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PROFITS & RECRUITING

DATA TELLS A STORY

Without an improvement in per-person productivity among traditional realty firms, their long-term growth prospects are limited.

By Steve Murray, President

REAL Trends team members Scott Wright and Alicia Vivian manage the valuation, merger and acquisition efforts for our company and are deeply involved in develop ing benchmark tools for our clients based on the significant data that we collect. We get data not only from our valuation work but also from the REAL Trends 500, our agent rankings in The Thousand and America's Best Real Estate Agents and other company assessment work.

They presented a snapshot of some of that information at the recent Gathering of Eagles conference. Three pieces of their analysis caught my attention (and that of most of the audience).

No. 1: Average Gross Margin

The average gross margin across all brands and regions over the last five years has fallen from around 22 percent to approximately 15 percent—a decline of about 32 percent.

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No. 2: Average Net Profit Margin
The average net profit margin has fallen far less, from 4.5 percent to around 3.9 percent, or a decline of approximately 13 percent.

Brokerage owners are doing what they've been doing for the last 40 years. They're adapting to the changing market for their services, the costs of agents' splits, the growth of teams and increasing demand for technology. They may have lost a large bit of turf in commission costs, but they're getting more efficient at delivering service to their agents. The market is working, well, like markets usually do.

As REAL Trends also divulged, when we look strictly at traditional brokerage firms with graduated commission plans, their average gross margin remains above 20 percent while those brokerages with capped or flat-fee plans are around 13 to 14 percent. So, the national average doesn't tell the whole story.

WHEN WE LOOK STRICTLY AT TRADITIONAL BROKERAGE FIRMS with graduated commission plans, their average gross margin remains above 20 percent while those brokerages with capped or flat-fee plans are around 13 to 14 percent.

No. 3: Average Size of Office
The third piece of information they shared was about the average size of an office among REAL Trends 500 firms. It turns out the average has gone from about 44 agents per office five years ago to nearly 60 agents per office in 2017. That would represent a growth of 36 percent—not bad given how competitive it is. However, when we take all Keller Williams firms out of the equation, that growth is from 44 agents per office to about 46 agents per office over five years. That is the growth rate of 0.5 percent over five years.

This does not bode well for the non-KW firms among the REAL Trends 500. Given that transaction growth in the country has been materially higher than that over the past five years, and average prices even higher, the lack of recruiting doesn't hit home as hard as it would otherwise. However, without an improvement in per-person productivity among traditional realty firms, their long-term growth prospects are limited.

THE AGE OF AMAZON

LESSON 6: WHAT DO WE DO WITH THE DATA?

A series on what the new business environment may tell us about residential brokerage.

By Steve Murray, president

Big data. Artificial intelligence. Predictive analytics. We hear these buzzwords a lot. In many ways, the real estate industry has been practicing in these three fields for years. What is the MLS? Who are Broker Metrics, Real Data and TrendGraphix and what do they provide? What about your profit and loss statement? Isn't that big data?

There are a growing number of tools that allow brokerage firms and agents to tighten the attention, so they can focus on data analysis that aids them in making decisions. But the tools are not going to help brokerage firms or agents unless and until they use them.

Targeting Consumers

Google, Amazon and scores of others use their big data and artificial intelligence to target consumers. They know what books I like, which authors I've purchased, and they send me ads that are related to those authors and topics. Agents use similar tools to send listings to consumers to match what they've indicated are their preferences.

What we haven't seen is the adoption of these tools from the majority of brokerage firms—even though the tools exist. Which agents are likely to be a good fit for your firm? What can we see from market data that tells us the likelihood that Agent A will do better with us than Agent B? These are simple questions with full answers in the data.

The real challenge is that the industry has been shot-gunning for too many years. They are acting like professional sports before Moneyball. They say things like, "the agent looks good and act goods, so let's pay him a 90 percent split." The use of big data and artificial intelligence can end that approach. The question is: Will brokerage firms of all models, brands and sizes realize that without the use of the adoption of these tools nothing will change for their business?

Website Data

Additionally, there is an enormous amount of big data that can be retrieved and analyzed from your website. What are consumers most interested in? Which of your

There is an enormous amount of big data that can be retrieved and analyzed from your website. What are consumers most interested in? Which of your services do they look at the most? Which listings are the most viewed? Which listings get the most extended consumer viewing?

services do they look at the most? Which listings are the most viewed? Which listings get the most extended consumer viewing? Are their differences in photography, features, etc. that cause someone to stay longer?

Big data is all around. The challenge is who is paying attention? Is there a constant review of what works best within your firm, or are these areas of only minor interest? If you assume that brokerage firms and agents are the purveyors of both information and personal service, why is there so little attention being paid to the information side, given that brokers have so little ability to influence an agent's delivery of personal service?

Amazon, Redfin, Zillow and other companies study the data continuously. They are making decisions based on the information they see, the patterns that appear and what it tells them about redirecting resources. Brokerage firms and agents already have access to enormous amounts of data and some simple tools to analyze the data. It's time to act. Firms that don't develop these capabilities will be left behind in the age of Amazon.

Lesson 6: By now we understand that information about housing by itself has value. Amazon (and others) amass vast amounts of data about their customers. What can realty firms learn from this given the similarly vast quantities of data we have access to about consumers?

MERGERS & ACQUISITIONS

INTEREST FROM PRIVATE EQUITY

Brokerage firm buyers are changing from large independents and networks to private equity firms.

By Steve Murray, president

In the 31 years of REAL Trends work in valuations, mergers and acquisitions, there have always been owner-operators of brokerage firms desiring to acquire other brokerage firms. Most recently, these were firms like NRT, HomeServices and Howard Hanna to name a few of the most active acquirers.

