

REAL *Trends*

The Trusted Source

COMMENTARY

THOUGHTS ON THE HOUSING MARKET

Having read recent issues of *Fortune* and *Business Week*, one comes away thinking that housing is in for continued bad times. The writers of both articles state their thesis that because housing prices ran up against rents for comparable housing, the financial indicators show that now is not the time to buy a home. Seems like we have read this at several points in the early 1980s and again in the 1988-1993 period when housing sales weakened as the economy weakened.

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As for their contention that now is a lousy time to buy, they are likely wrong as to their timing. Actually, based on price weakness, this is more likely the best time to purchase. For if you agree that housing prices are weak, isn't that in fact the best time to purchase? If all consumers care about is the potential for appreciation in their home prices, then this would seem the ideal time to do so. Not the worst time, as we read so often these days.

But their hypothesis that people buy homes only when the price/rent ratios are in the consumer's favor, within a range of 14-15 the price times the rent, does not take into account two factors: first, that consumers purchase homes for many reasons that have nothing to do with the mythical "price/rent" ratio; and second, many consumers can choose not to sell at all at this time. Most homeowners have no urgent need to sell (some would say that the complexity of a sale and moving is enough to cause anyone to pause) and can wait until more favorable market trends develop.

Were housing nothing more than an investment, where homeowners view their home as only a savings account, we could agree more with the analysis of *Business Week* and *Fortune* (and others). But they cannot factor in the desire of most citizens to own a home, the personal rewards of owning one's own "castle" and other factors (like having peace and quiet or a place to plant flowers). Economic analysis only goes so far to explain why consumers do what they do. Personal choice and strong favorable attitudes towards a lifestyle can exert an equal or stronger pull – how else to explain Starbucks.

We agree that for most markets the correction will come in years, not months. And we may not see the levels of sales that took place in the 2003-2005 period again for some time – if ever. But to say that housing faces a long term down period is nonsense. Some markets, yes. Most will recover faster than the economists are predicting.

By Steve Murray, Editor

The Move Online is Finally Taking Hold

As you will read in this issue, many brokerage firms are finally reducing their investment in print media (mostly newspapers) and instead investing their dollars in online marketing and servicing online consumers. In past issues of REAL Trends and in talks before various industry groups, we have said that we thought the bull market was covering up quite a few weaknesses and that changes were occurring that were not being recognized by the realty industry.

Now it appears that the downturn in housing sales has made converts out of many. Throughout this autumn we heard from CEOs of the nation's leading brokerage companies that, while reducing costs was a must, investing in creating better online presence and the means to convert that presence into closed business was where they were focused. Brokers are more willing to consider broadening their online presence to sites that even six months ago they were unwilling to consider. Just recently, one of the largest RE/MAX firms signed a deal to advertise its listings on Zillow.com as well as Cyberhomes.com.

It is not enough to become more aggressive in the online world. A successful firm will also build the systems necessary to ensure that the online customers they

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ANALYSIS

Data Dilemma

By David B. Colmar, Associate Editor

In the October 15 issue of *Forbes*, Publisher Rick Karlgaard presents the argument that some businesses and government especially fail to benchmark performance. Learning from others by gauging our performance against those who may be achieving greater success in similar situations is one major way in which we can improve.

We are now so inundated with facts, statistics and comparative data in sports that more time is spent by the commentators on such information than on simply calling the game. We know that Tiger Woods has an average drive of x yards and hits the green in regulation so many times and has on average so many putts and how many of those are made from more than 20 feet and so on. The same is true with any sport, including your child's Little League game. Five-year-old kids are compared to their peers in school. We seem, for whatever the purpose or reason, to be on a benchmark frenzy!

So what happened in our own business? The sharing of information on performance is on a volunteer basis at best and, unlike professional sports, nothing is televised and statisticians don't keep track. We are not alone. Many businesses simply glance at their sales or profit reports to determine how they are doing. Associations serving various businesses are not able to collect accurate data or they have no mechanism with which to evaluate and provide sound feedback or strong suggestions for improvement. In travels and conversations with clients over the years, I still hear about how much volume was attained in sales for a given period of time, but with no explanation of how that volume translates into profit, growth, production or operating costs. Many times owners simply have no idea what it takes to break even in their operation or what a closed revenue unit consists of and how to use the information.

Well, the 5th annual *2007 Brokerage Performance Report* has been published and some of the news is good and much of it is unfortunately bad. Maybe this is because the data measured is for 2006 and, since the market trend for the past 12 or so years has been up, last year saw pretty universally a downward move. Granted, some geographic areas continue to do well, but overall performances did not live up to expectations.

Profitability of reporting companies dropped by nearly half last year. The good news is that the average company was still generating a profit (though next year's data may not be so positive).

The other important and good news is the number of opportunities that are presenting themselves because of market conditions. Down markets are a test. There will be those whose performance cannot sustain their operation and should combine or be acquired. The "law of the jungle" applies here.

The other good news is that companies which anticipated the market swing and made adjustments in their spending or other operations will survive and be stronger when the market moves the other direction. These changes do beg the question of whether or not there was significant excess in our operations in the first place and why we allowed it to happen.

Another piece of data suggests that many companies stored away some cash over the past few years in order to survive when the storm hit. These companies will do well, too, and are living examples of why "cash is king."

Another benchmark is that the amount spent on print advertising as a percent of gross commission income dropped about five percent from the previous year. As companies are moving from print to electronic (as are so many other businesses), we are seeing a movement to reduce this number even more. Somewhat alarming, though, is that the amount still spent on print advertising, and it is significant, generally has no information tying it to justification. Meaning that we spend a lot with no real knowledge of what we get in return. There are few companies with accurate information to verify that the dollars spent in one medium can be quantified by specific numbers of leads, calls, appointments or more.

The not so good news is that we have continuously seen a drop in both the number of closed revenue units per agent and an erosion of the retained company dollar (adjusted gross profit). These trends continued for 2006 and the projection is that the same will hold true for 2007. The average company produced only 8.8 closed units per agent last year while holding on to about 27 cents of every dollar generated. This makes it tough to pay the bills, many of which are fixed obligations, while still generating a profit for ownership. This is coupled with the fact that we have to pay for all the occupancy expenses for agents who continue to produce less.

