and specific data on retention does work. Once these systems become more useful, we expect the outcome to be similar to that of major league sports—widely used. And, they’ll have a significant impact on how the business is managed.

FINAL THOUGHT ABOUT BIG DATA

Among all the changes and challenges to brokerage these days, there are two that are profoundly meaningful.

- **Agent turnover:** The increasing churn of agents and their movement from one firm to another.
- **Bifurcation of the agent ranks:** The increased concentration of production from top producers and teams and the increased ranks of lower-producing agents.

What happens when more of the former, realizing they may not become large producers, turn towards the lowest-cost brokerage options, of which there are more today than ever before?

What happens when the top producers retain most of the profit in their relationship with their brokerage firm?

What happens when the industry becomes an unbundled industry where increasing numbers of agents want to pay a base fee and then ala carte the rest?

Lastly, what do we do with data that suggests that lower-producing agents may see a lowering of their costs but also a lowering of their sales when they move to a lower-cost brokerage option and thereby increase overall industry turnover? Will we see the departure of relatively new agents when they become discouraged about their real estate careers?

We think these are some of the most significant issues for brokerage heading into 2020. 🍀

NINJA NINE SUCCESS HABITS

HABITS AND YOUR TRIBE

“People do not decide their futures. They decide their habits and their habits decide their futures.” This profound quote from F.M. Alexander is a directive for managers to stop trying to manage production and start managing activities (habits).

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

For over 25 years, we’ve documented the habits of top-performing sales professionals and found they do all or most of what we call the Ninja Nine success habits. These are five daily and four weekly habits.



DAILY

1. Gratitude, Affirmations, Positive Reading
2. Time Block. Stay on your agenda.
3. Write two personal notes
4. Focus on Hot List (Buy/Sell in 90 days)
5. Focus Warm List (Buy/Sell in 1 year)

WEEKLY

6. Client service calls
7. Two live real estate reviews
8. 50 live interviews
9. Update database; look for matches.

What holds people back from doing these simple habits? Why do they start a good habit and then stop? James Clear, in his excellent book *Atomic Habits*, provides some answers. The first challenge is goals. If the associate is merely goal-driven, once

they achieve their goals, they stop doing the habits that got them there. We see people lose weight and then gain it back, accomplish a fitness goal, and suddenly stop working out, hit a sales target, and stop doing what got them there, etc.



“Success is not a goal to reach or a finish line to cross. It is a SYSTEM to improve. If you’re having trouble changing your habits, the problem isn’t you. The problem is your system.”
– James Clear

James Clear observes, “Success is not a goal to reach or a finish line to cross. It is a SYSTEM to improve. If you’re having trouble changing your habits, the problem isn’t you. The problem is your system.”

BUILD YOUR SUCCESS SYSTEM

A success system goes beyond goals. Goals are a start. Lasting change and consistent habits happen with a shift in IDENTITY. Who is the person you want to become? Is the goal to finish a marathon, or is it to become a runner? Is the goal to produce a certain income, or is it to become a top producer? Is your company goal to hit a profit number, or is it to become a consistently profitable company?

The more you repeat a behavior, the more you reinforce the identity associated with that behavior. Every action is a vote for the type of person (or company) you wish to become.

Unfortunately, every time you choose a bad habit, it’s a vote for that identity as well. As Aristotle says, “We become what we do repeatedly. Excellence, therefore, is not an act. It is a habit.” Help your associates identify who they want to become, and they are more likely to vote for the habits that will get them there. The same is true for you and your company identity.

How do you help an associate change their identity? There are four steps.

1. Help them decide who they want to become.
2. Show them how to reprogram their non-conscious using affirmations and visualizations.
3. Have them vote for their new identity with their habits. (Ninja Nine)
4. Encourage them to select a peer group that supports their new identity. (This is where you, as the leader, come in.)

One of the most important roles you have as a leader is controlling the culture (peer group) of your office/company. According to Dr. David McClelland of Harvard University, “As much as 80% of a person’s success can be attributed to their reference group.” What is the reference (peer) group you are creating for your organization? What is your company identity?

Why would an associate want to join your firm? Sales associates vote with their feet. James Clear’s recommendation for someone choosing an organization is this, “One of the most effective things you can do to build better habits and be successful is to join a culture where your desired behavior and identity is the norm.” What are the norms in your office/company? What kind of a tribe are you creating? Nothing sustains motivation and good habits better than belonging to the right tribe. ▲

“One of the most effective things you can do to build better habits and be successful is to join a culture where your desired behavior and identity is the norm.” – James Clear



WANT TO CLOSE MORE BUSINESS?