Now, with the initial successes of Redfin and Compass, we've noted a significant increase in interest by investors, whether they are hedge funds, private equity firms, venture capital outfits and even Federal credit unions. While only a few deals are being done; even more are being investigated. So long as there is abundant capital for investment in the U.S. economy, and the housing and related-services businesses stay this strong, there will be more interest.

OLD SCHOOL PREDICTIVE ANALYTICS GENERATE MOVE SCORES

By Larry Kendall, author of Ninja Selling and Chairman Emeritus of The Group, Inc.

Predictive analytics is one of the new sciences that is capturing the imagination of our industry. One can use big data to analyze everything from social media and credit card activity to demographics and GPS movements; data scientists predict who is most likely to buy and sell real estate in the next year. Then, they sell this data as leads to real estate professionals and real estate companies. Guess what? We've been predicting buying and selling patterns for over 25 years using the old school, an analog method described below.

As part of their annual business planning, have your associates go through the following process with their database.

These People Probably Want to Buy/Sell Real Estate. Take out your list of people you know. Go through the names one at a time. Bring the person/family into your consciousness. Think about them and ask yourself these questions regarding their situation. If they fit the issue, write the number of that question next to their name. The names with the most numbers have the most change going on in their lives and have the highest move score. Change drives their real estate. About 20 percent of your database should have a high move score.

How many of the people you know:

1. Have had an increase in family size in the past year?
2. Have children age 10 and under? (Send them a "How to pay for college" with real estate brochure.)
3. Have teenage children? The children are older, and the floor plan doesn't work.
4. Have children who have left home recently? Or an adult child has moved back in?
5. Are living below or above their means?
6. Have lived in their same house 7 years or more?
7. Have had their employer/company expand in the past year?
8. Have had their employer/company downsize in the past year?
9. Have had a significant health event or an elderly parent move in?
10. Have received a substantial inheritance?
11. Own a building lot?
12. Are getting married or are recently married?
13. Are getting divorced or are recently divorced?
14. Have a commute of _____ hours a day or more?
15. Have a dream for "Wake-up Money" investment property?
16. Have a dream to live somewhere specific?

OUR OLD-SCHOOL ANALOG SYSTEM OF PREDICTING MOVE SCORES WAS AS ACCURATE AS THE MODERN TECHNOLOGY. And it was free! It's also better because our associates have a personal relationship with their list of people with high move scores—compared to buying a cold list provided by a data analytics company.

This list is composed of the people who have the most change going on in their lives and will probably want to buy and sell real estate in the next year. We call this a Warm List. These 16 questions came from 40 years of experience in documenting the changes that drive real estate activity. How accurate is this list with the highest move scores? Here's an example.

How Accurate?

Several years ago, a friend of mine was the founder of one of the first companies to develop predictive analytics. He showed me how they could predict the 20 percent of the households in any zip code that would be most likely to move in the next year. Their analytics were amazing. Their business model was to sell zip codes to real estate companies. The cost to purchase our zip codes was in six figures.

I suggested we experiment. I would give him the databases of three of our top producers, and he would run those households through his data analysis to provide us with the 20 percent with the highest move scores. I then compared his list with our top producers' **Warm List of highest move scores. It was almost a perfect match!**

Old School vs. New School

Our old-school analog system of predicting move scores was as accurate as the modern technology. And it was free! It's also better because our associates have a personal relationship with their list of people with high move scores—compared to buying a cold list provided by a data analytics company. Want to install predictive analytics in your firm? Go old school. It's better, and it's free.

A MARKETER'S GUIDE TO GENERATION Z

By Alec Gress,
Video/Marketing Strategist

As a Millennial, I can firmly state that I am ready for the next generation to enter into the public spotlight. I'm sure this is true of each young age, but I am tired of being treated as a walking, talking buzzword. This brings up the question of who is next? As Gen Z starts to acquire purchasing power, they are not drawing the type of attention that has long been bestowed on Millennials.

What do real estate professionals need to know about Generation Z and their behavior? Let's focus on the trends we're noticing, specifically with social media usage. Keep this information in mind when planning marketing strategies.

Who is Gen Z?

Generation Z or Gen Z are considered people born from 1995 to 2012. This generation has a smaller range of ages compared to the Millennial generation, which spans from 1980 to 1994. According to Nielsen's new Total Audience Report, Gen Z is now considered the most significant demographic in the United States, making up 26 percent of the population. Technology has shaped this Generation; it shapes their daily lives as well as their worldview. Due to constant connectivity, they have limitless interests and avenues for learning. They tend to take in information instantaneously and lose it just as fast. Gen Z is shaped by social media, smartphones, a post 9/11 world and a massive recession. Despite being so close in age to the Millennial generation, there are some critical differences in their characters.

Differences Compared to Millennials

1. **Realism vs. Optimism**
   Due to encouraging Baby Boomer parents, as well as prosperous economic times, many Millennials are considered an optimistic generation. Those in Gen Z are considered more pragmatic thanks to their skeptical Generation X parents and growing up in a recession. Most in Gen Z are concerned with long-term value as well as smart investments.

2. **Online vs. In-Person**
   Seventy-four percent of those in Gen Z prefer communicating face-to-face vs. online. The Millennial generation, in many ways, were the ones who popularized digital communication tools making work more efficient, yet not as personable. Perhaps having smartphones in your hand for your whole life has taught Gen Z the value of a human connection and having a real conversation.

3. **Independent vs. Collaborative**
   Seventy-one percent of Generation Z said that they believe in the slogan "if you want it done right, then do it yourself." Gen Z has mostly experienced childhood on a schedule, from soccer meets, to piano practice to a grueling college admissions process. All of this results in a generation that craves independence. Many see entrepreneurship as attractive because it allows self-management as well as autonomy from a higher authority. For this generation, the thought of being the boss of themselves is very empowering.

