

REAL *Trends*

The Trusted Source

COMMENTARY

The Fundamentals of Brokerage – the Future

As the industry moves forward for the next 5-10 year period, it may be helpful to know what has happened in the last ten years. REAL *Trends* reviewed data from the REAL *Trends* 500 and Up and Comers Report (total of over 800 firms each year) and looked at five key metrics in brokerage performance. The results are presented in six charts shown on the next few pages. Readers can draw their own lessons from what these data show.

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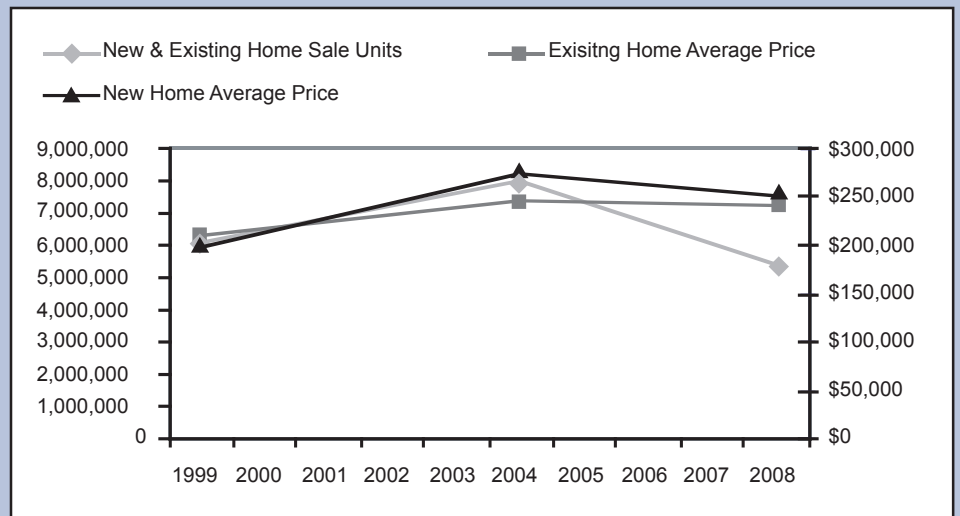
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The data that we reviewed were the average number of sales professionals per office; the average number of transactions per sales professional and average sales volume per sales professional; the total average transactions sides per office and the total average sales volume per office. We also added a chart to show the direction of sales units and sales prices for new and existing homes over the past ten years.

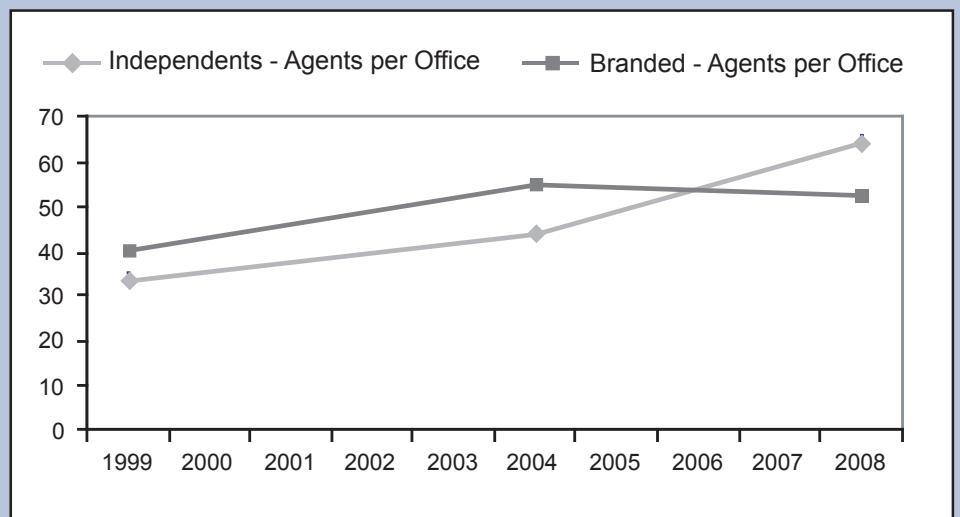
Here are the results in chart form of what we found. In addition to the five areas we studied we also present the change over the 1999–2008 periods for sales volumes and number of transactions done in the United States for that period of time.

Change in Prices and Units



From 1999 to 2008 the total number of unit sales for new and existing homes rose from approximately 6 million to nearly 8.3 million in 2005 before declining to the 5.4 million recorded in the year just ended, 2008. The average price (not median) for both new and existing have risen above their levels of 1999 even after the decline in such prices over the 2006–2008 period.

Agents per Office



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ANALYSIS

Where Are You Putting Your Marketing Dollars?

If you're like 75 percent of the sales associates surveyed by *The Real Estate Book*, you're spending more money on products that reach very specific markets rather than mass media. "When you strip it all away, agents are committed to targeted media," says Dan McCarthy, CEO of Network Communications Inc., which publishes *The Real Estate Book*. "They want an environment where consumers are looking and they want to reach a very specific niche of buyers."

Some key trends uncovered:

- Respondents spend about 25 percent of their media spending on specialty print, Internet marketing and the broker's Web site.
- The median amount spent on Internet marketing is \$196 a month. Some 38 percent spend more than \$250 a month on all forms of Internet marketing.
- Some 86 percent have a personal Web site in addition to the broker's Web site. About 61 percent spend money on search engine marketing to promote themselves and 25 percent used blogs or social media as a promotional tool.

REAL Trends spoke with McCarthy to find out what significant trends came out of the survey, which assessed how real estate professionals market themselves and their listings in the current economy. "The survey was part of our continuing research so that we can mold products around what agents really want and need," says McCarthy.

REAL Trends: Did anything surprise you about this survey?

McCarthy: I was struck by how significantly top agents value their marketing spend and by how broadly they spread their marketing money around. We targeted those who had the resources to spend at least \$250 a month or more on marketing. The survey revealed that more than half of respondents spend more than \$500 in a typical month on advertising, marketing, branding and promotion. Those who are making a significant investment in marketing are the successful professionals.

The top agents are investing a higher percentage of their income in marketing and that marketing is helping them maintain and improve their position in the market. The one conclusion you can draw is that top agents truly get value from their marketing.

