Volume XVI, Number 12 December 2007

REAL Trends
The Trusted Source

COMMENTARY

The Years Ahead

2007 was an interesting year for our industry. Most are thankful that it is almost over and look forward with guarded optimism to 2008. After the first half many thought sales had reached bottom; then August and September showed that the light at the end of the tunnel can often be the light of an oncoming train. The fourth quarter was mixed, depending on the market where you operate.

(*Commentary* continued on page 2)

Compliments of

DENVER BOARD OF REALTORS®
–Professional Excellence–

REAL *Trends*

Office:

6898 S. University Blvd., Suite 200
Littleton, CO 80122
Phone: 303-741-1000
FAX: 303-741-1070
E-mail: realtrends@realtrends.com
Web site: www.realtrends.com

Editor:

Steve Murray – smurray@realtrends.com

REAL *Trends* Staff:

Amy Broset – abroset@realtrends.com
Susan Cox – scox@realtrends.com
Daniele Stufft – dstufft@realtrends.com
Doniece Welch – dwelch@realtrends.com

Copyright 2007 by REAL *Trends*. All rights reserved. Material in this publication may not be electronically stored or reproduced in any form without written permission. Violators will be punishable by a fine of up to $100,000 per offense.

To purchase a membership or any of the following REAL *Trends* products please visit us at www.realtrends.com:

- REAL *Trends* 500
- REAL Facts
- Valuing a Residential Real Estate Service Business
- People Still Matter
- Brokerage Performance Report

(*Commentary* continued from page 1)

Here are our thoughts about the markets in 2008 and trends that we see already reshaping the industry.

Market Trends

Housing sales are now down 28-32 percent nationally in terms of units closed, from 2005. The national rate of sales for existing homes is in the range of five million and new homes are in the vicinity of 800,000. There are markets where the level of sales are worse and many that are not as bad. The new REAL *Trends* Housing Market Report (see below) shows that there are significant differences between regions both in the level of closed sales and of prices. The good news continues to be that prices are not falling as so many misinformed reports have it. The tough news is that closed units are down and there is little chance that there will be a quick recovery from these levels.

We think that most markets are at or near their bottoms in terms of sales, that there are a few markets where we think there will be a small recovery in sales units in 2008, but that for the majority of markets, 2008 will show little increase in housing unit sales. On a cautionary note, we are not economists and we tend to be conservative about such matters. The current low interest rate environment will assist the industry greatly and as long as the economy continues to create new jobs at the current yearly level, we should not see further declines. Most markets will continue to have downward pressure on house prices due to excess inventory, compared to demand.

Short sales and foreclosures as a percent of all sales will likely increase for some time to come in virtually all markets (see story in this month's REAL *Trends*). As with excess inventory this issue will continue to dampen housing prices and test the ability of all brokerage firms and sales professionals to get and keep deals together.

Industry Trends

There are six trends that we think will matter most to leading residential real estate service firms.

- Consolidation among realty firms;
- Consolidation among sales professionals;
- Outsourcing of realty functions such as technology, marketing and education;
- A focus on Internet leads;
- The democratization of listings on the Internet; and
- A focus on core services.

Consolidation Among Realty Firms

The industry grew to accommodate over 8.4 million new- and existing-home sales by 2005. Today and for the foreseeable future total sales will be around six million. There are too many real estate brokerage firms and too many real estate sales professionals, mortgage employment is too high and title insurance/settlement services employment is also too high relative to the new levels of demand.

Among residential brokerage firms, those with strong balance sheets and leadership are already reporting to us that they are busier than ever acquiring

(*Commentary* continued on page 11)

2008: A Look Ahead

By Tracey C. Velt, Associate Editor

While no one is expecting a record-breaking 2008, many brokers and experts are looking for some positive news in the coming year. REAL *Trends* interviewed brokers and experts from around the country to talk to them about the year ahead.

Laurie Keenan, President
Prudential Real Estate & Relocation
Irvine (CA)

I don't have a crystal ball, but certainly as I observe what's happening and talk to our companies, the market is clearly in a struggle. We have a few markets that are holding and a few that are increasing. But we have more markets that are soft.

From our standpoint, we have a lot of really strong professional, well-prepared organizations, so we're weathering well. To some extent I'm encouraged because there are things happening in the economic environment that are reasonably favorable to a recovery, including pent-up demand, better acquisition pricing, foreign investors who want to take advantage of the dollar and the demographics of real estate buyers.

The fact that we have a good job market and positive economic indicators (even though signs in the last month or so have stalled us a little further), I look to 2008 as a positive year. We're seeing a lot of positive signs that downturns in the past didn't have. I'm seeing wonderful innovation coming from our sales associates. The old basics don't work right now. We have new basics and our sales force needs to re-engage and figure out what those new basics are. Many agents have told me that they're having their best year ever in a market that's 30-40 percent off. The message here is that sales associates who want to do business well must be innovative in finding new ways to communicate with sellers and new ways to engage the buyer on their terms.

Those who are using technology as a means to reach out to consumers who are tech-enabled are finding a plethora of business opportunities.

It's been a rough, challenging go, but we're blessed with wonderful ownership and our brokerage companies have fared well, given the circumstances and market conditions, and we're looking forward to an upturn in 2008. There are a couple of areas of focus for us in 2008.

We're focusing on defining exactly what we can do as a network to help and support franchisees without getting in their businesses. Much of our efforts will be announced mid-March. We want to help affiliates grow their businesses in many different ways. We're taking a different twist to it and making some changes to do that. It revolves around supporting recruitment efforts. We're preparing to deliver a new product that we think will be quite interesting in the market. We'll have a new approach to marketing and we're launching a new recruitment and retention product.

Pam O'Connor, President/CEO
Leading Real Estate Companies of the World
Chicago (IL)

I think everyone feels it will be another soft year in terms of the housing market. Mostly that's being triggered by the foreclosure market. We're being a little conservative in terms of budgeting, but at the same time we believe this is a good time to invest in opportunities. Many companies didn't plan for the down time, so we'll see a lot more consolidation. I think we'll also see some new players and some people who sold their companies who want to get back into the business.

