



REALTRENDS
THE TRUSTED SOURCE

SEPTEMBER 2019 NEWSLETTER

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TECH ADOPTION

THE REAL ESTATE INDUSTRY'S GREATEST CHALLENGE — TRUST



When it comes to giving up consumer data, agents don't trust the brokerage.

By Steve Murray, president

Most national, regional, and local brokerage organizations have some form of CRM and other consumer-facing technology to offer their agents. However, a majority of agents don't use their company's CRM. They use their own. What gives?

We think the issue is one of trust. Agents don't trust their brokerage with customer data. Brokerage firms don't trust their franchiser with their agent's customer data. Many brokerage firms and their agents don't necessarily trust the outside technology vendors with their customer data. These are widely known facts about our industry at this time.



REAL TRENDS

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FIRST PERSON

The national franchisers are pouring vast sums of money into CRMs, big data, and artificial intelligence capabilities. They're also beginning to realize that unless the agents of their affiliates trust them with their customer data, adoption rates will remain abysmal. Brokerage firms deploying their own CRM (whether contracted for or built in-house) will have similar results.

THE NATIONAL FRANCHISERS ARE POURING VAST SUMS OF MONEY

into CRMs, big data, and artificial intelligence capabilities. They're also beginning to realize that unless the agents of their affiliates trust them with their customer data, adoption rates will remain abysmal.

WHAT ABOUT OUTSIDE VENDORS?

Then, there's the issue of using outside vendors for critical CRM technology. Look what just happened when Contactually, a well-liked and -used CRM, was purchased by Compass. The brokerage firms that compete with Compass now were faced with the possibility that Compass would have access, or could have access, to their agent's customer data. We heard from many who immediately began looking for alternatives. Regardless of the outcome, it now becomes apparent that brokerage firms have to be leery of using an outside CRM or other customer-facing technologies. After all, with the stroke of a pen, that external tech supplier could be owned by a firm with competing interests. This creates yet another trust issue.

So, we have an industry rushing to deploy consumer-facing technologies and reap the benefits of competing in the new environment but handicapped by the lack of trust among the sponsors of these systems, whether they are built-in offerings from brokerage firms, national franchisers or external suppliers.

WHAT NEEDS TO HAPPEN TO BUILD TRUST?

At the national level, Gary Keller and Josh Team of Keller Williams International Realty have announced that the agent owns their customer data. If the agent leaves Keller Williams, they can take their customer data with them. Further, KW agrees that they will not communicate directly to the agent's customers without the permission of the agent. As a result, they are making significant headway with the agents of Keller Williams in their adoption of the KW platform.

At the local level, we are aware of a few large regional brokerage firms who made that same promise, both in writing and verbally, that the agents own their customer data and may take it with them when or if the agent leaves the brokerage. These brokerages are also assisting agents with inputting the data into the CRM. One brokerage reported to us that their agents have already shared over 250,000 customer profiles. This particular firm thinks they will get to 500,000 before the end of the year.

To overcome the lack of trust, brokers must make and keep promises. For any national, regional or local firm to make the best use of their CRM, agents must trust that their brokerage will keep their customer data safe; that it may not be used without their permission, and that it will not be manipulated to the disadvantage of the agent. Also, if the agent leaves the brokerage or national franchise system, their customer information will be immediately returned to them and

not retained by the brokerage or franchise organization.

Given what we have learned thus far, brokerage firms will need to make these promises in writing and verbally and do so consistently and regularly. It will take time to overcome many years of mistrust. Even then, all participants must know that there will be many agents who will not easily share their customer databases to anyone at any time. 🐾

PRICE DIFFERENTIALS

ARE iBUYERS THE RELOCATION MANAGEMENT BUSINESSES OF THE 1970S?



The costs of iBuyers and relocation management are eerily similar. Here's an analysis.

By Steve Murray, president

I reviewed an analysis of iBuyer activity researched and published by Collateral Analytics published on August 7, 2019. In it, the Ph.D. researchers looked at up to four markets where iBuyers have been relatively active for some time. They examined the fees paid by sellers who took advantage of such programs.

They also examined price differentials between the market as a whole and homes acquired by iBuyer companies.

They found that not only are the iBuyers charging *convenience* fees of between “6 to 9.5%,” but the prices they are paying indicate an average discount of “2 to 6.5%.” Thus, the authors state that the actual cost for the convenience of using an iBuyer is 13 to 15% of the purchase price. Compare that to normal selling times and costs, and they are somewhat comparable. Brokerage companies’ commission costs, closing costs, carrying costs (beyond the few days of the iBuyer purchase) and fix-up costs likely average between 9 to 11% given the average time on market for homes in the iBuyer target range.

A SIMILAR BUSINESS MODEL

It brings to mind my experience in the relocation management business in the late 1970s. Our region was buying 80 to 100 homes a month in six states, then reselling them and charging a corporate client for the costs of buying and selling. Of course, there

was a management fee on top of the cost of sales. Back then, our property group was tasked with keeping the total portfolio costs under 12% for all the costs of buying and reselling those homes being purchased from relocating employees. I don’t know what it is in 2019 and 1977-1979 was a long time ago.

However, the data suggests that the costs of both are eerily similar. And this initial research indicates that the iBuyers of today are about as capable as the relocation property managers of yesterday.