GEN Z IS SHAPED BY social media, smartphones, a post 9/11 world and a massive recession. Despite being so close in age to the Millennial generation, there are some critical differences in their characters.

Generation Z and Social Media: What Marketers Should Know

Now that we understand some of the fundamental differences between these two generations, let's take a look at how they use social media and interact with brands:

- Typically, Millennials have used social media to update their statuses and to keep in contact with friends. Teens of Gen Z tend to use social media as more of a time-filler, consuming social media regularly. It's more used for entertainment than communication.
- Brand interruptions are not well tolerated with those of this generation. It's vital that brands keep this generation entertained rather than create ads. Create compelling content that entertains and cuts through. A great example of this today is Red Bull.
- They are much more likely to click on sponsored posts than click on online ads. They also like transparency in advertising.
- Video is king with Gen Z, according to a study by Adweek, 95 percent of teens today watch YouTube, they also watch an average of 68 videos in a day.
- Generation Z uses fewer social media platforms but spends longer on them, their favorites being Instagram and Snapchat.
- Their social media preferences have a lot to do with privacy. As digital pioneers, the Millennial generation quickly grew many of these new social media platforms by hyper-sharing. Now today's teens realize just how important protecting your online reputations is. Once again this goes back to their long-term thinking approach.
- Gen Z-ers also tend to prefer social media platforms that run off of expiring content, such as Snapchat and Instagram (stories). They can share what they want, but the content does not live forever as it does on Facebook. Another reason they prefer Snapchat and Instagram is that it's much less time consuming than posting on Facebook.
- They expect brands to treat them like a valuable customer. They expect a two-way, personalized conversation on social channels, similar to how they interact with friends.

Real Estate and Generation Z

How can real estate professionals reach out to this soon-to-be influential group of potential customers? One thing that comes to mind is entertainment. Brokerages and sales associates who want to reach this demographic should use Snapchat and Instagram stories to entertain and communicate. Add your Snapcode to your business card, create a fun Snapchat geo filter for an open house, take pictures of a listing and post them on Instagram stories. Brokers and agents need to become content marketers and let their authenticity shine through to reach this hyper-connected generation of the future.

What have you been doing to reach the next generation?

HOW CAN REAL ESTATE PROFESSIONALS REACH OUT to this soon-to-be influential group of potential customers? One thing that comes to mind is entertainment. Brokerages and sales associates who want to reach this demographic should use Snapchat and Instagram stories to entertain and communicate.

CRE LIST

10 ISSUES IMPACTING REAL ESTATE

Know the issues; adjust your business.

The Counselors of Real Estate® (CRE®) professional association announced its annual Top Ten Issues Affecting Real EstateTM List for 2018-2019. Today's issues will impact your decisions over the next ten years. Here are the top 10:

Current Issues

1. Interest Rates & The Economy
2. Politics & Political Uncertainty
3. Housing Affordability
4. Generational Change/ Demographics
5. E-commerce & Logistics

Longer-Term Issues

1. Infrastructure
2. Disruptive Technology
3. Natural Disasters & Climate Change
4. Immigration
5. Energy & Water

1. **Interest Rates and The Economy.** As interest rates rise, the commercial and residential real estate markets are already experiencing changes—decreasing demand for commercial property, and higher home mortgage rates. Rate increases also limit value appreciation for commercial real estate and make housing less affordable. Lack of wage growth for all but the wealthiest population segment is dampening housing demand and limiting consumer spending that the economy needs for growth. The Counselors cited a 2017 Brookings Institution study which showed real wages for most of the middle-class have only increased 3.5 percent since 1979, compared to a 24 percent rise for the top income segment.

2. **Infrastructure.** The lack of serious effort by the U.S. to address its condition and much-needed revitalization leads the list of broader and emerging issues affecting real estate. Roads, bridges, airports, water and sewer lines, electricity, even public transit. All are necessary to sustain and expand cities and communities and are rapidly deteriorating. U.S. infrastructure was given a D+ rating in the American Society of Civil Engineers 2017 Infrastructure Report Card. As much as $4.5 trillion is estimated by that organization to improve critical infrastructure by 2025.

3. **Politics and Political Uncertainty** was second on The Counselors' Current Issues list. Tax reform and policies enacted to change the balance of trade with other countries impacts jobs, incomes, and property of all types, commercial and residential. Congressional action to relax certain bank lending and asset management regulations was also among developing trends which may improve access to capital.

4. **Housing Affordability** across nearly every income bracket with the exception of the most-wealthy households. Affordability is fueled by not only low wages and rising mortgage rates but also underproduction of housing for almost two decades.

5. **Generational Change and Demographics.** For the first time in more than half a century, there are four distinct groups exerting influence

INFRASTRUCTURE. The lack of serious effort by the U.S. to address its condition and much-needed revitalization leads the list of broader and emerging issues affecting real estate.

on both commercial and residential real estate, such as office design, student and elder housing, amenities and locational preference. Aging Baby Boomers, a similar number of Millennials, and the smaller groups on either side of Millennials (Generation X, now mostly middle-aged and Generation Y, including students and those in their early 20s).

6. **E-commerce, and Logistics** that support warehousing and delivery of goods all contribute to retail sector volatility.

Additional Longer-Term Issue

7. **Following closely behind Infrastructure on the 2018-2019 list of Longer-Term Issues is Disruptive Technology.** Examples include advanced robotic manufacturing and warehousing; driverless cars and trucks; the wide availability and utilization of personal and transactional data (which enhances all kinds of business decisions), smart building technology that enables efficiency; global connectivity; automated business processes; and information protection through cybersecurity. Nearly every aspect of real estate is undergoing dramatic change as these types of technology are adopted.

