As many of you already heard, Zillow announced that they would start employing their own agents to handle the homes they are buying and selling. In their view, it makes sense to better control the service they provide and lower the costs of this service given that, as of last quarter, they were still losing significant money on each deal they bought and sold.

There are others that speculate that this is their first foray into full-blown brokerage. While it’s likely true, we are curious about their next moves. Why wouldn’t they take control of the consumer traffic they generate and access a larger piece of the commission revenues through controlling the process using their own agents? Essentially, it’s what Redfin already does and, of course, lead generation and the use of lower-cost inside sales agents is exactly what large teams are doing. While Redfin has yet to show that
they can make a profit, the team financials we’ve seen show that well-run teams have far larger margins than most brokerage firms.

INCUMBENTS STILL HAVE ADVANTAGES

For some, this sends a shiver through the market, as any new forms of competition do. However, incumbents still have some advantages. The first is that nearly two-thirds of all consumers now use an agent because they know one or they are referred to one. And many of these housing consumers use their own agent even after visiting websites like Zillow, Redfin and Realtor.com. Consumers thus far seem to prefer a personal relationship with their agent as opposed to one employed by an online brokerage.

Another point is how to scale the business. Redfin’s growth in closed transaction sides has slowed over the past two years and while the number of teams in our rankings has grown exponentially over the past few years, their average size in terms of closed transactions has not grown that much. Yes, there are a small number of teams that have grown quite large, but these are in the minority. Zillow has huge market share in online visitors and can direct hundreds of thousands of leads to their captive agents, or even those to whom they only refer the business. Their skills and resources in these areas are well established.

Finding, training and developing their own agent force is no small undertaking. Generating higher conversion rates and retaining great agents is not guaranteed. We do think Zillow could exchange their ad business model over time and switch to their own agent force or referral-based relationships and generate more revenue and even potentially higher capture rates on other products such as mortgage and other settlement services. It’s all possible, but not guaranteed.

Zillow and others like them present formidable new competition. They have some equally formidable hurdles to achieve significant success. Getting there will take time.

Nearly two-thirds of all consumers now use an agent because they know one or they are referred to one. And many of these housing consumers use their own agent even after visiting websites like Zillow, Redfin and Realtor.com.
The level of competition in the brokerage business has forced (and is forcing) great self-examination among leading brokerage firms. At the top of the list, of course, is the battle to recruit solid agents and retain them at a cost that allows room for a brokerage to earn a profit. After all, the battle for agents has significantly reduced gross margins, which leaves less capital to invest in the services that many believe will lead to better recruiting and retention.

ANALYZING THE PERFORMANCE

In examining the performance of the largest 1,750 brokerage firms over the last three to five years, we learned several interesting nuggets.

1. They Don’t Just Stay for Money.

While there will always be agents who are driven by monetary factors, there are clearly at least as many who join and stay with firms for non-monetary factors. For example, among the top performing firms in terms of growth over the last three to five years, we have not seen any correlation between the amount they have invested in technology; or in core services; in whether it’s a national brand or a local brand; or in the average sales price of the homes they sell.

2. They Want Relationships.

What we’ve discovered is that most of these top-growth companies are focused on deepening the relationships between their leadership, staff and agents. In some ways, it can be described as: If we take care of each other first, then we can do a better job taking care of our customers. I heard a similar thing, interesting enough, from leaders of a large health care organization. They posit that if they focus on supporting each other to deliver great health outcomes for their patients, they can achieve more of their goals in delivering great health care outcomes to their patients.


We think that brokerage firms need to move away from anecdotal thinking about recruiting and retention of agents and start studying it. Internally, brokerage firms need to establish their own research to find out why agents come and why they stay with their brokerage. Use these findings to strengthen your internal relationships and services. Don’t base your retention programs on what the world is saying. Base them on what your data tells you.

Further, rather than using guesswork as to the patterns of agent movement, use the tools and data that you already have access to and determine who is moving from one brokerage to another and develop data that lets a brokerage know who they have the greatest chance to attract and who they may be most vulnerable to losing.