And, while it was clear that there's been a reduction in newspaper advertising, agents are still investing in print products, particularly in specialty publications. In those print products, they lead buyers and sellers to the Internet. They realize that they need a varied marketing plan—specialty print, Internet marketing and broker's own Web site.

REAL Trends: What was the biggest trend in marketing you discovered based on this survey?

McCarthy: The biggest trend is definitely the shift of dollars away from mass media to more focused and targeted promotions.

I was pleasantly surprised with that outcome. It helps us more clearly understand spending trends. This helps our company make decisions about where (and what products/services) to invest. There are clearly fewer advertisers today than two years ago, but the ones who are advertising are at a higher level.

REAL Trends: What do you recommend as a balanced marketing campaign?

McCarthy: Top agents already do this. I suggest they build a high-quality personal Web site so they can create an immediate connection with the consumer. Next, use a high quality local print magazine to stand apart from other agents in the market. Agents must experiment with different sources of Internet marketing—whether it's electronic listings to e-newsletters—to drive quality leads to business.

REAL Trends: What are some trends in the industry affecting how agents market themselves and their listings?

McCarthy: There's an interesting dynamic at play. There are two different trends driving the way agents are thinking about marketing today. One is that information about homes for sale is so ubiquitous that it's challenging for an agent to stand out above all other agents. After all, there's no Internet source that has more than 5 percent of the traffic (people looking for homes online.)

The other marketing challenge is that because prospective homebuyers are searching by listing, the agent with 20 listings is on even ground with an agent who has two listings. When an agent wants to invest in building his or her business, it's hard to find a place to make it online. One other trend is that listings are taking longer to sell. It's the law of diminishing returns. Agents need to be innovative about how they promote a listing even when they're uncertain about how long it will take them to move the listing.

REAL Trends: What do you see happening as it pertains to how agents market themselves and their listings in coming years?

McCarthy: As the market recovers, agents will feel like their marketing is more profitable and they'll accelerate their efforts. I predict they'll settle in with two or three key media partners.

(Analysis continued on page 14)

TRENDS

Internet Search, Standardized Data Fields, and the Changing Role of MLS for those who Depend upon it

by *Saul Klein*
CEO, *Point2 Technologies Inc.*

Today, if you want to find out anything about anything, where do you go? There is a high probability that you go to Google. So ingrained in our culture is the power of Google search, that Google has become a verb. On a daily basis, many of us “google” one thing or another. As smart phone applications become more ubiquitous and as wireless hot spots continue to pop up in public places, the power of Google to change the world will grow stronger, and at an accelerated pace. Also consider that the more search that takes place on Google, the “smarter” Google becomes.

What does this have to do with MLS and REALTORS®? Simply put, Google may be the change agent that revolutionizes the real estate industry and could play a role in the reconstruction of MLS technologies and the age old battle of data standards. This does not make Google the enemy...but Google _ what it does, how it does it, and how it continues to creep into the daily life of people of all generations _ must be considered by those who are building MLS 5.0, the MLS of the future.

Search:

Searching the Internet today is easy. While there are techniques that can be applied to narrow search results, even the novice searcher is capable, with no training, of finding just about anything he or she may be interested in on the Internet. What does that have to do with real estate? In the future, sellers may advertise their home for sale on any number of Web sites, including maybe their own site or on a “public access” site provided by Internet providers as part of their subscription for connectivity.

Homeowners will likely use plain language (and not the diverse system of abbreviations that have been devised and localized by MLSs and MLS Committees over the years) to describe their home and the features that are the “standards” (bedrooms, baths, etc.) and the features that are important to them. Properties could be described in a paragraph instead of the grid format many of us are currently using and seeing.

Or a piece of software could be made available to consumers that allows the homeowner to build their own grid, adding or taking away fields at their discretion.

Standard Fields:

Standard fields has been the “holy grail” for years. In the mid 1990s, NAR (National Association of Realtors®) worked on bringing technology to the real estate industry through the REALTORS® Information Network (RIN). The problem of matching data fields from MLS to MLS to create a searchable national database was tackled and the proposed solution was something called Data Exchange Method, or DxM. DxM was described as a “data dictionary” that, if implemented, would allow not only for greater access to more listings by REALTORS®, but more software choice as real estate business solution software at the time had to be customized from one MLS to another, limiting choice and increasing costs.

Of course RIN went the way of the Brontosaurus and the standard promoted today in the industry is RETS (Real Estate Transaction Standard), which is a great tool and a major improvement.

With the power of search today, how important are so many different fields? Isn't it time to consider the creation of a national standard of say 50 fields, and the rest of the characteristics of a property listed as remarks, capable of being found via advanced search technology?

As Gen X's and Gen Y's continue to make up a larger percentage of the homebuying and selling population (NAR statistics indicated that 78.8% of first-time homebuyers in 2007 were Gen X or Gen Y), and as this group grow to make up a larger percentage of the REALTOR® population, born and raised with Google and efficient, accurate search, standard fields may become less important while search takes on a much more important role. In addition, the ability to distribute one's listing information to more destinations on the Internet, allowing “long tail” benefits, will be easier, and MLSs will become an ecosystem of innovation for software developers who will be able to deliver a wider choice of tools, and at lower cost.

Market Snapshot

Have we reached a bottom? REAL *Trends* spoke with four brokers from around the country to find out what's going on in their markets.

David Cooper, President
Prudential Kansas City Realty

REAL Trends: What is your market like today compared to last year?

Cooper: In January, volume was \$63 million versus last year's \$52 million. This year we had some high-end properties sell. Those properties had been sitting for some time. So, we're hoping to see some easing up of the high-end market.

We're selling a lot of lower-priced properties, with an average sales price so far in 2009 at \$262,000, compared to \$256,000 in 2008. Listings are staying on the market an average of 84 days. We have four months inventory vs. three months in the prior year (MLS-12 months).

REAL Trends: Are there any bright spots in the market?

Cooper: The main bright spot is the activity level of the agents. We're getting lots of traffic at open houses. Agents are showing homes and getting calls from past customers who are ready to buy. It seems the pent-up demand has eased and people are starting to get out and do something. Also, visits to Web site have increased.

REAL Trends: Are you seeing any investor activity?

Cooper: Yes. We have lots of investors looking at foreclosures and short sales. In fact, we're bringing in a national speaker on short sales—not to promote selling short sales but to help agents understand them.

REAL Trends: Is there anything significant going on in your area that is affecting sales?