Lastly, this research shows the real cost of the iBuyer programs to sellers for the convenience of quickly liquidating their homes. The premium looks like it is in the range of 2 to 3% of a home’s value. The question is: Do homeowners understand this and can most of them figure it out? 🐾



INCREASE PRODUCTIVITY

BUILD A CULTURE OF TRUST

Find out the eight management behaviors that foster trust.

By Larry Kendall, author of Ninja Selling

As a leader, what can you do to increase productivity, profitability, and retention? According to *The Neuroscience of Trust* published in the Harvard Business review, focus on building a culture of trust. Neuroscientist Paul J. Zak found people in high-trust organizations are 50% more productive, 76% more engaged, have 13% fewer sick days, 74% less stress, and 106% more energy at work.

HOW TO MANAGE FOR TRUST

Dr. Zak identified eight management behaviors that foster trust. These behaviors are measurable and can be managed to improve performance.

- 1. Recognize Excellence.** Recognition has a significant impact on trust when it occurs immediately after a goal has been met, when it comes from peers, and when it's tangible, unexpected, personal, and public. Public recognition not only uses the power of the crowd to celebrate successes but also inspires others to aim for excellence. It gives top performers a forum to share best practices so that others can learn from them.
- 2. Induce Challenge Stress.** Challenging but achievable goals release positive neurochemicals that intensify people's focus and strengthen social connections. But this only works if the challenges are attainable and have a concrete endpoint. Vague or impossible goals cause people to give up before they even start. Leaders should check in frequently to assess progress and adjust goals that are too easy or out of reach.
- 3. Give people discretion in how they do their work.** Autonomy is the norm for sales associates. For salaried employees, once they are trained, allow them to manage their project whenever possible. Being trusted to figure things out is a big motivator. Autonomy also promotes innovation.
- 4. Enable job crafting.** When you have special projects, allow team members to choose the projects on which they want to work. People love to focus their energies on what they care about most. When the project wraps up, do 360-degree evaluations so that individual contributions can be measured.
- 5. Share information broadly.** Only 40% of employees report that they are well informed about their company's goals, strategies, and tactics. This uncertainty leads to chronic stress and undermines teamwork. Openness is the antidote. Organizations that share their "flight plans" with employees reduce uncertainty about where they are headed and why.
- 6. Intentionally build relationships.** Neuroscience experiments show that when people intentionally strengthen social ties at work, their performance improves. Trust and sociability are deeply embedded in our nature. It can't be just about the task at hand. Lunches, after-work parties, and team-building activities build relationships and trust. When people care about one another, they perform better because they don't want to let their teammates down.
- 7. Facilitate whole-person growth.** High-trust organizations help their people develop personally as well as professionally. Numerous studies show that if you are not growing as a human being, your performance will suffer. High-trust companies adopt a growth mindset when developing talent. Investing in the whole person has a powerful effect on engagement and retention.
- 8. Show vulnerability.** Leaders in high-trust companies ask for help from colleagues instead of just telling them to do things. Asking for help is a sign of a secure leader—one who engages everyone to reach goals. Asking for help is effective because it taps into the natural human impulse to cooperate with others.

THE RETURN ON TRUST

A survey of 1,095 working adults in the U.S. found that companies scored lowest on recognizing excellence and sharing information. Most companies could enhance trust quickly by improving in these two areas—even if they didn't

improve in the other six. Is it worth the effort? What is the return on trust? People in high-trust organizations experience 106% more energy at work, 50% higher productivity, 60% more job satisfaction, 74% less stress, and 40% less burnout. Trust works! ▶

WHAT IS THE RETURN ON TRUST?

People in high-trust organizations experience 106% more energy at work, 50% higher productivity, 60% more job satisfaction, 74% less stress, and 40% less burnout.



IS THE INDUSTRY RIPE FOR DISRUPTION? RE/MAX'S CEO DOESN'T THINK SO

Top takeaways from the RE/MAX Broker Owner Conference.

By Tracey C. Velt, editor-in-chief of content

I had the opportunity to attend the RE/MAX Broker Owner Conference in Chicago in August 2019. Here are some takeaways:

- CEO Adam Contos said there is one main question to ask before hiring anyone, whether managers or agents, and that is: Are you coachable? “Do you want to be pushed? Do you want to be told things you don’t want to hear? Recruit coachable people, but you as a leader have to be as well,” says Contos.
- While there is a lot of noise in the industry, (Think: new business models, iBuyer and low to no-fee brokerages) Contos doesn’t think real estate is ripe for disruption. “Buying real estate is not getting a ride, buying a book, or renting a movie. Disruption starts with unhappy customers, not changes in technology. Some 93 percent of U.S. sellers work with an agent or builder,” he says. Larry Kendall of Ninja Coaching gave him five questions to answer to determine the potential for disruption. They are:

1. Is the purchase frequent?
2. Does it have a significant cost?
3. Is there a risk?
4. Is transaction complicated?
5. Is the product unique?

“MOTION IS TALK BUT DOESN’T GET ANYTHING DONE. Allocate time and focus on recruiting. Use the tools and tech available to you, and coach and be coachable.”
– CEO Adam Contos.

