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JULY 2017 NEWSLETTER

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PERSPECTIVE

THE ZILLOW CHALLENGE

Now that some in the industry think that Zillow Group is going to take over the world, let us offer some perspective.

By Steve Murray, publisher

If housing consumers didn't like Zillow, the company would not exist. Zillow wouldn't have agents, brokerage firms and mortgage lending firms paying them nearly $1 billion in revenues. They would have no audience, and no one would care what they do.

Zillow built a substantial audience with housing consumers before they had the preponderance of listings on their site. In addition to the Zestimate, Zillow had other features that consumers found attractive.

If not for the influence of Zillow, many MLS markets would still not publish or provide valuation tools for consumers. In fact, the

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newest trend is for brokerage firms to provide the Zestimate alongside other AVMs for their consumers—a nifty way to let consumers know that online valuation tools vary (and may reinforce the value of Realtors®) in discerning the real value.

No one *has to* have their listings on Zillow. Every agent and brokerage firm can make that decision individually. One can assess whether the exchange of value is right for them.

Having been around for 40 years, I can recall that brokerage firms acknowledged for years that having their listings in the classified newspaper section was a huge waste of money, yet, until just a few years ago brokerages and agents had their listings there—why? Because sellers wanted them there. Sellers did not care whether the sales associate or brokerage thought it was a waste of time—they wanted their listings in the classifieds. Today, it's the same thing with Zillow (Homes.com and Realtor.com). Sellers want their listings there, regardless of whether it may be a threat to the future of the Realtor® organization (dang, those consumers who don't get our strategic challenges)!

THE CHALLENGE OF ZILLOW IS NOT ZILLOW.

It is whether the industry will awake from its comfortable slumber and determine how brokerage firms and agents can compete more effectively.

Calling on the National Association of Realtors (NAR) to do something is funny. Having been an expert witness in several antitrust cases over the past 20 years, believe it when NAR says they can't be a part of any calls to *do something*. Other than writing about how Zillow's offerings can be harmful to Realtors®, and only then carefully, there is nothing they can do.

There is, in fact, nothing anyone can do to stop them. Well, other than building something better—like competitors do in markets around the world. Like Apple and Microsoft did to IBM. Home Depot and Lowe's did to Sears. Southwest did to all the major airlines. Amazon did to so many we can't count. Can anyone imagine what our world would be like without

Continued on pg6

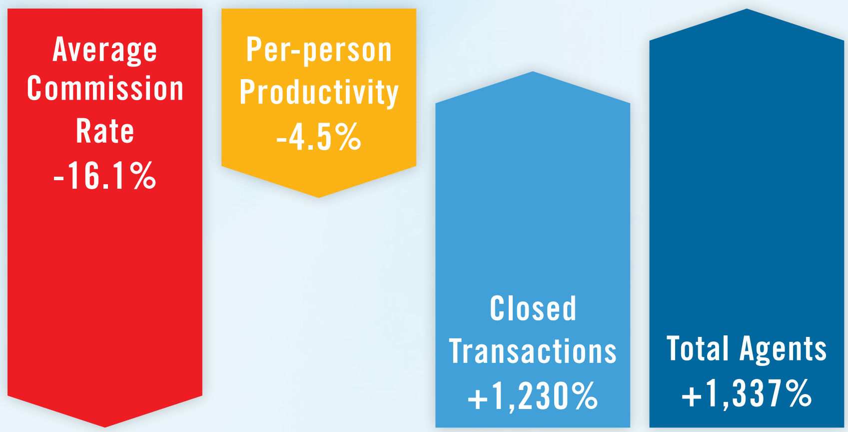
THE REAL TRENDS 500 THROUGH THE YEARS

How brokerage stats have changed over the years.

By Steve Murray, publisher

REAL TRENDS TOP 100

1991-2016 Top Brokerage Firms

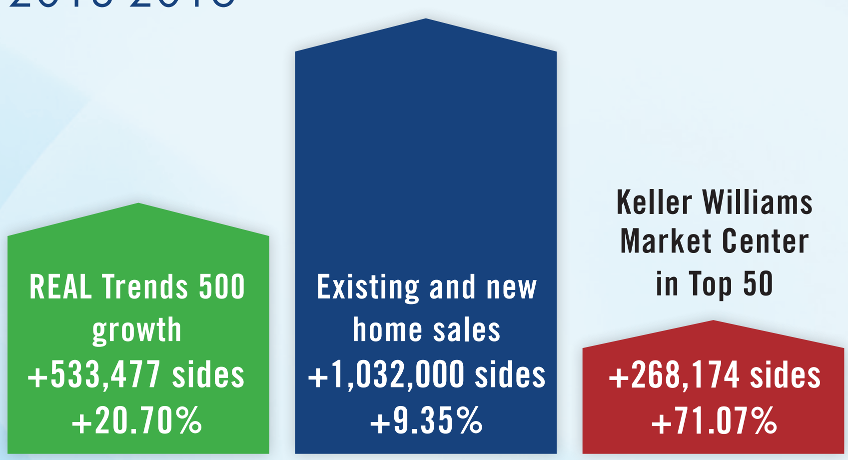


Source: Dave Colmar of Colmar Associates, REAL Trends 500 data

SINCE 2013, the REAL Trends 500 beat the market by over 11 percentage points, which is unheard of from a historical perspective. Normally, in strong, upward-moving markets, large firms tend to lose share. However, since 2013 the largest firms are gaining share.