Cooper: The Sprint headquarters is here. It recently announced that it would lay off 8,000 workers. That will have a major impact on our market since we get a lot of Sprint relocations. It hasn't impacted us yet though.

Richard D. Cosner, President
Prudential California Realty

REAL Trends: What is your market like today compared to last year?

Cosner: The market is significantly better. The low end of the market is filled with multiple offers right now. Our average listing is staying on the market only a few weeks if priced under \$500,000 in Orange County or under \$300,000 in the Inland Empire. We have much longer days on market if jumbo loan financing is needed.

This year's inventory is higher but a lot of it is due to foreclosures and short sales. In the Inland Empire area, over 80 percent of the home sales have a bank involved in making the decision. Meaning— it's either a short sale or an REO

REAL Trends: Are there any bright spots in the market?

Cosner: Our bright spot is residential. Properties under \$500,000 in Orange County and under \$300,000 in the Inland Empire (Riverside and San Bernardino Counties) are selling well.

REAL Trends: Are you seeing any investor activity?

Cosner: Investors are coming back into the market but they usually get "beat out" of what they want to buy because a first-time homebuyer is willing to pay more. There are a lot of first-time homebuyers looking right now.

REAL Trends: Is there something significant going on in your area that is affecting sales?

Cosner: The past three years have been the most challenging times in real estate I've ever witnessed. The mortgage business meltdown led to a meltdown on Wall Street. The Wall Street meltdown led to a worldwide scrutiny of financial assets. It's led to bailouts of Wall Street firms, banks, huge mortgage firms and the outright liquidation of some of the largest mortgage lenders in the United States.

The meltdown was caused by one thing more than any other—aggressive lenders lent money to people who had little or no capability to pay this money back. This worked...until it didn't. When prices got out of reach for most of the buyers, the music stopped. When the market slowed, people who could not afford their homes could not sell them because the buyers had been priced out of the market. Prices began declining. Price declines devalued the mortgage securities held by Wall Street and other firms. When the securities declined in value, Wall Street started selling off securities. The volume became so fierce there were no buyers for these securities. This caused lenders to stop originating as many loans because new loans were harder to sell into the market. This became a vicious cycle.

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Within a month or so California will have an unemployment rate at or exceeding 10 percent. How is this going to impact housing? Not much—simply because there are still great prices and great interest rates. While 10 percent unemployment is not a good thing, remember this—90 percent of the people are still employed and they will take advantage of the market to buy low and lock in their purchase with a nice long term fixed interest rate loan at a very low rate.

Bill Riss, CEO
Coldwell Banker Bain Associates
Seattle

REAL Trends: What is your market like today compared to last year?

Riss: It's down from January 2008 to January 2009. We're down about 35 percent in units sold and sales prices are down about 12 percent. We have a diverse market, so these are glittering generalities. But, everything is down. Inventory levels are down some from last year. We've got as little as a six-month supply of homes to as much as a 12 months supply depending on the area. In the core area of Seattle, reasonably priced homes under \$1 million are selling well. But when you get into higher priced (\$1-3 million), you've got an 18-month supply of homes. In outlying areas and Tacoma, inventory is nearing 12 months. One year ago we had 50,000 listings, this January we had 34,000 listings, and our absorption rate is about the same.

We operate in the Portland area and that's more reflective of other real estate markets. It's been down and then flat for about four years. Agents are struggling. We've been in the foreclosure marketing business for 18 years so we've been through ups and downs when no one wanted to touch them three years ago.

REAL Trends: Are there any bright spots in the market?

Riss: Clearly foreclosures and short sales are selling. We do not have a great deal of new construction inventory out there. That's how we differ from many areas of the country. We didn't overbuild in the new housing market. We have a very strict growth management environment that saved our bacon. Condo prices are actually holding up better than single-family prices.

We see opportunities in the next two or three months with the entry-level buyer. We have plenty of inventory, low interest rates, highly motivated sellers and with the tax pennies that are coming along, buyers in that entry level area without a house to sell are getting tired of sitting on their hands. We've noticed activity in the marketplace picking up as far as open houses and showings.

REAL Trends: Are you seeing any investor activity?

Riss: Yes. Investors are really into the short sale world, and they've gone after what little new construction we've had out there. Our area seems to have bottomed out as far as prices but we don't expect to return to a normal market for while. We'll bounce along the bottom for a while.

REAL Trends: Is there anything significant going on in your area that is affecting sales?

Riss: Shaky consumer confidence is hurting our market. We've fared better than most as far as unemployment or announcement of layoffs. We're home to Boeing, Starbucks and Microsoft. Of course, Microsoft announced layoffs for the first time. They say they're laying off 5,000, but they're hiring about 3,000 as well. So far, Boeing hasn't announced layoffs but as airplane orders start canceling we may see some change.

Buyers and sellers are very nervous, and that started last October. The good thing is that people don't stay down long. Their patience wears thin.

Hoby Hanna, President
Howard Hanna Real Estate Ohio

REAL Trends: What is your market like today compared to last year?

Hanna: I think we're better off than the rest of the country. Inventory is down 12 percent; pushing demand a little more in light of the economic conditions. We'll look at units at least for the first month and a half up by a small percentage, maybe 3-4 percent. Sales prices are down about 6 percent versus this time last year. I think we'll sell more units this year but I think prices have begun to level out. We're seeing a floor in greater Cleveland.

Units sales for last year were dead even with 1998-2001 and no one was complaining about the market back in 2001. Then, from around 2003 to 2006, we saw a run up in homes sold, so we had a little bit of a bubble.

Our average listing stays on the market about 175 days and that's up from last year; which was about 145 days. We're a solid Midwestern market. We had some bidding battles on some of our inventory lately, but prices aren't like they used to be.

REAL Trends: Are there any bright spots in the market?

Hanna: Across the board, no matter what price point, established neighborhoods that have strong tradition are

selling. The new, next growth markets aren't selling as well. People are sticking to established neighborhoods. If a home comes on the market that's fairly priced and in good condition, it will sell fairly quickly. The homes that are dated and priced at 2005 prices are sitting longer. We're seeing a lot of first-time buyers and empty nesters. We're trying to do some creative marketing around the stimulus package for first-time buyers.