The industry must get more consumer-focused. We believe that successful companies understand what has to happen with products for the consumer. Companies must build strong brands. Consumers must be able to find you. I do believe there's a lot of opportunity in a market like this.

We're upbeat, and we're seeing good things with independents. As far as our planning, we introduced a lot of new programs this year, and they're doing well. Our goal is to get traction on what we have - Luxury Portfolio, RELO Homesearch and our member intranet. We're focused on those three things as well as a magazine that we plan to introduce. We'll continue to upgrade those products.

Pat Riley, President/COO
Allen Tate Company
Charlotte (NC)

In the Carolinas, we're bullish. We're the receiver of the good stuff around the country. A lot of folks are coming here to retire and young people are coming here after they finish college because many corporations are relocating here.

The companies here are growing organically. We're sitting in a nice position. We were the first ones in the slowdown, and I believe we're the first ones out. Our issue is different than

(*Analysis* continued on page 8)

Brokers Focus on Education with Short Sales and Foreclosures

By Tracey C. Velt, Associate Editor

Education is the name of the game when it comes to getting sales associates and managers up to speed on how to handle short sale situations and foreclosures. Here's a capsulated view of what's happening in those segments around the country and what brokerages are doing to help facilitate those sales.

Nancy Fennell, President
Dickson Realty
Reno/Sparks & Incline Village (NV), Parts of California

Short sales are a new phenomenon in our market, so we don't really have any stats from 2006. In our largest market, Reno/Sparks, our MLS allows us to note in the remarks section whether a property is a short sale or not. We currently have 180 active short sales in the MLS and 34 have sold this year. If you look at Reno, Sparks and Incline Village, foreclosures have gone from five in January 2005 to 369 in September 2007.

Our biggest problem is getting the lenders to work with us on getting these properties closed. Lenders need to step up to line to get these properties sold and marketed. We're training our associates constantly. We've gotten everyone in our area to work on training - title companies, the MLS and Realtor Associations.

We subscribe to RealtyTrac.com. We're training our agents to be able to do an absorption rate analysis and to price in micro-climates so you know on the front end what your margin of error is. We have a special group of agents who have specific designations and training on the state, federal or regional level. They've gone through extensive training in foreclosures. Those agents work directly with lenders or asset management companies and we have at least one person in every office. It's a different level of commitment. Getting these properties ready for market is much bigger than a normal resale. We have a joint venture with Wells Fargo to develop programs that will help us through this market.

In addition, Nevada has set up a mobile resource center that gives foreclosure advice to consumers. We hope this will foster dialogue between borrowers and lenders and give them options.

Linda Hauff, General Manager
Prudential Tropical Realty
Tampa (FL)

The trend is that short sales and foreclosures are growing given the fact that resets on mortgages are increasing. We'll see that trend for some time. It's an interesting market right now, but primarily our focus is how we can help buyers, sellers and lenders through this process. We're estimating a 12 percent decline in prices by end of the year. It's an adjustment.

Foreclosures are easier to process to closing than the short sale. Part of the issue is that the lenders aren't geared up with staff like they need to be to handle processing as efficiently as they should be. The foreclosure process is easier to work on. We're seeing foreclosures in all price ranges. It's very segmented as well. Pinellas County is very established; there's no new construction yet the foreclosure rate is high. The positive part of this is that consumers realize now more than ever that they need the help of a Realtor.

Every month we post foreclosure filings on our intranet site. This helps sales executives determine if they can offer help to clients. We're training sales executives to recognize if someone is facing a foreclosure/short sale situation as quickly as possible. The signs are there, but many sellers are in denial.

We've trained agents on the short sale process and have been proactive in that, so they can educate sellers that this process exists. We encourage sellers to contact the loss and litigation departments to find out what options they have. That's a challenge, as many sellers want to hide.

We're testing a new concept where we have a transaction manager who handles short sale files. Once the property is under contract, the sales executive can hand over the paperwork to the transaction manager to work through the system. This will keep agents focused on their business because it's time consuming to keep the file moving.

We've tried to work more closely with lenders to build better relationships. We have agents who specialize in REO properties. They have the opportunity to work with the lender after the foreclosure process. We have a relationship with Wells Fargo and they've reached out to us to develop new programs and train agents on the short sale process.

Craig Lewis, President/CEO
Prudential California Realty
Modesto, Fresno, Sacramento (CA)

We're not seeing a percentage increase in the number of short sales and foreclosures since they ramped up to a certain level. It's stayed at that high level, but it hasn't intensified. We're in the foreclosure capital - the Central Valley of California. Some 70 percent of all for-sale properties are either a short sale or a foreclosure. And the only properties coming on the market besides short sales and foreclosures are from death, divorce, estate sales or job transfers, where the seller has to sell. Another thing we've experienced is that the conventional seller's competition isn't the conventional seller next door - it's the banks.

A few months ago, banks wouldn't cooperate to get short sales closed. But they're starting to come around. We're training our agents in how to deal with a short sale, not only from the bank/lender point of view, but from a seller's point of view as well. It's taking us anywhere from 3-6 weeks to get answers from the banks, so we have to educate sellers about the process. We have special foreclosure agents who handle those properties for us.

We've had some public forums where we invite people in to talk about short sales. One of our agents participated in a local housing forum that dealt with issues of mortgage fraud, foreclosures and short sales. It was a good, open community forum.

We're also spending time training buyers. It's a different mindset having to wait for a bank to agree on a short sale. It would help if we could speed up that process. We're following RealtyTrac.com closely to be aware of foreclosures. We're training agents as to how to chase foreclosure lenders. There's an expertise just to be able to train an agent on what he has to go through to get those listings.

We're promoting a Web site that lists bank-owned homes. Everyone wants to buy a bank-owned home. From a marketing point of view, we're trying to attract buyers by offering an access point. In the Central Valley, in 2005, 6.8 percent of all local residents could afford to buy based on median income/median price. Now, almost 42 percent of all local residents can afford to buy. It's made homes more affordable. We're barely starting to see first-time homebuyers and investors enter the market. We've also seen lender-held used home auctions. We expect that to continue.