REAL TRENDS 500

2013-2016

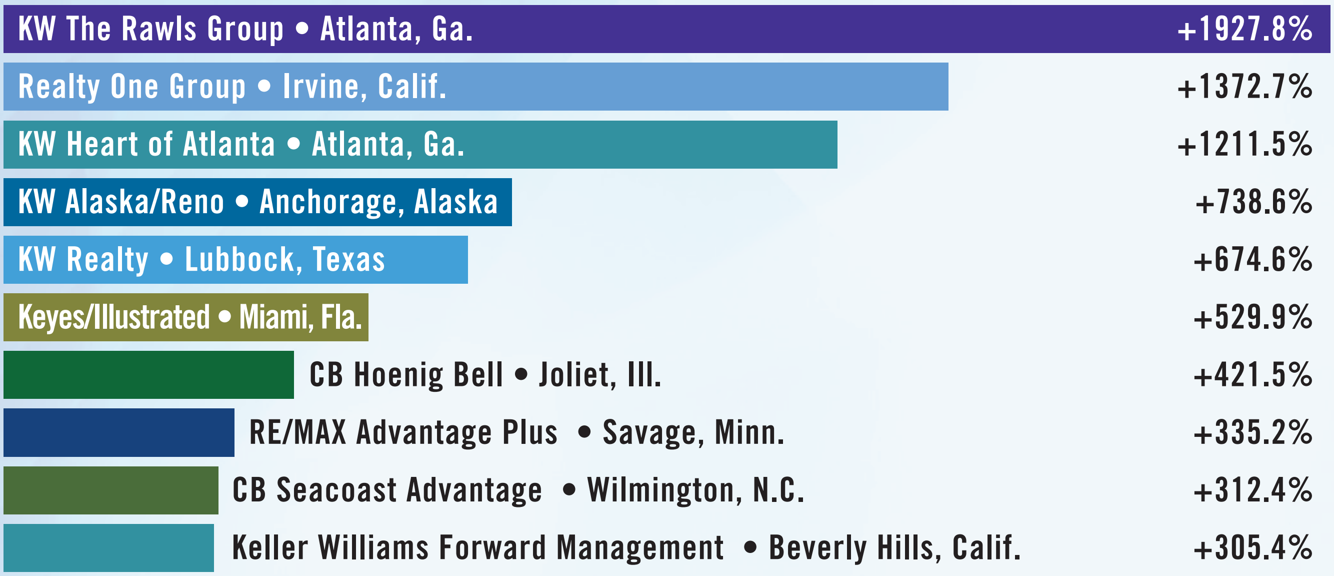


Looking at the growth of Keller Williams Market Centers, you'll see their growth was a major factor in the growth of the REAL Trends 500. In fact, over one-half of the entire growth was due to the growth of KW Market Centers and more KW Market Centers becoming large enough to be ranked among the top 500 brokerage firms in the country.

REAL TRENDS TOP 500

2008-2017 Top 10 Firms Ranked by Growth

In another analysis, we looked at firms that were ranked in the top 100 in 2017 (for calendar 2016) and looked back to see which were also ranked in the 2008 REAL Trends 500. Here are the top ten firms ranked by growth in closed transaction sides.

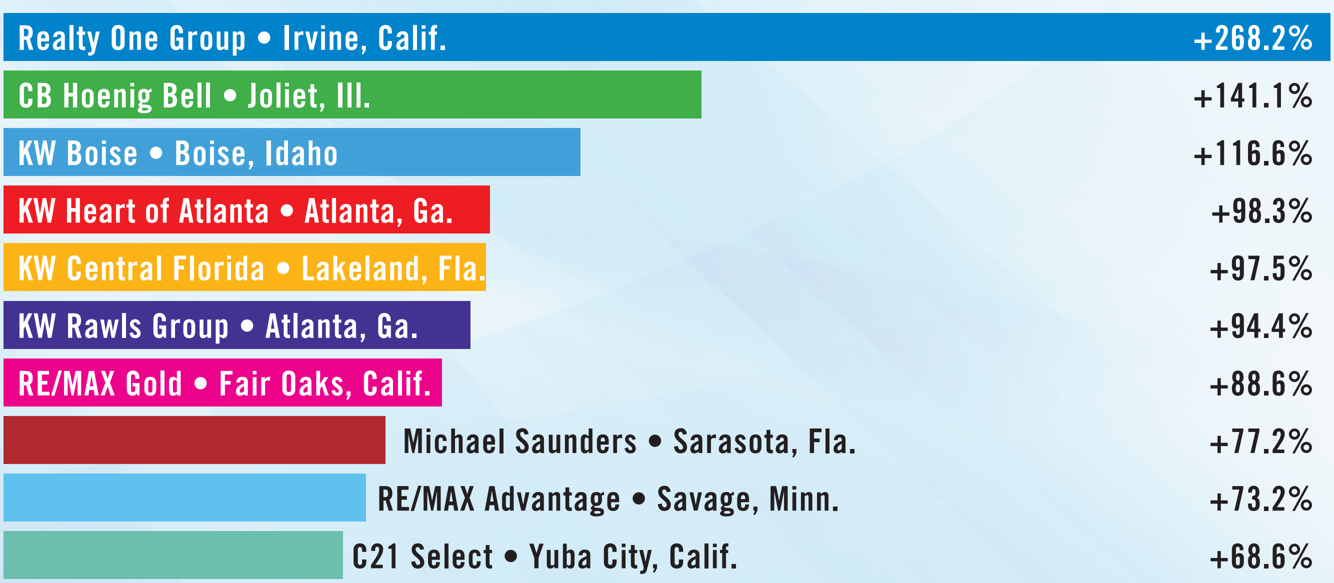


Five of these firms grew mainly organically while five grew mainly through acquisitions. It shows that both are practical and useful strategies for growing a brokerage firm.

REAL TRENDS 500

2008-2017 Per-Person Productivity

Looking at the same top 100 firms and measuring the change in Per Person Productivity (PPP) shows the following results.



The view that firms cannot grow their productivity is obviously contradicted by this evidence. While we observe that the base year which was used (2007) was down measurably from prior years, the average per-person productivity of the top 100 in 2008 was 7.2 percent versus the 8.4 percent of 2017, an increase of 16.2 percent. Whichever way it's measured, these firms (and many others) beat the market by a considerable margin.

ICEBERG REPORT

SINGLE-FAMILY INVESTMENT MARKET STUDY

New study looks at the demographics and size of the single-family residential investment market.

By Steve Murray, publisher

Andrew Waite, former publisher of Personal Real Estate Investor and a partner in two previous studies with REAL Trends, has finished a new report about the U.S. single-family investment market.

Entitled the "Iceberg Report," this soon to be released study looked at not only the size of the single-family residential investment market but the demographics, attitudes and behaviors of those who won single family homes as investments and the companies that serve this market.