The benefits of this benchmarking study and those that will be conducted in the future or are conducted by other groups is to take a look at what makes a successful operation. What can we learn about where we are, how we

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TRENDS

Agent Performance 2007: A First Glance

By Jeremy Conaway, Contributing Editor

2007 will obviously not go down in the records of the American real estate industry as a banner year for production. It may, however, serve as a watershed period providing valuable data with reference to a wide range of brokerage and agent performance metrics.

What makes 2007 special is that a year before it began, the industry knew it was going to be a slow year and there have been few surprises. 2007 also provided a full year of opportunity for brokers and agents to prepare for a much slower market pace, adjust to a much more demanding customer and design and implement a service package made possible by a slower market pace to increase customer satisfaction and overall performance.

While full industry performance statistics will not be available until the second quarter of 2008, two surveys that will be published this December provide valuable insight into how well agents are meeting the unique challenges of 2007. Given the “pre-publication” status of both surveys, authority was not given to identify either by deadline. The first (Survey X) is a national survey and the other (Survey Y) covers one of the top five regional markets in the U.S. While the survey instruments were not mirrored, enough of the questions were the same to provide a significant parallel.

By way of background, before evaluating the results of these surveys, it is important to point out that for the past twenty years the industry has been quite satisfied if 75 percent of consumers were very satisfied with the real estate services they received. In today’s more competitive market, one must question whether a “D” is a passing grade.

Let’s return to the classic “grading scale” of our high school and college experience. A score of 93 to 100 usually equated to an “A” grade. A score of 85 to 92 equaled a “B,” a score of 77 to 84 a “C” and a score of 70 to 76 equaled a “D.” Anything below 70 has never been good. Consider the following grades.

- **Survey X: 75 percent of sellers who used an agent were very satisfied with their agent’s performance.**
- **Survey Y: 63 percent of sellers who used an agent were very satisfied with the selling process.**

These results suggest that the current real estate service

package is not generating a level of consumer satisfaction strong enough to support the traditional brokerage business model. Moreover, the 25 percent to 37 percent of consumers who are not very satisfied provide Internet entities with a powerful entry point.

- **Survey X: 77 percent of consumers said they would use the same agent again.**
- **Survey Y: 62 percent of consumers said they would definitely use the same agent again.**

The traditional agent has heavily depended upon his “sphere of influence” for repeat and referral business. The data strongly suggests that this support base is weakening with 23 percent to 38 percent of consumers indicating that they would not use the same agent again. This attitude can also be extended to the fact that they would probably not recommend that agent (and perhaps not the brokerage) either.

- **Survey X: 70 percent of buyers were very satisfied with their agent’s negotiating skills.**
- **Survey Y: 70 percent of buyers were very satisfied with their agent’s negotiating skills.**

Consumers have for many years depended upon and established their value perspective of their agents around a number of key services. Negotiating skills are included within this group. The preceding results indicate that 30 percent of consumers are not satisfied with their agent’s ability to negotiate on their behalf.

- **Survey X: 82 percent of buyers were very satisfied with their agent’s knowledge of the real estate market.**
- **Survey Y: 82 percent of buyers were very satisfied with their agent’s knowledge of the real estate market.**

In a world in which consumers are feeling more and more confident about their own knowledge of the real estate market, it is not a good sign that they are indicating less confidence in the market knowledge exhibited by their agent. These results suggest another point of erosion for the consumer’s sense of Realtor value.

- **Survey X: 81 percent of buyers were very satisfied with their agent’s responsiveness.**

- Survey Y: 80 percent of buyers were very satisfied with their agent's responsiveness.

Consumer research conducted over the past three years has clearly established the fact that today's consumer expects a rapid response to his service and informational inquiries. These results suggest that they are not meeting this expectation. This may be another point of erosion in the Realtor value proposition.

- Survey X: 64 percent of buyers were very satisfied with their agent's technology skills.
- Survey Y: 69 percent of buyers were very satisfied with their agent's technology skills.

It is universally recognized that technology has become an essential ingredient in the real estate experience. Today's real estate consumer has become quite sophisticated with respect to digital and informational technologies. The fact that 31 percent to 36 percent of consumers were not very satisfied with their agent's technology skills does not speak well for the agent role moving forward.

- Survey X: 81 percent of buyers were very satisfied with their agent's people skills.
- Survey Y: 81 percent of buyers were very satisfied with their agent's people skills.

For much of the past ten years many agents have rejected the growing role of technology and the Internet, suggesting instead that real estate was primarily a "people" business and that "people" skills outranked technology skills in importance. That being the case, the fact that both surveys reflect that nearly 20 percent of consumers were not very satisfied with their agent's "people" skills should be a matter of concern.

- Survey X: 31 percent of buyers found the home they purchased from a Realtor and 17 percent from the Internet.
- Survey Y: 34 percent of buyers found the home they purchased from a Realtor and 29 percent from the Internet.

Experts have suggested that one of the most important market metrics tracked over recent years has been the increasing percentage of consumers who found the home that they ultimately purchased through the Internet rather than

through their agent. The following data demonstrates that in 2007 that ratio has narrowed to somewhere between 31 and 34 percent for the agent and 17 and 29 percent for the Internet. This trend will have serious ramifications with respect to both the future role of the agent and his value proposition.

Brokers, managers and agents can debate with respect to the ultimate meaning of these findings. However, taken as a whole and considered against the greater body of trends within the real estate marketplace, the brokerage community might want to draw the following conclusions and consider the following recommendations.

- Today's consumers are becoming much more assertive and discriminating with respect to their real estate buying and selling experience. Moving forward, consumers are going to be much more knowledgeable about the real estate transaction and increasingly aware of the relative skills and competencies of agents. Firms must become active in setting quantifiable service standards that meet or exceed consumer demands and expectations, monitor agent performance against these standards and take affirmative action where performance falls below standards.
- The long-term profitability and market value of the real estate brokerage may ultimately be directly tied to overall customer satisfaction. Brokerage firms must aggressively move to become part of the customer satisfaction formula. Customer satisfaction and service packaging can no longer be an "agent-only" issue.
- The availability of information regarding specific areas of consumer dissatisfaction will provide new real estate entities with important information relative to where they should invest their resources and energies. The recent launch of the Service Research and Innovation Initiative (SRII) (IBM, Microsoft, Xerox, Sun Microsystems, etc.) that seeks to create an Internet service experience that can compete with the traditional service model provides evidence of this trend. The vision statement of SRII includes the following statement, which has great relevance to the real estate industry:

"The service research gap is like the Global Warming issue... if we wait until we see evidence of these problems popping up, it will be too late."