In 2004-2005, we saw quite a few short sales. We've got a blue collar base tied to automotive, and we're seeing this whole concept of short sales sooner than a lot of other areas. It still exists but the buyers who would normally buy a foreclosure or short sale are finding they're not getting better deals as the homes need work and it's takes longer to negotiate those deals.

REAL Trends: Are you seeing any investor activity?

Hanna: Yes, we're seeing some. We didn't have the investor activity in terms of new construction but we're seeing a lot of people buying duplexes, second homes and single-family homes that they can rent. We're not seeing the flippers.

REAL Trends: Is there anything significant going on in your area that is affecting sales?

Hanna: There are a couple of things both positive and negative. We're going through a degree of metamorphosis in identity as a market. We have a big industrial/manufacturing base so the current automotive situation really affects us and it's not just big plants. You have brake pad companies, tire companies and suppliers that are all affected by what happens here.

On the flip side, we have the Cleveland Clinic and University Hospital so healthcare has been one of the initiatives here. New business will emerge. In the short run we'll have to change our economic base but in the long run we'll be more involved in biomedical and healthcare and that spawns new growth.

In addition, with the talk about alternative fuel sources—we sit on a major waterway that has wind and water, so that becomes another potential economy.

The Shopper of Tomorrow

From Knowledge @ Wharton

Thoughts on the future of consumer behavior as it relates to shopping, for all things, including housing.

Attention Shoppers: We no longer have the following items - "a sense of entitlement," "conspicuous consumption" and "a golden period of luxury." At least that is the word from Wharton faculty and other experts who point to a new logic that is defining not just what U.S. consumers' buy, but how they view the shopping experience.

While shoppers typically pull back during the downward phase of any economic cycle, the severity and uncertainty of today's crisis is likely to have longer-lasting effects on their attitudes than most slumps, these experts note. Consumers, they suggest, will eventually start spending again, but without the vigor enabled by easy credit in the Roaring 2000s.

"The Great Depression certainly changed consumer behavior and attitudes for a generation," says Wharton marketing professor Wesley Hutchinson. "It's not obvious that we will have that psychological scar, but there is precedent for a very large shift."

Over the next 18 months, Hutchinson predicts, consumers will learn to become more frugal and are likely to carry those

skills over once the economy recovers. "At some level, everybody has now been schooled about financial markets and overextending one's credit -- something American consumers have been notoriously bad at. We had a habit of not paying a lot of attention to the cost of using borrowed money."

Wharton marketing professor Stephen Hoch sees consumers as embracing a new logic. "Until recently, there has been a theme of entitlement that people really latched onto," he says. It was built on the belief that consumers worked hard and were entitled to splurge on rewards to compensate for the time and energy devoted to making money. Luxury goods marketers promoted the "entitlement" theme heavily, although they have now backed away almost entirely from this pitch.

Consumers who had learned to trade up when times were flush are now learning to trade down, Hoch adds. They realize they were wasting money on higher-priced goods and services when less expensive alternatives were available with little real trade-off in quality or satisfaction. Indeed, many consumers regret what they used to spend; they are finding a new sense of well-being in becoming more discerning shoppers. "There will be more of a premium placed on seeking value," Hoch says. "People will realize that's being smart."

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\$1,200 Shoes

Erin Armendinger, managing director of Wharton's Jay H. Baker Retailing Initiative, suggests that people "are definitely changed by what has happened. I don't think they will go back to spending like they did, at least not anytime soon." Consumers, she notes, have cut back sharply, not by choice, but because credit card companies and other lenders pulled their support for the consumption binge that fed into the current financial collapse. The halt in credit expansion is a "hard stop" for consumers who have been forced to retrench and reevaluate their attitudes toward spending.

In the future, shoppers will learn to focus on the value of goods and services, she predicts, citing designer shoes as an example of the new consumer economics. Five years ago, shoes with high-end names sold for \$300 to \$500. Leading into the economic meltdown, shoe-minded shoppers -- buoyed by easy credit and a sense of newfound wealth based on elevated stock and real estate values -- were paying \$800 to \$1,200 for shoes.

"Was there a 100% increase in the value proposition? The answer is probably 'No,'" says Armendinger. "Everybody got caught in a cycle of conspicuous consumption. Everybody had to have the newest, the latest, the best."

Now, she says, that "crazy mindset" is over and shoppers are only willing to pay for what they absolutely need or items that present extraordinary value. "We are back to simpler times, but the pendulum will settle somewhere in the middle. We are a country that historically has bought more than we need and we will swing back at some point to buying more than we are now." As for the pre-meltdown, go-go times, we will never go back to that, at least not anytime soon."

According to consumer consultant Paco Underhill, author of *Why We Buy: The Science of Shopping*, the psychological reaction to the financial meltdown is segmented somewhat by age and income, although overall the mood of consumers is clearly downbeat. "The level of depression is pervasive. This is a very dark period. I hope it provokes some serious introspection."

Underhill describes what he says are three consumer segments now, divided not by income levels, but by income security. One group is made up of those who have lost their jobs and are downwardly mobile. For the wife of a Wall Street banker, that could result in the elimination of weekly hair and nail appointments, while a General Motors worker whose benefits have been cut may struggle to pay the mortgage. "For them, this is traumatic and it cuts across economic classes," says Underhill.

Those in the second group are not at immediate risk of

losing their jobs, but they have friends or family who are out of work. These consumers, he says, are cutting back as a cautionary measure. They are still spending, but find a new sense of pride in comparison shopping for the best deals.

A third group is relatively untouched by the downturn. The individuals in this group have paid off their mortgages and, while their investment portfolios may be down sharply, they still have an adequate cushion. Nonetheless this group is also cutting back because engaging in conspicuous consumption seems like bad manners when so many other people are suffering. However, he says, people in this group are still traveling to places where they can be reasonably confident no one they know will see what they are spending.

The changing consumer psychology also cuts across age cohorts, Underhill suggests. "For Generation Y [those born after 1978], the crisis has hit harder than September 11. This is the first financial trauma of their lives, and they have been led to believe that access to capital and spending is limitless. Many of them are just completely over their heads. They have no idea of budgeting."

It will be interesting to see how this generation responds, Underhill adds, noting that Generation Y could remain in denial for some time, or they could face the crisis with a rich new set of consumer options, such as so-called "disposable fashion" available at Zara and other retailers. In addition, he says, this generation's parents seem willing to take them back home to regroup if they stumble financially.

