



MAY 2019 NEWSLETTER

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INDUSTRY ASSESSMENT

TODAY'S THREATS & OPPORTUNITIES

*What can you learn from today's threats?
What are the opportunities brokerages
should be seeking?*

*By Steve Murray,
president*



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Real estate has long been an industry filled with new business models, lawsuits and emerging technology. It's also an industry that offers unmatched opportunity. Here's an outline of some of the threats and opportunities brokerage leaders are facing today. Plus, I'll discuss some ways to thrive in 2019 and beyond.

INDUSTRY THREATS

Here are a few of the threats we see today:

- A national lawsuit is alleging anti-trust restraint of trade by several prominent law firms in the structure of the cooperative payment of commission dollars to buyer's agents.
- California Supreme Court defines independent contractor arrangements in such a way as to make the real estate independent contractor structure untenable.



REAL TRENDS

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FIRST PERSON

- iBuyer firms to take meaningful share of brokerage transactions within a few years.
- Technology platforms to dominate the industry within a few years, whether from national franchise firms or alternative brokerage firms such as Zillow and Redfin. Those without are projected to be at a competitive disadvantage.
- Household formations will continue to run ahead of home construction as we are entering a period of continuous scarcity of inventory.
- The scarcity of inventory will cause prices to continually rise ahead of household incomes, causing affordability to be under pressure in many markets where most of the new jobs are locating.
- The continued increase in Realtor® membership against a backdrop of low inventory continues to drive commission rates downward.
- The entry and growth of low-cost brokerage models drives gross margins to new lows in many metro areas.
- The growth of the number and size of teams adds to this pressure.

Some of these challenges have been faced in the past in different ways and with different players.

That summarizes most of the significant threats that we hear about today. Some of these challenges have been faced in the past in different ways and with different players. Now for the opportunities.

INDUSTRY OPPORTUNITIES

In every new iteration of our industry, there are bright spots. Here are a few:

- The use of agents by consumers hit an 18-year high in 2018 at 90 percent. Even millennials used agents to buy and sell at a 92 percent level (Harris Insights/REAL Trends 2018).
- Nearly two-thirds of all consumers still found and chose an agent because of a relationship of some kind.
- Millennials and Gen Z have the same appetite for homeownership as all previous generations, and they will become the largest, most prosperous and most educated generations in American history.
- Gross commission incomes came in at just over \$72 billion in 2018. The average commission rate remained above 5 percent during the year. Total commission revenues were flat in 2017 even though unit sales were down.
- For the first time in nearly 40 years, private investors are investing in brokerage. All past purchasers were involved in building their brokerage firms—trying for scale. Investors today think there are new and creative ways to build brokerage firms and take advantage of the proven cross-marketing activities of related core services.
- Technology is driving fewer agents to do more of the business. For the top 10 percent of agents and teams, productivity is rising. The real promise of technology to equip agents and brokerage firms so they all benefit from increased productivity has not been fully developed yet but it will be.

WHAT CAN BE DONE?

There is nothing the typical brokerage firm, agent or team can do about the litigation mentioned above, nor was there anything they could have done with similar legal actions in the past—except support your Realtor® organizations and national real estate firms' efforts to get them resolved.

There is nothing the typical brokerage firm can do to affect housing supply, affordability, and household formations. They are beyond your reach.

Brokerage firms can't likely match the capital of the iBuyer firms, but, in some cases, they can either have their modest programs, point out the weaknesses in their approaches to buying homes, and work with those who want to work with you. Some market economists believe that—at most—these firms may achieve 10 to 15 percent market share in the next five to 10 years.

Understand that the growth of the low-cost brokerage models will reduce

the number of agents and teams who will see the traditional, full-service model firms as an attractive alternative. That doesn't mean every agent thinks that the financial relationship between the agent and the brokerage is the only issue—or even the most critical issue—affecting their choice of firm.

It does not mean the end of traditional brokerage. It implies that brokerage must reconfigure their offerings, not play the game on the low-cost model's turf. ▲

The real promise of technology to equip agents and brokerage firms, so they all benefit from increased productivity has not been fully developed yet but it will be.



ROUNDUP

STORIES OF LEADERSHIP

After traveling around the country to many of the network events and real estate conferences, Steve Murray documents the leadership lessons learned.

By Steve Murray, president

There were some great speakers at the various real estate network and industry events. Here's a roundup of the best.

ALISON LEVINE: Explorer, leadership coach and teacher

Takeaways: Leadership is everyone's responsibility. It's not solely the responsibility of the C-level executives or the management team. It's not just the job of coaches or team owners. Everyone in an organization is responsible. It's also everyone's responsibility to look out for the people on either side of them and help them move forward.

MARCUS LEMONIS: Actor, "The Profit"

Takeaways: The most critical weakness in many businesses is the lack of relationships between the owners and employees of an organization. There's also a lack of clarity and understanding about the goals and objectives and the mission of the organization. Further, without opening one's self to the others, a leader may never develop the trust necessary to gain the loyalty and support from their organization that is possible.

NICK VUJICIC: Motivational speaker

Takeaways: Born without arms or legs, Nick has built an amazing personal and professional life. What did he offer at his presentation? Understand and accept that life has challenges and that you define your ability—not others. He says to dream big dreams, take action, use your head, have faith and remember you always have a choice.

Does anyone see a pattern here? These individuals, who have accomplished enormous successes against tremendous odds, all talk about personal relationships, the power of forging ahead and of remembering that you're not alone. Whether it's faith in the people of your company, belief in a higher being or faith in your capabilities, there are nothing but opportunities ahead. As all three pointed out, it is not without challenges. For every two steps forward, there may well be one step back.

I believe that those of us who cover the industry, research, write about it, offer opinions, consult and teach, only do so from the sidelines. In the end, it's about the leaders of brokerage firms throughout the industry to forge ahead in the best way they know how. I offer this commentary from one of the most adventurous American presidents.