Brokerage firms must engage and create accountability in their service offerings. Come on gang, this is important stuff.

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Brokers Investing in Technology, Cutting Back on Newspapers

By Tracey Velt, Associate Editor

Are you looking for smarter ways to do business? Wondering where to invest your dollars? REAL *Trends* spoke with several brokers from around the country to find out where they're investing their money and where they're cutting back. Here's what they had to say:

Sheldon Detrick, CEO
Prudential Detrick/Alliance
Tulsa (OK)
15 offices, 650 sales associates

RT What new things are you looking to do online?

Detrick We're looking to manage e-leads better through our internal system. We're working on better internal management and improving our customer service department, which we call EDesk.

RT Are you putting your listings on more Web sites? If so, which ones?

Detrick Our major emphasis is Prudential/Yahoo! We also put listings on Realtor.com. However, I'm not giving away my data. Wherever someone is willing to pay me for data, then I will sell them our listings. After all, these sites sell banner ads and make money off of that. I'm no longer giving data away.

RT Are you investing in lead management and lead generation?

Detrick Yes. We're trying to figure out how to increase our capture percentage.

RT Where are you cutting back?

Detrick We're cutting back on print. I'm cutting out direct mail as well as associate support personnel. With many of our associates working in home offices, there's not as great a need for staff support.

RT Where are you spending your money? Why?

Detrick E-lead management. We want to do a better job scrubbing the e-leads coming in and then do a much better job of increasing capture. We're investing in e-leads from an origination processing point of view rather than a technology point of view.

Richard Faltz, CEO
Coldwell Banker Primus Realty
Oswego (IL)
17 offices, 545 sales associates

RT What new things are you looking to do online?

Faltz From a consumer standpoint, we're continuing to add more Web sites and click-through ads, increasing our visibility to the consumer for any one area they may be looking to inquire about housing. We're also revamping all of our Web sites. It's more important for the consumer to find us than for us to have the best-looking Web site in the world. We want more recognition with Google and Yahoo! and we found that by clicking over to a corporate site with links, we'll get that higher visibility. We are creating separate sites for each office. We want to be smaller and more nimble on the Web.

In addition, we're going paperless in all of our offices. Internally, everything will be electronic, including checks at sales offices, which will be directly deposited into accounts using an electronic funds transfer. That will result in a \$50,000 annual savings for our company. We're also working with Homefax 24. All of our ads have codes to track from where leads are coming.

RT Are you putting your listings on more Web sites? If so, which ones?

Faltz We're currently on 11 sites, but will soon be on 14 sites, including Realtor.com and Coldwellbanker.com. We believe the more we put out, the better it will be. The one thing that flies in the face of that is we're also offering a printed buyers guide, which includes all of these listings. The printed edition will come out six times a year. We're going to be using billboards in prime drive areas of local communities.

RT Are you investing in lead management and lead generation?

Faltz We're investing in both of these. We're working with LeadRouter, which we rolled out a year ago. It's had some glitches but now is working well. We're also working with ShowingTime, which is a great service for our agents.

RT Where are you cutting back?

Faltz We're cutting back on print advertising, particularly newspapers. We've also slashed and burned at the corporate level - those in positions that were dependent on a high number of transactions. We've only shuttered two offices in the last year. We'll hunker down and deliver our services regionally.

RT Where are you spending your money? Why?

Faltz We're strengthening our internal reporting systems in

accounting, sales management and education. It's important to invest in new blood. We've upgraded from a lot of little printers to a print services hub. The hub has the capacity to scan and e-mail documents so we can go paperless. That will save us time, space and money.

Lewis Glenn, President/CEO
Martha Hayhurst, General Manager
Harry Norman, Realtors
Atlanta (GA)
21 offices, 980 sales associates

RT What new things are you looking to do online?

Glenn Right now, we're shifting a lot of our attention from the print media to the Internet. We're completing a redesign of our Web site and adding additional functionality. On top of that, we're making sure that we're communicating to the consumer and to sales associates all of the Web sites that we're involved with - everywhere that our listings are showing. That's very important, as we have a local, national and international presence.

RT Are you putting your listings on more Web sites? If so, which ones?

Glenn Absolutely. When we put ourselves in consumers' shoes, we know they go to the Internet to search for everything. We currently load our listings on eight different sites, from Realestate.com and Luxuryportfolio.com to Realtor.com, Trulia.com and on our local newspaper's site: ajc.com.

RT Are you investing in lead management and lead generation?

Glenn Yes, we are. We have a customer care department and it's staffed by one person who's responsible for responding to leads that come in through the Internet. That's where our investment is - lead generation. We are investing in the technology to make sure our customer care person is getting the leads. That person is working on scrubbing the leads and staying with them until they're ready to be forwarded to a sales associate.

RT Where are you cutting back?

Glenn Why would you want to do that? The best way to answer that is to say that our goal is to make sure that whatever we do from an expense standpoint doesn't affect service levels and programs to sales associates and the consumer. Our goal is to become a stronger company, more effective and more efficient.

That said, we have started going through departments to see what value they're bringing to the consumer and sales associates in today's market. We may delay some technology and communication purchases. We're also monitoring expenses very carefully.

As for marketing, we're shifting funds away from the large city paper to the local newspapers and shifting funds from billboards and radio to the Internet. The other thing we're doing from a marketing perspective is beefing up our public relations. It's a great way to tell our story for free to the public.

RT Where are you spending your money? Why?

Glenn We're certainly spending more money on education and technology. We're shifting funds more than anything - as much as we can. Our focus is on retaining and recruiting good sales associates as well as supporting our family of services - mortgage, title and insurance. It's such a huge piece of our business development. We're also continuing to invest in a field team of associate brokers so that we have the opportunity to shift them to other locations to strengthen any weaker offices.