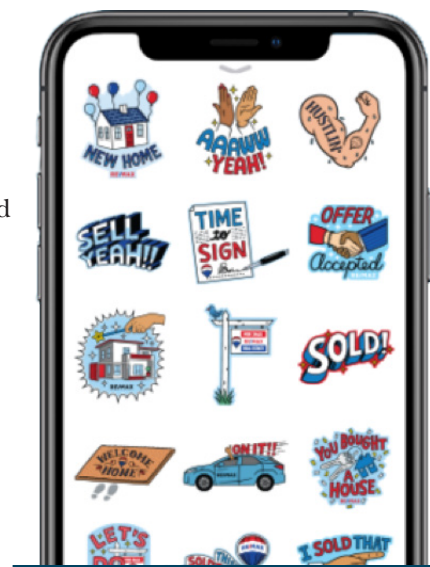
- RE/MAX’s technology platform Booj is rolling out its first iteration. They will have a progressive launch cycle to add on new capabilities so as not to overwhelm agents and brokers during the process. The first cycle will see the CRM, lead cultivation, and client manager portion. “Throughout the year, we will get deep into marketing and back office, finally, we’ll get to the consumer part,” says Contos. About half the conference sessions were dedicated to teaching broker-owners about the platform and how to encourage agent adoption. “Getting agents trained in the system is a priority for us. We are going on the road with 324 days of live training in 90 days,” he says.
- That’s not all in the tech area. RE/MAX has a new app called Photofy, that includes recruiting and retention material where brokers and managers can engage prospects with email, social, and text messages. “It takes 14 touchpoints before agents want to consider a move to your brokerage. This free service offers an easy way to make those touchpoints. A prototype of the agent version of Photofy is in the works.
- The fun stuff. RE/MAX is launching a line of Emojis gifs or stickers that can be used in text messages.

BEST QUOTES FROM THE CONFERENCE:

“Real estate agents need leads. The technology is there to make that happen,” Chairman and Founder Dave Liniger. “However, being in touch with the client, doing right by them, and providing a great customer experience gets you leads for free.”

“Motion is talk but doesn’t get anything done. Action gets things done. Allocate time and focus on recruiting. Use the tools and tech available to you, and coach and be coachable,” CEO Adam Contos.

“Embrace change and thrive. Make course corrections. The internet didn’t kill agents and apps won’t either; they are tools to help you do their jobs,” Contos. 🐾



U.S. HOME VALUE GROWTH STRONG, BUT SLOWING

Home value appreciation has slowed each month this year, and is at its lowest level since 2015

- **The rate of year-over-year home value growth has fallen in each of the past seven months. The median U.S. home is worth \$229,000, up 5.2% from this time last year.**
- **Rents grew 1.9% on an annual basis. The median monthly rent in the U.S. is \$1,592.**
- **For-sale inventory grew 1.3% year-over-year, and new listings are up 5.7% from a year ago.**

U.S. home value growth continues to slow, according to the July Zillow® Real Estate Market Report. The rate of annual home value appreciation decreased for the seventh straight month in July.

The typical U.S. home is worth \$229,000, up 5.2% from a year ago – this is the smallest annual appreciation since October 2015. Last year at this time, home values rose 7.7% year-over-year. Still, home values are up 0.3% month-over-month, an indication that values are stabilizing after a period of relatively extreme growth rather than headed for a sustained downturn.

Among the 50 largest U.S. markets, home values have grown the most in Salt Lake City (up 9.4% since July 2018), Indianapolis (up 8.1%) and Charlotte (up 7.3%), although growth is slowing in each of these metros. Only New Orleans, Birmingham and Oklahoma City saw home values appreciate at a greater rate than a year ago. Home values have fallen year-over-year

in California's San Francisco Bay Area, home to the two most expensive markets in the country. The value of the typical home fell 10.5% in San Jose and 1.1% in San Francisco. A year ago, home values were growing 24% annually in San Jose, a 34.5 percentage point difference.

“As talk builds of a potential recession in the next year or two, housing remains fairly stalwart,” said Zillow Director of Economic Research Skylar Olsen. “The slowing appreciation is ultimately a good sign that the market is adjusting in response to the growing unaffordability of down payments, while low mortgage rates are keeping those with the required savings interested despite softer growth out the gate. The uptick in the rate of homes coming onto the market – a good and true increase in supply – should be a boon to those inventory-starved home buyers still searching near the close of home shopping season. While buyers are catching a break, renters have seen prices continue their steady upward climb, presenting yet another obstacle in the

quest to save for that down payment.”

The median U.S. rent rose 1.9% year-over-year to \$1,592. For the eighth consecutive month, rents rose the most in Phoenix (up 6.1% from a year ago), followed by Las Vegas (up 5.9%). Rents fell in only three of the 50 largest markets – Houston, Buffalo and Baltimore.

Inventory grew 1.3% annually, reversing four straight months of declines. There are 19,978 more homes for sale than this time last year. New listings drove the inventory growth in July, up 5.7% from a year ago.

Mortgage rates listed on Zillow fell lower in July. Rates ended the month at 3.72%, down 23 basis points from July 1. Zillow's real-time mortgage rates are based on thousands of custom mortgage quotes submitted daily to anonymous borrowers on the Zillow Mortgages site and reflect the most recent changes in the market. ▲

“AS TALK BUILDS of a potential recession in the next year or two, housing remains fairly stalwart. The slowing appreciation is ultimately a good sign that the market is adjusting in response to the growing unaffordability of down payments, while low mortgage rates are keeping those with the required savings interested despite softer growth out the gate.”