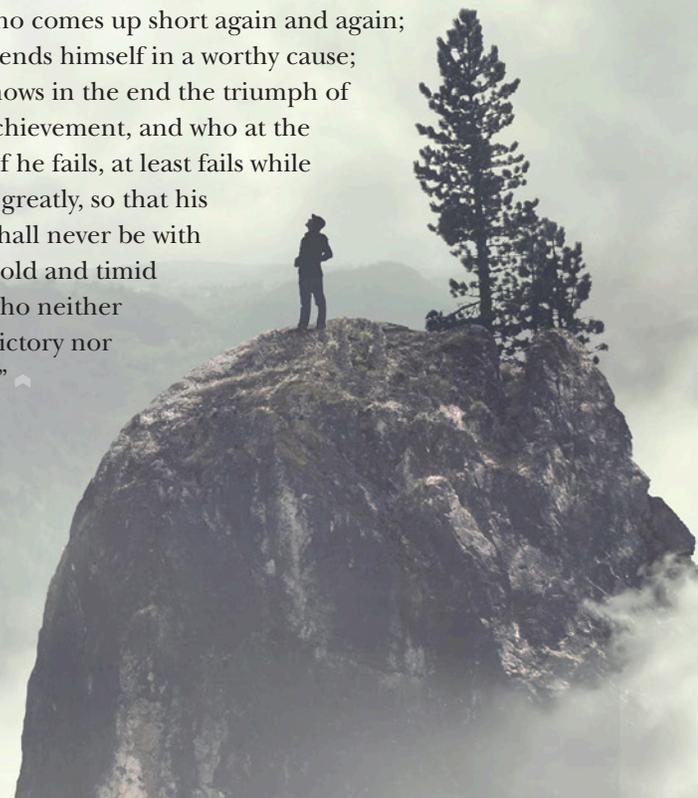


THE MAN IN THE ARENA

President Theodore Roosevelt

"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of the deed could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who

errs, who comes up short again and again; who spends himself in a worthy cause; who knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."



WHETHER it's faith in the people of your company, belief in a higher being or faith in your capabilities, there are nothing but opportunities ahead.

TALKS WITH REALOGY LEADERS

WHAT'S ON THEIR MINDS?

During the last few months, we had the chance to visit and observe the national conferences for all major brands. While we were there, we had the opportunity to personally visit with a few of the leaders of these companies. Here are some thoughts about what they're thinking about their companies and our industry.

MICHAEL MIEDLER, PRESIDENT AND CEO, CENTURY 21

It's clear that Miedler, who has a significant background with Century 21 and Realogy, has his sights set on the fundamentals of working side by side with his affiliates to grow their businesses as a means of increasing his business. He commented that, despite the challenges from new models (many of them less expensive than many of his affiliates for his agents), he thinks Century 21 still offers excellent value. While he believes that technology is essential to the future of Century 21, we got the sense that he also believes that creating strong, enduring relationships with the affiliates will be just as important in his future growth plan.

CHARLIE YOUNG, PRESIDENT AND CEO, COLDWELL BANKER

Young, who is leading a complete rebranding of this venerable brand

(now over 110 years old), shared that among the challenges Coldwell Banker faces is not recruiting great talent, but engaging with them in a way that is meaningful and long-lasting. In a refreshing and fun way, he includes the term awesomeness among the cultural attributes of this new, forward-leaning global network. While he and his peers have more than a few challenges in their businesses (who doesn't?), he also believes that building a powerful, enduring culture is going to be vital to maintaining the company's position in the market of the future.

OUR THOUGHTS

We will be reporting more on what national branded organizations think in future editions. What's interesting is that while virtually every conference had a strong emphasis on technology and the drive to build robust data and artificial intelligence capabilities, in private conversations with agents, teams and local leaders, they talk about the need to re-engage with the agents and staff of their companies.

We picked the brains of real estate leaders to find out where they see opportunities in the coming year.

By Steve Murray, president

We do believe that the four most significant real estate brand organizations will successfully build out their tech platforms, and it could be that the trend towards consolidation among them (and a few others) will accelerate as a result of these investments in tech. We know that the REAL Trends 500, released at the end of March, showed that the 500 largest firms had gained market share each year for the past five years in a row. Many of them are affiliated with one of the four largest brand organizations. It stands to reason that there's a potential for these new platforms to help recruit and engage agents more so in the future. ▲

WE DO BELIEVE that the four most significant real estate brand organizations will successfully build out their tech platforms, and it could be that the trend towards consolidation among them (and a few others) will accelerate as a result of these investments in tech.



REAL TRENDS 500 OBSERVATIONS

THE NUMBERS TELL A STORY

The newly released brokerage rankings offer insight and valuable information about the real estate industry. We break it down.

by Scott Wright, vice president

Each year, for the past 31 years, brokers, agents, analysts, and investors have highly anticipated the release of REAL Trends' acclaimed brokerage rankings. Without fail, this report unveils a plethora of valuable information and insights into the residential real estate industry, and this year

it didn't disappoint. The 2019 REAL Trends 500 was highlighted by a changing of the guard at the top, two major national firms exhibiting triple-digit, year-over-year growth, and a record number of qualifiers. Below are some observations as we continue to digest the data:



- With a record 346,629 closed transaction sides in calendar 2018, HomeServices of America wrested the No. 1 spot from stalwart NRT LLC, ending NRT's 20+ year reign as the nation's largest residential real estate brokerage firm.
- A record 1,757 firms qualified for this year's rankings by closing a minimum of 500 transaction sides.
- It took 1,992 transactions to be included in the REAL Trends 500, up from 1,899 the previous year.
- The average sales price for the firms in the 500 grew to \$361,385, up from \$342,702.
- A whopping 297 firms closed over \$1 billion in residential real estate in

2018, up 8.4 percent from 2017!

- The top 500 firms closed nearly 3.3 million transactions in 2018, up 2.7 percent from the year before. With national existing home sales down by up to 4 percent last year, the REAL Trends 500 once again gained market share.
- The cumulative transactions closed by the 500 represented approximately one-third of all new and resale transactions completed by brokerages during 2018, yet these firms represented only about .05 percent of all brokerages in the nation.
- On the heels of its huge acquisitions of Pacific Union and Paragon, Compass jumped to No. 3 in volume and No. 6 in sides.
- eXp Realty continued to climb the ranks, with staggering year-over-year increases in sides and volume of 198 percent and 231 percent respectively. eXp now ranks No. 4 in sides and No. 5 in volume.
- More RE/MAX affiliates qualified for the brokerage rankings (500+ sides) than any other national franchise.
- More Keller Williams affiliates qualified for the REAL Trends 500 (1,992+ sides) than any other national franchise.

- In 2018, nationally franchised firms accounted for 76 percent of the REAL Trends 500, with the independents filling out the balance.
- Independent flat/monthly fee firms made huge strides, with the top five seeing average year-over-year growth in transactions of 19 percent.
- Given a tumultuous 2018, as expected, several firms experienced a decline in production. A whopping 830 brokerages closed fewer sides than the year before, which outnumbered those firms that grew among the returning applicants.
- California once again led the nation in the number of firms that resided in the 500, with Texas and Florida tying for second.
- Agent productivity declined from 8 sides per agent in 2017 to 7.4 in 2018.