Being large and well known can be a great position to be in, but, in this evolving market, running a successful brokerage will take more than that. Focus on using the power of relationships and access to information—it’s THAT important.
Change is constant. The question is: What kind of change are we in? Is it cyclical, where things return to normal, or is it structural (permanent) where the change becomes the new abnormal? Is this a big shift or is it simply a cycle? What are the impacts on real estate values? Here are five questions real estate leaders are asking themselves.

1. Urban flight? Is the flight from populated cities temporary or permanent? Will the fear of being unsafe in a densely populated environment due to COVID-19 as well as the civil unrest cause urban flight? Or, will these fears subside with cities booming again? Does the ability to work from home accelerate the exodus? What about home prices in these cities?

The Federal Housing Finance Authority’s Second Quarter Report lists San Francisco as the worst market in America for appreciation with negative 3.3% through the first six months of 2020. San Jose and Oakland are next on the list. New York is fifth. Baltimore and Chicago are seventh and eighth. All of them had negative appreciation in the second quarter.

The Wall Street Journal reports developers dropping prices on luxury condos in New York’s Manhattan by 30% to 50%. Do they know something, or is this the greatest buying opportunity of the past 10 years?

2. Working at home? Due to the COVID-19 lockdowns, many of us got used to working from home. Employers got used to it as well. Is this temporary or permanent? It depends on the industry you are in and the type of work you do. Studies of knowledge workers have found that they can work at home, but their productivity is about 20% to 25% less depending on the industry. In the past, some companies that tried work-from-home options have called their employees back into the office due to declining productivity. Will this happen again?

In major cities where commuting times are long, perhaps a 20%-25% decline in productivity can be made up by substituting work time for commuting time. With high office rents, perhaps companies can mitigate a loss of productivity by renting less space. The Wall Street Journal estimates that actual human occupancy in New York office buildings this summer was only around 10%. Several buildings have announced conversion to apartments or condos.

3. Future of mass transit? Fewer people living and working in urban environments requires less mass transit. Are people afraid to ride the trains due to COVID-19? Several mass transit lines have been shut down or scaled back. Remember when the hot real estate play was developing apartments and commercial right around the transit stations?

4. Booming resorts and exurbs? It appears some of the migration from the cities is going into the resorts and the exurbs (small towns outside of the suburbs.) Prices are soaring. Will this continue? The most important amenity in these locations is high-speed internet for working at home. A concern: Many of these resorts and small towns don’t have the medical infrastructure to handle a significant increase in permanent population. In some cases, they don’t have the school capacity either.

5. Larger homes and ancestral housing? Can you see yourself being quarantined in this home? That’s the new soft-closing question by real estate professionals these days. Many people are answering “No!” They want a home office, a home gym, a room for homeschooling their kids, etc. They also need room for their adult child or elderly parent who moved back in. The demand for larger homes is accelerating. Are we moving toward ancestral housing—larger homes that stay in families for generations?

It’s too soon to tell what trends will stick and which will change once COVID-19 becomes less of an issue for our country. We are in a BIG SHIFT right now. How will it settle? That will be the new abnormal.
NEW PODCAST SERIES

VALUATION AND M&A TRENDS

LAUNCHING IN NOVEMBER

STEVE MURRAY
President
REAL Trends, Inc.

SCOTT WRIGHT
Vice President
REAL Trends, Inc.
Understanding agent career progressions is key to managing a brokerage’s agent pool. This is one of the many areas in real estate where conventional wisdom dominates. We can now check these industry assumptions by looking at what the data says.

At Relitix, we used a data set consisting of nearly 200,000 active agents in markets throughout the country to examine agents’ careers and productivity over time. While many of the findings confirm common sense and widely held views on agents, others might be more surprising.

It takes agents a few years to get up to speed

When we examine the trend line in production for newly commissioned agents, there is a clear pattern that emerges. The typical agent sees production grow rapidly through and around year three or four, at which time productivity growth begins to slow. The highest year-over-year growth occurs between years one and two as the agent becomes more comfortable with their new profession and prospecting efforts begin paying off. Very few agents achieve their short-term potential in less than three years.