— Skylar Olsen, Zillow Director of Economic Research

MARKET WATCH

Metropolitan Area	Zillow Home Value Index, July 2019	ZHVI Year-over-Year Change, July 2019	ZHVI Year-over-Year Change, July 2018	Zillow Rent Index, July 2019	ZRI Year-over-Year Change, July 2019	Inventory Year-over-Year Change, July 2019
United States	\$229,000	5.2%	7.7%	\$1,592	1.9%	1.3%
New York, NY	\$442,800	3.2%	5.5%	\$2,279	2.3%	4.8%
Los Angeles-Long Beach-Anaheim, CA	\$650,600	0.9%	6.3%	\$2,599	1.3%	11.3%
Chicago, IL	\$225,200	2.1%	5.3%	\$1,615	1.3%	6.9%
Dallas-Fort Worth, TX	\$243,500	5.1%	11.8%	\$1,439	1.5%	12.3%
Philadelphia, PA	\$233,300	2.1%	5.3%	\$1,497	2.5%	-4.8%
Houston, TX	\$206,400	3.4%	6.1%	\$1,378	-0.5%	5.5%
Washington, DC	\$407,700	2.1%	3.8%	\$1,971	2.0%	-8.8%
Miami-Fort Lauderdale, FL	\$284,300	3.2%	8.2%	\$1,851	2.2%	3.8%
Atlanta, GA	\$220,300	6.9%	11.8%	\$1,454	4.1%	8.3%
Boston, MA	\$463,300	1.9%	6.2%	\$2,416	2.2%	8.4%
San Francisco, CA	\$938,100	-1.1%	9.4%	\$3,166	1.2%	21.5%
Detroit, MI	\$162,900	4.6%	9.4%	\$1,211	2.3%	17.4%
Riverside, CA	\$371,500	3.3%	7.3%	\$1,907	4.3%	-1.6%
Phoenix, AZ	\$267,500	4.5%	7.7%	\$1,401	6.1%	-2.9%
Seattle, WA	\$489,500	0.5%	8.7%	\$2,036	2.4%	14.3%
Minneapolis-St Paul, MN	\$272,000	4.3%	6.6%	\$1,494	0.6%	4.9%
San Diego, CA	\$591,500	1.1%	6.1%	\$2,519	3.1%	6.0%
St. Louis, MO	\$167,700	3.5%	5.5%	\$1,009	1.3%	-15.0%
Tampa, FL	\$216,400	5.0%	10.6%	\$1,392	3.7%	2.8%
Baltimore, MD	\$267,100	0.7%	4.9%	\$1,605	-0.1%	-4.0%
Denver, CO	\$409,200	3.0%	6.7%	\$1,781	1.5%	26.9%
Pittsburgh, PA	\$144,700	2.5%	7.3%	\$1,102	1.8%	-15.0%
Portland, OR	\$396,700	1.5%	5.3%	\$1,647	0.7%	3.1%
Charlotte, NC	\$210,600	7.3%	10.2%	\$1,322	3.5%	6.2%
Sacramento, CA	\$411,300	2.7%	5.4%	\$1,788	3.5%	0.8%
San Antonio, TX	\$195,600	5.0%	5.7%	\$1,215	0.3%	17.9%
Orlando, FL	\$240,000	5.1%	9.4%	\$1,414	3.5%	4.5%
Cincinnati, OH	\$170,400	5.4%	6.3%	\$1,145	3.2%	-8.3%
Cleveland, OH	\$147,100	4.2%	6.6%	\$1,071	4.1%	-1.3%
Kansas City, MO	\$191,900	4.7%	9.5%	\$1,121	1.0%	N/A
Las Vegas, NV	\$279,100	5.1%	13.6%	\$1,329	5.9%	53.5%
Columbus, OH	\$193,800	6.5%	7.9%	\$1,183	0.6%	-3.3%
Indianapolis, IN	\$167,300	8.1%	9.6%	\$1,100	1.0%	N/A
San Jose, CA	\$1,144,800	-10.5%	24.0%	\$3,338	0.5%	32.6%
Austin, TX	\$312,300	4.7%	6.2%	\$1,586	2.1%	-4.9%
Virginia Beach, VA	\$229,800	1.5%	2.8%	\$1,335	1.1%	-9.6%
Nashville, TN	\$255,700	4.0%	9.8%	\$1,445	1.3%	14.6%
Providence, RI	\$295,100	3.4%	7.3%	\$1,427	3.2%	-3.7%
Milwaukee, WI	\$232,500	4.5%	5.2%	\$1,094	2.5%	15.3%
Jacksonville, FL	\$214,400	5.5%	10.5%	\$1,348	3.9%	-2.1%
Memphis, TN	\$141,000	5.1%	8.3%	\$1,047	4.2%	-10.6%
Oklahoma City, OK	\$148,400	4.0%	2.9%	\$937	1.8%	-11.5%
Louisville-Jefferson County, KY	\$164,400	5.5%	5.7%	\$1,087	1.4%	-1.2%
Hartford, CT	\$229,100	0.2%	2.5%	\$1,334	1.1%	-4.4%
Richmond, VA	\$232,000	4.0%	5.3%	\$1,323	1.3%	N/A
New Orleans, LA	\$176,000	2.7%	0.0%	\$1,274	0.5%	0.4%
Buffalo, NY	\$161,400	4.4%	6.7%	\$1,015	-0.3%	-1.2%
Raleigh, NC	\$269,100	5.2%	5.6%	\$1,286	1.0%	0.6%
Birmingham, AL	\$148,700	6.9%	5.5%	\$1,058	2.3%	-5.9%
Salt Lake City, UT	\$373,200	9.4%	11.3%	\$1,494	1.7%	20.3%

ALL REAL ESTATE IS LOCAL

Analyzing the Post-Recession Housing Market at the State and Metro Level

Home price growth began falling just before the start of the Great Recession and continued declining rapidly throughout 2008 and 2009. Over the past decades, state and metro housing markets have experienced numerous highs and lows in terms of home price and overvalued markets. The latest CoreLogic special report looks back at some of the areas hardest hit by the housing burst and how they've fared throughout the current economic expansion.