For Generation X -- those born between 1965 and 1977 -- the decline in housing values is the challenge. Those who bought homes around 1995 with a long-term mortgage probably still have equity in their homes. "But if you bought a house in 2005 or traded up, you are in bad shape," says Underhill. Baby boomers, too, are caught off guard by the collapse in housing values. "They forgot to save, and thought their houses were doing the saving for them." For this generation, the idea of retirement will be downscaled from a golden period of luxury to a more modest lifestyle similar to that of their working years.

The way to cope psychologically with these changes is with better education and financial literacy, according to Underhill. "It's important that people know there is no acquisition in life that is transformative -- not a lipstick, not an iPhone, not a new Chevy. Nothing changes you into somebody you weren't before that purchase happened."

Wharton marketing professor Leonard Lodish says Americans may have a reputation for materialistic values, but are probably not any more inherently consumer-driven than human beings around the world. The French, he notes, coined the term "prestige" while the Japanese, and now the

Chinese, have both exhibited explosive levels of post-industrial consumerism.

Marketers, he says, do not ignite consumerism, but respond to the urge which comes from within. "It's very hard to create an innate need. That comes from the interplay of society and the values and norms of the culture."

Loading up on Ketchup

Armendinger points to another impact on shopping patterns -- having enough space to store all one's purchases. U.S. shoppers do seem to lead the world in consumerism, in part because they have enough land to build huge homes and storage units to house all their belongings. "In a nutshell, we have too much stuff," she says. In Europe and emerging economies such as India, the desire to consume is there, but falls short of American-style hoarding. "You don't see the Costco mentality of stockpiling toilet paper or huge vats of ketchup, simply because [people] physically don't have the space."

Carl Steidtmann, chief economist and director of Deloitte Research -- Consumer Business, emphasizes that the Great Depression, combined with World War II, amounted to a 15-year period of consumer constraint, first because of the economic contraction and then because of rationing for the war effort. He predicts that the current downturn, which began in December 2007, will start to abate by the end of this year, and is not likely to have as great a long-term impact on consumers as the Great Depression.

He also suggests that the most lasting impact of the current downturn may be on homeowners who are severely stressed by mortgage debt. Going forward, he expects more of a "renter mentality" in the housing market, with less emphasis on homeownership as an investment vehicle. Still, don't expect to see modern-day nomads piling Pottery Barn furnishings into their SUVs as they abandon their McMansions. "In every recession, there's the hypothesis that the consumer

is chastened and that we will come out living the simple life of monks," says Steidtmann. "It hasn't happened yet."

He recalls a Time magazine cover story that ran in June 2001 as the economy was slowing, titled "The Simple Life: Goodbye to having it all." The article read, in part: "After a 10-year bender of gaudy dreams and godless consumerism, Americans are starting to trade down. They want to reduce their attachments to status symbols, fast-track careers and great expectations of Having It All. Upscale is out; downscale is in. Yuppies are an ancient civilization. Flaunting money is considered gauche: If you've got it, please keep it to yourself -- or give some away!"

Sound familiar?

Wharton marketing professor David Reibstein says the current angst about consumer spending reminds him of the periods of recession in 2001 and 1991. At both extremes of any economic cycle -- the highs and the lows -- conventional wisdom holds that during the highs, everyone feels the status quo will continue, while during the lows, everyone feels that life as we know it has forever changed. "While we're in the midst of it, there's always that concern," he says. "What's amazing to me is how resilient we are."

Reibstein points to the weeks and months following the terror attacks on September 11, 2001, when it seemed no one would ever have the courage to board an aircraft again. By the time the current financial crisis reduced demand, air travel volume had recovered. "It's going to take a long time for us to get through this because of the severity and depth of this cycle," says Reibstein, "but once we do, it will be amazing how quickly people do rebound."

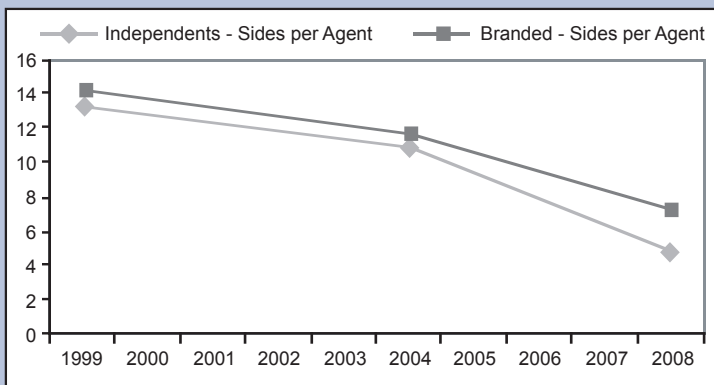
Gradually, he adds, as the recent shocks to the economy are absorbed, people will begin to reinvest and cautiously step up purchases. Confidence will improve even more as job losses stabilize and hiring begins again, he says. "It's only going to take time."

(Commentary continued from page 2)

The second chart shows the average number of sales professionals for each office and here we compared the results of brokerages affiliated with national brands with those who are independent. Over the past ten years firms associated with national brands have become more prevalent on the REAL Trends 500 report and the issue of whether affiliated firms or independent firms perform better in good markets or bad was still of some interest to all companies engaged in the residential real estate business.

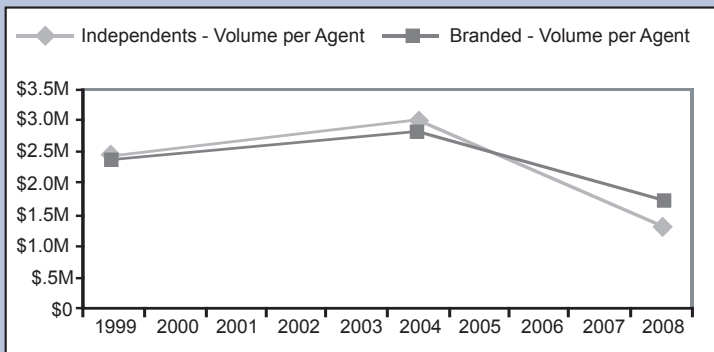
Independents scored higher than those affiliated with national brands in the growth in sales professionals per office. Both did grow their actual numbers. Keep in mind again that these numbers only reflect the averages of the firms ranked on the REAL Trends 500 and *Up and Comers Report*.