Bill Plattos, Executive Vice President
First Team Real Estate
Southern California

There are a lot of short sales here, but only one out of four is closing. The problem we're seeing is that there are a lot of no-down deals with firsts and seconds. Second mortgages are being handled by people who are totally uninformed. The first trustee says that the second trustee needs to give it up, but the second isn't willing to do so. You have to go step by step, call the second, be nice, try to figure this out and explain to them that when this home becomes a foreclosure, then they'll have to give it up anyway.

We're working on ways to make the second happier somehow, someway - legally. There are some ways you can reach a second trustee. The other problem is that it takes 6-8 weeks to put an offer in and get an answer from a lender.

With regard to foreclosures, we're seeing that many banks don't want a loss on the books. A lot of foreclosures aren't selling, which is really out of the norm. We're doing major training. Starting last January, we developed training programs from an operational, mortgage and sales point of view. We have this training readily available via our video library through our Web site.

We have some technology programs that feed our agents a daily hot sheet on what foreclosures are on the market. We want our agents to have access to everything that's being defaulted or being foreclosed upon.

Kris Drake, Manager/Plaza Mortgage
Chris Kelly, VP/General Counsel
Jerry Reece, CEO
Reece & Nichols
Kansas City (MO)

Obviously, short sales and foreclosures are on the rise. We're seeing that lenders are more willing to accept short sales to avoid adding to an overcrowded inventory. Lenders know they'll lose less on a short sale than a foreclosure.

Agents have to take the lead in a short sale situation. They must identify the short sales and help the sellers learn their options. It all really boils down to training. We're constantly educating agents about the foreclosure process, including the cost and time involved with those properties. Once agents are armed with this information, they're better prepared to help a seller with a presentation to a lender for a short sale.

We make sure our agents know what to say when working with clients and customers in these situations. We're dedicated to educating the agents, then letting them take it to the field. Chris Kelly has done a short sale presentation to our president's council group and in 15 offices. We have sales meetings every Tuesday that help from an education standpoint. Chris addresses all new agents graduating from the program, and we talk about mortgage fraud as well as short sales and foreclosures.

Within our technology package, we have agent tools to help

(*Trends* continued on page 6)

(*Trends* continued from page 5)

them with listing presentations. We also want to make sure potential buyers are aware that when working with a short sale, it may take longer to put it together. In addition, we educate sellers and teach them how to contact the right person at the lending institution. We encourage agents to take advantage of Plaza Mortgage representatives who may be in the office. They can give specific tips on how to affect a short sale.

Brenda Shipplett
President/COO
Long & Foster Companies
Mid-Atlantic states, including Maryland, Virginia, Delaware and Washington, D.C.

We're seeing a big increase in short sales. It's a huge benefit for the lender not to have to put a foreclosure on the books. It's the best option for the lender when you consider everything that has to be done for a foreclosure.

Since we cover such a wide geographical area, it's a mixed bag. Some lenders have been working with agents, and we're getting these listings sold. But in some cases the banks aren't set up to work with short sales sellers and buyers. We're at the beginning of this process.

I think we're at the tip of the iceberg for foreclosures and short sales. In Washington, D.C., foreclosures have risen from 1,000 to 1,250 in the last few months. We're not seeing many investors, but they may be back the first of the year. We'll be in better shape then. About two months ago, we put in place training on short sales with specific information on what lenders can do. We also want agents to be well informed so they can educate the buyer and the seller. We hold these classes in the evenings and we've done some Webinars on short sales. Managers are teaching about short sales in sales meetings. We're getting ready to launch a foreclosure part of our Web sites so a consumer can search for foreclosures.

We're trying to teach agents how to help sellers to price homes so that they're not chasing down the market.

Floyd Wickman and Will Weaver on Short Sales and Foreclosures

A Primer

Floyd Wickman, a long time leader in providing training and educational programs to sales professionals throughout the industry, has launched a training program focused on short sales and foreclosures. Below are excerpts from an interview with Will Weaver, an expert in short sales, about how and why Wickman has developed a short sales training program.

The interview was conducted by Ms. Julie Escobar.

Q: All right guys, I guess we need to start at the beginning, and Will, I will address most of these questions to you, OK? Now, what exactly is a short sale?

WW (Will Weaver): The best answer I can give you, Julie, is that by definition, the "short" in the title of short sale refers to the fact that the payoff amount agreed to in the transaction is, indeed, shorter than the mortgage balance on the property. In other words, there is more owed on the home than what it will sell for.

Q: Why should a seller do a short sale?

WW: Well, the reason distressed sellers would consider a short sale is that they are really faced with a big decision and only a few real options:

1. They could let the lender *foreclose*, ruining their credit.
2. They can use an agent to help them negotiate a *short sale*, which would be a charge off on their credit - so a "bruise" if you will - rather than a foreclosure. This gives them the option to buy again within two years.
3. They can choose a *Deed in Lieu of Foreclosure*, which means they sign the house back to the bank. This is only an option, however, if the bank wants the house back. In a declining market, lenders are more apt to suggest sellers find an agent and consider a short sale.
4. They can *reinstate* their mortgage by coming up with all of the past due monies, interests, penalties and fines. Obviously, that is not an option for most consumers in this position.
5. They can try what is called a *Forbearance Agreement*. In other words, they then take what is owed and move it to the back of the loan and start all over. This would depend largely on their credit, their payment history, how long the lender has carried the loan and if they feel comfortable enough with that particular homeowner to take the risk.

Clearly, if a homeowner is truly in tough financial turmoil, a short sale can be a viable option to get him out from under a bad situation and back to rebuilding his life and credit.

Q: Why is it a win for sellers to choose a short sale?

WW: Well, it's a win for them because it is a "negotiated settlement" with the lender versus a "court settlement" with the lender. So, again, it is a "bruising" of their credit as opposed to a "ruining." There are also no attorney fees in a short sale situation to the seller, versus big attorney fees normally in a foreclosure situation. Then, of course there is the peace of mind that comes from knowing that their situation is being handled by a professional who has their best interests at heart. The family can stay together, find a place to rent easier and begin to rebuild. Often consumers with a foreclosure on record have a tough time finding a home to rent which can lead to split families, strain on relatives and friends and just too few options.