HOME PRICES, POPULATION GROWTH AND UNEMPLOYMENT IN SELECT STATES

In 2009, home prices dropped by 11.2% nationally, with North and South Dakota being the only states to see any annual growth that year. Meanwhile, Nevada experienced the largest decline at 25.5% - followed by Arizona (-21.3%), Florida (-19.7%) and California (-14.5%).

While California's home prices grew considerably from 2013 to 2018,

affordability issues in the state have since hampered growth with the state's average annual home price dropping from 7.4% in 2018 to 4.9% in 2019. However, other western states are seeing the opposite. Between July 2017 and July 2018, Idaho and Nevada not only became the fastest-growing states, but they also led the country in annual home price growth.

During this same time, New York, Connecticut and Alaska were three of only nine states experiencing population decreases. Connecticut has been one of the slowest-appreciating states for the past five years with home price growth varying from 2.4% in 2014 to 0.9% in 2019. New York and Alaska have also experienced similar modest growth over the past few years.

In May 2019, when the U.S. unemployment was at 3.6%, both New York and Nevada's unemployment were above the national average at 4%. Idaho had the fifth-lowest unemployment (2.8%), while

Connecticut's was just slightly higher than the national average (3.8%) and Alaska's took the spot for the highest unemployment rate in the nation at 6.4%.

AFFORDABILITY AND MILLENNIAL HOMEBUYERS

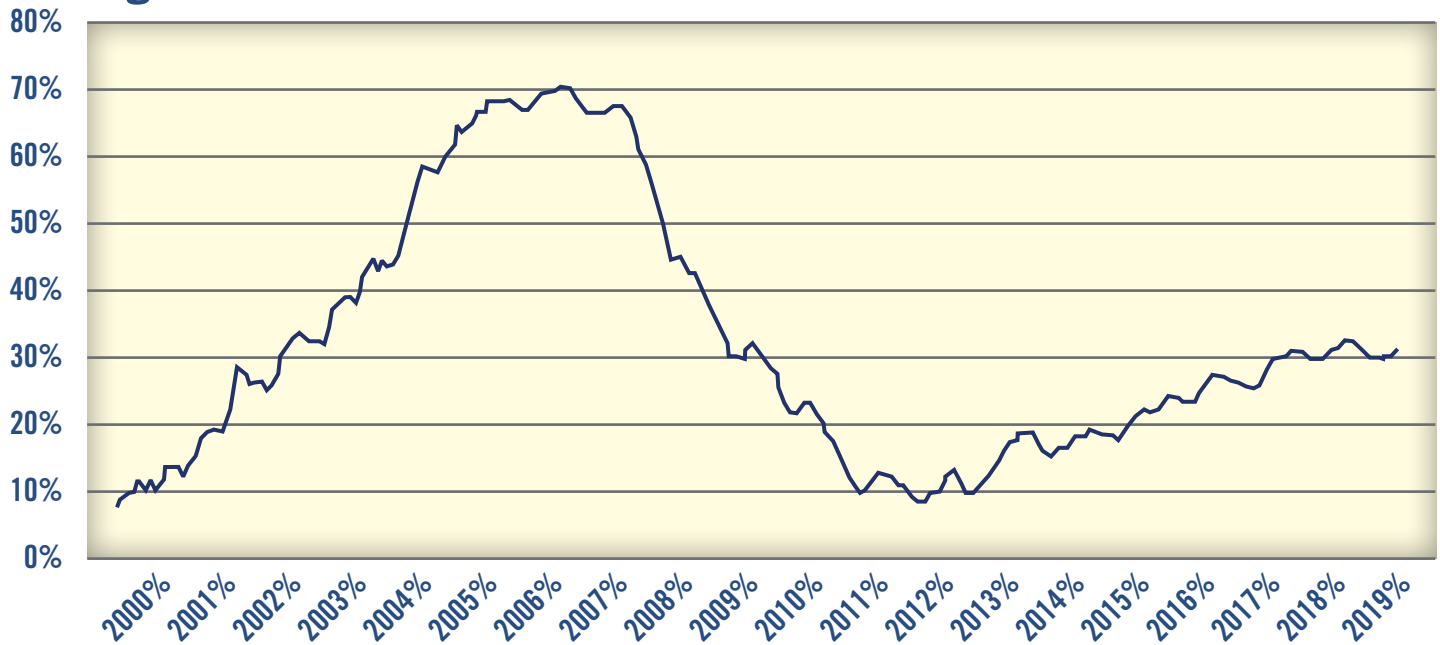
The CoreLogic Market Condition Indicators (MCI) categorizes home prices in individual markets as undervalued, at value or overvalued, by comparing home prices to their long-run, sustainable levels, which are supported by local market fundamentals (such as disposable income).