Overall, 2018 was another exciting year in the residential real estate industry, and these observations are just a glimpse of what you can find in the full report. Visit <https://www.realtrends.com/rankings/rt500/> today to view and download the REAL Trends 500. 🏠

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the FREE REAL Trends 500
CLICK HERE**

QUALITY MATTERS

IT'S ALL ABOUT THE MANAGER



By Larry Kendall, author of Ninja Selling & chairman emeritus of The Group, Inc.

A great manager is what it takes for companies to be productive.

Five years ago, the Gallup organization embarked on one of the most ambitious deep dives it has ever conducted—an analysis of the future of work based on a decade of input from nearly two million employees and more than 300,000 business units. The results confirmed something Gallup had seen before: It's the manager. A company's productivity depends, to a high degree, on the quality of its managers.

What was unusual was the sheer size of the correlation—something Gallup calls “the single most profound, distinct, and clarifying finding” in our 80-year history of research! Their study showed that managers didn't just influence the results; they explained a full 70 percent of the variance. In other words, if you want to build a great team, 70 percent of the battle is hiring the right manager.

Here's a thought for our industry: Rather than recruiting top producers, how about putting your energy into recruiting the top managers as well? Or are you developing them? Do you have a career development program for your managers?

The manager is the difference that makes the difference. No other single factor even comes close according to

Jim Clifton, Gallup's CEO. "That blew me out of my chair when I saw it," he says. The study's conclusions are laid out in Gallup's forthcoming book, *It's the Manager*. It is recommended reading for any owner or CEO of a company.

MEASURING ENGAGEMENT

One of Gallup's favorite metrics for rating business teams is engagement or a belief among employees that they're doing meaningful work in a climate that supports personal growth. Gallup and others have shown that highly engaged teams have significantly lower turnover and higher productivity, among other things. Only one-third of employees in the U.S. are highly involved, Gallup found, but in successful businesses that figure runs north of 68 percent. And what was the single most significant factor in engagement? *It's the manager.*

Gallup advises companies to seek out managers who engage and infect their teams with a sense of purpose and function more like coaches than conventional top-down bosses. When we hold Ninja Selling workshops at a company, we notice the company owners who are there for the classes (engaged) and require their managers to be there (engaged) have much more productive companies. They are committed, connected, and engaged

with their people and their people feel that level of commitment and purpose. Their productivity is not an accident. It starts with engagement at the top.

IMPROVING PRODUCTIVITY

What specifically can a manager do to improve engagement, productivity, profitability, retention, and customer satisfaction? An earlier Gallup study found the great managers in these areas rated 5's on 12 questions asked of their employees. Poor performing managers rated 3's or less. Can it be that simple? According to Gallup—yes! Here are a dozen key questions (On a scale of 1 to 5 with 5 (Strongly Agree) and 1 (Strongly Disagree)):

1. Do I know what is expected of me at work?
2. Do I have the materials and equipment I need to do my work right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days, have I received recognition or praise for doing good work?
5. Does my supervisor, or someone at work, seem to care about me as a person?
6. Is there someone at work who encourages my development?
7. At work, do my opinions seem to count?
8. Does the mission/purpose of my

company make me feel my job is important?

9. Are my co-workers committed to doing quality work?
10. Do I have a best friend at work?
11. In the last six months, has someone at work talked to me about my progress?
12. This last year, have I had opportunities at work to learn and grow?

Companies that administer this 12-question survey every year to both their sales associates and staff have found, just as in the Gallup study, there is a direct correlation between the manager's rating and the performance of their office. The 12 questions help their managers get clear on what is essential and how to get results. The survey can also be used in the manager's performance evaluation.

Can great management be as simple as engagement in these 12 areas? Gallup believes the answer is yes. For more information, read their book on this study, *First, Break All the Rules, What the World's Greatest Managers Do Differently*, by Marcus Buckingham and Curt Coffman. Then, read Gallup's latest research in their new book, *It's the Manager*. It will be worth your investment. After all, it's the manager who is the difference that makes the difference. ▲

CAN GREAT MANAGEMENT be as simple as engagement in these 12 areas? Gallup believes the answer is yes.



DRIVING TO THE NET

If agents are responsible for tending to their leads and databases to eventually sell these contacts a home; what are brokers responsible for?

by David Siroty

I wanted to take you back to 2012. There was a story that came out that Target knew that a young woman was pregnant before her father did.

That was the precursor to today where algorithmic behavior is fueled by digital advertising: track and market.

Those of us in real estate are following these developments with keen interest. Every few years, there are these massive dustups where the holy grail becomes visible and seemingly just days away—knowing when someone might buy or sell a home, get to them before anyone else and get the deal. Of course, we have emerging trends and modern plays like iBuyers, virtual brokerages, and coders galore working hard to figure it all out.

Along the way, these smart people may teach consumers new behaviors. We have to be ready for it.

Agents are encouraged to use social media, target market and be a personal brand. The list of what we encourage them to do grows almost every day, but it's almost always geared to helping them grow their sphere of influence. We want them to cast their net wider and create as many personal connections as possible. Each new person they meet gets tossed into their net. The hope is that the net never breaks, and the agent can continually connect with all inside working to turn them into leads or referrals.

If constantly carrying and caring for

the net is the agent's role, where does the brokerage's marketing efforts come in? There are a few critical areas.

BRAND BUILDING

The first is to raise awareness of the brokerage, getting its logo seen, establishing the company's agents and brokers as the local experts, participating in community activities, and reaching the masses at the top of the marketing funnel. This effort includes lead generation.

The agents feel good knowing the company is behind their efforts. The brand awareness—whether through digital and social campaigns, billboards, radio, TV, cause marketing, etc.—gives the salesforce added credibility and confidence to push open new doors of opportunity.

With a consistent approach, this brand building will have a long-tail impact as the consumer becomes more comfortable with the company. The company builds trust allowing potential buyers and sellers to associate the agents with that positive source.

If brokers are involved in this type of work to support the agents, (which all should be doing), there is often a critical piece that is left out.

Everything the brokerage does to reach consumers should also have mechanisms for the agents to piggyback on and take advantage of the program. Most agents won't interpret what to do. You have to tell them.

COMMUNICATION TOOLS

Helping get people into the agents' nets should be followed by a strong effort to help them communicate with those they've captured.