Keep in mind that this applies to agents who last three to four years. You can count on 20% to 30% of all licensees leaving the business entirely before their third anniversary, although much depends on the licensing cost and structure of the licensee’s state.

There is a long washing-out period for new licensees

A look at the ARMLS data covering the Phoenix market gives us a sense of the rate at which agents leave the business. The graph below shows the normalized MLS participation rate—a measure of how many of the original class of licensees are still recording transactions. Note that the curve increases from year zero to year one reflecting a number of licensees who took over a year from licensing to appear in the MLS record. After that point, the curve drops rapidly from year one to year 15, labeled Region 1. This tells us a few important things:

1. Lots of newer agents leave the business every year.
2. That rate doesn’t change much until 15 years after licensure.
3. In fact, the rate of agents leaving real estate actually picks up a bit in years 9-12.

The highest year-over-year growth occurs between years one and two as the agent becomes more comfortable with their new profession and prospecting efforts begin paying off.
How do we interpret this? For many people, real estate is a transitional career. They sell real estate for a while between one job and the next. We know that a 100% commission job can be a hard and demanding way to earn a living.

**IN FOR 15 YEARS, IN FOR GOOD**

Something interesting happens when real estate professionals spend 15 years in the business. At that point (Region 2), the rate of loss drops dramatically. Once an agent has celebrated their 15th year in real estate a magic number has passed—they chose real estate as a career and are likely to retire in real estate.

**BEWARE OF THE AGENT SELLING LESS THAN $1 MILLION**

We also looked at what factors made an agent likely to leave real estate. There’s no ground-breaking insight here: Dropping production is by far the strongest predictor. Agents who left the business posted a much lower median annual production than those who stayed in business ($434,500 vs $1,646,500). Fully 35% of agents in our nationwide sample who closed less than $1 million in the year ending Aug. 31, 2019, recorded no volume whatsoever in the following 12 months. That percentage rises to 42% for agents closing less than $500,000 in volume.

**SURVIVAL OF THE FITTEST**

While agents’ production rises sharply through years three and four, they don’t reach a steady-state level at that point. When we look at the average productivity of agents in Phoenix and Wisconsin over time, a fascinating trend appears. In both states, agent productivity, measured in closed volume, continued to increase for at least the first eight years. This is the same time frame where agents are exiting the business at a steady and relatively high rate. Add to the mix the increased likelihood for low producers to leave the business, and the picture is complete. We are seeing selection bias in action: The agents who stay in business year after year tend to favor those of higher production. The lower producers are winnowed out leaving a group who has more higher producers than they did in the prior year. In this way, the average production increases over time.
Average Agent Productivity Over Time
Original License Years 2011-2017 • Phoenix, Arizona

Average Agent Productivity Over Time
Original License Years 2012-2017 • Wisconsin
WHAT DOES THIS MEAN FOR BROKERAGE MANAGEMENT?

New agents are going to take a while to get paid. How long? The statistics suggest that the first dollars won’t come in for three to four months, and it could take a couple of years to make a steady income. Brokers should make sure new agents are aware of the realistic timeline and have the savings or outside income to support themselves during this transition period.

Expect steady attrition of agents from the business. Nearly 20% of all real estate licensees will exit the business every year. Newer agents and low-producing agents will leave at higher rates. Factor this into your recruiting and retention planning.

Long-tenured agents (those with over 15 years in real estate) have an established track record and are much less likely to leave. Having a core of such agents in the brokerage will build year-to-year stability.

Any agent producing less than $1 million in a year is at increased risk of leaving. If this agent has what it takes to succeed in the business, don’t delay in intervening to help turn things around.

Without the addition of new agent recruits, your agent pool will steadily grow smaller with fewer, more productive agents. As a rule of thumb, count on recruiting 15% to 20% of your total headcount annually to keep your numbers level. These recruits can be a mix of new people to the business and experienced agents from other brokerages.

Rob Keefe is president of Relitix Data Science, a real estate brokerage data intelligence company.