Some highlights:

- There are approximately 22 to 24 one- to four-family homes owned by investors in the United States at the end of 2016. These represent over 20 percent of all such structures.
- The number of institutional owners is quite small, owning less than 400,000 of these units. To the contrary, most are owned by families who own one to two units. Nearly 8 million individuals own at least one unit.
- Most investors are not in the mood to sell right now, and a significant number want to purchase more.
- While most of the 8 million who own one to two units don't use a formal property management firm, as investors accumulate more than four units, they tend to seek assistance from a residential property management firm.
- Many investors in single family residential homes use a real estate professional when buying or selling these homes.

The report will be available at **Realtrends.com/publications/Icebergreport** in early July.

SAY IT LIKE IT IS

THE DANGER OF AFFIRMATION

Above all, be honest with your team if you want your company to grow.

By Patrick Lencioni, founder of The Table Group

One of the biggest impediments to progress in many modern organizations is caused by an unwritten social ethic that requires people to encourage, approve of and constantly affirm one another. To the naked eye, this seems like a good thing, a sort of institutional harmony. The problem is that it isn't genuine, and more importantly, it deprives people of the kind of feedback they need to innovate and improve.

Iron sharpens iron, and pillow fights don't shape anyone. Ironically, people who aren't honest with one another lose respect and eventually feel betrayed, which destroys trust.

I'm not sure how or why this happened. Whatever the reason, there is such a fear in most companies, even among senior executives, of offending anyone that people are hesitant to critique or, dare I say it, criticize one another. Of course, iron sharpens iron, and pillow fights don't shape anyone. Ironically, people who aren't honest with one another lose respect and eventually feel betrayed, which destroys trust.

Leaders interested in creating vibrant, innovative and healthy organizations would be wise to teach their people that love—yes, love—is rooted in truth, mixed with a good amount of emotional intelligence. Withholding truth from someone, either about the validity their idea or the efficacy of their behavior, is a form of cruelty. And of course, it prevents an organization from growing and innovating.

Continued from pg2

these fairly young companies? Remember AT&T when they were the phone monopoly? What would our world be like without them?

What would have happened if their trade associations took efforts to suppress these new competitors? For one example, the major airlines tried to kill off Southwest by restricting where they could fly, building frequent flyer programs to lock in their customers and building hub-and-spoke flying schedules to block their growth. They built their own reservations systems to try and lock Southwest out from travel agency bookings. They tried everything they could, but Southwest prevailed. The major airlines had to change the way they did business, shrink their numbers and compete in new and different ways. Those who didn't are gone now.

That's how it is with the residential brokerage industry. We have written several times in the past about the growth of alternative marketplaces, such as Zillow Group and private agent networks and how they challenge the incumbency of the MLS and Realtor marketplace. Zillow Group wasn't the first, and they won't be the last. All of this only matters if we believe that consumers think they truly can do it themselves better than with an agent and the only value agents offer is access to information.

The challenge of Zillow is not Zillow. It is whether the industry will awake from its comfortable slumber and determine how brokerage firms and agents can compete more effectively. Efforts like Upstream, the Broker Public Portal and the emergence of super MLSs are all indications of change coming in this direction.

4 DISCIPLINES OF EXECUTION

BUILD THE COMPANY YOU WANT

You may not realize it, but you're running two companies—the company you have and the company you want to become.

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

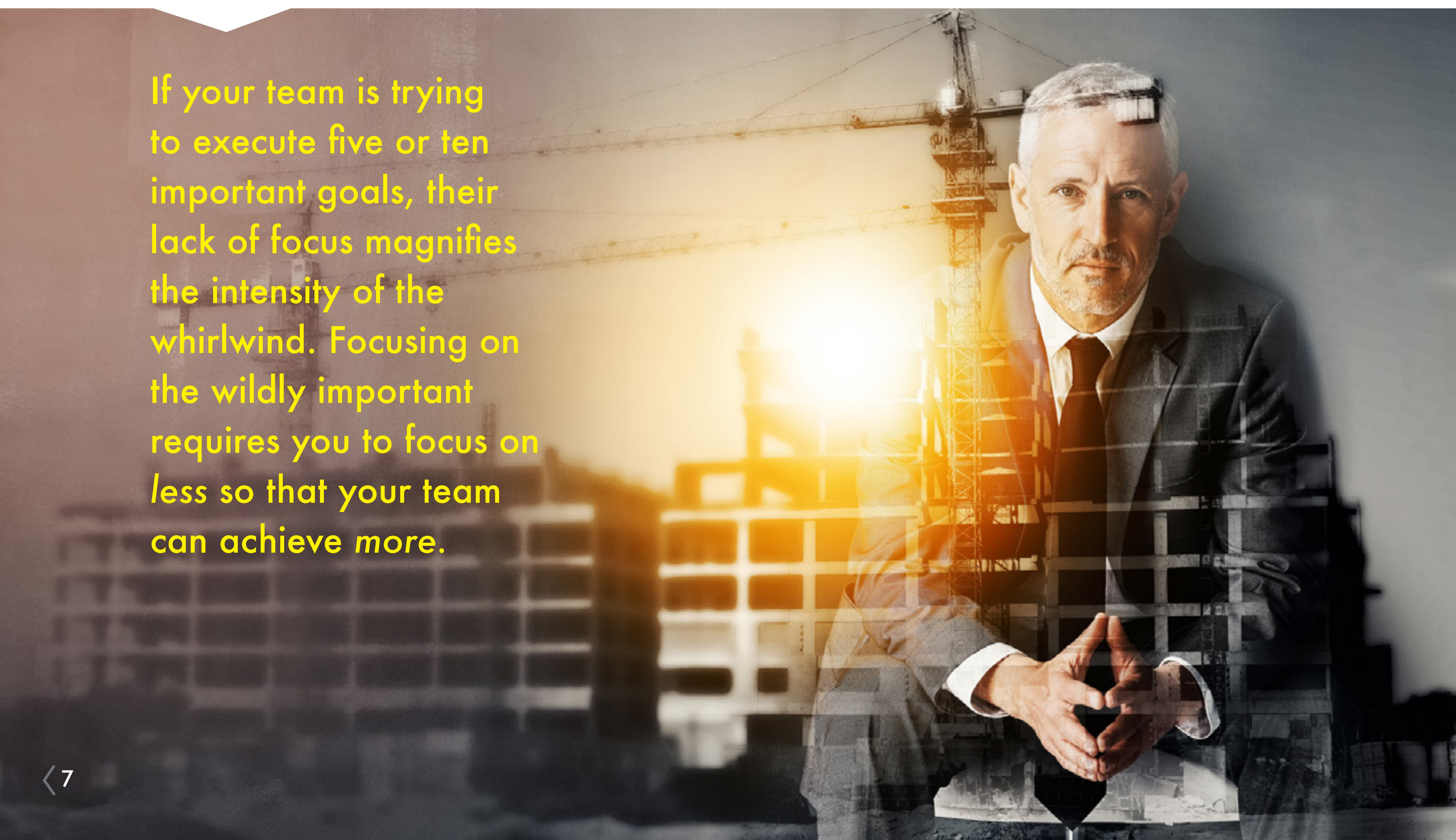
What is the biggest challenge we face in building the company we want to become? It's the urgencies of the company we have. It's our day job that we call the *whirlwind*. It takes so much energy just to keep the day-to-day operation of our current company going that it's hard to execute anything new.