8. **Natural Disasters and Climate Change**, which result in property and environmental damage from events such as severe storms, wildfires, floods, earthquakes, volcanic activity, and rising sea levels.

9. **Immigration** which, if reduced by law, may have a negative impact on new housing starts and home purchases as well as possibly worsen the current skilled labor shortage in the United States.

10. **Energy and Water,** natural resources essential to property and quality of life, yet threatened by not only environmental damage (human-made and climatological) but entangling state and local regulations which complicate development and lack the national standardization regulations would provide.

On the Watch List are four additional issues—Construction Costs, Urbanization/ Suburbanization,

Tax Cuts and Societal Leadership

- Rising construction costs make some development unfeasible and increase prices on commercial and residential property alike.

- Cities continue to attract population and provide opportunities for Millennials, seniors, and other demographic segments as well as property investors, corporations and small businesses. Suburbs are adapting with city-like development and amenities.

- Tax cuts positively impact commercial properties, although the effect of this legislation is still developing. This legislation has the potential for corporations large and small to create jobs. Individual tax cuts may provide a slight increase in disposable income and make home repair or remodeling more attractive; on the other side of the equation is limits on mortgage interest deductibility for homeowners.

- A new surge of social activism among younger Americans, celebrities and a significant portion of the American public surrounding the #MeToo women's movement, gun control, and diversity has potential—if sustained—to fuel business and social reform on many levels. The real estate industry has an opportunity to take a leadership position to hire, train and promote women and minorities; build responsibly and sustainably; create affordable housing, and enhance protections for properties, tenants and residents.

TAX CUTS POSITIVELY IMPACT commercial properties, although the effect of this legislation is still developing. This legislation has the potential for corporations large and small to create jobs.

15,242 MANAGERS WORLDWIDE AGREE

THESE ARE THE **TOP 10 REAL ESTATE MANAGEMENT SKILLS** YOU NEED

The authors of Mind Tools for Managers reveal the ten most important skills a manager should master, based on their recent research study. As real estate leaders, you're juggling a bunch of balls in the air. You have to recruit, manage, plan strategy and implement the strategy—all while working with sales associates who are independent contractors. In fact, according to James Manktelow and Julian Birkinshaw, authors of Mind Tools for Managers: 100 Ways to Be a Better Boss (Wiley, April 2018), managers should know between 90 and 120 individual skills. That's a lot. But thankfully you don't have to tackle them all at once. Just zero in on the most critical ones and master them first.

Stumped on where to begin? Work on the most crucial skills first—the skills managers worldwide value and recommend. To get you started, here are the highest ranked skills in the survey, presented in descending order.

Skill #1: Building good working relationships with people at all levels.

Recommended by 79.9% of managers surveyed.
The most critical management skill, as ranked by our 15,242 managers worldwide, is the ability to build good relationships with people at all levels. Thankfully, in real estate, a relationship-focused industry, building relationships comes naturally for many managers. Regardless, everyone can work on this skill. One approach is to focus on creating high-quality connections, made up of respectful engagement, task enablement and trust-building.

Skill #2: Prioritizing tasks effectively for yourself and your team.

Recommended by 79.5% of managers surveyed.
"All of us have a huge number of things that we want to do or have to do," says Birkinshaw. "The demands can often seem

AS REAL ESTATE LEADERS, YOU'RE JUGGLING A BUNCH OF BALLS IN THE AIR. You have to recruit, manage, plan strategy and implement the strategy—all while working with sales associates who are independent contractors.

overwhelming, to the members of our team and us. This is why prioritization is the second most important management skill, as ranked by the participants in our survey. There's a particularly useful approach to this called the Action Priority Matrix, and every manager needs to know about it!"

Skill #3: Considering many factors, such as opportunities, risks, reactions and ethics, in decision-making.

Recommended by 77.8% of managers surveyed.
We've all seen how bad decisions can be when they're rushed, or when financial criteria are the only ones that are used. This is why it pays to use a formal, structured process to think a problem through thoroughly, including analyzing risk and exploring ethical considerations. The ORAPAPA framework—which stands for Opportunities, Risks, Alternatives and Improvements, Past Experience, Analysis, People, and Alignment and Ethics—is a good example.

Skill #4: Understanding the fundamental principles of excellent communication.

Recommended by 77.7% of managers surveyed.
"Management is about getting things done by working with people," says Manktelow. "You can do this only if you communicate effectively. This is where the 7 Cs of Communication—clear, concise, concrete, correct, coherent, complete, courteous—can help you get your message through more clearly."

Skill #5: Understanding the needs of different stakeholders and communicating with them appropriately.

Recommended by 75.8% of managers surveyed.
As you run more significant projects, it becomes increasingly important to manage the many different groups of people who can support or undermine the work you do. This is where it's essential to develop good stakeholder analysis and stakeholder management skills.

Skill #6: Bringing people together to solve problems.

Recommended by 75.0% of managers surveyed.
"It's often tempting to try to solve problems on your own," says Birkinshaw. "But it pays to bring together a team of experienced people. Brainstorming is popular for this, but also understand structured problem-solving processes, know how to facilitate meetings well, and manage the sometimes weird group dynamics that can undermine a good team process."

As you run more significant projects, it becomes increasingly important to manage the many different groups of people who can support or undermine the work you do.

Skill #7: Developing new ideas through an empathetic understanding of customers' problems.