7 REASONS YOUR DATABASE MAY NOT NET YOU SALES

Working your database may not yield the number of transactions you planned. Here's what you can do about it.

By Jeff Glover

You've likely heard of the *Golden Rule* of the database. The *Golden Rule* states that an agent, if they work their database correctly, will transact as many units as approximately 10% of the size of their database. Meaning that if an agent has 100 names, numbers, home addresses, and email addresses, then they should expect to close about ten deals from that group of 100. Some will be from the actual people in your database, and some will be referrals from those people.

If an agent truly puts effort towards that group (calls, texts, emails, letters, etc.), then, after a few years, they should be able to achieve the 10% rule. Now, take the database from the size of 100 to the capacity of 1,000, and you'll close 100 deals a year from it!

Here's the challenge, I believe that the coveted 10% rule is changing and not in our favor. I can see a day where the new Golden Rule becomes the 7% or 8% rule. Here's why:

1. Technology. If technology continues to improve, the number of referrals from your database will decline. According to the 2018 National

Association of Realtors® Profile of Home Buyers & Sellers, 55% of home buyers took to the internet BEFORE reaching out to an agent. In 2011, that number was only 45%, thus reducing the number of calls from a client in our databases by about 20%! This happens because it's easier and more convenient for consumers to click on a link or swipe on photos to get more information on a property, thus reducing the need to call their agent.

We've all been there: "Oh my gosh Jeff, I am so sorry, I know we've used you for years, and we tell everyone about you, it just happened so fast. We made an offer with the listing agent because there were multiple offers." Or, "We can't list our home with you because the listing agent gave us such a deep discount to list with them!" If you're full time in the business, you've experienced something similar a time or two. This scenario all started because technology got in the way.

2. i-Buyers. As i-Buyers continue to enter different markets, the business agents receive from their database will decline. It's pretty simple math.

They can sell with you and get 98% or 97% percent of their asking price, which you would probably claim is market value or close to it or i-Buyers that come in at 88 to 92% of the value. Back out the commission, and sellers potentially end up within just a few points of what a full-service brokerage could net them. How does this affect repeat and referral business? The answer is simple: Many consumers will, out of curiosity, reach out to one of these institutions (or a real estate team or brokerage offering them) just to see what they could get in an instant offer. The next thing you know, they are signing paperwork to sell their home to them, thus reducing the number of calls from a consumer to a real estate professional.

3. DIY'ers are increasing. Take a look back over the last ten years, in nearly every industry; there's been this sentiment of "I can do this on my own." Some would suggest that technology makes it easier, especially in our industry, think fsbo.com, Zillow's Make me Move, YouTube videos. But, also, today's consumer is savvier than they've ever been.

A savvy, tech-enabled consumer can now take matters into their own hands, and complete tasks that they would never have considered doing on their own, such as selling a home or going straight to the listing agent. Who makes up the majority of DIYers? According to most reports, including one from The Home Depot and Forbes, it's Millennials.

4. Millennials. Despite reports saying that Millennials aren't buying homes and they're still living in their parent's basements, this generational group will present some real issues for loyalty from our database. According to NAR, Millennials make up the largest generation of home buyers today, sitting at 37% of all homes purchased in 2018. What does this have to do with negatively affecting the return on our database? This group already trusts apps and online processes for buying and selling merchandise. It's only a matter of time before they trust the latest home selling or home buying app (and this is already happening). We hope to have some data to prove this once we get into 2020. A 28-year-old who once may have taken their parents' advice when choosing a real estate agent may now rely on online agent reviews. A certain percentage will click on links to services that will assist them in buying or selling in non-conventional ways.

5. Online Reviews. Many consumers today are using sites like Homelight

and Angie's List to check out the reviews on an agent they used to see if it's safe to use them again. During this process, they fill out a form and start receiving solicitations from every agent in town, asking if they'd like to meet. Thus, potentially costing you a sale from your database.

6. Customer Experience. Today's customer expects a great experience. According to a 2018 survey from Gladly, the consumer experience is affecting a consumer's recommendation of the service provider now more than ever. We had a challenge in our business four years back. We were closing about 650 transactions as a team after closing around 500 the year before. The problem was not that our company was growing too quickly. The challenge was that, as we were growing, our profits were shrinking. Because of this, I brought in a consultant to evaluate our business. She discovered that we were a transactional company, meaning our focus was on driving leads and driving sales, not on the customer experience. I learned that customer service is what they pay us for and what they expect. The customer experience is what leads to repeat and referral business.