The goals we've set for moving forward are important, but when urgency and importance clash, urgency will win every time, and we fail to progress. The whirlwind consumes us, and we get frustrated. But, we can't ignore the whirlwind either. Daily tasks need to get done. There's an old saying, "If you ignore the urgent, it can kill you today. If you ignore the important, it can kill you tomorrow."

How do you make progress amid the whirlwind? Have you heard of 4DX? This is a process from the excellent book, *The 4 Disciplines of Execution* by Chris McChesney, Sean Covey and Jim Huling. Many companies, including our own, are experiencing great success with 4DX. Here's how it works.

Discipline 1. Focus on the Wildly Important. The more you try to do, the less you accomplish. If your team is trying to execute five or ten important goals, their lack of focus magnifies the intensity of the whirlwind. Focusing on the wildly important requires you to focus on *less* so that your team can achieve *more*. You start by selecting one (or, at the most, two) extremely important goals. We call this wildly important goal a WIG, and it's the goal that matters most. It needs to be a battle that will win the war.

Discipline 2. Act on the Lead Measures. Your progress and success will be based on two kinds of measures: lag and lead. *Lag measures* are the tracking measurements of the wildly important goal, and they are usually the ones



If your team is trying to execute five or ten important goals, their lack of focus magnifies the intensity of the whirlwind. Focusing on the wildly important requires you to focus on *less* so that your team can achieve *more*.

you spend most of your time praying over. Revenue, profit, market share and customer satisfaction are all lag measures. When you receive them, the performance that drove them is already in the past. By the time you get a lag measure, you can't fix it. It's history.

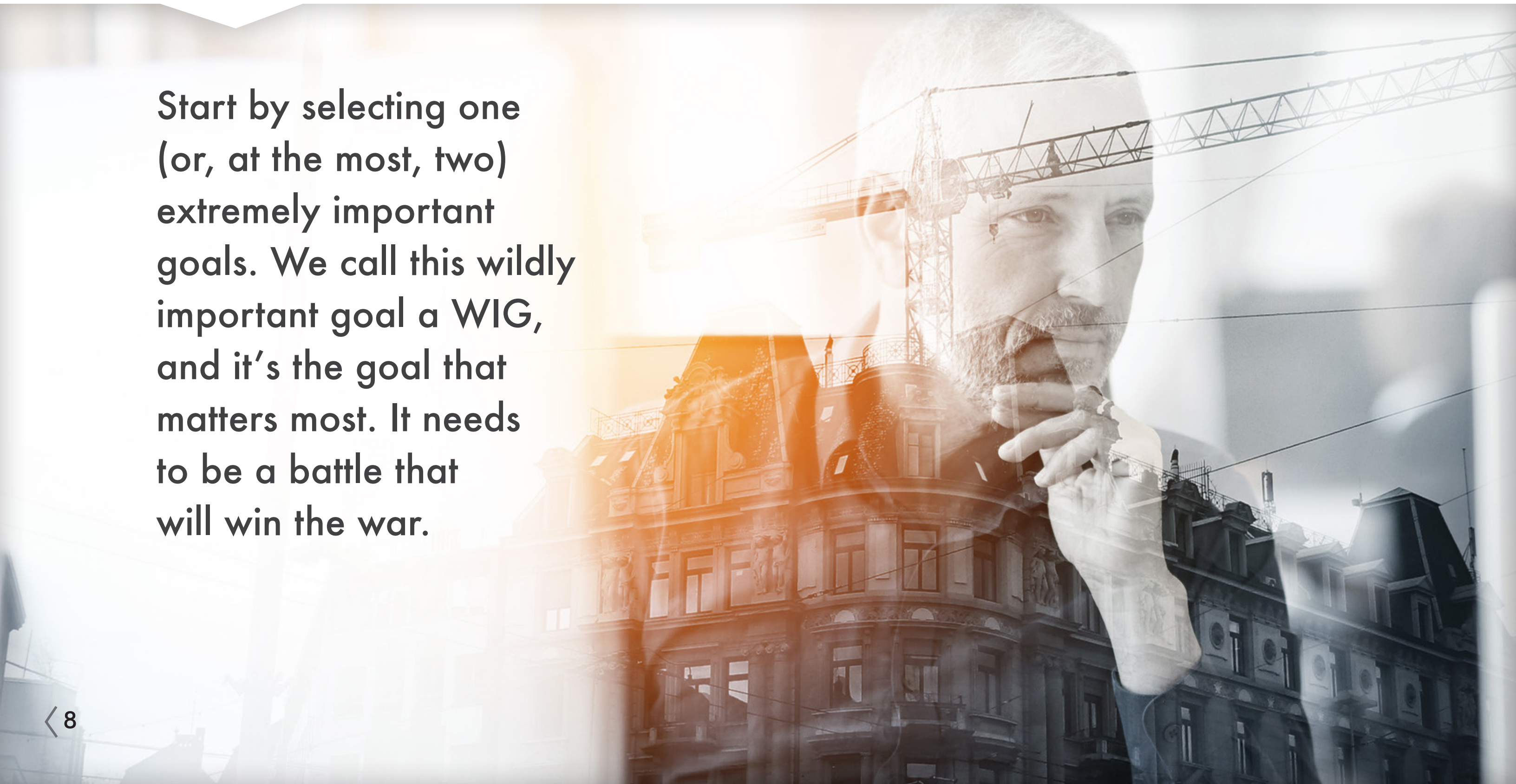
A good *lead measure* has two basic characteristics: It's predictive of achieving the goal, and it can be influenced by the team members. For example, in the Ninja Selling System, we know that an associate's flow (frequency of interaction) with his or her sphere of influence is a lead measure that will determine income (lag measure). If they focus on the lead measures (flow activities), their income (lag measure) will take care of itself. The same is true for your company. Focus on your lead measures and revenue, profit, market share and customer satisfaction (lag measures) will be the result.