Changes – Sides per Agent



As you can see, the trends in total closed sides per sales professional show that firms affiliated with national brands outperformed their independent counterparts when it came to producing more closed transactions. However, for both kinds of firms the decline in closed sides has been downhill since 1999; we know from other data that this trend has been occurring since before 1999. The decline of the past few years, of course, has been most severe.

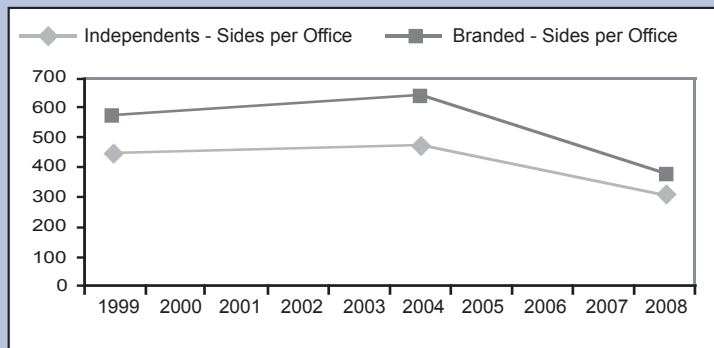
Changes – Volume per Agent



Likewise, the decline in sales volume per associate has been pronounced especially over the past 4 years. Given the decline in average transactions per sales professional over the past ten

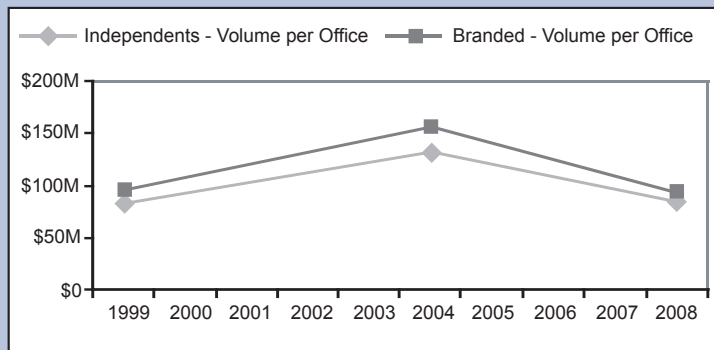
years, the changes in average closed volume is when it was positive was almost entirely based on the rapid increases in the average sales prices of homes over the 1999-2006 periods. With the softening of sales prices and the decline in closed transactions the decline in sales volume is pronounced.

Changes – Sides per Office



Even though the number of sales professionals per office has increased measurably since 1999 the decline in per person productivity has outweighed any benefit from the increased number of sales professionals on an office basis. In both independent and affiliated firm's results, the average number of transactions sides per office has declined substantially since 1999. In fact the numbers did not rise materially before the downturn for either kind of brokerage during the market run up from 1999-2005.

Changes – Volume per Office



As a result of the trends we have already outlined, the total sales volume per office has been almost flat for the last ten years. The average for all firms has been an increase of less than 3 percent for the entire ten year period of time. When one considers the decrease in average commission rate over that period and the decrease in retained Company Dollar percentages and the increases in expenses for rent, employment, technology and related business expenses, it is clear why many are experiencing financial losses at this time.

So where does that leave those who own and direct leading brokerage firms?

It would seem that much of the growth in profits can be attributable to the growth in the average price of homes. The addition of core service incomes from mortgage and title and other related settlement services and in some cases the contribution from additional fees charged to consumers were singular events that may not be repeated with the same impact in the years ahead.

Were we to assume that housing prices will not recover quickly and that unit sales will grow slowly over the next 3-5 years, and that capture rates and fees from related core services only have so much more room to grow then several things come to mind. Should increasing sales professional productivity be as difficult as it has always been then the sales office must be rebuilt to accommodate more sales professionals. Sales revenues must increase drastically per square foot of space or costs must be brought down significantly on the same basis. Potentially this could mean one of two things; either smaller

space for a smaller number of very high producing sales professionals or perhaps larger space but with hugely higher numbers of lesser productive sales professionals. Another possibility could be where brokerage firms get further involved in generating new business for their sales professionals.

The real challenge is that most firms have been halfway between the two strategies for many years; either recruiting a much larger sales force with lower productivity or seeking to recruit and retain smaller numbers of more productive sales with more space. The boom in housing prices and increases in transactions created a situation where leading brokerage firms did not have to make the choice. But a choice will have to be made and sooner rather than later. The only outcome that will lead to success is more revenue per dollar of fixed cost.

Is Your Firm Opportunity Motivated?

by Jeremy Conaway, Contributing Editor

As the chaotic market continues, observers note that the majority of the brokerage community appears to be assuming one of two posts. Some firms are focused on low profile survival solutions while others are assuming predator positions in hopes that they can become the heir apparent of the remaining marketplace as their competitors fall out.

Although the tactics of these two camps differ their end game is the same. Both assume that when the sustaining market returns it will be business as usual. Moreover neither group is either searching for opportunities or preparing themselves to take advantage of opportunities when they present themselves.

As a starting point take comfort in the fact that few if any American industries will survive this period with their traditional business models in place. The combined energies of consumerism, technology and information sciences will impact how virtually every business is structured and conducted. By way of example RECON Intelligence Services recently completed a study regarding the future of the banking industry. The research established beyond a shadow of a doubt that banking, especially at the community and consumer levels, as we have known it will not remain a marketable product or service.

Returning to the real estate industry and given these factors it would seem that neither hunkering down for survival nor

bulking up for conquest in the sustaining market will be successful mid or long term strategies. The sustaining market will bear little familiarity with the 1985 marketplace on which much of the current business configuration is based. The answer lies in opportunity and the practical solution lies in becoming an opportunity-motivated organization.

Webster's Dictionary provides a three-phase definition of opportunity, (1) an appropriate or favorable time or occasion, (2) a situation or condition favorable for attainment of a goal and (3) a good position, chance, or prospect, as for advancement or success. This definition provides an excellent base from which to pursue the issues of opportunity and how your firm can become opportunity-motivated.

As a starting point one must appreciate that the discussion of opportunity doesn't cast a negative image relative to how the real estate industry has conducted business over the past quarter century. That was a totally different situation. It hopefully however, brings to our attention that (as in part one of the above definitions) there is a new situation or condition currently existing within the real estate marketplace. It further points out that (as is the case with part two of the above definition) this situation is highly favorable for advancement and success and that most importantly, (this would be part three) this is one of the best environments for success and advancement in recent history for firms that are opportunity motivated.