7. TCPA & DNC Laws. Although the Do-Not-Call laws are over a decade old, we're just starting to hear of agents and brokers being targeted by law firms that specialize in seeking out individuals on the DNC list who have been contacted

by real estate professionals. Based on my research, what seems to be heavily scrutinized right now is the use of multi-line dialers, mass texting services, and direct-to-voicemail services to those with a phone number registered with the FTC. The increased awareness of these laws is causing agents and brokerages to be more cautious when using these services to reach out to their databases. Why is this affecting the database formula? The term work your database has long meant calling, seeing, and adding value. If the laws change the way we reach out, then it will change the ratio of contacts to appointments set.

If you don't make changes now, your database business will decline as time advances. So, how can you maintain and increase your current level of database business? Here's how to start: Write on a whiteboard or an easel: "What can I do, change or implement so that the people in my database feel obligated to use my services and refer me to others?"

Jeff Glover started his career in retail sales at the age of 16. After becoming a top 150 salesperson for Circuit City nationwide, at the age of 19, Jeff decided to enter real estate. In 2009, Jeff started Jeff Glover & Associates, Realtors. That team is now composed of 25 agents selling over 1,000 homes a year. Jeff is also the Operating Partner of multiple Keller Williams Realty offices and has just over 500 agents in his brokerages. His coaching and training organization, Glover U, hosts over 50 events per year. 🏠



TODAY'S CUSTOMER EXPECTS A GREAT EXPERIENCE. According to a 2018 survey from Gladly, the consumer experience is affecting a consumer's recommendation of the service provider now more than ever.

2019 ENDS ON A HIGH NOTE FOR HOME BUYER ACTIVITY

Sustained Buyer Demand Reaches its Longest Stretch Since September 2017 – January 2018

KEY POINTS:

- U.S. showing activity grew by 6.9 percent year over year in December
- For the fifth consecutive month, prospective home buyer traffic was up compared to 2018
- The West Region saw the greatest year-over-year change in activity, with a 20.9 percent increase in December

The normally sluggish holiday home buying season saw a surge in activity as December showing traffic rose year over year nationwide, according to the latest ShowingTime Showing Index® report.

December's 6.9 percent year-over-year growth in showing traffic in each of the four regions tracked by the Index represented the fifth consecutive month in which buyer activity increased compared to 2018. For the second consecutive month, the West Region saw the greatest increase in activity, with a 20.9 percent boost. The South

followed, with a 12.9 percent year-over-year increase, the second largest improvement in the region in more than a year. Showing activity also grew in the Midwest, with a 4 percent year-over-year increase, with the Northeast close behind with a 3.5 percent gain.

“December showing numbers confirm what we first reported for November 2019, that year-over-year buyer activity has increased substantially,” said ShowingTime Chief Analytics Officer Daniil Cherkasskiy. “NAR is reporting a significant year-over-year jump in pending sales, which confirms the trend.”