Q: What makes a short sale attractive to a lender or what makes it a win for him as well?

WW: Quite frankly, because they can get the same or more net as they would in a sheriff's sale, auction or clerk sale, but in much less time. The key words here are **more** and **less time**. Short sales reduce the non-performing asset inventory carried by the banks. According to *CNNMoney*, *Reuter's*, *CNBC* and *The Washington Post*, on August 17, 2007, Countrywide Home Loans used $11.5 million of its line of credit because of its non-performing asset inventory. That, in turn, caused its stock to plummet in just one day. So, as you can see, lenders need this option as well to stay solvent.

Q: Why should real estate professionals work with short sales?

WW: First and foremost, agents should put working with short sales in their repertoire because it allows them to really help people out of an emotionally stressed situation. They are providing a much-needed service while at the same time helping their own economy and the economy at large. The more properties sell, the more people work - it's that simple. Revenue and business is generated. The real estate agent works and also the mortgage lender, the title rep, the processing agent, the administrators, the home improvement and inspection professionals, etc. Second, it is a good way to pick up a few extra salable listings each year, build an investor pipeline and avoid R.E.O. babysitting hassles. Truly, though, there is nothing quite like helping a client who feels overwhelmed and distraught find his way out of a bad position. After all, isn't helping people what we are all here to do?

Q: Will, there is much talk in the industry about how to handle short sales from a tax perspective in regard to working with the IRS and the Form 1099C. Can you shed some light on that?

WW: Sure. Those questions always come up in our many workshops across the country. The truth is that there may be a lender who writes off a loss and may send a 1099C to the seller for forgiveness of the debt. However, the key here is that according to the IRS, if you are insolvent, meaning you have no assets, then a 1099C is going to be a wash. How do I know? I currently have a property listed with a gentleman who works for the IRS. His suggestion is to do your homework. Take the time to research www.IRS.gov and pull the documentation that resides there which supports this position. Search key words: short sale, 1099C and insolvency. We teach all of our Short Sale Seminar students to always recommend that their clients consult with a tax advisor or with the IRS.

Q: This question is for both of you. Why do you believe short sales are so important in today's market?

WW: Our current economy and the real estate market is going through a tough time right now and this is one of the only ways most distressed homeowners can rebuild their lives and move beyond their mortgage troubles without the devastation of foreclosure.

FW (Wickman): The bottom line is it is our job as professional trainers to provide our customers, namely brokers and agents, solutions that help them solve the problems that face them in a way that is client-friendly. Sometimes that requires us to step outside the box and find new ways to help them reinvent what they do for a living so that they can best assist the people that look to them for answers.

(*Analysis* continued from page 3)

in most parts of the country in that we had nice steady appreciation. We didn't participate in the outlandish price increases. Of course, we do have a problem with people who want to relocate here having trouble selling their existing homes. Also, we're overbuilt in some marketplaces. Because our market was so healthy, most national and regional builders came here. But we're creating jobs so we hope to catch up soon.

Our economic development commission has done a great job of getting corporations to relocate here. And we're all about taking care of the companies that are here. We're fine-tuning our technologies. We're working on data mining of past customers and clients and touching them when they want and need to be touched, not when we want to touch them. As we look at the Carolinas, we see a beautiful opportunity for us to grow organically as well as consolidate with established companies.

We merged in 14 companies in the last eight years and that will continue. We'll be adding another 13 branches. We've put 10 in place this year and we see that continuing. We're concentrating on high-gain activities and spending time with associates, making sure they spend working hours touching the consumer. We're all dealing with a lack of consumer confidence. Much of it is unfounded, so we have to get out and tell the rest of the story.

As a real estate company, we have to look at tools and figure out what tools are working as intended and which do we need to put on the shelf or recreate. We need to really be more clinical with our approach and reach internal and external customers. We want to know what our associates need to take their business to the next level. And what the buyers need to get into the game.

Lennox Scott, Chairman/CEO
John L. Scott Real Estate
Bellevue (WA)

We will be entering the optimum buy zone of our next real estate cycle. I think the last cycle is complete - we had the adjustment and now we're in an optimum buy zone. From there, prices will only go up in the future.

Buyers have an advantage. They don't have to bid up properties, they're not dealing with multiple offers, they're paying market prices and interest rates are fantastic. We advise them to buy now before the surge comes again. With the estimated population growth and a new wave of buyers coming in (the echo boomers), we have excellent opportunities.

As you get more first time homebuyers, it causes a chain reaction to upper price points. You'll see that in the spring in those areas closest to the job centers, and then it will spread to outlying markets. Our game plan is being proactive, business smart and opportunistic.

I've been through five of these cycles, and every time you go through an adjustment, then you go through an optimum buy zone. With the population growth and stable economy, we'll start picking up again soon. We're really focused on the current market and the credit crunch. As of August, we've been focusing on selling skills. With the market change, it really highlighted where we needed to address competencies. We want to help sellers price their homes, increase communication, help agents with negotiations and help buyers buy smart with a buyer CMA. We're talking to sellers to help them reposition their property on the market. We're teaching them to stage their home and their yard, market with professional photos and more.

We're also focusing on business development activities. We're talking to agents and brokers to join our team. We're helping agents get business smart. We're looking at expenses to make sure we're being efficient and effective.

Leslie Appleton-Young, Chief Economist
California Association of Realtors
Los Angeles (CA)

The market is still in the process of declining. Our forecast for California is for a further decline in sales. We expect a four percent decline in median home prices, which will be the first annual decline in over 10 years. However, there's a tremendous amount of regional disparity.

Those most affected are inland affordable areas where you had the biggest increase in new construction. The moderate and lower-end homes had the majority of subprime or no-money-down mortgages. If they bought at the peak of market and have no equity cushion, they're in a danger area.

Buyers are very important in this market. In the past you've had low inventory. Now you want as many listings as you can get. However, you want well-priced listings. Don't take an overpriced listing. We're looking at new opportunities with foreclosures and the REO market. We're also looking at auctions, short sales and more collaboration with builders who want to move existing inventory.

It's really important to get back to basics. Now is the time to do your social networking. You must double your efforts to get out there. You make your market every day, regardless of market conditions. In any given year there are more than enough sales going on to have a great year, so how do you connect?