Without the addition of new agent recruits, your agent pool will steadily grow smaller with fewer, more productive agents. As a rule of thumb, count on recruiting 15% to 20% of your total headcount annually to keep your numbers level.
I may not quote Shakespeare during ERA King Real Estate’s weekly sales meetings, but I would definitely say we inject a bit of theater into these highly staged productions. Paying attention to how you produce a meeting should be just as important as the material you present. The more engagement opportunities you create will lead to a more inspired and productive team. That’s why we’ve invested so much in our weekly meetings and they have truly become a show.

**SET THE STAGE TO SET THE TONE**

Our philosophy as a real estate firm is that ERA King the company does not sell properties, our people do. Our whole business is built around supporting our people and positioning them for success. Sales meetings are a significant component of that support.

As a managing broker for the firm, I oversee agent recruiting and professional development. I’ve found that weekly meetings go a long way in setting the tone for the week, providing motivation and creating achievable goals to support sustained production.

That word *production* is important to us because we spend hours preparing to make certain our sales meetings aren’t just another meeting but an engaging, fun and productive event.

Preparations for each weekly meeting begin at least one month out: Each leadership team member is provided with their schedule for the month, and it’s up to them to determine what content they will cover in their time slot each week. Once topics and content are established, each presenter works with our staff designers to create visually appealing slides to support their content. They may also make song selections to accompany their content. We then do a 30-minute dress rehearsal the day before the meeting to work out any rough spots.

I learned that these meetings are critical, and you can’t just prepare for them the night before. You need to invest time and effort to create an informative, collaborate and valuable opportunity that drives a culture where agents want to—and do everything they can to—attend the meetings.

**ENTERTAIN THE SENSES**

In real life, I have a DJ for our sales meetings, which creates a subtle musical undercurrent of energy and momentum for the hour and discourages chit-chat in the audience. We are currently...
working on a way to incorporate the musical component on Zoom because the platform only allows for one audio source.

One of the things we’ve been challenged with during COVID-19 is translating the incredible energy from our live weekly meetings. I design the meetings to be entertaining, fast-paced and highly motivational to keep our agents energized for the next six days. Moving to a virtual format has meant we needed to up our game, create more visually appealing slides—and more of them—to keep people’s attention on the screen.

One thing we noticed is that it was harder to keep people focused on their computer screen for a full hour. Studies show that it’s harder to digest material on a screen, so we shortened the meetings to 45 minutes to avoid screen fatigue. So, our presenters need to be tight and succinct, which has required us all to up our communication skills.

Another adjustment has been the audience participation factor. In real life, it’s easy to catch someone’s eye in the audience or invite them to the front to be acknowledged—breaking the wall between the actors and the audience. During virtual meetings, we had to experiment with ways to create connections between the presenters and the audience. We always start our meetings with an interactive game or quiz in which participants can annotate on the screen or type in the chat. We also encourage questions and comments throughout the meeting.

A QUALITY PRODUCTION
We’ve been using Zoom for sales meetings for a few years now, letting agents attend in person or virtually. Because our agents were already comfortable and familiar with the platform, we didn’t have a technology curve to get over once we switched to 100% Zoom meetings during COVID-19.

Pre-COVID-19, we had about a 50% participation rate for sales meetings, but during the pandemic, we saw participation increase to 75%. Quality content that both educates and entertains has been a mainstay of our sales meetings, which is why we have a high participation rate both in-person and virtually.

Part of the increase we saw for the virtual meetings can be attributed to the fact that people didn’t have conflicts because they weren’t having in-person meetings. In addition, the convenience of logging into a meeting from home was a key factor. And probably just as significant was that the virtual meeting provided a much-needed place for our team to see each other and connect. We are a social bunch!

While it may seem like a lot of work to produce a high-quality show every week, note that what you put in is what you get out. We invest in our agents and we always have, which continues to be a formula for success. We may not get an Emmy or Tony for our work, but the reviews have been excellent!