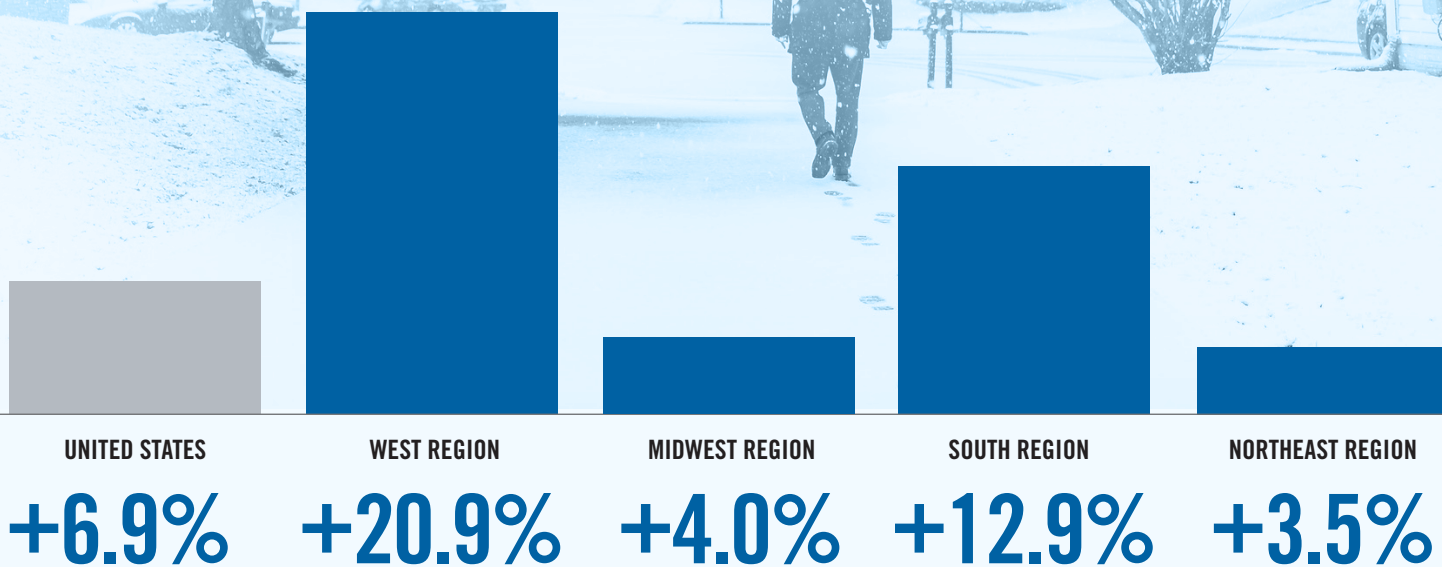
“**DECEMBER SHOWING NUMBERS** confirm what we first reported for November 2019, that year-over-year buyer activity has increased substantially. NAR is reporting a significant year-over-year jump in pending sales, which confirms the trend.”

— Daniil Cherkasskiy
ShowingTime
Chief Analytics Officer



ShowingTime® Showing Index – December 2019

The ShowingTime Showing Index tracks the average number of buyer showings on active residential properties on a monthly basis, a highly reliable indicator of current and future demand trends.



Methodology: The ShowingTime Showing Index® measures showing traffic per residential property for sale by agents and brokers utilizing ShowingTime solutions for property-access management. A higher number means that an average home receives more buyer visits in a given month. All index values are scaled relative to initial index value set to 100 for January 2014.

The ShowingTime Showing Index, the first of its kind in the residential real estate industry, is compiled using data from property showings scheduled across the country on listings using ShowingTime products and services, providing a benchmark to track buyer demand. ShowingTime facilitates more than four million showings each month.

Released monthly, the Showing Index tracks the average number of appointments received on active listings during the month. Local MLS indices are also

available for select markets and are distributed to MLS and association leadership.

To view the full report, [CLICK HERE.](#)

ABOUT SHOWINGTIME

ShowingTime is the residential real estate industry's leading showing management and market stats technology provider, with more than 1.2 million active listings subscribed to its services. Its showing products and services simplify the appointment scheduling process for real estate

professionals, buyers and sellers, resulting in more showings, more feedback and more efficient sales. Its MarketStats division provides interactive tools and easy-to-read market reports for MLSs, associations, brokers and other real estate companies, as well as a recruiting tool for brokers. ShowingTime products are used in more than 250 MLSs representing nearly one million real estate professionals across the U.S. and Canada. For more information, contact us at research@showingtime.com. ▲

IMPACTS

WHAT TO EXPECT FROM THE CFPB IN 2020

The Consumer Financial Protection Bureau (CFPB or Bureau) published its Fall Rulemaking Agenda in late 2019, giving the industry an advanced look at what regulatory activity to expect over the coming year.

By Sue Johnson, strategic alliance consultant

REAL Trends reported in January on one item on the Bureau's Fall Regulatory Agenda—a five-year assessment of the TILA-RESPA Integrated Disclosure Rule (TRID) that the Dodd-Frank Act required to be completed by October 3, 2020. In a separate Request for Information (RFI) on November 22, the CFPB asked for public comments on the TRID Rule's effectiveness as it prepares its assessment report.

Below are other key items on the agenda that impact real estate financing.

PREPARING FOR THE END OF THE GSE PATCH

High on the CFPB's priority list are preparations for the expiration of the GSE Patch, a safe harbor under its Ability to Repay requirements for loans eligible for purchase by Fannie Mae or Freddie Mac. The Bureau announced in 2019 that it plans to let the Patch end as scheduled on January 10, 2021, or possibly after a short extension. If it does not amend the Ability to Repay rule before that date, GSE loans with

debt-to-income (DTI) ratios of over 43% will not qualify for Qualified Mortgage status.