Discipline 3: Keep a Compelling Scoreboard. People are more enthusiastic when they are keeping score. It's not about you keeping score for them. The scoreboard keeps track of the *lead measures,* not the lag measures. The scoreboard must be simple so that team members can determine instantly if they are winning or losing. If the scoreboard isn't clear, the game you want people to play will be abandoned in the whirlwind of their other activities.

One of our Ninja companies determined that their sales associates' lack of databases was holding them back from engaging in flow—calls, mailings, emails. Studies show that associates with a database earn 251 percent more than those without one. The company decided one of their lead measures would be the size of their associates' databases. Each manager helped their associates build their databases. In some cases, they hired temps to complete data entry. The managers kept a scoreboard on two lead measures each week: size of the databases and amount of flow (calls, mailings, etc.) Revenue, profits and market share quickly followed.

Discipline 4: Create a Cadence of Responsibility. The cadence of responsibility is a rhythm of regular and frequent meetings of the team. The meetings should happen at least weekly and last no more than 20 to 30 minutes. In that time, team members hold themselves and each other responsible for producing results, despite the whirlwind. They report their results for the week and then ask this simple question: "What are the one or two things I can do in the next week (outside the whirlwind) that will have the biggest impact on the scoreboard?" It's important that these weekly meetings not be mixed with regular meetings about the whirlwind. Have your whirlwind meetings after your WIG/scoreboard meeting.

In this brief book report, we've provided you with the basic outline of the powerful 4DX process. We highly recommend you purchase the book, *The 4 Disciplines of Execution,* for your leadership team and get started building the company you want to become.



Start by selecting one (or, at the most, two) extremely important goals. We call this wildly important goal a WIG, and it's the goal that matters most. It needs to be a battle that will win the war.

IT'S TIME

STEP UP AND CREATE NEW VALUE

Brokers, create new programming that allows agents to be agents and do what they do best —work with buyers and sellers and attract customers.

By David Siroty, founder and CEO of Imagine Productions

I've always loved the National Association of Realtors® annual studies that shed light on what's going on in our industry. The Home Buyer and Seller Profile is loaded with incredible information, while the Member Profile is an introspective look at the industry.

During a recent project, I revisited the 2016 Member Profile. I realized that the 80/20 rule is fake news in real estate. Who hasn't heard that 20 percent of the agent population does 80 percent of the sales? But right there on page 27, it shows that the correct number is really 28 percent of sales associates dominate. This group accounts for 21-plus transactions a year with 6 percent doing 50 or more transactions.

I spent a little more time geeking out on statistics and found that we may have overloaded the system, as sales associates have a nearly impossible task; they've been asked to do everything.

One chart was telling. Exhibit 1-14 showed the frequency of use of business software. At least 9 percent of all sales associates used the following:

- MLS
- Electronic contract and forms
- Contact management
- Document preparation
- Social media management tools
- E-signature
- Customer relationship management
- Comparative market analysis
- Transaction management
- Graphics or presentations
- Property management
- Video

That's a lot of different platforms and a lot of different skills. After all, many corporations have separate

EXHIBIT 1-14 **FREQUENCY OF USE OF BUSINESS SOFTWARE**

(Percentage Distribution)

ALL REALTORS®	Daily or nearly every day	A few times a week	A few times a month	A few times a year	Rarely or Never
Multiple listing	72%	15%	4%	4%	5%
Electronic contract and forms	39	35	8	13	5
Contact management	37	24	7	10	23
Document preparation	35	33	8	13	12
Social media management tools	31	21	9	12	27
E-signature	29	31	11	15	15
Customer relationship management	29	18	9	10	35
Comparative market analysis	26	43	9	17	5
Transaction management	25	21	10	11	33
Graphics or presentation	15	26	16	16	28
Property management	10	7	11	9	64
Video	9	14	16	14	47
Loan analysis	7	17	15	16	45

departments for each of these subjects. At the same time, brokerages are searching to redefine their value and ways to attract and retain agents.

I believe we have the answer in front of us. Create new programming that allows sales associates to be sales associates and do what they do best—work with buyers and sellers and attract customers. I'm convinced that brokerages can achieve these objectives by focusing on "content marketing."

Another chart in the NAR Member Profile sheds light on the theory that real estate agents are not marketers. NAR reports that 4 percent of agents call real estate their first or only industry. The survey allowed the remaining 96 percent, who came from elsewhere, to choose from 19 different careers. Marketing was not an option (although 20 percent did choose other).

Of course, some sales associates are great at marketing, and some learned how to do it. But, the chart shows that marketing is not routine for the overwhelming majority. However, our industry demands that not only do they become expert marketers, but they do all facets of every day.

Start Content Marketing

Content marketing is a relatively new term that encompasses the creation and dissemination of blog posts, articles, video, podcasts, infographics and other shareable information. The world is going hyperlocal, yet no media outlet or real estate aggregator (Realtor.com, Zillow, etc.) has figured out how to crack that code. That's because they don't have offices touching just about every community in a market. Guess who does? You!

While I am not advocating reporting on Board of Education meetings, brokerages can gain an incredible advantage by providing their sales associates with daily and powerful content that they're excited to share on their social media channels.

Economic and housing statistics and analysis (no jargon please), community programs, successful sports teams and businesses, restaurant and shopping discussions, interviews with community leaders and a calendar of events are just some types of content you can offer. Don't forget local experts in ancillary industries who can share their ideas on home decorating, gardening and other topics.

Your company becomes the center of your local universe, and the sales associates become your dissemination vehicle. Suddenly, the task of staying connected to customers for years after the transaction doesn't seem so daunting. Lead generation and top-of-mind awareness become routine as the brokerage and its agents continuously engage thousands in the community. Brand, company and sales associate loyalty will begin long before, and after, closing.