Recommended by 74.4% of managers surveyed.
Your sales associates are being reviewed and rated now more than ever. To get good reviews, it's not enough to provide adequate customer service; you need to deliver something that meets the needs of customers exceptionally well. Approaches like design thinking and ethnographic research can help you develop highly satisfying customer experiences and help you develop a great customer journey.

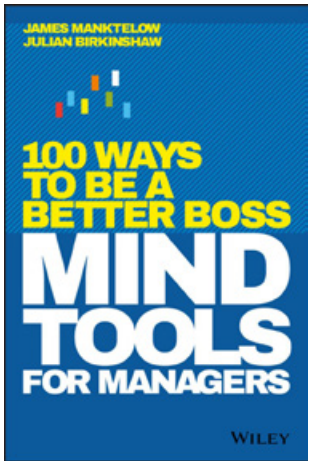
Skill #8: Understanding and developing your relationship with your customer.

Recommended by 73.6% of managers surveyed.
In real estate, this means understanding both your sales associates and your local market. Designing a website that gives the homebuyer or seller information they need, being active in the community, segmenting your social media and customer database—those are just a few things you can do to learn about your customer.

Skill #9: Building trust within your team.
Recommended by 73.3% of managers surveyed.
When people don't trust one another in a team, they waste a considerable amount of time politicking and covering their backs. By contrast, people in trusting teams work efficiently and well, and they can deliver beautiful results. To build trust, you need to lead by example, communicate honestly and openly, get to know individuals as people, avoid blame, and discourage behaviors that breach trust.

Skill #10: Developing emotional intelligence.
Recommended by 72.1% of managers surveyed.
"All managers need emotional intelligence to be effective," says Birkinshaw. "This means having the self-awareness, self-control, motivation, empathy, and social skills needed to behave in a mature, wise, empathetic way with the people around you. Emotionally intelligent managers are a joy to work with, which is why they attract and retain the best people."

"Even if you already feel like you have some of these skills, know that there is always more to learn, and the results will show in your improved leadership," concludes Manktelow. "Practice them until they become effortless, and, in time, not only will you perform better, you'll get better results from your team and stand out as a talented leader within your organization."



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James Manktelow and Julian Birkinshaw are coauthors of Mind Tools for Managers: 100 Ways to Be a Better Boss (Wiley, April 2018, ISBN: 978-1-119-37447-3, $28.00).

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Julian Birkinshaw is a professor of strategy and entrepreneurship, deputy dean for programs, and academic director of the Institute of Innovation and Entrepreneurship at the London Business School. He is the author of fourteen books, including Fast/Forward, Becoming a Better Boss, and Reinventing Management.

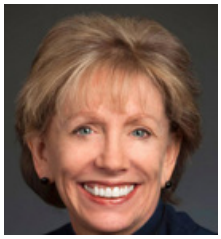
About the Book:
Mind Tools for Managers: 100 Ways to Be a Better Boss (Wiley, April 2018, ISBN: 978-1-119-37447-3, $28.00) is available at bookstores nationwide, from major online booksellers, and direct from the publisher by calling 800-225-5945. In Canada, call 800-567-4797. For more information, please visit the book's page on www.wiley.com.

"Even if you already feel like you have some of these skills, know that there is always more to learn, and the results will show in your improved leadership."
— James Manktelow

THE DO'S AND DON'TS OF MARKETING SERVICE AGREEMENTS

Brokers must still be diligent about marketing service agreements.

By Sue Johnson, strategic alliance consultant



Two events have upended the federal regulatory environment over Marketing Services Agreements (MSAs) in recent months: the departure of Consumer Financial Protection Bureau (CFPB) Director Richard Cordray and the D.C. Circuit Court of Appeals' decision in PHH Corp. v. CFPB.

MSAs, under Cordray's tenure, were considered by many to be a precarious business given his 2015 Compliance Bulletin warning against their "substantial risks" and his novel RESPA interpretations that ignored the statute and longstanding HUD guidelines. Cordray's exit, coupled with the PHH court's rejection of his view that any arrangement anticipating future referrals is suspect under RESPA, removed a significant disincentive towards their use.

What does this mean for companies considering or reconsidering MSAs? While one black cloud of regulatory uncertainty has been removed, it's still important to remember the remaining legal pitfalls associated with MSAs and to mind the traditional do's and don'ts.

The Remaining Legal Risks

First, Acting CFPB Director Mick Mulvaney has made clear that he will continue to enforce consumer financial protection laws such as RESPA. The era of "regulation by enforcement" and rogue RESPA interpretations may be over at the federal level, but the CFPB will pursue core RESPA violations under traditional enforcement theories.

Second, many state regulators will be more than willing to fill any void they perceive in CFPB enforcement. The Dodd-Frank Act authorized state Attorney Generals to

While one black cloud of regulatory uncertainty has been removed, it's still important to remember the remaining legal pitfalls associated with MSAs and to mind the traditional do's and don'ts.

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enforce federal consumer financial protection laws and its Unfair, Deceptive and Abusive Acts and Practices (UDAAP) prohibition, and many states have their anti-kickback laws that are similar to RESPA. It's still possible that aggressive state regulators could adopt Cordray's RESPA theories when pursuing alleged violations and that their arguments could persuade courts outside of the D.C. circuit.

Finally, the plaintiff's class action bar remains robust and active and can sue for damages of three times the value of the services involved in the alleged violation under RESPA – potentially resulting in multi-million–dollar claims.

Because of these continued legal risks associated with MSAs, it's advisable to keep in mind the following do's and don'ts when structuring and operating an MSA. They're not comprehensive and legal analyses of MSAs can be fact-specific, so consult with an attorney with RESPA compliance experience when creating and modifying agreements.