(Commentary continued on page 12)

(Commentary continued from page 11)

Opportunity can be found everywhere in today's real estate marketplace. There is a new consumer, a whole new agent pool, a new inventory price point, a new affordability, and opportunities for new relationships that would never have existed in prior markets. There are new consumer demands, new sources of information, new technologies to create painless transactions. There are new roles for everyone in your firm to assume and succeed through. There are new ways to communicate and new ways to establish value and relevance. The sum total of these circumstances creates a world that is literally begging for brokerages that will rise to the occasion, declare that survival is not enough and embrace opportunity.

Working to survive is a forced march into an uncertain future and a barren mindset. Being motivated by opportunity is like walking on the beach. The sun is always warming your face, your feet are in the cool sand, your imagination is soaring with the seagulls and always there is the sound of the waves each one announcing a new opportunity.

Last but not least, being opportunity motivated does not appear on your ledger except under new revenues. What will it take for your firm to become Opportunity Motivated?

An Opportunity Motivated organization is one that is willing to invest resources, execute organizational change, and create cultural shifts in order to create the capability in all aspects of the business to identify and create opportunities and to view its product offerings within the context of an opportunity based paradigm.

The goal of broadening and deepening an understanding of opportunity throughout Opportunity Motivated organizations requires them to access the hearts and minds of both internal (staff and agents) and external constituencies (customers) while committing to disseminating and embracing opportunity related insights throughout the organization (read transparency.)

Identifying and developing opportunities involves thinking on a very specific set of frequencies. Collaborative environments encourage and spawn opportunity. Negative and complaint driven workspaces crush and reject opportunity. Innovative behaviors are the result of a corporate leadership that is focused, not on survival, but on options, alternatives and the "possible." Opportunity Motivated companies develop specific messages and lines of communication that will effectively speak to and encourage the identification and/or development of opportunities. Opportunity Motivated companies employ targeted messaging to reach out to and involve all consumer segments. These same firms also reward innovation and opportunity related initiatives.

Some may think that hunkering down for survival and creating an Opportunity Motivated environment are mutually exclusive. This is simply not the case. It is all a matter of presentation. The difference between starving and fasting is a matter of motivation and leadership. The difference between a forced march and exercise is again a matter of leadership and motivation. The difference between cutting back on overhead and saving for the future is... Yes, just a matter of leadership and motivation. Harry Truman once said, "that a pessimist is one who makes difficulties of his opportunities and an optimist is one who makes opportunities of his difficulties."

Our industry and our businesses stand at the edge of a virtual ocean of opportunity. An entire new industry is being created. Don't miss it. Get into the right mindset; provide the right leadership, set your course on potential, urge your team to look forward with a focused eye. Reject negativity, ignore survival and reward those who join on this quest. This is your time. Remember, opportunities are never lost; someone will take the one you miss (author unknown).

Invest in Yourself – Close Your Mind to That Bad News and Bring in the Good!

Everywhere you look today you see articles about the poor economy and hear about others misfortunes. You, as others, may be feeling these misfortunes as you look at your investment portfolio. We are all in the same boat, watching the monies in our investments take a slow swan dive, and hoping for a quick recovery or at least a lifesaver.

I am not a financial planner but I do know about investing: investing in you! There is no time like the present to take a look at how you can invest in creating the life you love; and some of these things may not cost a dime. When you think of an investment, you want to think of growth. So begin by asking yourself, where do I want to grow as a magnificent person with a great life?

Here are twelve random ideas for investing in yourself; ideas that have worked for me and hundreds of clients when we want to dive into that pool of personal growth and a satisfying life. Go for it!

Relax: Give yourself permission to relax a few minutes each day. Better yet, treat yourself weekly to a longer relaxation or pampering session.

Explore Nature: It is right outside of your door, very rejuvenating and free!

Get moving: Begin some type of exercise routine and get those happy hormone endorphins engaged.

Eat nutritiously: Save money and calories by cutting out the excess junk food. Eat more nutritiously and experience those natural mood elevators.

Remove the clutter: It is not too soon to begin the spring cleaning. Clean and creative spaces bring out the best in us.

Have fun: When was the last time you really laughed? Watch a funny movie, play with your kids, play kids games with adults, or go to a comedy club.

Engage in a hobby: Working with your hands is very satisfying. Brush off those skills or take a course.

Read: This is another enjoyable hobby, but read something that will really give you some pleasure, some knowledge, and/or some time to relax.

Find time for friends and family: Reach out and call someone. Schedule something. Send out cards! Embrace the togetherness that only close ties can bring. Surround yourself with high-energy friends and family.

Find a coach or mentor: This can help with some accountability and idea-sharing on reaching your goals.

Dive into some personal or spiritual growth through reading or taking a class. This is a great way to explore how you fit into this adventure called life.

Examine your expenses: This is a great time to reflect on how you are using your resources. Cut down on unnecessary expenditures. Make a game to see how much you can save. Gain control of your financial life instead of it dictating to you.

I challenge you to invest in you. This month, add at least one of the above ideas to your life or, if you can create an additional investment idea, then jump right in.

Jeanette Eleff is a certified life coach who ignites fires and encourages others to leap into really loving their lives through embracing their spirit and cultivating their courage to fly higher. Jeanette harnesses her experiences in leadership, coaching, health education, in life to bring unique coaching programs to help people create the energized life or business they want. Discover more about Jeanette at <http://www.stresstobalance.com>.

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(Analysis continued from page 3)

When Will Housing Markets Recover?

A special report from Moody's Economy.com
Chief Economist Mark Zandi

When we seek clear unbiased outlines of what will happen next and what got us here Zandi is among the best.

KEY FINDINGS

- House prices will stabilize by the end of this year.
- The national Case-Shiller house price index will decline by another 11% from the fourth quarter of last year for a total peak-to-trough decline of 36%.
- By the end of this unprecedented downturn, house prices will have declined by double digits peak-to-trough in nearly 62% of the nation's 381 metro areas. In about 10% of metro areas, price declines will exceed 30%.