The content should also be shared by your social and online advertising team. As newspaper, radio and TV advertising are undergoing massive change, Facebook and Google have emerged. There's a skill in using both platforms effectively to avoid waste and reach the most targeted group.

The time has come for brokerages to enhance their value, and the content game is one they can win. In fact, everyone will win!

David Siroty (david@imaginePRstragegy.com) founded Imagine Productions, an integrated communication and content marketing consultancy, in 2016 after leading Coldwell Banker Real Estate's public relations group for nearly 13 years.

[As the granddaughter of Sid Syvertson, past owner of RE/MAX of California and a well-known figure in the California real estate industry, Kelly Levine talks about the lessons she learned from him along the way. Syvertson passed away in 2008, leaving a legacy of success in his path.]

LESSONS FROM MY GRANDFATHER

ENTREPRENEURIAL SPIRIT

Growing up in a real estate family, this sales associate learned lessons from some of the best in the industry.

By Kelly Levine, Graham and Kelly Fine Homes, RE/MAX Associates

I grew up in a real estate family where every aspect of the business filled dinnertime conversations and holiday get-togethers. As a child, it was background noise—the soundtrack of a large family talking about its business. After all, they were in the business of helping people buy and sell property, helping agents succeed, coaching brokers toward profit. They were in the business of excellence—or the pursuit of it—and of doing it right and doing it well. I didn't grow up planning to go into the family business, but I am honored to say that I'm the third generation of my family to say "I am a Realtor®."

Lesson: The Only Limitations Are Those You Place on Yourself

When I was young, running a real estate business wasn't my goal. I wanted to be an astronaut and a ballerina. Both. At the same time. I would feverously draw pictures of a little girl wearing a tutu and a space helmet. It never occurred to me that *Swan Lake* in space was not an option. I could do anything—my grandfather told me so. He was larger than life, always seemed to have the right answer and made everything look so easy and attainable. He was the embodiment of the entrepreneurial spirit and believed the only limitations we had were the ones we placed on ourselves. We would walk and talk about all kinds of things. He would ask me what I wanted for my life. Never "What do you want to do?" or "What job do you want to have?" Instead, he asked, "What do you want to build? What do you want to own?" Heavy questions for a 6-year-old—but important ones. Questions that would whisper to me whenever I was tempted to step back or play small.

The Story of Cannon Fodder

My grandfather had a story he loved to tell people. He was obsessed with the idea of cannon fodder. Cannon fodder is something that doesn't have much value and is used as the first line of attack in combat. According to him, if you didn't own your business, you were foddering for the person who did. You were clearing the path, doing the work and making the sacrifice for the person in charge. He used this analogy frequently. He didn't say it to discourage people, but to push them. You could either be the cannon, or what came out of it. The choice was yours.

The idea of owning your destiny, and forging your path was particularly evident in his own career. He was a top producing real estate sales associate in Minneapolis, Minn. when he decided to move cross-country to California He was 26 years old with a wife and three small daughters. He made the drive in an old truck that was so rusty that the floor had been eaten away underfoot on the passenger side so that you could see the road below through the hole. Once he got to California, he worked as an agent, then a broker and later started his own company called Spring Realty. Spring grew to be one of the largest firms in the country at the time, with over 1,000 agents and multiple offices.

In the early 80's, intrigued by the exciting new business model RE/MAX was bringing to the market, he contacted owner Dave Liniger directly and bought the rights to the California region. He converted all Spring offices to RE/MAX. He continued as joint owner of the California and Hawaii regions until he sold it back to RE/MAX International in 2007, the year before he died. At the time of the sale, RE/MAX California and Hawaii had over 10,000 agents.

My Career

His push is what drove me to start a career in real estate. My husband had been practicing real estate for several years when I left a career in banking to join forces with him to grow a real estate team. I always found it ironic that real estate and the self-employed, straight commission lifestyle that came with it felt safer than banking ever did. I always had job security, because if I needed more business, then I could put fliers on cars in parking lots or hold a daily open house every day until I got a customer or sale. I was in charge. My grandmother told a story that when my grandfather was starting in the business, he sold keychains to gas stations when he needed to make extra money. In the beginning, when it was hard, my husband and I used to laugh and say we were just paying our dues, selling our keychains.

That hard work and determination helped us build our team into the No. 1 team in our city in both units, and dollars sold.

I am exceedingly grateful for the success we've had, and at the same time over-the-moon excited about what is yet to come. I know my passion, drive and entrepreneurial spirit come from my grandfather and from being pushed to think big from the time I was very small.

[My grandmother told a story that when my grandfather was starting in the business, he sold keychains to gas stations when he needed to make extra money. In the beginning, when it was hard, my husband and I used to laugh and say we were just paying our dues, selling our keychains.]

NEW PODCAST SERIES LAUNCHING IN MAY

The Secret Lives of Real Estate

QuantumDigital and REAL Trends partnered to create **The Secret Lives of Real Estate Podcast Series**, where we pull back the curtain to share the personal passions, philanthropic efforts, community spirit and industry insights from real estate leaders, trendsetters and legends.

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SECRET LIVES OF REAL ESTATE

RELATIONSHIPS MATTER

AGENTS ARE STILL **THE FUTURE OF REAL ESTATE**

Despite the rise of popular platforms such as Trulia and Zillow, demand for real estate agents has continued to rise over the last two decades.