We have to make tough decisions about internal mergers where we'll close down a non-profitable office. We're trying to merge those offices into other operations and to come back in 12 months with a better business model to expand for the future. This business model may be completely different from what we've had in the past. From an education standpoint, we're directing efforts toward coaching and using Brian Buffini. We're gearing our education toward building agents' businesses through Back to Basics, Real Estate 101. Our education department will bring great value.

This is elementary, but when you're running a big company, even CEOs have to go back to basics. It gives you a greater perspective when you go back to signing every check and analyzing where waste may be. There's a lot of opportunity in our market. We'll be refocusing on new revenue sources such as foreclosures, REOs and new homes. We'll be out of this soon, and we'll be stronger. We're making decisions today that we should have made a year or two ago, but in good times you tend to stay with people and offices that might not bring the value they should.

Hayhurst We've really changed our focus from working with agents on a transactional basis. Instead, we're partnering with them and coaching them in professional development. We'll also be working on short sales courses, so agents participating in our REO division can really build that

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specialty. In times like this, I find it exciting to see opportunities I may not have seen in other markets.

Jean Li, President
Lyon Real Estate
Sacramento (CA)
16 offices, 900 sales associates

RT What new things are you looking to do online?

Li We are evaluating what to do online. We've been doing a lot in the last six or seven years. And we've exposed all our listings in as many places as possible to improve lead management and results from search engines. We just reinvented our Web site - golygon.com. In about two months, we'll host area open houses on golygon.com, which will drive more traffic to the site. We have a property search on the main page. We want to put as much information as possible on the main page so that customers will have less hassle.

We're also addressing our micro markets - Hispanic, senior services, boomers - on our Web site. We're enhancing content so they are more interested in coming back to the site. We're also planning our Intranet and translating our sellers' and buyers' guides and other marketing materials into Spanish.

RT Are you putting your listings on more Web sites? If so, which ones?

Li We're definitely putting our listings on more sites. We're using Google Base, Cyberhomes.com and Realtor.com. We just launched the showcase feature on Realtor.com for our agents. This will help us retain agents and create more traffic to individual agent's Web sites. We're a local company and a lot of homebuyers are from the Bay Area. Dotcoms are on the rise again, so we have a lot of investors.

RT Are you investing in lead management and lead generation?

Li Yes, we are evaluating a CRM program. Our management group is excited about this program and it will help with e-mail, calendars and contacts. It's a cost concern, but agents are willing to pay as this is a very important program. As for lead generation, our company has a technology tool called TrendGraphix. Our agents can use this

information to fax and e-mail trends in pricing, inventory and more to clients. It helps agents capture a lot of the Internet buyers because they start searching for homes earlier. We are really working on incubating those leads and passing on high quality leads immediately. The new system will help with lead generation as well. Once we receive leads, the system will send out automatic thank you letters and more.

RT Where are you cutting back?

Li In Sacramento, we stopped our print media advertisements. We still have local area advertising in outlying areas. We used to spend \$500,000 with the Sacramento Bee on the back page institutional ads and in the Sunday newspaper with full-page classified listings. We've stopped those and we cut back in office assistants. We used to have two in each office, and we cut back to one, since volume and units have dropped. Our staff is very supportive of company decisions, so we're able to cut back in expenses. We streamlined some support staff. For some managers, we lowered their base pay but put more incentives on the bonus side. We want to focus on high returns.

RT Where are you spending your money? Why?

Li We're spending money on Web redesign because we think consumers want this and it will generate more traffic to our agents. We're also focusing on search engine optimization (SEO). We're spending over \$60,000 just to give our agents personal access to our SEO, so they enter keywords and add personalized information to their agent Web sites. Agents have already seen Web traffic and leads increase because of this.

We focus intently on agent education, particularly helping agents navigate technology. We have on-site tech training every month. We also did our own convention - FRED, Fun Realtor Education Day. We invited Rick Deluca and had 12 breakout sessions on everything from e-marketing to Web sites to how to work in a down market. Out of 900 agents, 700 showed up.

NAR Responds to Department of Justice/Federal Trade Commission Web Site Launch

REAL *Trends* has not read any better response to the publication of the Department of Justice/Federal Trade Commission Web site than that released by the National Association of REALTORS. Should you have missed it, we present it here for your review.

Justice Web Site: Few Facts, Much Fiction

The U.S. Department of Justice, for reasons of its own, has initiated a Web site to educate consumers about what it calls unfair competitive practices among real estate brokerages. What it really does is advocate a particular real estate sales model over all others: discount brokerage.

If the DOJ was attempting to try its case against NAR in the press, it met with a dull thud. While there has been intense interest about the site from Realtors and association staff, in the media it has produced a big yawn.

Some arguments at the Web site display a flagrant disregard for the free competition the agency is supposed to champion. It uses the Web site as a promotion for unbundled and discount services. It doesn't present persuasive argument to show that one model has certain advantages over another. Instead, it dictates what it believes is the ultimate wisdom about real estate brokerage.

In one of its most recent postings at the site, DOJ showcases a news release it distributed to media outlets Oct. 17 about a settlement with a non-Realtor owned MLS system in Hilton Head (SC). NAR has no connection with this MLS, and has no detailed knowledge of the issues involved or of the settlement arrangements.

Taxpayers Underwrite Effort

A disturbing feature in all of this is that the DOJ is using federal taxpayer dollars to host that Web site. Just as it is wasting taxpayers' money to press an antitrust lawsuit against NAR, now it is using taxpayer dollars to try on the Internet a case it is already trying in court. It also uses federal dollars to lobby state legislatures against passage of minimum service rules in real estate, in an attempt to dictate to state legislatures that it knows what's best for consumers, implying

it knows better than the state legislators do.