According to CoreLogic MCI, 32.4% of the 392 metro areas analyzed were overvalued in May 2019. This number more than doubled in September 2006, during the last expansion, to 70.2%. The largest increase in the share of overvalued metros occurred between 2012 and 2013 when the average annual share jumped from 9.9% to 15.8%.

While California's home prices grew considerably from 2013 to 2018, affordability issues in the state have since hampered growth with the state's average annual home price dropping from 7.4% in 2018 to 4.9% in 2019 . . .



Figure 6: Historical Share of Metro Areas Considered “Overvalued”



Millennial homebuyers are moving away from overvalued markets and toward more affordable areas. Of the top 10 metros for millennial buyers in May 2019, four were undervalued (Pittsburgh; Rochester, New York; Wichita, Kansas and Grand Rapids, Michigan), five were at value (Buffalo, New York; Milwaukee; Albany, New York; Provo, Utah and Des Moines, Iowa) and only one was overvalued (Salt Lake City).

WHAT CAN WE EXPECT NEXT?

With current economic expansion being the longest in U.S. history, and with local housing markets stabilized from the aftershocks of the Great Recession, it’s only natural to wonder about what comes next. While some experts remain split on if there is another recession in the near future, most signs are positive.

“We expect the housing market to enter a normalcy phase over the next

24 months,” said Ralph McLaughlin, deputy chief economist for CoreLogic. “With prices neither rising too fast nor too slow, and with a growing stream of young households looking to buy homes over the next two decades, the long-term view looks healthy.”

[CLICK HERE](#) to read the full report, *The Role of Housing in the Longest Economic Expansion (June 2009 – July 2019 and Counting)*. ▲

... However, other western states are seeing the opposite. Between July 2017 and July 2018, Idaho and Nevada not only became the fastest-growing states, but they also led the country in annual home price growth.



NORTHEAST REGION SEES THIRD CONSECUTIVE MONTH OF INCREASED BUYER TRAFFIC

Midwest, South and West Regions Report More Moderate Year-Over-Year Declines

KEY POINTS:

- Showing traffic in the Northeast Region was 2.7 percent higher year over year, continuing a trend that began in May
- July showing activity across the U.S. was down 0.6 percent year-over-year, the smallest decline in a year
- Year-over-year buyer traffic declined more moderately than in prior months in the West (4.1 percent), the Midwest (3.3 percent) and the South (1.1)

The Northeast recorded its third consecutive month of heightened home buyer activity in July compared to the same time last year, while the U.S. as a whole reported its smallest decline in year-over-year showing activity in the past 12 months, according to the latest ShowingTime Showing Index® report.

The 2.7 percent year-over-year increase in showing activity in the Northeast represents the largest such increase in the region since April 2018. Year-over-year declines in showing activity continued in the other regions but at lower rates, with the West Region's 4.1 percent year-over-year decline its lowest since March 2018. The South's 1.1 percent decline

was its lowest since September 2018, while the Midwest was down 3.3 percent compared to the same time last year.

"Buyer traffic has a lot of seasonal variation, so we need to compare last year's numbers to understand the trend," said ShowingTime Chief Analytics Officer Daniil Cherkasskiy. "While spring buyer traffic per listing was down sharply compared to 2018, from April onward we've seen a steady rebound. In July, national traffic was already roughly in line with last year's numbers, and if the current trend continues, listings on average could see more showings this fall than what we saw in the fall of 2018."

"BUYER TRAFFIC has a lot of seasonal variation, so we need to compare last year's numbers to understand the trend. While spring buyer traffic per listing was down sharply compared to 2018, from April onward we've seen a steady rebound."

— **Daniil Cherkasskiy**
ShowingTime
Chief Analytics Officer



ShowingTime® Showing Index July 2019

UNITED STATES

-0.6%

WEST REGION

-4.1%

MIDWEST REGION

-3.3%

SOUTH REGION

-1.1%

NORTHEAST REGION

+2.7%

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, visit www.showingtime.com/index.

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. 🏡

THE CFPB MOVES TO END THE GSE PATCH

By Sue Johnson, strategic alliance consultant

The Consumer Financial Protection Bureau (CFPB) recently announced that it plans to terminate the GSE patch, a safe harbor under its Ability to Repay requirements for loans eligible for purchase by Fannie Mae or Freddie Mac, on its scheduled expiration date of January 10, 2021, or possibly after a short extension.

The announcement has triggered consternation within the industry over how the removal of Qualified Mortgage (QM) status for GSE loans with debt-to-income (DTI) ratios of over 43% will affect credit availability throughout the country. It also launches a rulemaking that ultimately could lead to a revamping of the QM regulation.

THE REASONS WHY

The CFPB adopted the temporary GSE patch in its 2013 QM rule because it believed that as the mortgage market recovered from the prior decade's mortgage crisis, it would rely less on the patch and shift to standard QM loans or non-QM loans for consumers with DTI ratios above 43%.

It now finds that these predictions were overly optimistic. It said in its Advance Notice of Proposed Rulemaking (Notice) that, contrary to its expectations, loans within the GSE patch represent a 'large and persistent' share of conforming mortgage originations. It also noted that lenders generally



offer a QM loan under the GSE patch exemption even when a standard QM loan could be originated. “As long as [the GSE patch] continues, the private market is less likely to rebound,” it said.

The CFPB requests comments on how to minimize the disruption of the GSE patch expiration and on other portions of its QM rule, which are due 45 days after the proposal’s publication in the *Federal Register*.