Executive Summary

The U.S. housing market downturn has gone from bad to worse, dragging the broader economy into what threatens to be the worst economic setback since the Great Depression. Policymakers have not yet been able to break the downward spiral that has developed among the sinking housing market, job losses, frozen credit markets, and rising foreclosures.

Almost three years into the housing downturn, most indicators of the market's performance continue to worsen. By the end of 2008, construction had fallen to its slowest pace since the Census Bureau began collecting data in 1959, inventories of homes were at a record high, and house prices had plummeted. Home sales seemed to be stabilizing, but only because of a surge in sales of foreclosed properties. Rising job losses and mounting negative home equity, combined with lax mortgage underwriting standards earlier in the decade, have rapidly eroded mortgage credit quality, further depressing the market.

The housing bubble was inflated by numerous forces. The most important were the flawed process of mortgage

securitization, a lack of regulatory oversight, and old-fashioned hubris. The bubble is now deflating with a vengeance. The boom began to recede in earnest in the spring 2006 selling season. The surge in prices during the first half of the decade, along with monetary tightening by the Federal Reserve, had made housing unaffordable, even with anything-goes mortgage lending. House prices have since fallen by 25%, bringing prices back to where they were at the beginning of 2004.

The erosion of credit quality fueled the financial market crisis, which further depressed the housing market. Financial institutions are taking hundreds of billions of dollars in losses from the bad mortgage-related investments they made during the boom. These losses fed the financial panic that hit a fever pitch at the end of last summer after the government took over Fannie Mae and Freddie Mac. Credit markets froze, hurting not only mortgage borrowers but also disrupting nearly all businesses. These forces sent a mildly contracting economy into a full-blown recession.

Not only is this housing downturn unprecedented in depth, but it reaches across the nation. House prices have fallen in about 70% of all metro areas over the past several years. Although prices in most metro areas declined modestly during this period, price depreciation from peak exceeded 5% in 116 metro areas and exceeded 20% in about 50 metro areas. Those metro areas with the most exposure to nonprime and investor lending, and that consequently experienced the greatest run-up in prices during the boom, are suffering the greatest declines on the downside of the housing cycle. California and Florida prices, for example, have descended by 50% or more from peak, but no area of the country has been spared.

Despite the darkening national economic outlook and the weak conditions in the housing market, some positive signs give hope that a bottom in the housing market is coming into view...

NEWS

Mergers, Acquisitions and Affiliations

Hammond Residential GMAC Real Estate has been sold to local real estate industry veteran Saul B. Cohen. As a result, Cohen is buying back the firm he started in 1991 and later sold to GMAC Home Services in 2001.

All 12 offices, staffed by more than 400 sales associates and employees, will continue to operate as Hammond Residential GMAC Real Estate. In 2008 the company had sales of more than \$1 billion. In addition, Robert Molta has acquired two Carlson GMAC Real Estate offices in Chicopee and Wilbraham. A third Carlson GMAC Real Estate office, located in North Andover, has been sold to real estate veteran George Schruender.

Executive Appointments

Freddie Mac Chief Executive Officer David Moffett resigned six months after being tapped by the government to lead the second-largest U.S. mortgage-finance company. Freddie said that Moffett, 57, "indicated that he wants to return to a role in the financial-services sector," and a spokeswoman said he wasn't asked to step down by the company's regulator or the Obama administration, according to Bloomberg.com. Freddie Mac expects to name an interim replacement before March 13.

Steve Rodgers, former President and CEO of Prudential California Realty, Southern California was named a partner and the new president of Windermere Exclusive Properties based in San Diego.

Lorna Borenstein, Move.com's current president, has decided to leave the Company effective March 13, 2009. Steven

Berkowitz, who was named Move's Chief Executive Officer on January 21, 2009, will assume responsibility for Ms. Borenstein's duties.

RealtyTrac announced on March 17, 2009 that information technology expert, Robert J. Houghton, has been hired as chief information officer/chief technology officer and Gary Hegenbart has been hired as Senior Vice President of Human Resources.

Announcements

OpenHouse.com, an online open house marketing leader opened the door recently to its newly re-launched Web site with free services and other benefits for brokers, agents, franchisors and aggregators. Real estate professionals can upload listings for free and see them instantly online with the new OpenHouse Now™ tool or register for a simple, free bulk-feed service, OpenHouse Direct™, to automate the process. For premium placement, a new fee-based "Featured Listing" option allows agents and brokers to move their listings to the top of OpenHouse.com search results.

Market Leader is now an authorized reseller of Google AdWords advertising program. As an authorized reseller of Google AdWords, Market Leader can now deliver even stronger search engine marketing strategies, efficiencies and results to brokers, agents and agent teams.

Today Software Advice recently launched a Property Management Software Advice service. The comprehensive, free online resource is designed to match property management and real estate companies with the right software for their businesses.

EDITOR'S NOTE

The initial findings of the REAL *Trends* Housing Market Report for February 2009 show that sales units compared to February 2008 remained at depressed levels. Nationally sales were down approximately 16 percent from February 2009 from February 2008 while sales volumes were down approximately 34 percent showing continued declines in the average price of homes sold. These results were only slightly better than the January 2009 results reported a month ago. There are some indications that March results may show some improved results based on February pendencies.

2009 Gathering of Eagles

The 2009 Gathering of Eagles will be held May 6th through the 8th in Dallas, Texas. It will showcase leaders from across the brokerage and technology landscape with a focus on new and different models that are working to grow sales and profit. Should you want to hear how some are making alternative business models work this conference is a good place to learn. Also attending are noted leadership and business model experts Larry Kendall, Mike Staver and Steve Harney.

In tribute

We were saddened to hear that Bob Walters, the long time head of Baird and Warner's residential brokerage operations in the 70's and 80's passed away in early March. Bob was an early pioneer in developing large residential branch office brokerage services, was a founder and board member of the independent brokerage referral network that is today's Leading Real Estate Companies of the World® and a powerful advocate for professionalism throughout the industry.

More than any of his real estate accomplishments was the encouragement he gave to all those who knew him. He was an individual who was early to offer his trust and friendship. To any who had the opportunity to know him he was always enthusiastic about his work and his life. He was steadfast in his friendships and a wonderful father and husband. He was passionate about golf and golf lore.

Personally I will always consider that my life and career would be far less without having known and worked with Bob for the nearly thirty years that I knew him. Anyone who knew him would say the same.

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