Some Simple Facts

1. Quoting a NAR study, DOJ says on the Web site that 83 percent of consumers used full-service brokers in 2006. True. But DOJ conveniently fails to mention that the same survey shows almost two-thirds of consumers were very satisfied with the services they received. To underscore, the 2007 NAR Profile of Home Buyers and Sellers, to be released at the convention in Las Vegas this month, shows that more than 70 percent of those who used full-service agents were very satisfied, and another 24 percent were somewhat satisfied.
2. The DOJ likes to use the "standard" commission as a straw man it can knock down. The standard commission doesn't exist. The same upcoming survey cited above will show that 70 percent of sellers say their commission was negotiated, with 39 percent saying the agent brought it up and 31 percent saying the sellers brought it up. That's competition. How much more competition can the DOJ ignore? The fact is real estate commissions are always negotiable. Commissions and fees are driven by market forces to attract clients and retain the best agents.
3. The real estate market is very competitive. NAR encourages innovation and fair competition in real estate brokerage, and favors no business model. NAR members represent almost every conceivable business model, including full-service, limited-service, so-called "discount" models and others. About one in eight Realtors works for a business model other than a full-service firm.
4. Realtors add value to the real estate transaction, and two-thirds of sellers clearly are satisfied with the relationship they have with their full-service broker. More than eight in 10 recent home sellers report that their real estate agent provided a broad range of services and managed most aspects of their home sale to great satisfaction. More than three-quarters of those sellers say they would gladly recommend that agent to their friends and relatives and would use that agent again.

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compare to our peers and what we might do to emulate those who perform above the norm?

We need to seek others who we know are performing better and find out why. What are they doing that we are not? What have they tried and perhaps failed at that we can learn from? Somewhere out there someone has tried what you have in mind and it works or does not and we should be willing to open ourselves up to learn from them.

Our business is not scientific. There are no magic formulas for connecting DNA. Those that are performing well need to share their successes. More than anything, we all need to embrace change. We need to understand that real estate brokerage is about relationships and how we can turn those relationships into long term producing assets. It should be more than holding on until the market turns around.

How can we effect permanent change in what we do each day

for the long haul in order to create long lasting value? As 2008 peeks around the corner, the time of year is right to check our gauges, compare our operations and set some expectations and a new plan based on the data that benchmarking can provide.

Note: More information can be obtained about the real estate brokerage business in the *2007 Brokerage Performance Report* available through *REAL Trends*. Order it online at www.realtrends.com.

David Colmar is president of Colmar & Associates, a consulting firm for the real estate industry, and serves as an associate editor of REAL Trends. He is the editor of the annual Brokerage Performance Report and much of the data included herein is from that report. He may be reached at: dcolmar@colmarassociates.com.

Capture That Business

By Tracey C. Velt, Associate Editor

Affiliated business relationships aren't worth the extra work and legalities unless you have excellent partners and buy-in from sales associates. *REAL Trends* spoke with brokers from around the country to find out how they increase capture rates and ensure profitability.

Armand D'Alfonso, CEO
John DeCarolis, CIO
Nothnagle Realtors
Rochester (NY)
22 offices, 585 sales associates
Affiliated Business: Mortgage

RT How are you working with sales associates to increase capture rates?

D'Alfonso We work closely with the mortgage company, and we've signed a different originator for several branches. The goal is to build rapport. We're always educating agents about their control over the transaction and how, by using our services, they have a local contact for any problems. A lot of buyers are coming off the Internet and they're coming pre-qualified. That gives us more opportunities to help with the transaction.

The Internet has helped us. Our closing ratio on mortgage is 25 percent of the buyer leads. We have about 4,000 buyer transaction sides a year, so we're closing about 1,000.

RT Any new trends or changes taking place with your affiliated business arrangements?

D'Alfonso The Rochester market is not typical of the national news. Our foreclosures locally are up, but the percentage is minimal. Less than five percent of mortgages have been subprime, so the effect it's had on us is minimal.

We're trying to capitalize on picking up new business, training on foreclosures, giving mortgages to agents and buyers who want to fix up and flip properties because there are opportunities out there. Builders' lines of credit have maxed out, so new equity advance programs help with that. We're also doing that with seniors.

RT Are you expanding your offerings to business with other brokers? Builders? Anyone else?

D'Alfonso We have a Client Perks program that ties together about 150 affiliated businesses. Once a client sees this information on our Web site, he wants to use it. This service has helped us.

RT What new strategies/tactics are you pursuing as they relate to improving capture rates?

D'Alfonso The approach we've taken is to educate managers on the value of risk. We're not offering incentives because it's not necessary. If you have good programs, people will want to use them.

Avram Goldman, President/CEO
Pacific Union GMAC Real Estate
Bay Area (CA)

13 offices, 600 sales associates

Affiliated Businesses: Mortgage, Title, Insurance, Home Warranty

RT How are you working with sales associates to increase capture rates?

Goldman You must serve both the end client and the real estate agent. So you really have to start with the right partners. That's the underlying foundation. You must have the diversity of programs to satisfy both your agents and the consumers. And your programs must be well respected. We spend a lot of time making sure that's the case.

We have our own service levels and we have our own programs, just like The Ritz Carlton. We train the people who are delivering our services on how to provide the ultimate customer experience. Each partner has to go through that same training to ensure we're on the same page. The consumer wants a one-stop shopping experience, so we tell our agents we're just trying to meet the consumer's needs. We communicate our message through marketing materials that talk about preferred services and benefits.

All of our sales associates are aware of the services and that's presented to them in the basic training. We also communicate through the management team as well as the preferred vendors.

Our capture rate is well over 20 percent in terms of mortgage and we're over 30 percent with home warranty and other partners. And we don't offer those services in every one of the areas that we cover, so that does make it difficult.

RT Any new trends or changes taking place with your affiliated business arrangements?

Goldman In terms of our business, it's almost entirely jumbo products, so it's important for us to respond. Our mortgage company, Union Trust Mortgage Services, offers a wide variety of products, and that's helped our agents find the jumbo products that are out there when a number of sources have dried up. It really gives us a competitive edge.

RT Are you expanding your offerings to business with other brokers? Builders? Anyone else?

Goldman We're not offering them to anyone other than those within our own company. However with builders, if we have their product, then we will certainly offer our preferred services.

RT What new strategies/tactics are you pursuing as they relate to improving capture rates?

Goldman We're constantly getting feedback from clients and our agents and we make improvements based on those comments. You can't force anyone to do anything. Ultimately, our goal is to have happy customers and offer services they feel are valuable to them. Word of mouth is what will increase our business. And we must constantly communicate with agents to find out if this is helping clients feel better about their real estate experience.