THE POTENTIAL IMPACT

In its Notice, the CFPB notes that Fannie Mae and Freddie Mac purchased nearly 52% of all closed-end first-lien residential mortgage loans made in 2018 and that 31% of these loans had DTI ratios that exceeded 43% - meaning that the loans would not qualify as a standard QM. It identifies three possible results of the GSE patch expiration for consumers with DTI ratios above 43%: (1) some will seek FHA loans; (2) some may be able to obtain loans in the private market; and (3) some may not be able to obtain loans.

CoreLogic, a housing analytics firm, has posted its three-part analysis of how the expiration of the GSE patch can affect credit availability, based on data involving borrowers with DTIs of over 43%. Its findings include the following:

- Roughly 16% of the total 2018 mortgage origination volume was QM-eligible solely because of the GSE patch.
- Younger millennials and retirees (borrowers aged below 33 and over 65) are likely to be impacted disproportionately by the removal of the patch.
- The impact is likely to be pronounced for Non-W-2 wage earners (the self-employed, retired, seasonal, and part-time workers),

37% of which had DTI ratios of over 43% in 2018 compared to 32% for W-2 borrowers.

- The impact will be more evident for African American and Hispanic or Latino borrowers, who were 1.6 times more likely to have a DTI of over 43% in 2017 than non-Hispanic white borrowers.
- Low-income borrowers are more likely to be impacted by the removal of the patch since they are more than twice as likely as the upper-income borrowers to have over 43% DTI.

OPPORTUNITIES TO COMMENT ON GSE PATCH AND OTHER QM ISSUES

The CFPB solicited comments on how to lessen the impact of the GSE patch’s January 2021 expiration by posing numerous questions, such as:

- Should the CFPB continue only to use a DTI limit to measure a

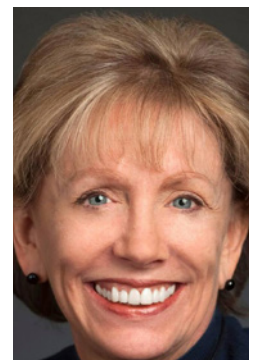
consumer’s personal finances, or should it replace or supplement the DTI limit with another method?

- Should the DTI limit remain at 43%?
- Should the CFPB grant QM status to loans with DTI ratios above a prescribed limit if certain compensating factors are present?
- Should the CFPB consider any other changes to the Qualified Mortgage regulation? This question provides an opportunity for the real estate industry to urge the CFPB to eliminate the provision in the QM rule that discriminates against affiliated companies by counting affiliated (but not unaffiliated) title and other charges towards the 3% points and fees cap imposed on Qualified Mortgages.

While the prospect of no GSE patch after January 2021 is daunting to many, the new rulemaking also provides an opportunity for the real estate industry to weigh in with its views – not only on how to minimize disruption to the mortgage market when the patch expires, but on other QM requirements that have made compliance difficult or have limited credit availability for their customers.

WHILE THE PROSPECT of no GSE patch after January 2021 is daunting to many, the new rulemaking also provides an opportunity for the real estate industry to weigh in with its views – not only on how to minimize disruption to the mortgage market when the patch expires, but on other QM requirements that have made compliance difficult or have limited credit availability for their customers.

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. ▶



UAE DEVELOPMENTS

RESIDENTIAL AREAS IN ABU DHABI OPEN TO FOREIGN RESIDENTS TO BUY FREEHOLD PROPERTY

The residential real estate market in Abu Dhabi received a boost this year with stimulus packages and relaxed business regulations.

By Peter Gilmour, chief foreign correspondent

The United Arab Emirates is an oil-rich country on the Persian Gulf and the Gulf of Oman in the middle east and is known for its entrepreneurship. It has taken many positive steps to increase foreign direct investment to enable its economy to diversify.

Over the last 15 years, massive amounts have been spent on infrastructure and construction of apartments, single-family villas, and commercial and retail districts. Its population is nearly 10 million, of which almost 90% are expats. It has 30,000 square miles with a GDP nearing the \$500 billion per annum—similar to the GDP of Argentina and Austria. It has two major cities, namely Dubai and Abu Dhabi, which have become known as centers for high-end residential real estate developments like Dubai Marina, The Palm Jumeirah, and Burg Khalifa.

As a developing country, UAE embraces change, and while many countries are cur-

rently resisting immigration and an influx of foreign residents, the UAE is leveraging the opportunities that this brings for real estate and welcomes people from all across the globe. Dubai airport is now the busiest airport in the world and supports a healthy initiative to increase tourism.

Foreign residents have been able to purchase freehold homes in Dubai since 2002, and changes in legislation this year will enable the same to happen in designated residential areas in Abu Dhabi.

GIVING REAL ESTATE A BOOST

The residential real estate market has received a boost this year with the UAE Cabinet designating more than half its annual budget to education and social development. Also, it introduced several residence visas linked to the purchase in cash of residential real estate ranging from \$500,000 to \$2.5 million. They've also added many stimulus packages and relaxed business regulations to boost business and consumer confidence in the country.

DOWNTURN CONTINUES

After peaking in the second half of 2014, UAE residential property prices have been declining and are now

approaching the levels last seen in the 2009-2010 property recession. The downturn is likely to continue for the rest of 2019 and is expected to stabilize in 2020 with meaningful recovery only expected in 2021, according to rating agency Standard and Poor.