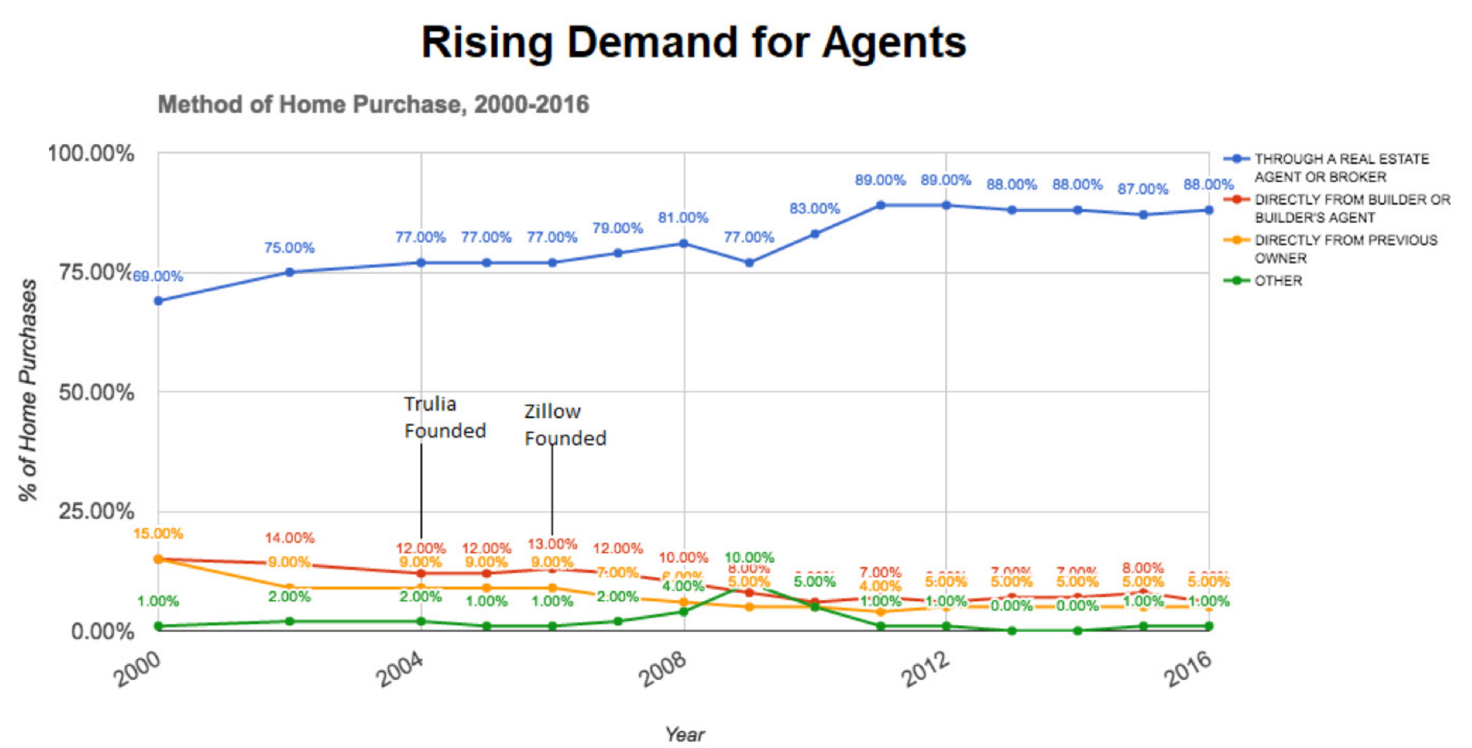
By Joe Lonsdale and Drew Oetting, 8VC

Disintermediation is often overrated. Technological advances that seek to eliminate the human element often fail. Instead, we believe that man-machine symbiosis is what typically defines a successful venture.

A popular opinion in the technology community is that real estate agents will soon be replaced by software—whether in the form of direct consumer-to-consumer marketplaces, or programs that automate many of an agent's basic functions. But the traditional, agent-centric model has staying power. While new technology will accelerate the closing process and empower agents to make more sales per year, it is likely that human agents will remain critical, albeit in augmented capacities.

Humans Help Making Final Decisions

The massive proliferation of search portals has dramatically increased the amount of information available to consumers but has not provided them with the context necessary to make final decisions. Media company models optimizing for page views fail to support crucial channels of information exchange between agents and clients. These models only incrementally improve real estate transactions, as evidenced by the fact that the advent of Trulia and Zillow has not dampened demand for agents.



Despite the rise of popular platforms such as Trulia and Zillow, demand for real estate agents has continued to rise over the last two decades.

There are several reasons for thinking that real estate professionals will remain essential in the coming years.

First, you've heard it before—buying a home is typically the largest transaction in a person's life. It's a highly emotional and infrequent event. Consumers want practical, cultural and emotional guidance as they navigate this decision. Companies such as Opendoor have shown it's possible to reduce reliance on agents in certain home seller markets, but home buying (and much selling) will remain agent-centric for the foreseeable future.

Second, agents perform many functions that software can only partially eliminate. Certain tasks should and will be automated, such as scheduling and paperwork. But coordinating with other agents, staying up-to-date on local politics, gauging sentiment and persuading clients requires a human touch.

Third, agents remain the most cost-effective method for sellers to find home buyers. Hyper-geographic expertise allows agents to offer homebuyers smooth access into the semi-private residential real estate marketplace. While automated brokerages seem elegant and low-touch, when you aggregate the various conversion points necessary to convince a person to buy a home (marketing, filtering real buyers from the noise, mid-escrow negotiations, etc.) these platforms are far less efficient. Although they are not scalable, agents are a fundamentally cheap way to acquire customers.

Given these observations, we believe that successful real estate platforms will augment agents with data and tools to accelerate their business and serve their clients better. One example of a company aligned with this view of the future is RealScout, which allows brokers and agents to protect and make use of buyer demand data through proprietary home search platform and listing tools.

Advances in real estate technology will improve the agent's ability to educate clients by interpreting data and using it to tell stories. Homebuyers will want someone who can tell narratives about past neighborhood public works initiatives, draw attention to unusual features of a property, and help frame the price of a new home regarding financial and demographic trends. Real estate agents with sophisticated tools will likely perform these functions better than automated brokerages.

Technological solutions that enhance natural human talents are often a better way to create value than attempts to remove humans entirely. In real estate and other markets, technology will continue to complement distinctly human facilities, and provide consumers with richer, more meaningful experiences.

To read this article in its entirety, go to **CLICK HERE**

Technological solutions that enhance natural human talents are often a better way to create value than attempts to remove humans entirely.

MICHAEL AND DAVID MILLER, CO-FOUNDERS
BRIGHTWAY INSURANCE

Lessons remembered—learn from leaders where tomorrow's opportunities and threats lie.

By Tracey C. Velt

When Michael and David Miller bought out a Nationwide insurance agency, they knew what they wanted to accomplish but had no real detailed execution plan. "We put ourselves in our customers shoes and thought, what would we want?" says Michael, co-founder and vice chairman of Brightway Insurance, a franchise business model that allows prospective buyers the opportunity to own an insurance agency that represents a broad range of insurance companies that offer coverage for automobile, home, business and life insurance policies.