There are opportunities for survivors.

REAL Trends Launches New National Housing Market Report October Closed Sales Data Shows Average Sales Price Up in Three of Four Regions

December 10, 2007 – Denver (CO) – REAL *Trends*, the nation's leading source of trends and analysis on the residential real estate services industry, is launching a new report on the housing market, the REAL *Trends* Housing Market Report. This new report tracks actual housing sales from real estate brokerage firms from every state in the nation and compares current month activity with the same month one year earlier. The total sales base being tracked represents over 35 percent of all reported housing sales completed by brokerage firms and will be reported each month.

The REAL *Trends* Housing Market Report for October 2007 shows that closed sales on a unit basis were down 21.7 percent from October 2006. The best region was the Midwest, where closings were down only 14.3 percent, while the hardest-hit region was the Western U.S., where closed sales units were down 52.2 percent.

The findings, however, showed that despite gloomy predictions for the pricing of homes, three of the four U.S. regions showed that average pricing was up, not down, as so many other studies are indicating. The best region was the Northeast, where prices were up an average of 3.5 percent year-over-year; the Southern region was up 0.8 percent, the Western region was up 1.6 percent, while the Midwest showed a decline of 2.1 percent. Nationally, average prices on closed sales were down 0.9 percent.

"REAL *Trends* developed this report working with many of the nation's leading brokerage firms to provide a more accurate picture of what is truly happening in housing markets," said Steve Murray, editor of REAL *Trends*. "While many who cover the industry use seasonally adjusted figures or samples of only a handful of markets, the REAL *Trends* Housing Market Report is actual data, from actual closed housing sales. While the news is not all positive, with unit sales down measurably over the past twelve months, the news on what is actually happening with home prices should cheer homeowners, real estate industry participants and regulators alike."

The study, which will be published monthly, encompasses all fifty states and the District of Columbia and includes sales from a wide variety of realty firms in every state and from virtually every metropolitan area.

REAL *Trends* has been the leading provider of trends and research for the residential real estate service industry for the past 20 years. Over 24,000 industry CEOs and others receive the REAL *Trends* newsletter each month. REAL *Trends* is also a leader in conducting housing consumer research.

SUMMARY TABLE:

REAL *Trends* Housing Market Report – October 2007 vs. October 2006

	Closed Sales Units	Average Sales Price
National	Down 21.7%	Down 0.9%
Regional		
Northeast	Down 17.7%	Up 3.5%
South	Down 27.2%	Up 0.8%
Midwest	Down 14.3%	Down 2.1%
West	Down 52.2%	Up 1.6%

Realtor Membership Changes

It's estimated that more than 50 percent of sales associates have never weathered a down market. So it's no surprise that Realtor Associations around the country are anticipating a loss of membership in 2008.

REAL *Trends* talked to Association executives from around the country to find out what they expect in the coming year:

Joel Singer
California Association of Realtors

For 2007, we're at 172,000 members, down from a peak of 211,000 on December 31, 2006. We estimate about 204,000 on December 31, 2007. The number of new members has being slowing month by month. Attrition was slow for the first half of the year, but is increasing significantly at present.

John Fridlington
Florida Association of Realtors

The Florida Association of Realtors will end 2007 with approximately 161,000 members. We predict an 11 percent decrease from that number by year-end 2008. We're getting mixed signals. Many local associations expect significant membership drops, but others report new members still joining.

Gary Clayton
Illinois Association of Realtors

In year-end 2006 we were at 63,683. As of October 31, 2007, we're at 62,435. Our 2007 year-end projection is that

(*Analysis* continued on page 10)

(*Analysis* continued from page 9)

we will be one percent below the 2006 number. In 2008, we are projecting a 10 percent decline from 2007 year-end, or approximately 56,700. This might be too conservative. We track the number of new licensees and the number of pre-license education courses. Statewide, membership ranges from a low of 13 percent down to a high of 29 percent down.

Cindy Butts
Maine Association of Realtors

Maine is anticipating a 10 percent decrease in membership in 2008, which remains just a portion of the overall significant increases during past few years. We're still seeing new applications for membership. We're noticing a difference in attitude among members who are comparing the last market change to this one - much less doom and gloom and more willingness to experiment and embrace new programs, especially the free marketing opportunities with new technologies that exist now.

Rob Authier
Massachusetts Association of Realtors

We really won't see any of the actual membership figures until mid-March, when state association dues are payable from our local associations. We're budgeting for 19,800 members in 2008, which will be about a 15 percent decrease from 2007's actual membership. For the past several years, we have been very conservative in our dues budget, so we think that our 2008 dues budget should be in line with actual figures.

Andrea Bushnell
Oregon Association of Realtors

We have budgeted for an almost 10 percent drop in membership, but our experience to date does not reflect a drop. Our membership is still growing, albeit less quickly than before.

Benny McMahan
Texas Association of Realtors

Our membership has increased by approximately five percent from this time in 2006. We're anticipating an increase for 2008, but a smaller increase than in 2007. Our estimate is a 2.5 to 3 percent increase.

Greg Welch, Controller
Washington Realtors

We are projecting 24,500 members for 2008. We're seeing minimal changes in total active members. However, we are seeing members not paying dues as early for the upcoming year as the same time last year.

Trading on Housing Futures

While the media likes to tout a national real estate market, the fact is real estate is very regional. That's what Radar Logic was banking on when it developed the Residential Property Index (RPX), a home price index that publishes daily prices based on public source data about the actual transfer of houses from sellers to buyers and prices paid at closing translated on a price per square foot basis for 25 cities.

"The financial community has been using derivatives for years," says Michael Feder, president and CEO of Radar Logic. "It's a way to trade the value of assets without actually owning the asset. A future on gold is very much the same thing as a housing future. You're buying the right to own gold in the future at a price." And you're trading those housing futures based on an index such as the Residential Property Index (RPX) or the S&P/Case-Shiller Home Price Indices (CSI). At this time, the only residential property derivatives are RPX and CSI. Investors can only execute transactions with authorized dealers.