In today's world, that means content marketing, social media, email campaigns, market updates, home value estimators and a wide variety of other tools, including listing collateral, that can be shared on an ongoing basis.

Finally, it's critical for the brokerage to offer strong listing marketing support. Whether using an in-house creative team or an automated approach, providing the agents with a high quality and consistent look is extremely valuable. This includes photography and video.

Nielsen says that the average person consumes 11 hours of media a day. If that's the case, our materials better look great, or they'll never get noticed. And, if they don't get noticed, not only will the property not attract buyers, but we'll lose the opportunity to use it to reach those already in the net or attract new people.

David Siroty has spent 30-plus years in marketing and communications, the last 15 in real estate. He launched Imagine Productions, a marketing and communications consultancy focused on assisting real estate brokerages, in December 2016 after 13 years leading global communications for Coldwell Banker. He can be reached at david@imagineprstrategy.com. 🏠

REALTOR.COM SURVEY

U.S. MEDIAN LISTING PRICE HITS \$300,000

Based on homes advertised on realtor.com's website, the U.S. median home listing price crossed into uncharted territory in March, increasing 7 percent year-over-year and hitting \$300,000 for the first time.

“The typical U.S. home list price has set a new high right on the cusp of the spring homebuying season, and despite a slowing growth rate, home prices will likely continue to set new records later this year,” says Danielle Hale, realtor.com’s chief economist. “Heading into spring, U.S. prices are expected to continue to rise, and inventory is expected to continue to increase, but at a slower pace than we’ve seen the last few months as fewer sellers want to contend with this year’s more challenging conditions.”

Part of the reason for the higher median asking price may be related to fewer listings for home prices at \$200,000 or less. Although housing inventory continues to increase nationally, the pace of that rise continues to slow as fewer new listings hit the market. Homes priced \$200,000 or below decreased 9 percent year-over-year.

However, that situation might be true everywhere. “A buyer’s experience will vary notably depending on the market and price point they’re targeting,” Hale says.

The U.S. housing market has seen years of increasing home prices and surpassed 2018’s summer high of

\$299,000 as the spring home-buying season launches. The continued, albeit slowing, rise in the national median home price amid a market slowdown is likely driven by inventory growth in the high-end of the market.

According to realtor.com’s analysis, the inventory of for-sale homes priced above \$750,000 increased 11 percent year-over-year, even as the number of entry-level homes priced \$200,000 or below declined.

Housing inventory continued to increase in March, but the rate of growth slowed compared to the last few months, and this slower-price-growth trend could continue into April, especially if fewer new listings hit the market, according to Hale.

Approximately 56,000 additional homes were for sale in March compared to last year, amounting to a 4 percent increase year-over-year. The growth was primarily driven by the U.S.’s 50 largest markets, which grew by a more substantial 9 percent on average year-over-year.

However, the number of newly listed properties hitting the market declined by 0.4 percent from last year, suggesting that

while buyers may have more options to choose from, the share of new properties coming up for sale has not increased.

Of the U.S.’s 50 largest metros, those that saw the most significant inventory decreases were St. Louis, Washington, D.C., and Oklahoma City, where inventory declined by 19 percent, 14 percent, and 11 percent, respectively.

Metros, where inventory continued to increase, were primarily pricey, West Coast markets. San Jose, Calif. topped the list; followed by Seattle, and San Francisco, growing by 114 percent, 77 percent, and 44 percent, respectively.

Nationally, homes in the U.S. sold in an average of 65 days in March, two days slower than a year ago. Kansas City, Mo.; Hartford, Conn.; and Indianapolis, saw the largest increases in days on the market with properties spending an average of 16, 12 and 12 more days on the market year-over-year, respectively. On the flip-side, properties in Pittsburgh, Birmingham, Ala., and Oklahoma City sold an average of 10, eight and five days more quickly, respectively. ▲



THE U.S. HOUSING MARKET has seen years of increasing home prices and surpassed 2018’s summer high of \$299,000 as the spring home-buying season launches.

REAL *TRENDING*

WITH STEVE MURRAY

A weekly real estate industry and trends podcast hosted by REAL Trends, created for Residential Brokerages Leaders.

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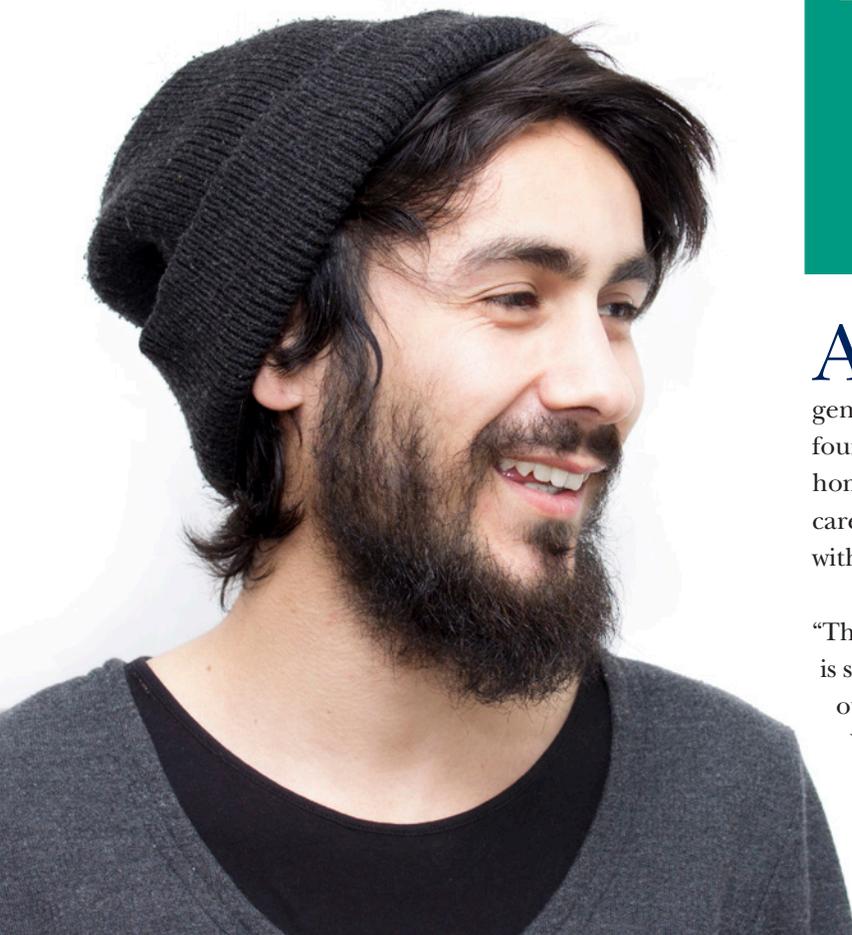


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REALTOR® REPORT

GEN XERS' ADULT CHILDREN INFLUENCE THEIR BUYING DECISIONS

One in six Gen Xers purchased a multi-generational home, overtaking younger boomers as the generation most likely to do so; with 52 percent of those Gen X buyers indicating that they did so because their adult children have either moved back or never left home.