Erik Hand, President, Response Mortgage
Brian Golik, Vice President, Agent and Client Services
John L. Scott Real Estate
Seattle (WA)

40 offices, 1,920 sales associates

Affiliated Businesses: Mortgage, Title, Home Warranty

RT How are you working with sales associates to increase capture rates?

Hand/Golik Our goal is not to "sell" these services as much as provide a compelling service package so that the agents are heroes to the customers. It's not about selling or getting agents to sell it, it's providing them with a package of services that allows them to better compete in the real estate marketplace.

We're working on corporate messaging right now - it starts at the top. We talk about our business partners on a continual basis. The customers are asking for it and we want the agents to be the hero of the transaction. We're finding much greater value in the companies affiliated with our business. We're offering more training, more services, more value and a higher level of accountability.

RT Any new trends or changes taking place with your affiliated business arrangements?

Hand/Golik We have different needs for different marketplaces. We run title and escrow as two separate entities. In Puget Sound, agents drive business to both title and escrow, but in Portland it's the actual buyer's agent who directs where both are going.

RT Are you expanding your offerings to business with other brokers? Builders? Anyone else?

Hand/Golik Not right now. We've tried bringing in a few in the past. We have business relationships in this marketplace with another larger company in town. We're not wholly-owned in any of the entities other than mortgage. We do have a joint venture with a small builder.

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RT What new strategies/tactics are you pursuing as they relate to improving capture rates?

Hand/Golik We have to have a product that is beneficial to agents and clients and you must follow up as far as customer service is concerned. We're making sure we're rock solid on those needs and we're focusing on getting the expectation level up to where it needs to be. This is about changing the culture of those companies.

We're really focusing on internal messaging/communication. We want to get the message out that we are a full service company that offers one-stop shopping. We can do it all for the customers.

Ben Kelly, Owner
PrudentialRealtyCenter.com
Chattanooga (TN)
7 offices, 308 associates
Affiliated Businesses: New Homes, Mortgage, Insurance, Title

RT How are you working with sales associates to increase capture rates?

Kelly The key is orientation of new agents. Each manager of the affiliated business will teach the new associates about the benefits. We also offer some specials such as \$100 toward closing costs to the consumer if he uses our mortgage.

We'd like to start offering managers increased compensation and make managers part owners, but we haven't done that yet. After all, our business is dependent upon them. This year is better than last year for our capture rates, but the market hasn't helped us.

RT Any new trends or changes taking place with your affiliated business arrangements?

Kelly The negative is that we did a pretty good subprime business and now it's tougher to do. We're helping agents to adapt to that market and step up in price ranges. We are encouraging them to reach a wider array of buyers. Our mortgage partnership does help by offering products that buyers might not get elsewhere.

RT Are you expanding your offerings to business with other brokers? Builders? Anyone else?

Kelly We've gone with builders, we've gone to land developers to sell lots and we've teamed with a national company called Palmers Home Credit. Our mortgage people

work with them; they finance land at a much higher loan-to-sales ratio.

RT What new strategies/tactics are you pursuing as they relate to improving capture rates?

Kelly We're just trying to sell the benefits of keeping in touch with the consumer so agents have better control of the transaction. We integrated our computer system so that the consumer and agent can go online to track the progress of title, insurance and mortgage if they use our services. From that online area, they can pull their own documents, which we scan through efax.com.

A key part is our management. We have an excellent capture rate in mortgage. We put the loan office up front near the lobby so that agents pass it on the way to their offices. The customer must also pass and we find that many times customers will ask the agent about it and want a quote.

Mike Pappas, President
The Keyes Company
South Florida
26 offices, 1,500 sales associates
Affiliated Businesses: Mortgage, Title, Home Warranty

RT How are you working with sales associates to increase capture rates?

Pappas It's a lot easier in this market. With the meltdown of options in the subprime market, many lenders are not offering a wide variety of products. There's been a rush to quality and our partnership on the lending side is with Wells Fargo, so we will continue to offer many products. And some products are even being enhanced. So top producers and most sales associates see the great value in being able to pre-qualify and ensure that the buyer will close with a credible lender by using our affiliated business. We're seeing a dramatic increase in use.

We also have many continuing education programs in the offices, including short sales seminars. We have a one percent buy-down program for one year in certain markets that is wrapped with mortgage, title and home warranty.

RT Any new trends or changes taking place with your affiliated business arrangements?

Pappas We just did a merger with Sheldon Good and the auction business. We're in the process of buying business closeouts of developers of luxury products and distressed sales.

RT Are you expanding your offerings to business with other brokers? Builders? Anyone else?

Pappas The other thing is asset management - expanding it for lenders that are taking back paper and third party companies. We see that as a bigger opportunity. We're buying a lot of small brokerages and folding them into our company. We've recently bought three that had about 100 associates and we have another six lined up. We're seeing a lot of consolidation in this market.

RT What new strategies/tactics are you pursuing as they relate to improving capture rates?

Pappas The quality of the programs and the quality of loan offices help us improve capture rates. We've worked hard on building this culture with the management team. We've worked with managers and their compensation, which is directly tied to mortgage and title. Capture rates along with a bonus are tied into that.

This is a cultural shift for us. We're no longer a real estate manager but a full service broker. That cultural shift is moving to associates as well.

Jerry Reece, CEO
Linda Vaughan, President
Reece & Nichols
Kansas City (MO)
26 company-owned offices, 39 affiliated offices,
2,400 sales associates
Affiliated Businesses: Mortgage, Title,
Property/Casualty/Auto Insurance

RT How are you working with sales associates to increase capture rates?

Reece We have three points of focus - interdependence, superior service and superior service delivered by the right people. It sounds so fundamental. Interdependence is a core value that will lead to higher capture rates. We value teamwork. Isolated individual efforts ultimately lead to failure. We're all dependent on helping other members of our team for the benefit of our companies. We act as one. We push the fact that we're a family and a team. To sell that whole concept in the context of trying to increase capture rates, it's a tough sell. But building that foundation is important.

As for superior service - the bottom line is that if sales associates don't feel that their customer will get superior service, they won't encourage use of our services. So obviously we work hard to make sure we have the best title company, mortgage and insurance services.