Anna Marie Ellison is the managing partner for ERA King Real Estate in Anniston, Alabama.
In April 2020, Jim D’Amico, president of CENTURY 21 Northeast in Massachusetts, finally had a little time to “sway from our traditional roots,” he says. “We decided to develop a full-on model of compensation that is designed to attract agents that don’t need as much support as our in-house agent. We wanted to offer a virtual compensation model with built-in revenue-sharing that would give agents more support than they would get in a virtual or capped model,” he says.

Four months and about 40 or so versions later, D’Amico says he now has a model that is extremely competitive. “We began with let’s incorporate traditional services into a capped model and, at the same time, the brokerage would eat the franchise fee.” It’s been a recruiting success since the program launched September 25. “We only laid it out to about 20 agents, and 12 agents (new to the company) signed up for the program,” he says. The model hasn’t been as successful in-house. “We showed it to about 250 to 350 or our current agents and no one was interested. I found that interesting because I assumed that at least 50 agents would want to be part of it, so it tells me our traditional compensation is effective and agents are happy.”

However, he sees it as a draw for agents new to CENTURY 21 Northeast. “Coming from the outside, most people are leaning toward a virtual model. That’s twofold. In our area, the culture outside of C21 is a 100% model—low services, pay for what you want to use and as low a cap as you can. That’s the culture of our competitors,” he says.

He says his model is different, more of a hybrid. “We can still offer agents our tools such as Buyside, premier Dotloop, marketing, but they’re not taking up space. Because of that, we can scale the company faster without opening up new offices. If I have 50 agents in an office and 45 are on our virtual compensation model, I can consolidate that office.” He notes that the company has plans to venture into Connecticut. “If we can get in there and not have a lot of offices, that will be huge for us,” says D’Amico, who was named a 2020 REAL Trends Game Changer based on company growth between 2014-2018.

“We can offer support because economies of scale are in our favor. Most of our tech accounts are enterprise accounts, so we’re able to cost leverage our products. There will be some services that a virtual agent won’t get, such as email. They’ll pay a $99 monthly fee, and the cap is in line with the traditional cap that you’ll see from numerous competitors, maybe a smidge higher. But, we’re offering five times the amount of free tools, tech, training and services,” he says.

Right now, he says, he’ll run it in parallel to what the brokerage does traditionally. “It’s its own branch. Once we get to a certain number of agents, we’ll have a new management force in place for it.” With the market booming, he believes that many of his current agents just don’t have the time to research whether or not the option makes sense to them. “We assume that some agents will sign on once they slow down and get a look at the economics of it,” says D’Amico.

“At the end of the day, we’re having fun, and we love that we have something new for people to consider when joining our firm.”

Are you building new compensation models for virtual agents? Have an innovative product or service you’re offering your agents? REAL Trends wants to know about it. Email tvelt@realtrends.com.
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Home prices across the United States continued to climb in September, rising 7.8 percent in the 12 months since October 2019, according to Radian Home Price Index (HPI) data by Red Bell Real Estate, LLC, a Radian Group Inc. company (NYSE: RDN). The Radian HPI offers a measure of U.S. housing market prices and conditions.

Since the start of the year, the Radian HPI has risen at an annualized rate of 7.4 percent, which was higher than the increase of 6.4 percent recorded during the first nine months of 2019. During the third quarter (July–September 2020) national home prices increased at an annualized 8.9 percent, which outpaced the 6.8 percent annualized gains during the second quarter (April–June 2020), where home prices gains were more subdued. The Radian HPI is calculated based on the estimated values of more than 70 million unique addresses each month, covering all single-family property types and geographies.

“After slower home price growth in the second quarter, the third quarter of 2020 showed a clear return to the faster price appreciation reported at the end of 2019,” noted Steve Gaenzler, SVP of Data and Analytics. Gaenzler added that “until there are clear signs of a change in the substantial imbalance in supply and demand, all signs would point to a continuation of gains for home prices. However, it is not unlikely that as prices continue to rise, affordability concerns may begin to cool appreciation rates in some markets.”