IT'S A GENERATIONAL THING

Examining the behaviors, motivations and financial situations of recent home buyers and sellers.



37%

MILLENNIALS*
Are the largest generation of buyers

GEN XERS
Purchased the largest homes
MEDIAN SQ.FT. **2,100**



GEN XERS & OLDER MILLENNIALS
Buyers carry the highest median student debt balances **\$30,000**



25%

SILENT GENERATION & YOUNGER BOOMERS
Buyers who were single females



52% of **GEN XERS**
who bought a multi-generational home did so because adult children moved back home or never left



NAR 2019 Home Buyer and Seller Generational Trends
*Both Younger and Older Millennials

 NATIONAL ASSOCIATION of REALTORS®

A National Association of Realtors® 2019 Home Buyer and Seller Generational Trends study, which evaluates the generational differences¹ of recent homebuyers and sellers, found that older millennials who bought a multi-generational home, at 9 percent, were most likely to do so in order to take care of aging parents (33 percent), or to spend more time with those parents (30 percent).

“The high cost of rent and lack of affordable housing inventory is sending adult children back to their parents’ homes either out of necessity or an attempt to save money,” says Lawrence Yun, NAR chief economist. “While these multi-generational homes may not be what a majority of Americans expect out of homeownership, this method allows younger potential buyers the opportunity to gain their financial footing and transition into homeownership. Younger

millennials are the most likely to move directly out of their parents' homes into homeownership, circumventing renting altogether.”

MILLENNIALS

Millennials as a whole accounted for 37 percent of all buyers, making them the most active generation of buyers for the sixth consecutive year. 2019 is the first year the report separated younger and older millennials, accounting for 11 and 26 percent of buyers respectively. This separation was deemed necessary as younger millennials now account for a larger buying share than the silent generation (7 percent). Gen X buyers were the second largest group of buyers (24 percent), followed by younger boomers (18 percent) and older boomers (14 percent).

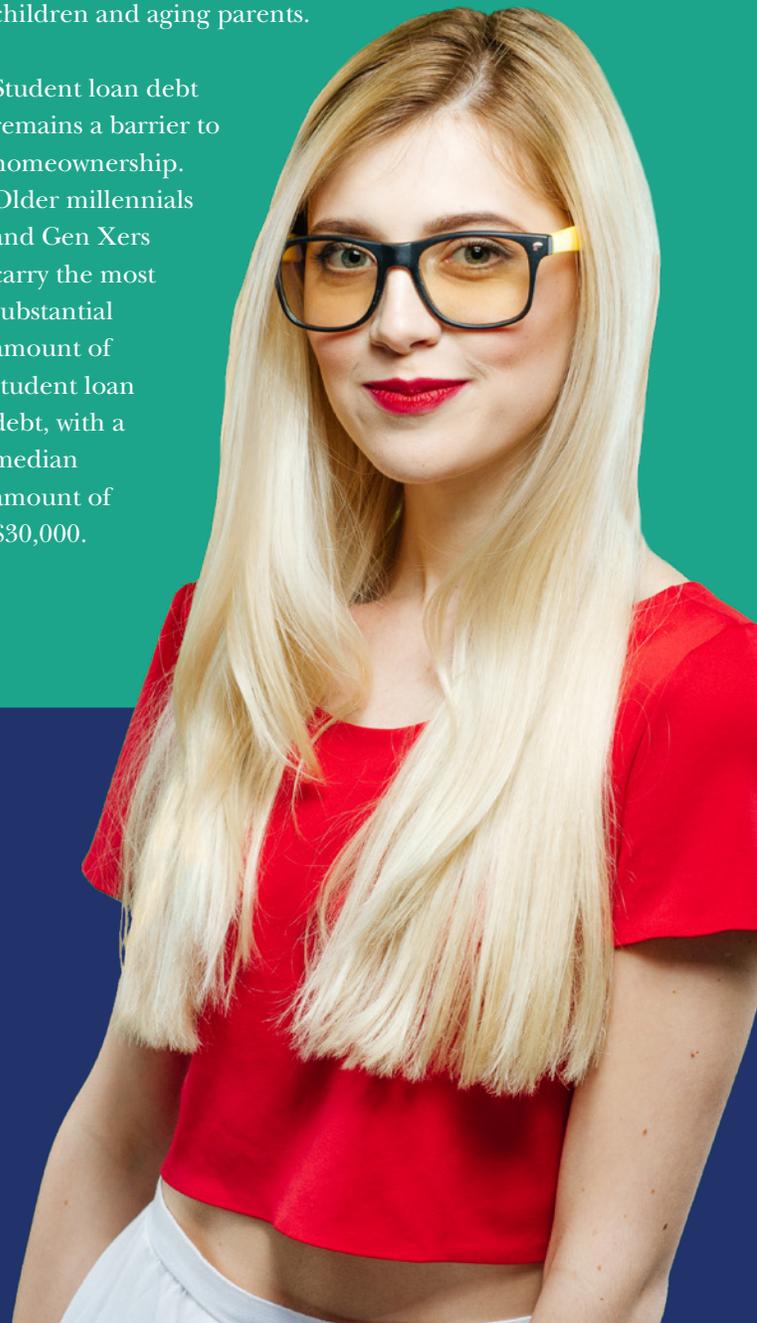
Dividing millennials into younger and older cohorts highlights the disparities between the two age groups and paints a picture of older millennials that is much closer to Gen Xers and younger boomers. Older millennials have a median household income of \$101,200 and purchase homes with a median price of \$274,000, comparable to Gen Xers (\$111,100 income, \$277,800 median home price) and younger boomers (\$102,300, \$251,100 respectively).

Yun says this is to be expected as millennials continue to age and advance through various stages of their lives and careers. “Older millennials are now entering the prime earning stages of their careers, and the size and costs of homes they buy reflect this. Their choices are falling more in line with their Gen X and boomer counterparts.”