But that means nothing unless it's delivered by the right people whom customers and sales associates trust. It all comes back to teamwork. If the branch manager and loan originator aren't working as one, we've got a problem. We have about

32 loan originators and we're a Wells Fargo partner. Seven of our loan originators are in the Wells Fargo leaders club - the top 60 of 10,000. Of those, two are in the president's club - you have to be in the top 20 for that. The point is that this doesn't happen without total commitment on everyone's part.

We believe in roster scrubbing where branch managers and loan originators go through branch office rosters to find out who's giving the affiliated companies business. We educate sales associates on the value proposition of our family of services and the convenience of it. We price competitively and we have weekly meetings with loan originators who update agents on trends in the industry, new products, etc.

In 2008, we added a search by payment function to our Web site, allowing consumers to interact directly with Plaza Mortgage. If we don't embed mortgage in what we offer, consumers will navigate away somewhere else. We can do a better job for agents and buyers and that's important to us.

RT Any new trends or changes taking place with your affiliated business arrangements?

Reece We're noticing a flight to quality in all lines of business - real estate, mortgage and title. We've seen an influx of experienced people come into our company and we teach them about the value proposition of our family of services. The subprime market is playing our way at this time and we're upgrading our staff in real estate. With mortgage, we have fewer competitors and in tougher times, it re-enforces the value of our business model.

RT Are you expanding your offerings to business with other brokers? Builders? Anyone else?

Reece In Kansas, we're required to get 30 percent of our title business outside our company. On closed title, we must market aggressively to local banks and builders. On the mortgage side, our company is called Plaza Mortgage, not Reece & Nichols, so outside agents feel comfortable using it.

RT What new strategies/tactics are you pursuing as they relate to improving capture rates?

Reece Build the foundation, recruit, make sure service is right and make sure we're playing as a team.

Art J. Zachary, President, COO
Rose and Womble Realty
Virginia Beach (VA)
11 offices, 600 sales associates
Affiliated Businesses: Title, Mortgage, Insurance

RT How are you working with sales associates to increase capture rates?

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Zachary We put our affiliates in every office we have. They are physically in there and very visible and accessible to our agents. They have their own office space. The bottom line is we're offering a service and if there's a problem, we know we can correct it in-house. Sales associates want to hold the deal together and they know that if their clients/customers use our services, they have more control.

RT Any new trends or changes taking place with your affiliated business arrangements?

Zachary Change is happening right now. Many firms are going out of business and there is a flight to quality.

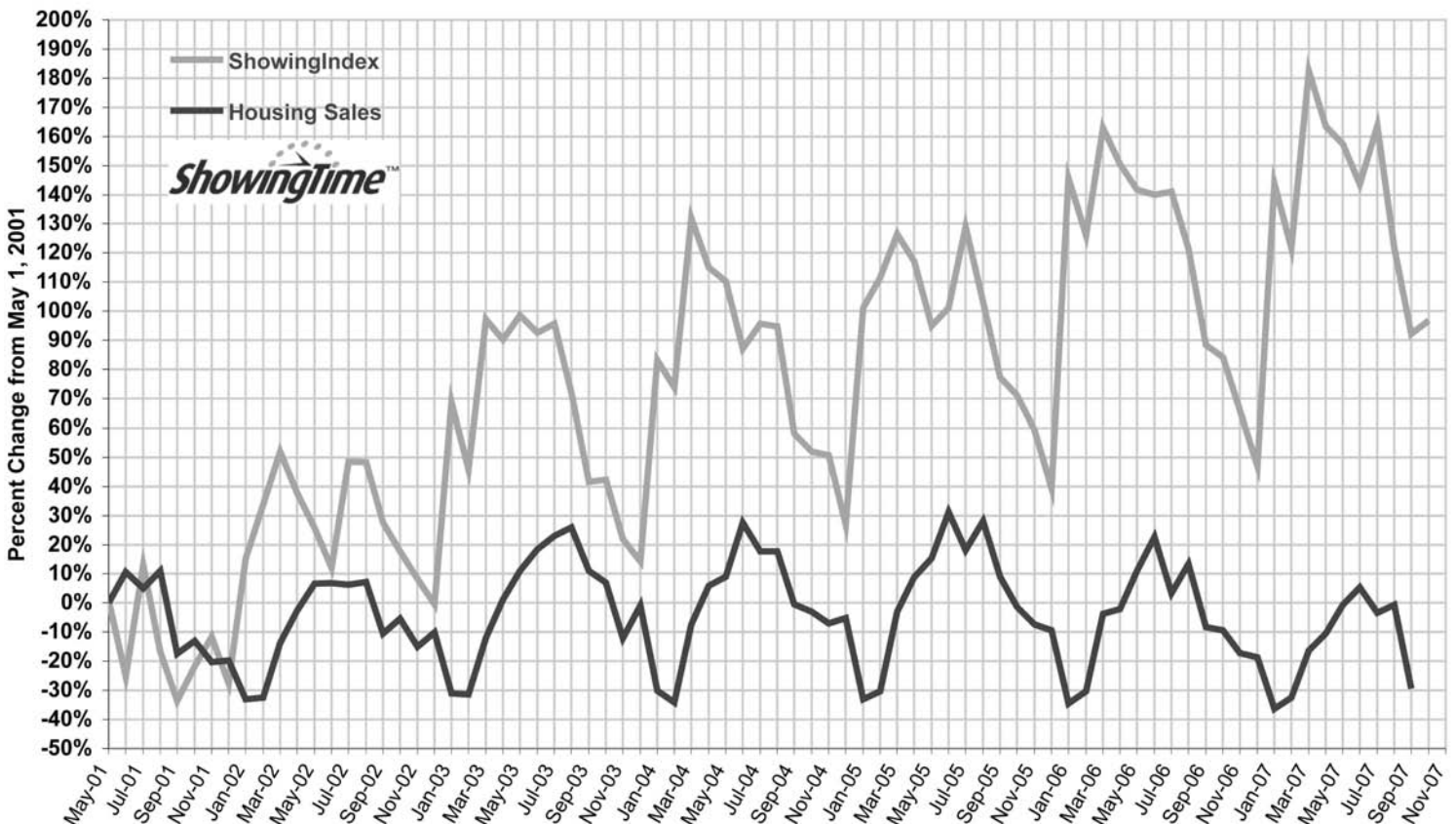
RT Are you expanding your offerings to business with other brokers? Builders? Anyone else?