**NATIONAL DATA AND TRENDS**
- Median estimated home price in the U.S. rose to $262,505
- Constrained listing supply impacting home sales

Properties listed for sale typically experience large increases during the spring and summer buying season compared to winter volumes. In fact, since 2008, the seasonal high in count of active listings has been, on average, more than 20 percent higher in spring and summer than the prior winter lows. These increases in supply are needed to meet the demand from buyers active in the same periods. More recently, in each of the last five years, the peak has been at least 25 percent higher. However, in 2020, the pandemic significantly subdued listing activity, creating a strong imbalance in supply and demand. The count of active listings as of July 2020 was only 8 percent higher than that of December 2019, lower than any period even during the

**RADIANT HOME PRICE INDEX**

2019 July – September increase 6.4%
2020 July – September increase 7.4%

$262,505 median estimated price for single-family and condominium homes
Great Recession. This alone represents a decrease of nearly 165,000 listings nationwide that would normally have been available to active buyers.

Nationally, demand for property purchases also remained at all-time highs. Counts of residential home sales were significantly higher than in any 3rd quarter. In total, the number of closed home sales was 39 percent higher than the average third quarter going back to 2007. The combination of the dearth of listings with all-time record sales volume has put upward pressure on home prices nationally.

REGIONAL DATA AND TRENDS

• All Regions continue to grow
• Northeast and South hit 2020 appreciation rate highs

In September, all six Radian HPI Regional indices recorded positive annual home price appreciation rates. Home price appreciation accelerated in all regions compared to the month prior with the Northeast and South Regions both appreciating at their strongest monthly rate of 2020.

While all Regions showed positive price appreciation this month, regional and state differences do impact how quickly properties are selling. The average length of time properties that sold in the month of September were listed prior to their sale tied an all-time low of 89 days on market (DOM). Of the ten states with the largest number of sales in September: Texas, Florida, Ohio and Washington all recorded below median DOMs at 88, 75, 70 and 71 days respectively. The states with the longest time on market before selling in September included the Northeast states of Vermont and Maine (205 and 150 DOM respectively) and the Mid-Atlantic states of New York, Connecticut and New Jersey (134, 130 and 118 days respectively).

METROPOLITAN AREA DATA AND TRENDS

• Half of the large cities recorded faster appreciation in September
• Large cities continue to appreciate at a faster rate than before the pandemic

In September, half of the top 20 metropolitan areas (CBSAs) reported faster appreciation rates than the prior month. However, compared to the second quarter, the third quarter recorded faster appreciation rates in 19 of the 20 largest metros. Other than Phoenix, all of the metros that recorded faster appreciation rates in September compared to August were located within 50 miles of an ocean or the Chesapeake Bay, with most being in the South or West regions. All the top-20 largest metropolitan areas in Texas and the Midwest slowed their appreciation rates in September.

Additional content on the housing market can also be found on the Radian Insights page: CLICK HERE.
**Market Watch**

**High Demand and Low Inventory Continue Streak of High Showing Traffic**

*Data from ShowingTime lists Seattle, Denver, Washington, D.C., Salt Lake City, Cleveland, Boston and Baltimore among the areas recording a high number of home showings in September.*

ShowingTime, the residential real estate industry’s leading showing management and market stats technology provider found that showing traffic remained strong in large metropolitan areas, with Seattle, Denver, Washington, D.C., Salt Lake City, Boston and Baltimore recording high numbers of home showings during the month of September according to the company’s Showing Index®. With low inventory and sustained buyer demand, traffic jumped 64.1 percent year-over-year nationwide.

“All but one of the top 20 markets with the heaviest buyer traffic recorded double-digit showings per listing in September, well above the current U.S. average of six showings per listing,” said Michael Lane, President of ShowingTime. “That number more than doubled in several markets from the same time last year, despite the pandemic.”

Meanwhile, some communities along the beleaguered Gulf Coast – hit hard by Hurricane Laura at the end of August and Hurricane Delta in early October – experienced year-over-year declines in showings. Nevertheless, Louisiana is tracking ahead of 2019 figures for showing activity in what has proven to be a resilient real estate market.