The CFPB asked for public comment on possible amendments to the rule over the summer and announced in its Fall Regulatory Agenda that it intends to issue a statement or proposal to address the GSE Patch in December 2019.

Given that it missed that deadline, an announcement in early 2020 seems likely, and industry observers believe a rule could emerge as early as the spring.

LOAN ORIGINATOR COMPENSATION FIXES

A new item on the Bureau's regulatory agenda is a possible rulemaking to address 2018 public comments that its loan originator compensation requirements are too restrictive. It says it plans to examine whether it should permit adjustments to a loan originator's compensation in connection with originating state housing finance authority loans to facilitate the origination of such loans, and allow creditors to

decrease a loan originator's compensation due to the originator's error. It did not set a target date for the rulemaking.

HOME MORTGAGE DISCLOSURE ACT (HMDA) THRESHOLDS

The CFPB plans to issue a final rule in March 2020 concerning permanent HMDA thresholds for open-end credit lines and closed-end mortgage loans. The May 2019 proposed rule would have increased the volume threshold that triggers reporting of closed-end mortgage loans from at least 25 originated loans in each of the prior two calendar years to at least 50 originated loans in each of the previous two calendar years. The CFPB also solicited comments on an alternative threshold of 100 originated loans in each of the previous two calendar years.

PACE FINANCING CRITERIA

The Bureau says it soon will take next steps related to Property Assessed Clean Energy (PACE), which allows homeowners to finance energy-efficient



home improvements (e.g., solar panels, water conservation projects, insulation, and new doors or windows) through special property tax assessments. These assessments are secured by a property tax lien taking priority over existing and future mortgages.

Because Truth in Lending Act requirements are inconsistent with current PACE loan origination practices, Congress passed a law in 2018 requiring the CFPB to amend its regulations to develop new criteria, taking into account the unique nature of PACE financing. The Bureau solicited public comments in 2019.

EQUAL CREDIT OPPORTUNITY ACT (ECOA) AND DISPARATE IMPACT

Unlike its 2018 Fall Regulatory Agenda, the CFPB made no mention of plans to re-examine ECOA requirements in light

of a recent Supreme Court ruling that a plaintiff must show that the defendant's practice or policy caused a statistical disparity when bringing a Fair Housing Act claim. The omission was noteworthy since a 2019 HUD proposal making it more difficult for plaintiffs to advance disparate impact claims were seen as an indicator that the Trump administration plans to roll back the Obama administration's extensive use of the disparate impact theory in Fair Housing and ECOA enforcement. The CFPB did announce in April 2019 that it will be conducting symposiums on consumer protections in the financial services marketplace, one of which would explore the disparate impact and the ECOA.

LOOKING BEYOND TO 2021

When reviewing the CFPB's Fall Regulatory Agenda, it's important to keep in mind that its regulatory

priorities significantly could change in 2021 if the U.S. Supreme Court rules this year that the Dodd-Frank Act provision allowing the President to remove its Director only "for cause" is unconstitutional. Such a ruling could allow a Democratic President, if elected in 2020, to remove CFPB Director Kathy Kraninger without cause.

Sue Johnson is the former executive director of RESPRO, the Real Estate Services Providers Council Inc. She retired in 2015 and is now a strategic alliance consultant. 🐾



The CFPB recently issued a policy statement providing a framework on how it intends to apply the "abusiveness" standard in supervision and enforcement matters. Read it [HERE](#)



SINGAPORE REAL ESTATE MARKET

SLOWING AS WE MOVE INTO THE DECADE

A breakdown of the Singapore housing market. Good news: It's still considered a safe haven for growth and wealth preservation.

By Peter Gilmour, chief foreign correspondent

Singapore is a highly developed market economy known as one of the freest, most innovative, most competitive, most dynamic, and most business-friendly in the world. Singapore is home to nearly 5.6 million residents, 40% of whom are foreign nationals, and is culturally diverse with four official languages English, Malay, Mandarin, and Tamil.

Despite the uncertain economic outlook caused mainly by the USA and China conflict and the latest cooling measures introduced by the government, Singapore real estate is still seen as a safe haven for growth and wealth preservation. Figures released by The Urban Redevelopment Authority, based on a survey of licensed developers, show that in the last quarter of 2019, private home sales and public-private home sales were down 25% over the previous quarter.