Radar Logic started trading using the RPX on September 17, 2007. Since then, derivatives volume in the RPX market has passed the quarter of a billion dollar threshold. Feder reports that flows represent positive two-way activity, and participation has begun to include a variety of end users.

"Our comprehensive market analysis indicates that there is no national housing market," says Jonathan Miller, Radar Logic executive vice president and director of research. "Different markets have different risk factors and fundamentals that drive prices. What's more, consumers attempt to overlay national statistics on their own property or local housing market, resulting in significant confusion and frustration."

According to Radar Logic's latest report (September 2007), five of the 25 Metropolitan Statistical Areas (MSAs) tracked by the company showed increases in residential price-per-square-foot over the same period last year, two markets were neutral and 18 markets showed price declines. During the same period last year, 12 markets showed an increase, four markets were neutral and nine markets declined.

The S&P/Case-Shiller Home Price Indices was developed by Karl Case and Robert Shiller. According to Shiller, this methodology collects data on single-family home re-sales, capturing re-sold sale prices to form sale pairs. This tracks 20 regional indices and two composite indices as aggregates of the regions.

"There's a need for us to more closely monitor and re-evaluate housing sales," says Robert Shiller. "We need more housing-centric news and real-time data and analytics. A housing futures market would force this hand because with a futures market, you'll know how the housing market will react immediately."

The difference between S&P/Case-Shiller and the Residential Property Index is that "RPX is published daily," says Feder. The S&P/Case-Shiller is published once a month. "Case-Shiller only observes price changes on homes they can observe selling twice - repeat sales. Our view is that every home is a component of the market in housing. If the most expensive homes are going up, then the least expensive homes will follow. To ignore either end of the marketplace is a mistake."

In addition, S&P/Case-Shiller does not include new homes and condominiums in its index. "We capture as many transactions, regardless of type of property, because we believe that every transaction has some influence in the marketplace," says Feder.

For real estate brokers, this type of information can be invaluable. "Our data will offer brokers increasing applications for business," says Feder. "For example, if you have a customer who wants to buy in downtown Manhattan but thinks prices need to come down, you can refer to RPX data, since we're a neutral data source. You can get a very specific view of that neighborhood. We believe a full analytics suite would dramatically help brokers make that logical connection: what's really happening in that asset type in that specific neighborhood." Currently, no such application is available. However, Radar Logic is building a tool so that brokers can access that information.

(*Commentary* continued from page 2)

small- to medium-sized realty firms throughout their effective service area. We are doing three times the number of valuations that we did even in 2006. Even though there has been a scarcity of deals announced by the national acquirers, they also report a record level of activity in terms of the merger and acquisition of numerous small- to medium-sized firms.

We also note that the national branded networks, which had less than 30 percent share in 1993-1994, now have over 50 percent share of assisted transactions nationally. In many cases they are providing creative forms of capital to their affiliates, allowing them to acquire and merge with others as well as using these structures to attract new affiliates (where regular capital lines are closed to real estate-oriented businesses). Yet these national networks are also feeling the brunt of the market, and they too will lose some affiliates in these rugged markets. Overall, however, we think they will ultimately be net winners in increased market share.

As in the 1983-1985 and the 1992-1995 periods, the better capitalized and better led realty firms are absorbing many firms that were formed when the market was strong. In both previous downturns, those which acquired this excess capacity came out of the weak market with stronger market shares and higher margins. We expect the same to occur in 2008-2010.

Consolidation Among Sales Professionals

For quite some time it has been said that residential realty service was characterized as a market where 20 percent of the sales professionals did 80 percent of all the business. We have done several analyses that showed that this wasn't likely the case. However, at this time we believe that, if it wasn't the case in prior years, it will be the case in the near term.

Why do we think so? First, the cost and complexity of doing business has grown substantially in recent years. Putting a home in the MLS and the newspaper and perhaps some other print vehicles has been augmented by the need to be on numerous Web sites, with color photography. Homes that were on the market for a few months, at most, are now on the market for 8-12 months. The impact of the growth of short sales and the tightening of credit standards have had and will continue to have a significant impact on cost and complexity.

In short, what was straightforward is no longer simple; what was minimal cost is now significant. And what we have seen and heard from many brokerage firms is that their population of mid-producers is shrinking, while the high producing and the "hobbyist" populations are growing. While few are seeing huge declines in Realtor memberships, many brokerage firms are experiencing an ever increasing share of sales professionals at both ends of the spectrum.

This will continue to impact brokerage operations and financials, in some ways beneficial and in others not to the good of the firm. As has always been the case, brokerage firms will need to adjust their financial models to accommodate this trend. It is important to note also that there is already significant competition for each of these segments.

Outsourcing of Realty Functions

As the economics of brokerage change, much like those in many other industries, leading firms that position themselves

(*Commentary* continued on page 12)

(*Commentary* continued from page 11)

as "full service" will have to find less expensive ways to deliver marketing, technology and educational services to their sales professionals. Major corporations, for example, have outsourced human resources, technology and logistics to others who are more adept at handling these functions. So, too, will leading realty firms seek outside suppliers to accomplish the same mission.

Several national real estate organizations have created training on their Web sites for downloading, allowing their affiliates to get state-of-the-art, timely training 24/7. Many realty firms now outsource their Web functions to others rather than employ that staff in-house. Several state associations now offer "help desk" technology services; several also offer legal hotlines.

Many realty firms already rely on firms such as Merrill, Imprev, QuantumMail.com and others to provide comprehensive marketing and direct mail services. Others rely on firms such as Point2 Technologies and threewide to manage their listings distribution to the Web.

This trend is driven by the requirement that realty firms both improve the delivery of services to their sales professionals and do so at lower cost. To do so they will convert fixed costs (in-house delivery) to variable costs (outsourced) on an a la carte basis.

A Focus on Internet Leads

We have commented before that the bull market for housing sales was covering up a number of long term structural challenges. One was in the area of the generation and servicing of Internet leads. As our early issues of REAL *Trends* have pointed out, leading firms are now pursuing Internet leads with a vengeance. When buyers, not sellers, are the most valuable commodity in the market, and where 80 percent or more start their search for homes online, it makes eminent sense to pursue them.