“In September, we saw a normal seasonal slowdown of about 8 percent from August,” said ShowingTime Chief Analytics Officer Daniil Cherkasskiy. “Due to much lower levels of available inventory, however, showing activity is still significantly above last year’s values, a situation that is likely to persist through next May.”

The Northeast Region saw a year-over-year increase in buyer traffic of 68.4 percent in September, marking the fourth consecutive month the region recorded the largest jump in showing activity. The West’s 65.3 percent uptick followed, with the Midwest’s 61.6 percent rise and the South’s climb of 60.8 percent both close behind.

“The showing traffic data suggests that buyers and sellers alike are undeterred from completing their real estate transactions,” added Lane. “It’s clear that real estate professionals have made adjustments and increased their efforts to make the most of this market.”

The ShowingTime Showing Index is compiled using data from more than six million property showings scheduled across the country each month on listings using ShowingTime products and services. The Showing Index tracks the average number of appointments received on active listings during the month.

“**The showing traffic data suggests that buyers and sellers alike are undeterred from completing their real estate transactions. It’s clear that real estate professionals have made adjustments and increased their efforts to make the most of this market.”**

— ShowingTime
  
  President Michael Lane
The ShowingTime Showing Index tracks the average number of buyer showings on active residential properties on a monthly basis, a highly reliable indicator of current and future demand trends.

Methodology: The ShowingTime Showing Index® measures showing traffic per residential property for sale by agents and brokers utilizing ShowingTime solutions for property-access management. A higher number means that an average home receives more buyer visits in a given month. All index values are scaled relative to initial index value set to 100 for January 2014.

ABOUT SHOWINGTIME
ShowingTime is the residential real estate industry’s leading showing management and market stats technology provider, with more than 1.7 million active listings subscribed to its services. Its products are used in 370 MLSs representing one million real estate professionals across the U.S. and Canada. Contact us at research@showingtime.com

64.1% United States
65.3% West Region
61.6% Midwest Region
60.8% South Region
68.4% Northeast Region
Five years ago, a cloud of regulatory uncertainty fell over Marketing Services Agreements (MSAs) when former Consumer Financial Protection Bureau (CFPB) Director Richard Cordray expressed his opinion in a 2015 MSA Bulletin that any settlement service arrangement anticipating future referrals posed “substantial risks” under the Real Estate Settlement Procedures Act (RESPA). The guidance was vague and confusing, but one thing was clear—the CFPB believed that MSAs were inherently illegal, and you had to prove that yours was not.

For all practical purposes, the 2015 MSA Bulletin was overturned in 2018 when the United States Court of Appeals for the District of Columbia Circuit rejected this restrictive interpretation of RESPA under a separate set of facts in the case of CFPB v. PHH Corp. Now it’s official. On October 7, one day before its five-year anniversary, the CFPB rescinded the MSA Bulletin as not providing the regulatory clarity needed on how to comply with RESPA. In the same blog post, it published Frequently Asked Questions (FAQs) addressing MSAs and other referral fee issues under RESPA.

Part I of this series summarizes the MSA guidance provided in the CFPB’s new RESPA FAQs. Part II will summarize the FAQs related to gifts and promotional activities under RESPA.
Unlike the 2015 MSA Bulletin, the new FAQs make it clear that MSAs are not inherently illegal under RESPA:

“Entering into, performing services under, and making payments under MSAs are not, by themselves, prohibited acts under RESPA or Regulation X.”

The FAQs emphasize that an analysis of any MSA under RESPA depends on the facts and circumstances, and how it’s both structured and implemented. But if the MSA “reflects an agreement for the payment for bona fide salary or compensation or other payment for goods or facilities actually furnished or for services actually performed, the MSA or the conduct is not prohibited.”

This last statement (and the new FAQs) essentially bring back to the forefront the basic guidelines long set forth in the RESPA statute and regulations.