Younger millennials, meanwhile, are purchasing the least expensive homes and smallest homes (\$177,000 and 1,600 square feet), meaning they face the greatest challenge in finding affordable inventory. They also report a median household income of \$71,200.

Downsizing to a smaller home is not currently common among any of the generations. Sellers over the age of 54 only downsize by a median of 100 to 200 square feet. A lack of smaller inventory could have hindered Gen Xers and boomers who may have been interested in downsizing or may have been impeded by the increase in multi-generational living these generations are reporting to accommodate the needs of adult children and aging parents.

Student loan debt remains a barrier to homeownership. Older millennials and Gen Xers carry the most substantial amount of student loan debt, with a median amount of \$30,000.



¹ SURVEY GENERATIONAL BREAKDOWNS:

Younger millennials (ages 21-28);
Older millennials (ages 29-38);
Gen Xers (ages 39-53);
Younger boomers (ages 54-63);
Older boomers (ages 64-72);
and the silent generation (ages 73-93).

YOUNGER MILLENNIALS are the most likely to have student loan debt, with 47 percent indicating that they carry some amount of student loan debt.

Younger millennials rank second with a median amount of \$21,000. However, younger millennials are the most likely to have student loan debt, with 47 percent indicating that they carry some amount of student loan debt, while only 42 percent of older millennials and 27 percent of Gen Xers report student loan debt. Younger and older boomers also say carrying student loan debt but a lower amount, 10 and 4 percent respectively.

DIFFICULT TASKS

Younger millennials were the most likely to say saving for a down payment was the most challenging task in the home process, 26 percent. Among them, student loan debt delayed their home purchase (61 percent); however, they indicated that this particular debt only delayed them a median of two years—the shortest delay of all generations. “These buyers are the most likely to receive some or all of their down payment as a gift from family or friends, usually their parents,” says Yun. “This could explain why their debt is not holding them back from homeownership as long as other generations, who are less likely to receive down payment assistance.”

HOMEBUYER HOUSEHOLD COMPOSITIONS SHIFT FROM MARRIED COUPLES

While the majority of buyers in all age groups are married couples, single buyers and unmarried couples continue to make a mark on the real estate market. Single females accounted for 25 percent of all younger boomers and silent generation buyers. “Many of

these buyers are entering the market after a divorce, which is the case for younger boomers, or the death of a spouse in the case of those in the silent generation,” says Yun.

While only 8 percent of buyers as a whole were unmarried couples, they accounted for 20 percent of all younger millennial homebuyers, compared to 13 percent for older millennials, 8 percent for Gen Xers, 4 percent for both younger and older boomers and 3 percent for the silent generation.

WORKING WITH A REAL ESTATE AGENT

A majority of buyers and sellers work with a real estate agent, regardless of age. Buyers and sellers across all age groups continue to seek the assistance of a real estate agent when buying and selling a home. At 92 percent, younger millennials were the most likely to purchase a home through a real estate agent. “Help to understand the buying process” was cited as the top benefit younger millennials said their agent provided (87 percent). Across all generations, 87 percent of all buyers purchased their home through a real estate agent.

Gen Xers were the largest group of sellers, accounting for one-quarter of all sellers. They were also most likely to have wanted to sell earlier but could not because their home was worth less than their mortgage; 15 percent reported they were in this situation. Ninety-two percent of all sellers used an agent during their home selling process, with older millennials and Gen Xers most likely to have used a full-service agent

who offered a broad range of services and managed most aspects of the sale. “Consumers of all ages understand that working with a Realtor® is the advantage they need to compete in this fast-moving, constantly evolving real estate market,” said NAR President John Smaby, a second-generation Realtor® from Edina, Minnesota, and broker at Edina Realty. “Buying a home is an exciting, complicated and sometimes daunting process, and Realtors® have the knowledge and expertise to guide buyers and sellers through this experience.”

NAR mailed a 129-question survey in July 2018 using a random sample weighted to be representative of sales on a geographic basis to 155,250 recent homebuyers. Respondents had the option to fill out the survey via hard copy or online; the online survey was available in English and Spanish. A total of 7,191 responses were received from primary residence buyers. After accounting for undeliverable questionnaires, the survey had an adjusted response rate of 5.6 percent. The sample at the 95 percent confidence level has a confidence interval of plus-or-minus 1.10 percent.

The recent homebuyers had to have purchased a home between July 2017 and June 2018. All information is characteristic of the 12 months ending in June 2018 except income data, which are for 2017.

Source: “2019 Home Buyers and Sellers Generational Trends Report,” National Association of REALTORS® 

A SHRINKING FHA FOOTPRINT IN 2019?

An update to the TOTAL Mortgage Scorecard may foreshadow additional Federal Housing Administration (FHA) restrictions over the coming years.

By Sue Johnson, strategic alliance consultant

The Federal Housing Administration (FHA) announced on March 14 that it's updating its TOTAL Mortgage Scorecard to redefine which loans need to be manually underwritten. While the impact of this change will be felt most by borrowers with low credit scores and high debt-to-income (DTI) ratios, it also may foreshadow more FHA restrictions over the coming year as the agency strives to mitigate risks in its single-family portfolio.

THE TOTAL MORTGAGE SCORECARD
The TOTAL (Technology Open To Approved Lenders) Mortgage Scorecard is an algorithm accessed through an automated underwriting system that evaluates borrower credit history and application information. Lenders are required to score potential FHA loans through TOTAL, except for streamline refinances, Home Equity Conversion Mortgages, Title I mortgages, and loans involving borrowers without credit scores.

TOTAL recommends a decision of "Accept" or "Refer" for each application. "Accept" means the FHA will insure the borrower's loan with reduced documentation and without a manual underwriting review, and "Refer" means the loan must be underwritten by a Direct Endorsement (DE) underwriter using FHA guidelines.

WHAT THE NEW FHA GUIDELINES DO
FHA now advises that, for loans with



WHILE THE IMPACT of this change will be felt most by borrowers with low credit scores and high debt-to-income (DTI) ratios, it also may foreshadow more FHA restrictions over the coming year as the agency strives to mitigate risks in its single-family portfolio.

BUYERS, SELLERS, and real estate professionals could find that loans involving borrowers with lower credit scores and higher DTIs that once made it through the TOTAL system now may be delayed or rejected.

case numbers assigned on or after March 28, 2019, borrowers with credit scores of under 620 and DTIs of over 43 percent may receive results from TOTAL indicating that the loan must be manually underwritten. This is a reversal of its 2016 decision to remove similar requirements it had imposed in 2013.