Leading realty firms are already deploying strategies and their scarce capital to focus on Internet buyers as a new source of business. Leading real estate sales professionals are doing the same thing. And again, some are looking outside to outsource these capabilities while others are investing to build this business in-house.

We know from information from those who have operated in this arena for the past few years that national average closed rates were 1-3 percent for raw Internet leads. We also know from our own research that there are firms that had capture rates as high as 15-18 percent. Leading firms are recognizing that it is not the leads, per se, that govern the ultimate capture rate (although different channels will produce different results), but how a brokerage firm interfaces with the Internet and how much they are prepared to invest in servicing Internet leads.

The Democratization of Listing Information

Before 2006, leading firms were highly tentative about sharing their listings with but a few regional or global listing sites. Now, there is a definite trend towards having a firm's listings in as many locations as possible. Especially when so many highly trafficked sites charge little to nothing to host a firm's listings. Sites such as Google, Yahoo!, Zillow, Cyberhomes and Trulia, once seen as nothing more than "interlopers," are being viewed by a growing number of brokerage firms and sales professionals as logical marketing partners.

Joining such established sites as Realtor.com, Homescape.com, Homes.com and others, these new opportunities are gaining credibility with an increasing share of the industry. The new goal apparently is to get your properties for sale in front of as many housing consumers as possible.

Not all brokers agree that widespread distribution is a good move. And there is no concrete evidence that such a strategy will be beneficial to the marketing of homes for sale long term. We do think that there will first be a veritable "explosion" of distribution followed by a move towards concentration on those sites that produce results.

A Focus on Core Services

While much of the news in recent years was about HUD and various other regulators challenging affiliated business arrangements and assessing fines for improper behavior, those leading realty firms that had created legal and business arrangements that were proper are seeing gains in their capture rates, or are hard at work doing so. Until 2006, having such arrangements was a good thing; for leading firms, regardless of size, location or brand, they are becoming a necessity.

Not only do customers continue to want to simplify their homebuying experience, but they also want better service. Many brokerage firms are now investing significant time and resource into addressing service as much as they are with the financial returns from these core businesses. It has become evident to anyone offering core services that one first has to have outstanding loan officers and closing personnel before one can improve one's capture rates. Sales professionals demand a high level of service no less or more than housing consumers do.

At this point, and for several years to come, earnings from brokerage are likely to be depressed. Firms that can increase their earnings from each customer they serve are going to be stronger than those that don't have such capabilities.

By Steve Murray, Editor

What Does a 100 Calorie Snack Have In Common With a $200K Condo?

By Jeremy Conaway, Contributing Editor

The holidays are upon us. What say for a bit of a holiday break that we forget we are in the American real estate business? Let's leave down markets, mergers of convenience and cash flow terror behind for the next few moments and focus on something that can make us rich and relaxed. Let's take a moment to be thankful that we are alive and that there is still a wake trailing behind our stern.

Every year the good folks at TrendWatching light up our view of the future by suggesting a number of trends that will create business opportunities over the next year. These folks spend an enormous amount of time monitoring, researching and analyzing even the minutest details of the market scene. From these efforts they are able to project, with amazing accuracy, the trends and directions that will characterize our markets moving forward. Let's look at their list of suspects for 2008.

1. Some things never change; in 2008 status recognition will continue to be a much sought after commodity.

First of all, there will be more wealthy people than ever who can play the time honored game of "one upsmanship." Consider the following numbers, from the 2007 World Wealth Report by Merrill Lynch and Capgemini:

- The number of HNWIs - individuals with net assets of at least USD 1 million, excluding their primary residence and consumables - in the world increased 8.3 percent to 9.5 million.
- The number of ultra-HNWIs - individuals with net assets of at least USD 30 million, excluding their primary residence and consumables - grew by 11.3 percent to 94,970.
- The BRIC nations (Brazil, Russia, India and China) continue to play increasingly important roles in the global economy. China and Russia were among the top ten countries with the fastest growing HNWI populations. China's HNWI population grew by 7.8 percent to 345,000 people and Russia's has increased by 15.5 percent to 119,000. Brazil (120,000 HNWIs) and India (100,000 HNWIs) also showed continued strength.

Yes, frugality will be a popular theme in many markets around the country. However, those who have traditionally played to the housing needs of the "swells" need not unload the Mercedes.

2. Every market niche will have a premium brand.

With literally millions of outrageously rich people looking for ways to get a thrill using "spending" as their drug of choice, the well developed market for premium brands will flourish for everything from edibles to expendables. Experts suggest that no industry, no product or no sector (including real estate services) will escape a premium brand over the next year.

Air travel will lead the way with in-flight suites that will return rich travelers to the days of the great trains. Super premium clubs will begin to appear in airports across the world. A whole new breed of premium cell phones will be introduced, all of which will sell for $5,000 or more. Look for MP3 players to head for the skies as new technology combines with titanium and chrome to create luxury in sound and feel. Even the lowly laptop will become an item of comfort and class with the addition of new light and cover options from titanium to leather.

In the real estate space, all eyes will be on whether or not Coldwell Banker's Premium Properties and Sotheby's International Realty will be able to hold their ground as the exclusive purveyors of the totally luxurious experience.

3. Taking the snack to the next level

Look out Burger King, something really royal is about to happen to the common cheeseburger. In 2008, the "eat healthy" and the fast food cultures are about to merge with some very expensive results. Consider these metrics on actual food snacks from the New York Times:

- In just three years, sales of 100-calorie packs of crackers, chips, cookies and candy have passed the $200-million-a-year mark, and sales grew nearly 30 percent last year. According to analysts, the market for these pint-sized packages could easily double because of their simple appeal: they help consumers eat less without having to count calories themselves. The growing popularity of these snack packs may also be another sign that some consumers have had their fill of "super sized" food.
- A report from the Hartman Group found that 29 percent of Americans believed that 100-calorie packages were worth the extra cost. For manufacturers, snack packs are about 20 percent more profitable than larger packages.
- Some snack makers think even 100 calories might be too much for some diet-conscious consumers. Hershey, for example, now sells 60-calorie chocolate bars. And Jell-O sells 60-calorie pudding packs.