The Do's

- Do give or receive payments based on the reasonable, fair market value of services performed.
- Do consider mitigating your risk by hiring an independent third party to determine the fair market value of the services.
- Do make sure that the services provided are actual, necessary and distinct from what the salespersons normally would do in the course of their job.
- Do enter into a written agreement that documents the services to be performed and the fees to be paid for the services.
- Do ensure that services identified in the agreement are performed through data collection and through regular reporting requirements that trigger the payment of fees.
- Do provide a disclosure to consumers advising them of the MSA relationship.
- Do conduct a periodic review of each MSA.

The Don'ts

- Don't give or receive payments that exceed the reasonable, fair market value of services performed.
- Don't base the amount of marketing fees on the volume of expected or actual volume or quality of business.
- Don't pay for direct sales pitches to particular customers.
- Don't enter into exclusive MSAs in which the partner agrees to perform marketing or advertising services for only one company.
- Don't enter into an MSA in which the partner is named as the partner's preferred company.
- Don't base periodic adjustments of fees based on results.

It will be interesting to see if the CFPB under Mulvaney or his successor revises its 2015 MSA Compliance Bulletin (which conflicts with the court's opinion in PHH) or engages in a RESPA rulemaking to provide more precise guidance to companies that operate MSAs. In the meantime, attention to longstanding RESPA requirements and applicable state laws is warranted.

WHERE FOREIGN INVESTORS WANT TO BE

Balancing risk and potential growth prospects in the global real estate market.

By Peter Gilmour, chief foreign correspondent

When investors want to make investments in property in another country, many elements dictate the strategy they adopt. Their primary concerns are the political and economic stability and then to balance risk and potential growth prospects in the real estate market and country in which they are looking to invest.

A buy-to-let strategy is a complicated formula to get correct as even in a busy market there is competition. To maximize occupancy rates and rental income, one must find the right location, property type, and size of the property is considered as this will affect both of the above as well as capital growth. Lastly, a decision on short or long term letting strategy must be made. The highest income will be made by short-term lets in high season, but this comes with increased overheads of finding tenants as well as maintenance costs between lets and potential vacancies. In the 26th Annual member survey conducted by the Association of Foreign Investors in Real Estate (AFIRE), United States, Germany, Canada, Britain and Australia were ranked as the top 5 countries for stable and secure real estate investments.

Investors were less worried about the impact of Brexit on the economy and the real estate market in Britain which led to London replacing New York as the number one city for real estate investment. Berlin, Los Angeles and Frankfort also made it into the top 5 cities in which to invest. AFIRE members are amongst the largest investors in real estate and estimated to have more than $USD 2 trillion in real estate assets. The survey also rated United States, Brazil, China, Spain and Britain as the top 5 countries for capital growth in real estate.

Foxtons, the prominent listed real estate company in London report that renter demand is active in more affordable areas with improved transport links and regeneration projects being undertaken. Croyden is a south London transport and retail hub where demand for property has rocketed in the last 12 months and offers excellent value for money. Other areas in London which are highly rated are Barking which is close to the Thames, Woolwich which is a crucial area for redevelopment projects and Slough which is close to Heathrow airport and which has become a hub for large IT companies. According to a study done by PWC and the Urban Land Institute titled “Emerging trends in Real Estate”: Europe 2018, European economic growth is expected to improve over the next five years.

Regarding overall investment and development prospects both Berlin and Frankfort feature as the most desirable cities to invest in, which confirms the AFIRE study. Frankfort, in particular, is starting to see tangible benefits from the UK’s decision to leave the European Union.

From an investment perspective, the interplay between real estate and infrastructure development is opening up a new range of investment opportunities and is central to successful urban regeneration.

London’s Mansion Blocks

SELLING REAL ESTATE

WORKING WITH GLOBAL HIGH-NET-WORTH INDIVIDUALS

By Laurent Demeure, founder, and CEO of Coldwell Banker France and Monaco

I began my career at an executive search firm but soon came back to run my family's real estate firm started by grandfather in 1920. I have done so for more than 20 years.

My wife Vanda, who is now a top agent in Coldwell Banker internationally, and I started to see more and more affluent coming into France and chose to open Coldwell Banker France and Monaco in 2010. Now, we are a global company with affluent clients from all over Europe, the U.S., China, Russia and the Middle East.

And, like many of you, we have seen the explosion of affluence that is explained in the annual Global Wealth Migration Review that shows global wealth increased by 27 percent over the last ten years. Get ready! Over the next decade, it's projected to grow by another incredible 50 percent.

High-net-worth Individuals Want Estates

Those who work with luxury real estate will be thrilled to know there are:

- 15.2 million high-net-worth Individuals (HNWI) globally with assets of $1 million (USD)
- 584,000 globally with assets of $10+ million
- 2,525 billionaires

We should be excited that estates remain popular investment properties, especially those with built-in security, activities (gym, pool, tennis, etc.) community and lifestyle amenities for the family and limited traffic.I often remind my U.S. luxury agent friends that the affluent do not only consider the United States. According to the Global Wealth Migration Review, there are four well-known locations in the U.S.—the Yellowstone Club (Montana), Royal Palm

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Not only is India now the sixth wealthiest country in the world, but it grew its wealth by 25 percent last year—more than any other nation—and 160 percent since 2017.

Yacht and Country Club (Boca Raton), Bighorn Golf Estate (Palm Desert) and Kukio (Hawaii). However, there were eight others that you would call international.

India is a Growing Power

This report shows where the money is and where it's going to be. It also showcases where we need to start focusing our attention.

Because of the report, I realized that I need to keep in touch with Ramnik Chopra who heads Coldwell Banker India.