Since the FHA did not identify precise loan characteristics other than low credit scores and high DTI ratios that may trigger manual underwriting, questions remain as to what other factors or combinations of factors will create a manual underwriting referral.

THE POTENTIAL IMPACT

Overall, the percentage of loans flagged for manual underwriting is expected to be relatively small. An FHA official reportedly told *The Wall Street Journal* that approximately 40,000 to 50,000 loans a year likely will be affected by the manual underwriting trigger, which amounts to 4 to 5 percent of all the mortgages the FHA insures on an annual basis.

But mortgage industry observers say it's likely that many of the loans targeted for manual underwriting will end up being disqualified, since DE underwriters may be cautious about approving marginal loans that could affect their endorsement authority—even if there are compensating factors that could improve a borrower's chance of qualifying.

THE REASONS WHY

The FHA took this step because it has insured an increasing number of loans

in recent years with high-risk credit characteristics that it believes could lead to higher default rates and more insurance claims. This could eventually drain the Mutual Mortgage Insurance Fund.

The agency highlighted the following risk factors in its Annual Report to Congress released in November 2018:

- **Increased Cash-Out Refinances:** FHA cash-out refinances increased by about 60 percent in 2018, compared to total refinances.
- **Higher Debt-to-Income (DTI) Ratios:** During the fiscal year 2018, 25 percent of all FHA forward mortgage purchase transactions had DTI ratios above 50 percent, the highest percentage since 2000. The average borrower DTI ratio continued to increase for the sixth straight year and was 43.09 percent for the fiscal year 2018.
- **Lower Credit Scores:** Borrower credit scores dropped to an average of 670 in 2018, the lowest average since 2008. First Quarter 2019 statistics show that they are continuing to decline, with 28 percent of all FHA loans having credit scores under 640 and 13 percent having credit scores under 620.

IS THERE MORE TO COME?

The FHA has cautioned that this TOTAL Mortgage Scorecard modification is just the first step it will be taking to address the higher risk factors in its loan pool.

President Trump's Housing Policy Reform Plan announced on March 27, identifies two FHA programs involving higher credit risks that will be assessed in 2019. The Plan instructs the FHA to "address the financial viability of its Home Equity Conversion Mortgage (HECM) program," which had a negative economic net worth of over \$13 billion in the last fiscal year. It also directs the FHA to assess "the risks and benefits associated with providing assistance to first-time homebuyers, including down payment assistance." The share of FHA mortgages with some form of down payment assistance increased to 38.79 percent in the fiscal year 2018 and exhibit higher delinquency and default rates, according to FHA's 2018 Annual Report.

The bottom line is that buyers, sellers, and real estate professionals could find that loans involving borrowers with lower credit scores and higher DTIs that once made it through the TOTAL system now may be delayed or rejected. There may be more FHA announcements in 2019 that could further shrink the FHA footprint.



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

2019 RESIDENTIAL REAL ESTATE MARKET UPDATE

AUSTRALIA AND NEW ZEALAND*By Peter Gilmour, chief
foreign correspondent**What's happening in these very different real estate markets?*

With house prices falling significantly in the major cities in Australia, the inevitable question is “will the downturn spread to New Zealand in 2019?” The two real estate markets are different, so we need to examine the fundamentals to predict what is likely to happen in each country.

AUSTRALIA

In Australia, population growth is strong and supports demand for real estate. On the supply side, the number of new homes built this year in Australia is expected to drop, which will lead to demand not being met by new construction. This will lead to a shortage of homes for sale and upward pressure on real estate prices. In contrast, there is a growing oversupply of apartments in the upmarket cities of Sydney and Melbourne, which have seen prices drop sharply over the last 18 months. The year-over-year median price decline in Sydney is close to 6 percent and in Melbourne around 2 percent. Unemployment in Australia is declining, and this is expected to support the stabilization of the market and negate any prospect of a crash. Interest rates are always a critical factor in the real estate market, and as the Australian economy shows signs of softening, historically low interest rates will provide support for property prices.

**NEW ZEALAND**

In New Zealand, banks have been offering several competitive fixed-rate deals. About 80 percent of mortgage debt in New Zealand is on fixed rates, which allows them to structure their finances ahead of any future increase in rates. This is unlike Australia where fluctuating rates dominate. Cities of Brisbane, Canberra, and the Gold Coast are showing reasonable growth in prices as Sydney investors look elsewhere for better returns. Sydney and Melbourne's markets are still expected to weaken further in 2019 with tightening lending criteria and the abolition of negative gearing on resale properties should the government change in the Federal Elections to be held in May 2019. Negative gearing is an Australian tradition and investors hope to secure negative gearing arrangements ahead of the election as all existing negative gearing arrangements at the time of the election will not be affected.

**PROPERTY PRICES**

According to the CoreLogic House Price Index, property values in New Zealand have grown over the last year by 3 percent. Values in Auckland, the major city, have dropped due to high property values, and sellers have to adjust prices downward to get a sale. A key topic is The New Zealand Tax

Working Group's report which recommends the introduction of a more competitive Capital Gains Tax for residential investment property. Investors are waiting for the Government to respond to the recommendations.

The New Zealand market; however, looks strong with significant value

declines less likely. Australia's GDP has eased slightly in 2019 but is still one of the highest of the international economies at 2.8 percent forecast for 2019. The country has not been in recession for 28 years, and the indicators are that this will continue for another two years at least. ♡

CONSUMER ENGAGEMENT

THE LIFE OF A LEAD

The best CRM is the one an agent uses. Building on existing relationships will keep your business thriving.

By Warren Dow

After a year in real estate operations, I've chosen to return to the ranks of real estate software. I hope to put my experience to use helping improve technological efficiencies and engagement across the industry. I continue to be drawn to organizations that focus on leveraging technology to enhance ongoing consumer-engagement. Why? Because many brokerages and real estate professionals focus more on lead generation than on lead engagement. The life of a lead can be for the life of your career, but we often focus too much on the shiny penny rather than the power of continually engaging our database—people who already know and like us or have worked with us in the past.