• Payments must comply with Sections 8(a) of RESPA, which prohibits kickbacks made in connection with real estate settlement services.
• Section 8(c)(2) sets forth an exemption for bona fide payments for “services actually performed.”
• HUD, RESPA’s former regulator, considered payments to be bona fide when they are reasonably related to the market value of the service provided.
• RESPA regulations further state that the payment must be for services that are “actual, necessary and distinct” from the primary services provided by the person in a real estate transaction who receives the payment, and HUD separately issued policy statements to clarify which mortgage origination and title services are considered to be “actual, necessary and distinct.”

THE FLIP SIDE: MSAS ARE ILLEGAL IF NOT DONE PROPERLY

The FAQs state that an MSA can be unlawful if the facts and circumstances show that the MSA—as structured or implemented in form or substance—involves:

• Payments for referrals instead of marketing. The FAQs distinguish a referral from marketing by saying that a referral includes a written or oral action directed to a person that affirmatively influences his/her selection, whereas “a marketing service is not directed to a person; rather it is generally targeted at a wide audience. For example, placing advertisements for a settlement service provider in widely circulated media (e.g., a newspaper, a trade publication or a website) is a marketing service.”
• Payments in excess of the reasonable market value for the services performed.
• Payments for services that are nominal or duplicative of the primary services provided by the person receiving the payment.
• The disguise of a payment for kickbacks or split charges.

SUMMARY

The CFPB emphasized in its announcement that MSAs remain subject to scrutiny, and that it remains committed to vigorous enforcement of Section 8 of RESPA. Other federal and state laws may also have restrictions that apply and should be consulted.

But the CFPB’s rescission of its 2015 MSA Bulletin confirms what the D.C. Circuit Court of Appeals had ruled in 2018: RESPA allows you to pay for actual, necessary and distinct services—even if from a referral source—as long as you pay no more than the reasonable value of the services.

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.
In a recent research report using real-time economic indicators, the Knight Frank Global Research Network has been able to determine the most important factors that will influence global real estate decision-making going forward.

There’s no doubt that the world’s real estate markets have seen dramatic changes over the last nine months driven by COVID-19. Not only have real estate professionals had to adapt to the challenges of working under the limitations of an international pandemic, but supply and demand for real estate and customer expectations have seen changing trends.

SAFE HAVENS AND TRADITIONAL MARKETS
The report predicts that safe havens and traditional markets are likely to benefit from the continuing threat of a resurgence of the virus, and the existence of low mortgage rates worldwide will boost transactional activity. According to the 2020 Knight Frank Global Buyer Survey of over 700 respondents in 44 countries, 61% of respondents plan to work from home more often, which will drive the demand for home offices. In turn, this will increase demand for urban logistic facilities and data centers to facilitate the increase in remote technology networks. More flexible work styles with greater choices is anticipated, be it working from home or the office or another location. The respondents see a transition towards locations that support specific work tasks rather than work roles.

LOCKDOWNS AND HOMEBUYING
After having to endure some form of lockdown, 45% of respondents say they are more likely to buy a detached family home than they were prior to COVID-19. Demand for apartments has remained static with 52% of respondents stating that their attitude to apartment living has not changed. Although 64% of respondents say that a home office is now more important, some 32% of respondents say that their working lifestyle will change little—suggesting that the office still has an important role to play as a hub for innovation, collaboration, education and socialization. Some 66% of respondents say that a garden and/or outdoor living space are now more important with the lockdown having emphasized the connection between well-being and access to the outdoors.

TRAVEL
Travel restrictions and quarantining have reduced cross-border travel, which has reduced demand from international investors. Domestic investors and international investors prepared to buy property sight unseen will be able to take advantage of this situation in the short term. Residential markets driven by local demand are likely to see higher transactional levels than those serviced by international buyers. Knight Frank data analysis by region shows that prime property prices in Australia and North America were the most resilient in the world in Q2 2020, while Europe and Asia saw prime property prices weaken significantly. Countries prepared to open borders without restrictions may be at a significant advantage to influence the inflow of investment capital in 2021.

Peter Gilmour is REAL Trends chief foreign correspondent and Chairman Emeritus and co-founder of RE/MAX of Southern Africa.
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