Zachary We're extending joint ventures to builders. We have over 48 new home sites, to get builders involved. Its part of our marketing program as well. We're also talking to smaller brokers who don't have enough business to form their own joint ventures and even to banks.

RT What new strategies/tactics are you pursuing as they relate to improving capture rates?

Zachary We're holding homebuyer seminars with affiliates. We make sure our affiliates are a part of everything we do. We're really going back to basics.

ShowingIndex - Leading Indication of Home Sales



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

NEWS

MERGERS, ACQUISITIONS, AFFILIATIONS

HouseValues, Inc. has announced it has acquired **Realty Generator**, a leading provider of marketing and technology solutions to real estate brokerage companies. Realty Generator enables brokerage companies to dramatically increase both their revenue and their bottom line while providing them with a comprehensive Internet marketing system for cultivating their leads and managing their real estate business. Realty Generator's proprietary, Web-based platform provides brokers with a turnkey way to generate new leads, manage the distribution of those leads to their agent teams, and monitor agent follow-through with future home buyers and sellers.

STRATEGIC PARTNERSHIPS

The **National Community Reinvestment Coalition (NCRC)**, the nation's largest member-based coalition committed to equal access to homeownership, fair housing and credit, and the **Realogy Franchise Group**, a unit of Realogy Corporation, have announced a three-year alliance. This agreement, which provides for both entities to share resources in the promotion of fair housing best practices to real estate sales associates and consumers, comes as both organizations prepare to recognize the 40th anniversary of the Fair Housing Act throughout 2008.

SENIOR EXECUTIVE APPOINTMENTS

Move, Inc. has recently appointed **Justin Miller**, senior vice president of product management, and **Randy Wigginton**, site wide architect. Miller, who most recently enjoyed a successful career as one of eBay's leading European product executives, will lead Move's company-wide strategy for product management, user research, competitive insight and all new product launch planning and execution. Wigginton, who started his career at Apple Computers, will lead the development of Move's site architecture, including the company's engineering footprint and the implementation of innovations ensuring the best possible experience for consumers visiting the online leader.

Realogy Corporation, a global provider of real estate and relocation services, has announced the appointment of **Richard A. Smith**, 54, as chief executive officer, succeeding **Henry R. Silverman**, 67, in accordance with the Company's previously announced succession plan. Smith will now serve as Realogy's president and CEO. Mr. Silverman will become the non-executive chairman of Realogy's board of directors. The leadership transition will take effect immediately.

Better Homes and Gardens Real Estate LLC has announced

that **Nicolai Kolding** will serve as its chief operating officer. In this role, Kolding will oversee the new brand's global service platform, internal operations and overall strategic positioning. Kolding joins the Better Homes and Gardens Real Estate brand with a decade of experience with the Company's corporate parent, Realogy Corporation, where as senior vice president of strategic development he directed mergers, acquisitions and other strategic growth activities in the U.S. and abroad. His department was responsible for the valuation and negotiations of various investments for each of Realogy's four business units - NRT LLC, Realogy Franchise Group, Title Resource Group, and Cartus.

Better Homes and Gardens Real Estate LLC has announced that **Wendy Forsythe** will serve as vice president, broker services and product development. In her new role, Forsythe will be responsible for developing and delivering the sales, recruiting and productivity tools for the Better Homes and Gardens Real Estate network. Forsythe will also create and manage the service relationships between the brand and its network members. Better Homes and Gardens Real Estate LLC will launch its franchise system in the residential real estate marketplace in July 2008 as announced by its parent, Realogy Corporation on October 8th.

The National Association of REALTORS has named **Lawrence Yun** chief economist and senior vice president of research. Yun has served at NAR since 2000, most recently as vice president and senior economist. Yun has been chief forecaster at NAR for several years and pioneered the development of the Commercial Leading Index after helping develop the residential Pending Home Sales Index. Yun has worked as an economic consultant to the U.S. Department of Veterans Affairs and the U.S. Department of Education.

Coldwell Banker Real Estate LLC President and Chief Executive Officer **Jim Gillespie** has promoted **Charlie Young** to become chief operating officer. Young has spent the last three years as senior vice president, marketing. In his new role, Young will direct the operations, education, mortgage, field services programs and communication between Coldwell Banker corporate headquarters, regional offices and its nearly 4,000-office affiliate network around the world.

Matt Packey has been named the senior vice president and chief financial officer of LendingTree, LLC. In this roll, he will provide executive leadership to the finance divisions of the company. Packey was previously the company's chief accounting officer. During his eight-year tenure at LendingTree he also served as controller, where in addition to being responsible for the accounting unit, he was directly involved with the financial due diligence of nearly a dozen capital raising efforts and mergers and acquisitions.

EDITOR'S NOTE

Due to overwhelming demand, we have moved the Murray Consulting online automated Brokerage Valuation Analysis from behind our Members Only area on www.realtrends.com. Go to "Consulting" on the menu bar and click on "Brokerage Valuation Analysis."

We will also shortly be publishing a guide to acquisitions and roll-ins that will be available from *REAL Trends*. The new publication is a step-by-step guide to value a firm and also how to identify and complete acquisitions of other realty firms. It should be available by late November.

The 2008 Gathering of Eagles will be held in Denver, May 7-9, 2008, at The Westin Tabor Center. This coming year we will be featuring leaders from within and from outside the industry with a focus on sustaining a profitable business, building better relationships within your organization and how to become more effective in converting consumers to purchasers. Registration and agenda information will become available shortly and as always, early registration will save you money.

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attract are served in a manner that produces a successful outcome. Internet lead management services and technologies are important to anyone who wants to compete for these customers.

Finally this: a majority of the CEOs with whom we visited this fall will remain profitable in 2007 regardless of how much their markets or their business are down. A business traveler whom I encountered recently said that, while he didn't think that real

estate brokerage firms were very businesslike, he admitted that if his revenue top line fell 25-45 percent, he would be out of business. He said that any business that can absorb that kind of hit and not only remain in business, but remain profitable, is a business from which everyone can learn.

Amen.

By Steve Murray, Editor