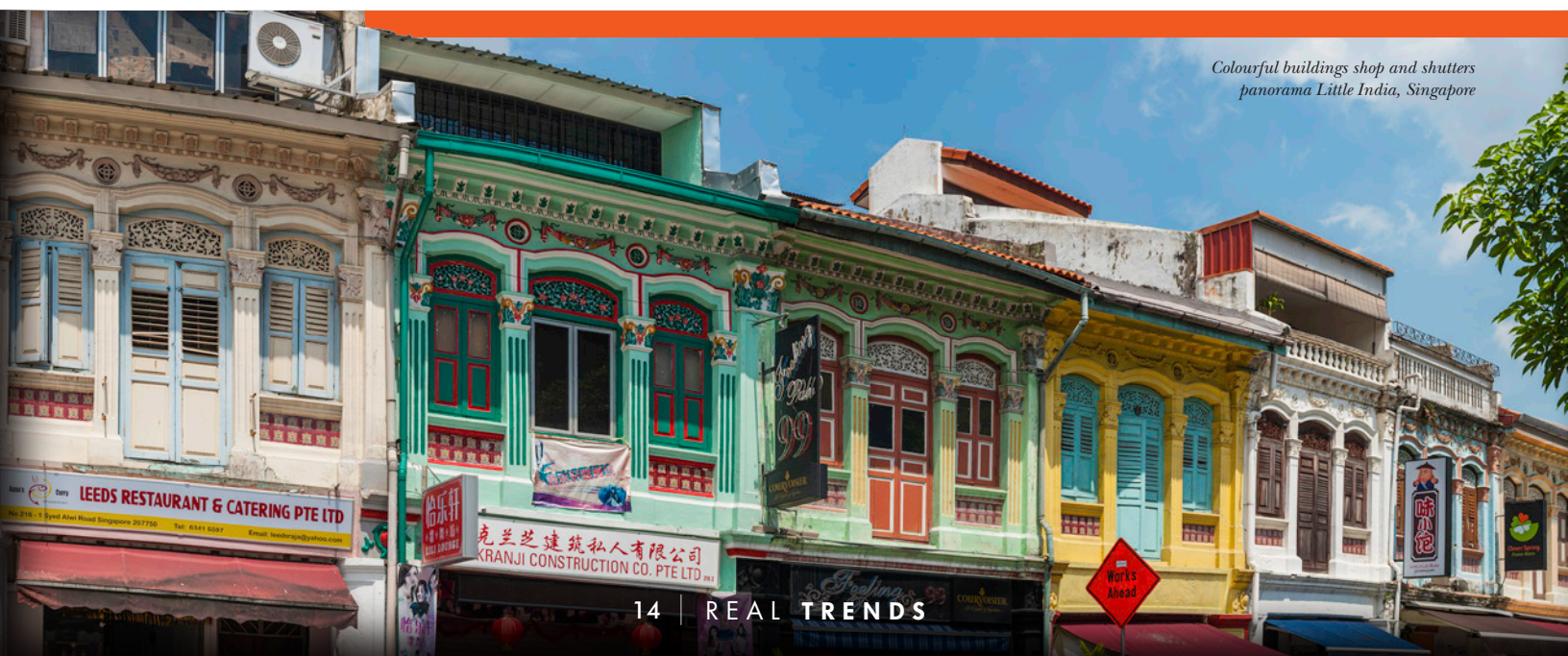
According to the head of research at Colliers International, there are 4,650 private homes launched by developers that are still unsold. In a report by leading estate agency Orange-Tee and Tie, resale transactions have slowed, and owners in the suburbs and city fringe areas have lowered asking prices in the face of competition from new launches.

The Singapore Business Review has reported that the slowing real estate market has claimed 11 casualties over the last two years amongst the 55 largest real estate companies that they

ranked in their survey of real estate agencies done in 2017. Some real estate companies have closed, including Century 21's GAP, that announced this year that PropNex Realty would absorb their 400 agents. They had 623 agents in the 2017 rankings. Two other companies in the top 10 have been involved in significant mergers, namely Orange-Tee and Tie and SLP Scotia. The former now has 4,250 agents and the latter nearly 400 agents. Surprisingly, even as the number of agencies has dropped, the total number of agents has risen, a sign that consolidation is happening, resulting in the average number of agents per agency increasing from 415 in 2017 to 667 in 2019.