One of the main drivers of the recovery will be the Expo 2020 held in Dubai. This event will generate billions of dollars of building projects and over 250,000 new jobs. Due to the current oversupply of residential units, prices could decline 7 to 10% this year and a further 5% in 2020 as the market absorbs the oversupply.

In Dubai, both real estate prices and rentals have fallen by almost 25% since 2014, resulting in the margins obtained by large developers dropping as they offer incentives and payment plans to move their stock. Notwithstanding this fact, Abu Dhabi announced two major residential and commercial projects worth over \$2 billion in Jubail Island and Lea, a waterfront residential project on Yas Island.

Industry insiders are predicting that with an uptick in oil prices this year, there will be a steady increase in demand for real estate in the UAE over the next five years from foreign buyers. ▶



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RESIDENTIAL REAL ESTATE FIRMS

THE TRUTH ABOUT HIGH VALUATIONS

An analysis of recent financial reports and valuations of firms.

By Steve Murray, president



We're aware of a real estate services company with gross revenues that grew nearly 40% over the past 12 months. Unfortunately, their gross margin declined by 25%, their interest expense from operating credit facilities grew from nothing to over \$2 million. They did not have a profit in the prior year, and the loss more than doubled over the last 12 months. They burned through a significant

portion of the cash they had on their balance sheet.

There are actually two firms exhibiting these characteristics. The valuations of these two firms seem to defy normal valuation models and metrics.

Meanwhile, we know of two other national real estate services firms that, although they lack material growth,

currently have high gross margins and their cash flow margins are substantial. They both have debt, but at levels that seem manageable. Their valuations are barely above the EBITDA (Earnings before Interest Taxes Depreciation and Amortization) multiples that most local and regional real estate brokerage firms have carried in the past. Most brokerage firms that we are handling as of August 2019 are trading in a range of 3.0 to 4.0

FORGET ABOUT WHAT'S HAPPENING with the stock prices of any of these companies. Their prices are not determined by fundamentals of what their gross margins or profit margins are at this time.

times trailing 12-month EBITDA. A few of the largest brokerage clients are trading at a multiple of 5.0 today.

The first two companies above are Redfin and Compass. The second two are Realogy and RE/MAX. How can one company, Compass, have equity market value of more than the other three combined? As of this writing, Compass's internal pricing (as of their last round of funding) was \$6.4 billion, while the equity values of Realogy, Redfin and RE/MAX together are less than \$3 billion. Redfin alone has an equity value of more than Realogy and RE/MAX combined, yet these latter two companies generate more than \$600 million in annualized cash flow.

BALANCE SHEET VS. INCOME

We also observe that Redfin and Zillow are counting the prices paid for homes in their iBuyer programs in their revenues. To many, this seems absurd. Isn't this a balance sheet item rather than an income item? These companies are booking the values of the homes they buy as an income item and offsetting that with the receipts from the sale of the same homes. It jazzes their *revenue growth* but doesn't seem like the right way to book these transactions. Then again, we assume their auditors are looking at these transactions carefully.

HOW TO UNDERSTAND THESE VALUATIONS

There are a few simple answers.

First, according to an article in *The Wall Street Journal*, there's more than \$12 trillion of excess cash sloshing around the world looking for a return. This

excess liquidity was and is still being generated to keep various economies from sinking. Think about the U.S. where Federal deficits are again running more than \$1 trillion a year in the red continuing to provide liquidity to an economy that shouldn't need it.

HERE'S OUR TAKE

Investors are looking for growth stories, and Compass and Redfin are telling good growth stories right now—so is Zillow (which is worth more than all four companies listed above combined). So, having a piece of the American residential real estate business is seen as an attractive bet, and that is what it is, one of many chances that investors make with their funds.

Wall Street and Silicon Valley love a great *disruption* story. They've seen many industries disrupted with high returns from early investments in companies that threaten to disrupt large fragmented industries—of which we are a big one.

Wall Street and the global investment community love anything related to technology. Again, many have made solid returns from investing (betting) on technology-based companies.

Some investors think that Redfin and Compass are more technology firms than brokerage firms. They think they are great disruptors or have the potential to be great disruptors. Keep in mind that these investors are betting billions of dollars on a wide range of companies fitting their profile of acceptable investments. It's not as if they are betting the ranch on Redfin or

Compass. These two companies are just two of likely dozens of companies that they are invested in. It's not that they know something about the industry that makes them want to bet the ranch.

These same investors don't see Realogy and RE/MAX the same way. They're not new or interesting, nor do they (so far) have new or compelling technology or disrupting story. Nor are they growing at 20% to 40% a quarter. So, while Compass and Redfin get the press for their growth, Realogy and RE/MAX don't.

Investors like the story of Compass and Redfin, along with firms like Zillow and eXp—growth, disruption, and technology.

FORGET THE STOCK PRICES

Forget about what's happening with the stock prices of any of these companies. Their prices are not determined by fundamentals of what their gross margins or profit margins are at this time. It could be years before we know how Compass or Redfin perform from a more traditional story of growth and earnings. They could be home runs or duds. No one knows for sure, currently.

The only thing that should matter to brokerage owners and leaders is that they have to compete with firms that have access to significantly more capital than incumbent realty services firms and that. Also, while the incumbents are measured on growth and earnings, some of these firms don't have to worry about earnings—just growth, disruption, and technology. At least, that's what's happening today. 🍷



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