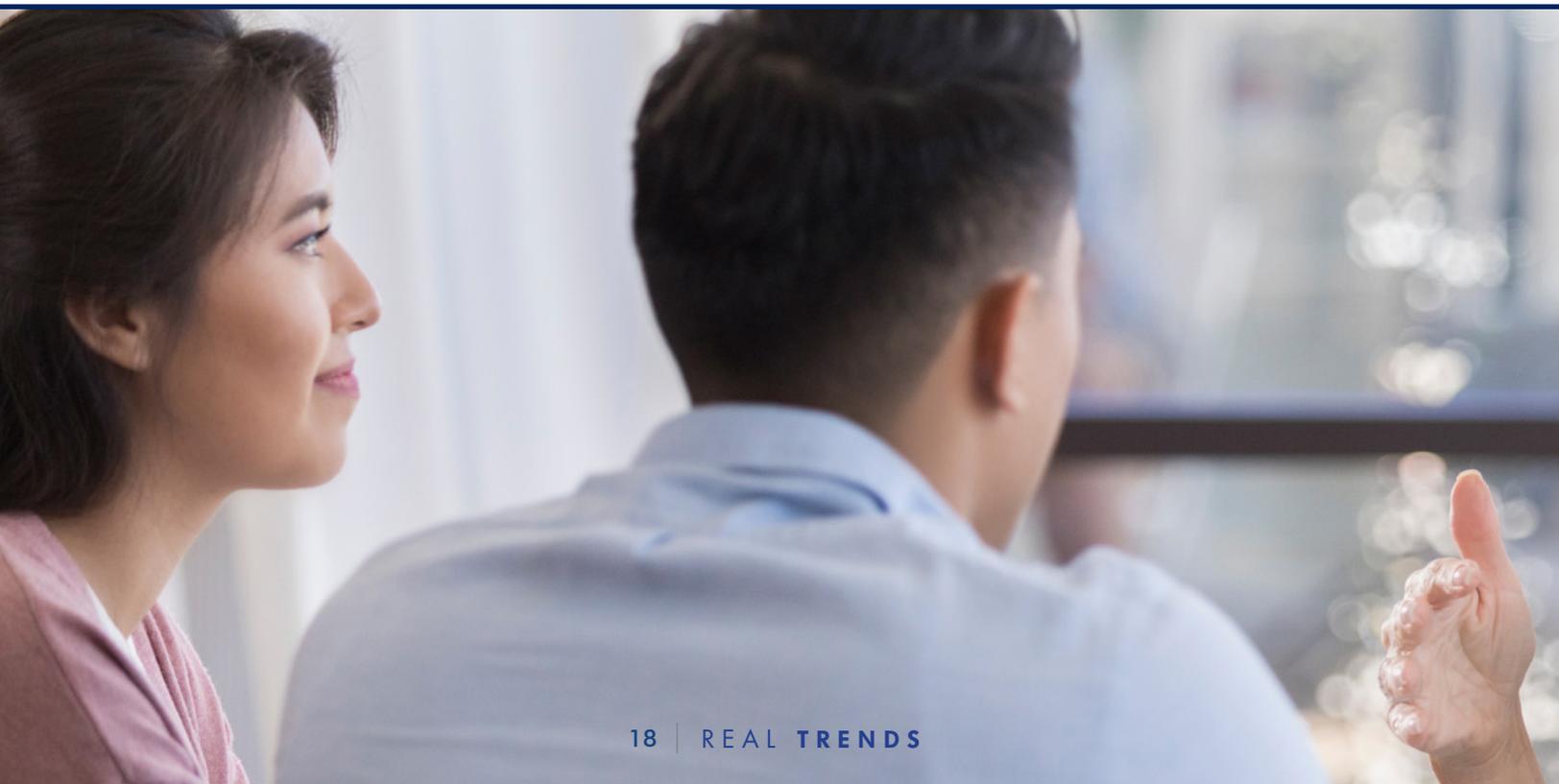
IT'S EASIER TO KEEP AN EXISTING RELATIONSHIP

NAR's 2018 *Profile of Home Buyers and Sellers* outlined that 69 percent of sellers would definitely use their agent again, but only 24 percent do. Homebuyers: 74 percent would use the same agent, but, still, far fewer do. Where is the disconnect? A simple question with a simple conclusion: It is far easier and less expensive to keep an existing relationship than to build a new one.

THE MOST IMPORTANT TOOL

They say the best CRM is the one an agent uses. A CRM is designed to keep your contacts organized, but it's also designed to help keep your communi-

cations, follow-ups, and tasks organized, as well. That's why a quality CRM is arguably the essential tool in your marketing tool belt. However, all too often we pay to capture leads, engage them with a few manual emails, and then stop following up because we think they don't want to work with us. Alternatively, we get the opportunity to help them with the biggest purchase of their life and give them a closing gift hoping that they'll remember us years later during their next sale. Brokerages need to train their agents on how to leverage their technology infrastructure to develop and automate an effective follow-up cadence that generates repeat and referral business.



NO REPLACING PERSONAL CONTACT

Technology can't replace a personalized note from you, but it can help automate other valuable ways to stay in front of your customers. Drip marketing campaigns can nurture your leads before they're ready to buy or sell, sending a series of emails with useful information based on where the lead is in the process. You can use the same drip marketing tools to send out coordinated and timely information post-transaction as well. Do you want to send a follow-up after your buyers have been in their new home one month? Three months? Send monthly market insights? Provide a complimentary comparative marketing analysis (CMA) on the purchase anniversary for customers each year? Absolutely! But as our database grows, all of these manual follow-ups start falling by the wayside. We need to use the technology at our fingertips to make sure we're replicating our recipe for success and continuing to stay front and center with reduced manual intervention.

SERVICES TO SAVE TIME

Third-party services can be beneficial in saving time and improving engagement as long as they're branded to the brokerage and agent. There are a wide variety of options to share helpful content that reminds your past customers that you're *still* here to help them when they're ready for their next purchase or sale. Groups like MooveGuru send your leads free home-related, money-saving offers during the home buying/selling process and then continue to deliver branded offers related to home-ownership month after month. Service for Life generates and sends monthly or quarterly branded newsletters to your leads and past customers.

One solution isn't going to work for your complete database. I am an advocate of multi-channel marketing and engagement. By combining manual touch points with various automated ones, brokerages can keep

their agents front and center with content that is timely and valuable both pre- and post-transaction.

The life of a lead is continually evolving, and the content we send them at various points throughout the relationship must be timely and useful. It could be years before we help a past customer with their next purchase, so leveraging technology in the right way will help improve lead conversions, repeat business, and most of all, it will help save your agents a lot of time!

Warren Dow is the VP of Business Development at Peabody & Smith Realty based in New Hampshire. Warren has over a decade of leadership experience in real estate software and services. With a degree in behavioral neuroscience and a back-ground in technology, consumer engagement, and marketing strategy, Warren offers a unique perspective in brokerage efficiencies with a client-first mentality. 🐾



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