Not only is India now the sixth wealthiest country in the world, but it grew its wealth by 25 percent last year—more than any other nation—and 160 percent since 2017. It's also expected that India will lead the world with a 200 percent projected to increase through 2027, and Mumbai will become the fastest-growing affluent city in the world.

This wealth doesn't just remain in the country. India was second to China as the world's top wealth exporters. China had approximately 10,000 HNWIs leave followed by India's 7,000. The Chinese mostly moved to the United States, Canada and Australia, while the Indians added New Zealand.

Australia and U.S. are Leading Destinations

It also appears that luxury agents should develop Australian connections. Australia attracted 10,000 HNWIs in 2017, more than the U.S. for the third straight year, mainly because of its proximity to Asian business centers, safety and lower inheritance taxes.

And, of course, the report also shares that the U.S. continues to be the world's most affluent country. You have more than 5 million HNWI ahead of Japan's 1.3 million and China's nearly 900,000.

There is another reason I love the report. I now have a great answer to a common question I get from U.S. agents, "Where can I find an international buyer for my listing?"

While we all wish it were this easy, I can now say, "Spend time in Las Vegas!"

The report ends with an interesting look at the hobbies and travels of the world's affluent. It listed the Bellagio, Caesars Palace and the Wynn as three of the top five popular hotels for the super-rich last year. Believe it or not, you might also find the affluent on the Orient Express train or fly-fishing.

I started writing about luxury real estate because I see how difficult it is for all of us to attract the world's elite. The more information we can share about our markets and the more we can understand what the affluent are doing and their desires; the better we will all be.

Author Bio:

Laurent Demeure is the founder and CEO of Coldwell Banker France and Monaco and is a well-known real estate professional in France with more than 5,000 real estate transactions in his career. He has been working in luxury real estate for the past 20 years leading his family-owned firm Demeure Immobilier, and its luxury arm Demeure Prestige, which was founded in 1920. Demeure, who earned his undergraduate degree from Dauphine University and his MBA from Oxford University, began his career at an executive search firm before joining his family-owned business.

UNDERSTANDING THE BASICS OF BROKERAGE VALUATIONS

There are many reasons why real estate brokerage owners request a valuation. The sheer number of companies we've worked with show why we're the experts in valuing brokerage companies.

by Scott Wright, Director of Mergers and Acquisitions

At REAL Trends, we've performed over 3,000 valuations for residential real estate firms over the last 30 years. If we use simple math that averages out to about 100 per year—some years less; some years more. These last couple years have undoubtedly been on the more side, with our run rate currently more than 20 per month. There's no doubt these are extraordinary times!

Not Every Brokerage is Selling

There's a contingent of owners who are contemplating selling their firms, and valuations are naturally the forerunner of going to market. But, not all of our clients are interested in selling. There are in fact a myriad of reasons why owners choose to value their firms.

Occasionally, we perform valuations for clients going through the process of estate planning. We also do work for family-owned businesses seeking to formalize succession planning. Other reasons are after death and during a divorce, which are mainstays regardless of what's happening in the markets. In these cases, valuations are critically important. Beneficiaries need to know what the market is for the ownership stake that was left to them, and sometimes we're called upon to defend our valuations in front of a judge if a divorce gets nasty.

But, Some Are

One of the more common reasons for valuations is the internal sale and transfer of shares. That means a full or majority owner selling shares to key people on his/her leadership team, a minority shareholder who wants out, or if there's a partnership dispute, establishing the fair market value of the enterprise.

Another common reason to seek out a valuation is for business planning purposes. Some of our clients want to know what their firms are worth in today's market. Once they establish value, they then use this information for their tactical and strategic planning.

Key Components

One of the critical components of our valuations is a benchmark report, which compares the performance of our client with its regional peers. This benchmark provides comparative analysis across various financial and productivity metrics, including above- and below-the-line margins, expense ratios, return on revenue, agent productivity and more. Our business planning clients, in particular, find this tool incredibly useful as they seek to refine their businesses better.

For those who are selling, the reasons for pursuing such endeavors are wide-ranging. One group is owners whose firms are finally performing at or better than where they were before the Great Recession. These folks are either at an age where they can't afford another downturn or don't want to go through one again. They're ready to take some money off the table.

Another group is owners who are tired of the slog. Like nearly all brokerages, they've seen their retained company dollar continue to fall and don't have the will or gumption to keep fighting the battle to stay profitable. This industry is not for the faint of heart, and the company dollar grind mixed with a fear of the disruptors prompts them to want out.

Thankfully, regardless of the reason for selling, there's been no shortage of buyers. Multiples remain fair, and terms remain reasonable as brokerages seek to grow via acquisition.

Valuation demand is at record levels. These are exciting times for our industry, and I suspect things will stay busy on this front for some time to come.

REAL Trends DealMAKERS

A 24-HOUR CONFERENCE

Brokers & Teams: Boost Profits! Build Marketshare! Attend REAL Trends DealMAKERS

How much is your business worth? How do you make it more valuable? What are the tax implications of a merger or acquisition? What are the legal challenges of merging, acquiring or selling a realty firm? Get answers in this one-day, power-packed conference.

This one-day, fast-paced conference brings together the merger and acquisition professionals from HomeServices, Realogy and REAL Trends and two of the best legal and tax attorneys regarding mergers and acquisitions in the country.

Plus, Compass Founder and CEO Robert Reffkin will share his company's goals and methods for brokerage acquisitions and his view of brokerage market going forward.

CLICK HERE TO REGISTER or call 303-741-1000

DID YOU MAKE THE LIST?

THE THOUSAND IS LIVE!