Real estate industry executives will want to note that

(*Commentary* continued on page 14)

(*Commentary* continued from page 13)

the attraction of premium brands cuts across the whole socio-economic spectrum. When it comes to premium brands, everyone wants to take a moment to “feel rich” and pampered. Even as average home values stabilize, home buyers and sellers are going to be looking for a premium level and brand of service. The same old stuff will not meet this need.

There is no question that for most American brokers the management challenge of 2008 will be just staying above water. But amidst all of those efforts to run a smoother, cost effective, more efficient company, hopefully someone will be keeping in mind that 2009 is only 365 days away. That is a nanosecond in the life of research and development. Keep one eye on the books and the other on where this incredible industry is going. There is an “oh so bright” future ahead. Look for the light at the end of the tunnel.

The best of holidays to all!

New for Our Readers: The REAL Trends Housing Market Report

We are pleased to announce the launch of the REAL *Trends* Housing Market Report that will report closed sales each month compared to the same month a year earlier. The results will be reported on both a national basis and a regional basis. We are working with brokerage firms that in the aggregate handle nearly 35 percent of all brokerage assisted housing sales in the country, from every state and from virtually every metropolitan area.

REAL *Trends* undertook this project due to a belief we share with many that what is actually happening in the housing market is not accurately reported by other sources and especially by the nation’s real estate and business media. We will release this report to all of our readers along with business and real estate reporters on a monthly basis.

The results from this month’s REAL *Trends* Housing Market Report are reported in the Analysis section of this newsletter.

MERGERS, ACQUISITIONS, AFFILIATIONS

Dominion Enterprises, a leading media and information services company, has announced the merger of two of its flagship businesses, **Homes.com** and **Harmon Homes**, into a single real estate marketing company. This new company, which will retain the name Homes.com, now combines the resources of a top 10 real estate portal with the nation's largest independent local real estate publication. As a result of the merger, every real estate advertisement placed in any one of the more than 130 Homes.com free print publications also will be displayed on the Homes.com Web site as a basic listing.

In an ongoing effort to expand its presence as the world's largest residential real estate sales organization, **Century 21 Real Estate LLC** has announced its expansion into South Africa. Century 21 South Africa, headed by Dr. Duncan Gray, chief executive officer, now has exclusive franchising rights to the Century 21 name and system throughout South Africa. During its recent grand launch event in Johannesburg, Century 21 South Africa announced that it has opened 40 founding franchise offices.

SENIOR EXECUTIVE APPOINTMENTS

Richard F. "Dick" Gaylord, a Realtor with RE/MAX Real Estate services in Long Beach (CA), was installed last week as 2008 president of the National Association of REALTORS at the Association's Board of Directors meeting during the REALTORS Conference & Expo in Las Vegas. In 2007, Gaylord was NAR president-elect, and he was NAR first vice president in 2006. **Charles McMillan**, a Realtor from Irving (TX), is 2008 president-elect. McMillan is director of realty relations and principal broker for Coldwell Banker Residential Brokerage, Dallas-Fort Worth. **Vicki Cox Golder**, who owns Vicki L. Cox & Associates in Tucson (AZ), is 2008 first vice president. **James L. Helsel, Jr.**, a partner with RSR Realtors in Lemoyne (PA), is 2008 treasurer. **Robert Kulick**, who owns Nova Investment Realty Inc. in Campbell (CA), is 2008 vice president and liaison to government affairs. And **Mark Foreman**, owner of Cornerstone Capital Mortgage & Real Estate Services Inc. in Fairfield (CT), is 2008 vice president and liaison to committees.

Stephen W. Baird, president and chief executive office of Baird & Warner, headquartered in Chicago, has been elected chairman of the board for The Realty Alliance for 2008. Baird is a recognized industry visionary and national leader. In addition to serving on the board of directors of The Realty Alliance, he has testified before the U.S. Congress on matters of vital interest to the real estate community. Baird and Warner has 1,500 sales associates, who operate from 35 strategically located offices throughout Chicago and its suburbs.

The Mortgage Bankers Association (MBA) today announced the appointment of **Sarah Tinsley Demarest** as vice president of public affairs. In this capacity, she will serve as a primary spokesperson for the association and be responsible for developing and implementing broad communications initiatives. Sarah will also serve as a key liaison with MBA member companies, grassroots organizations and other trade associations. Previously, Sarah served as the Deputy to the United States Ambassador to the United Nations (UN), John R. Bolton where she was an advisor on national security matters, policy development, communications and executive planning for the President's Permanent Representative to the U.N.

EDITOR'S NOTE

In Memoriam

It is with sadness that we report that G. William "Bill" Fox passed away on December 1, 2007, at the age of 66, at his home in Medford (NJ), surrounded by his loving family. He died after a 17-year battle with Huntington's disease, a debilitating neuron-degenerative disease. He is survived by his beloved wife, Sandra Williams Fox, and four children.

From Larry Flick and the people of Prudential Fox & Roach.

"Simply put, Bill was an exceptional person. No matter how great his success, Bill's sense of humility was evident in how he interacted with each of us, never failing to recognize our individual talents and contributions. Our birthdays somehow won't be the same without that faithful call from Bill, expressing his good wishes.

Throughout his life, Bill built several legacies. First, his family. Second, his company. And third, his commitment to finding a cure for the disease that would gradually take his life. And so it is through these legacies that Bill will live on."

From Wes Foster, Long and Foster.

"Bill told me once that he thought about being a minister. He missed his calling. He had a heart of gold. He ministered to all of us. He will be greatly missed by all who knew him."

From Chip Roach, Prudential Fox & Roach.

"The story of Bill's life is his ability to connect with people and lead them to being better people themselves. He loved and cared for his people. I can remember walking out of the closing when we bought the Prudential company, saying to him that he'd have to give up the birthday calls now that we had over 3,000 sales associates. In his typical fashion he said, "Oh no, it's fewer than 10 calls per day. No problem."

From Steve Murray, Editor of REAL Trends.

"There are a few good people you never forget, no matter the time and distance that separates you. Throughout my career, Bill was one of the few people I have known who acted as if he were the lucky one. His dignity made everyone who knew him feel as if they were the privileged ones."