The largest agency in Singapore is PropNex Realty, with nearly 8,000 real estate agents followed by ERA Realty Network with almost 7,000 agents. Hector Tan, head of marketing and communications at Hutton's, is quoted by *The Business Review* as stating, "The market is challenging for agencies and salespersons, and with tech disruption and more regulation happening, it's natural to see the market consolidating." The use of data analytics and market intelligence is playing a significant role in the growth of the top agencies in Singapore, the same as is happening in North America. Companies like ERA and Huttons Asia PTE have introduced a wide range of lead generation and AI tools over the last 12 months to support their agents. ♣

*Colourful buildings shop and shutters
panorama Little India, Singapore*





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A TALE OF TWO BROKERAGES

VALUING TODAY'S BROKERAGE

A shift from a majority of traditional firms to other operating models has changed the game for business valuations.

by Scott Wright, vice president

With nearly 4,000 valuations of residential real estate firms under our belts, we've practically seen it all. Brokerages of all shapes and sizes have honored us with their business, seeking valuations for a myriad of reasons.

Decades ago, the majority of brokerages we did work for operated under a more traditional commission model, which, in simple terms, offers agents uncapped graduated commission plans. While this model has worked for decades and still works for many firms today, it's no longer the dominant model.

Benchmarking the financial performance of our valuation customers used to be pretty cut and dry. Because most were traditional firms, they scored large margins on the top line as traditional firms tend to keep a substantial portion of every

commission dollar earned. Though they typically spent a lot on support staff, office space, and marketing for their agents, a good chunk of change still fell to the bottom line. With most brokerages operating similar models, the various financial and operational metrics, we looked at had a low standard deviation.

With the massive growth of brokerages operating with alternate commission models, benchmarking has become more of a challenge. Now more common are firms that employ varying forms of flat-fee, 100%, and capped models. While these alternate models exhibit wildly different top-line margins and operating expense ratios on their way to the bottom line, interestingly, the delta on the bottom line isn't necessarily all that different.

To illustrate the different paths to the

bottom line, consider the numbers for Company A versus Company B. Company A generated \$10 million in revenue over the last 12 months while retaining \$2.4 million. It spent 36% of gross margin on Salaries/Payroll, 17% on Occupancy, 11% on Advertising/Marketing, and 16% combined for all other operating expenses. Company A's Net Income was \$456,000, giving it a Return on Revenue of 4.6%.

Company B also generated \$10 million in revenue, yet it only retained \$900,000. Despite its radically lower gross margin, Company B still ended up with \$456,000 in Net Income and a Return on Revenue of 4.6%. How did it end up with the same bottom line as Company A? It only spent 22% of gross margin on Salaries/Payroll, 14% on Occupancy, 3% on Advertising/Marketing, and 10% combined for all other operating expenses.

With the massive growth of brokerages operating with alternate commission models, benchmarking has become more of a challenge...



	Company A		Company B	
	Percent Gross Margin		Percent Gross Margin	
Total Gross Commission Income	\$10,000,000		\$10,000,000	
Total Commission Expense	7,600,000		9,100,000	
Gross Margin	\$2,400,000		\$900,000	
Percent Retained	24.0%		9.0%	
Operating Expenses				
Salaries & Payroll	\$875,000	36%	\$198,000	22%
Advertising & Marketing	264,000	11%	32,200	3%
Occupancy	415,000	17%	124,800	14%
Other Operating Expenses	390,000	16%	90,000	10%
Total Operating Expenses	\$1,944,000		\$444,000	
Net Income/Loss	\$456,000		\$456,000	
Percent Retained	4.6%		4.6%	

In this example, Company A would be your standard, traditional uncapped graduated commission plan brokerage. At the same time, Company B operates more of a fee-based model (these firms typically pay 100% commission to agents while charging monthly fees or transaction fees...the \$900,000 gross margin for this company is a total of all fees collected.) Company B didn't retain as much as Company A. Still,

since Company B didn't offer as much support from personnel, marketing, and office-space perspective, its collective operating expenses were vastly lower, thus allowing it to achieve the same return.

This illustration drives home the difference in models while demonstrating our benchmark challenges. It also shows that there are

many different paths to achieving profitability. From a valuation perspective, these companies may or may not be worth the same. Any variance in value would be less of a factor relating to the model and more the dozens of other factors we look at when applying multiples. At REAL Trends, we are model agnostic, so if your firm needs a valuation, give us a call today! 🏠

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