The 2018 REAL Trends The Thousand as advertised in The Wall Street Journal *is Now Available!*

This year's The Thousand is comprised of individual sales associates and teams who closed a remarkable 51,111 closed sides and more than $86 billion in sales volume for 2017—a significant 9 percent increase in sales volume from The Thousand last year! Individual sales associates ranked in The Thousand closed an average of 204 sides, and teams closed an average of 533 sides. This is a huge number considering the 2017 national average per real estate professional is fewer than 10 closed transactions. The Thousand represents those who have done many times that amount, speaking to the extraordinary success of these individuals and teams.

What's The Thousand?
This ranking, which is advertised in *The Wall Street Journal,* is a ranking of top agents across the U.S. and is broken down into four categories ranking the top 250 individuals by transaction sides, individuals by sales volume, teams by transaction sides, and teams by sales volume.

SEE THE 2018 RANKINGS NOW! CLICK HERE

CONGRATULATIONS on another successful year to all of the real estate professionals and teams who applied, as well as the brands and brokers who applied on their behalf.

HAVE YOU HEARD?

REAL Trends has dozens of free podcasts available!

Want branding advice from ERA's President Simon Chen? Details about the Four Disciplines of Execution from Ninja Selling's Larry Kendall? Monthly trend reports from Steve Murray?

We've got it all and more. From strategies for smooth mergers and acquisitions and information about valuing your brokerage to interviews with the top real estate professionals, brokers and industry leaders, REAL Trends' Podcast Channel is chock full of great advice and interesting on-to-go listening.

Don't miss another second! Subscribe today (available on iTunes or Google Play): CLICK HERE

NEW! BOLD! HOT!

IGNITE YOUR BUSINESS:

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REAL Trends, the Trusted Source, for content about the real estate brokerage industry, just launched an all-new content site. We're enhancing our content site to give you the information you want—when you want it!

TRENDS. NEWS. BUSINESS STRATEGIES. MARKETING.

REAL Trends is The Trusted Source for information on trends in the brokerage and real estate industry. Our new content site will offer the latest intelligence on all things related to running a profitable real estate business gathered from our extensive experience working with hundreds of brokerages and teams and industry executives through the years.

New features:

- Easy-to-find podcasts
- Cutting-edge brokerage trends
- Library of how-to strategies for agents, teams and brokers
- Merger, acquisition, valuation & other industry trend info
- Interviews with top real estate professionals who rank in the RT The Thousand, RT 500 Top Brokerages and RT Website Rankings.
- Videos to share with your customers

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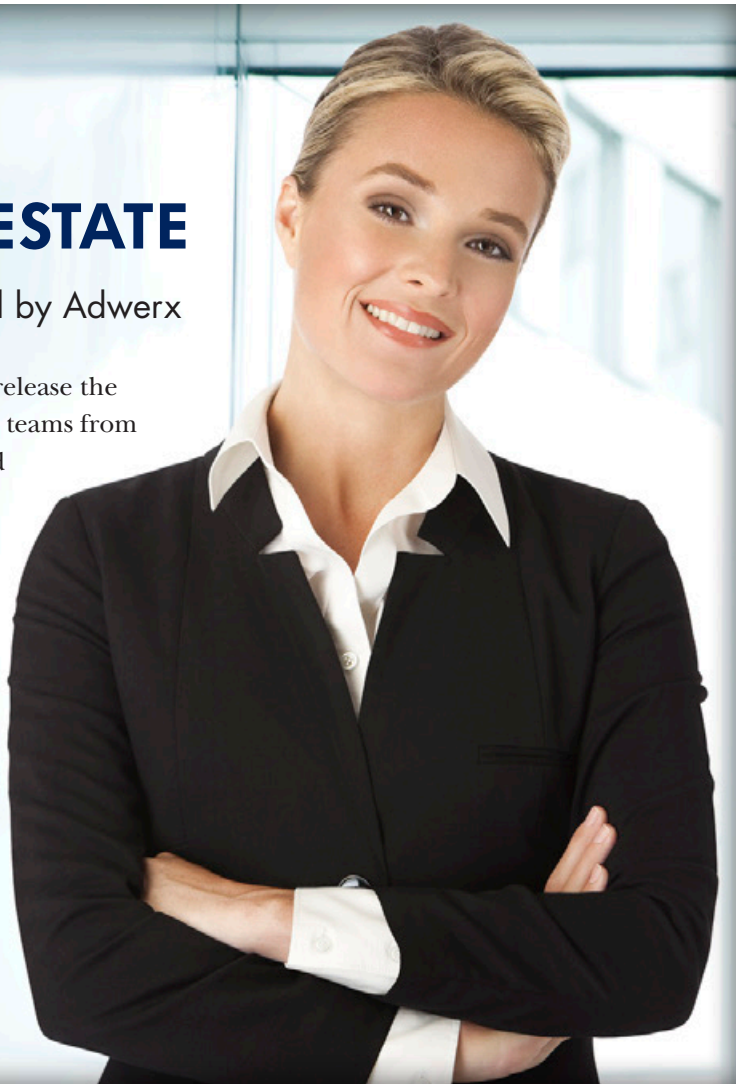
COMING SOON!

JULY 10: **REAL TRENDS AMERICA'S BEST REAL ESTATE AGENTS & TEAMS** Sponsored by Adwerx



It is our honor to announce that on Thursday, July 10, we will release the results of our annual rankings of the top individual agents and teams from 2016. This year, a record number of agents and teams qualified (over 13,000).

To qualify, an individual sales professional must have closed more than 50 sides or $20 million in volume in 2016 and a team must have closed more than 75 sides and $30 million in volume in 2016. America's Best ranks agents and team by sides and sales volume and within their respective states and metropolitan areas.

Our heartfelt congratulations to all those who qualified for this year's America's Best Real Estate Agents rankings.

For more information: **CLICK HERE**