"Our big aha moment was when we realized that customers want local relationships and a wide choice of products. This wasn't possible in any other insurance distribution channel," he says. Thus, in 2003, Brightway Insurance was born. Then, in 2008, they "took a business opportunity and created a natural franchise out of it."

REAL Trends spoke to Michael and David. Here's what they had to say:

RT: How is Brightway Insurance different?

Millers: At Brightway, customers have options. Many times, insurance agents represent only one company. These are so-called "captive agents" who can only represent one carrier. Brightway Insurance has relationships with more than 120 carriers, which means a customer has many more options for better pricing and the best available solutions for his or her unique and specific insurance needs.

We sell franchise locations. It's been estimated that insurance agents spend 60-90 percent of their time servicing existing customers. We take that service work away and provide them with a system of support that enables them to focus on selling.

RT: Why did you become a franchise business model?

Millers: The reason we became a franchise is that we felt that consumers value the idea of a brand. It gives them peace of

"Our big aha moment was when we realized that customers want local relationships and a wide choice of products. This wasn't possible in any other insurance distri-bution channel," he says. Thus, in 2003, Brightway Insurance was born.

mind. After all, people eat at Olive Garden because they know what they'll get. We wanted to create a system that delivered consistent customer experiences and that empowered them to feel great about their agent as the local insurance expert with access to more insurance brands. This way, customers are not forced to go out and shop around. By focusing our resources on the customer experience, consumers win.

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RT: What is the value proposition for real estate brokers?

Millers: We offer a great return on investment with the least risk. That's one of the reasons Forbes named Brightway the No. 1 franchise opportunity in America.

Today's real estate brokers deal with consumers, and the interaction is centered around the home. That is at the heart of what we do. We have the same customers. Some 90 percent of our customers were referred to us by mortgage brokers and real estate professionals. So, the value proposition for real estate brokers is to build a profitable, complementary business that lets them serve more of their existing customers' needs.

RT: Please walk us through the requirements and process for becoming a licensed insurance agent.

Millers: We do not require a franchisee to have any past insurance experience, and, depending upon the franchisee's role in the Brightway franchise, he or she may not be required to be licensed. If the franchisee sells policies or counsels customers on coverages, he or she must be licensed, but if the franchisee is more of an investor and has hired staff to run the agency, the staff must be licensed.

Each state has its own requirements. For example, the requirement for the P&C (Property and Casualty) License course in Florida is typically a 200-hour course, while in many other states the course is about 40 hours. The P&C License course costs about $1,000 for the tuition, books, license, exam and background check that includes fingerprinting. One must pass the course or have a degree in insurance.

RT: What is the ideal location for a Brightway Insurance agency? Do agents/franchisees get an exclusive territory?

Millers: The franchisee is contractually obligated to maintain a storefront location. We provide our agents with specific criteria for a brick-and-mortar retail location. The potential franchisee gives that information to a commercial real estate agent who then makes recommendations to the franchisee. Based on our experience, if these criteria are met, then we know the location will be a success.

We designed our franchise programs to ensure that our franchisees are not competing against one another and they can work together in a collaborative environment. One franchise will not be placed within the immediate vicinity of another franchise.

RT: What evidence do you have that the system works?

Millers: At the end of the day, we're selling property/casualty insurance through a network of franchised independent agencies. Two recent studies paint a picture of the success our agents achieve.

First, a recent report about organic growth among property/casualty insurance agencies and brokers cited organic growth in the first quarter 2017 fell to 3.9 percent, the weakest growth since 2011. Brightway agencies, on the other hand, experienced organic growth of 12.6 percent on average for the same period.

Then, a recent analysis of independent agencies and the overall size they're able to achieve in terms of a book of business, noted that, of the 37,000 independent agencies in the country, only 3 percent have grown to more than $10 million in written premium. Some 6 percent of Brightway's 133 agencies are larger than $10 million.

For more information about Brightway, visit brightwaydifference.com

SALES TRENDS

IS THERE A MARKET SLOWDOWN COMING?

By Steve Murray, publisher

In virtually every market in the country, inventory levels are at record lows, absorption rates are at all-time highs, and prices have risen far faster than the rate of increase in household incomes. Each of these factors had a hand in the NAR report that says existing home sales were down back in April; so was the pending home index.

We are more likely than not headed for a slowdown in housing sales in the near term. In the past, housing sales dipped due to slower economic growth or rising interest rates. Now, it's due to the lack of inventory and the decline of affordability for many households to afford the soaring cost of new and existing homes. One good example is in San Francisco where homes are measurably down, in fact, sales have been down for more than just the last year, and prices are softening.

This downturn is more of a pause than a typical slump in housing sales. Prices have outrun incomes. Mortgage rates, while still historically low, have risen somewhat and are due to rise further. Household incomes are still growing and will likely continue to do so even given that two large sectors of the economy, energy and agriculture, are both in slumps. The absence of a downturn in the overall economy and the presence of a persistent strong demand for housing, indicates that while the downturn in unit sales could last for some time, it won't be anywhere near as severe as the last downturn.

One last indicator that we observe is the percentages of all households that are buying homes in each year. Studies we produced for clients suggest that the normal percentage of all households that purchase a home in each year is approximately 4.6 percent. That is very near where we are today. We believe this is a good indicator that we are at a normal level of housing sales now—anything above that signals overheating.

PHH ORAL ARGUMENTS

FIRST HINTS OF OUTCOME

Long-awaited oral arguments cause legal observers to be optimistic about a favorable RESPA ruling.

By Sue Johnson, strategic alliance consultant

On May 24, the D.C. Circuit Court of Appeals heard long-awaited oral arguments in the appeal of *PHH Corp. v. Consumer Financial Protection Bureau (CFPB),* in which PHH challenged the CFPB's "arbitrary and capricious" RESPA interpretations and the constitutionality of its single-director structure.

The appeal originates from an October 2016 decision by a three-judge panel that CFPB Director Richard Cordray was wrong when he penalized PHH for payments made under a longstanding RESPA exemption that permits payments made for the fair market value of services provided; ignored previous HUD guidance that was relied upon by the industry; and ignored RESPA's three-year statute of limitations when assessing the penalty.

In a surprise move, the panel also held that the CFPB's structure is unconstitutional, because it is headed by a single director removable only *for cause,* and that the remedy is to strike the for-cause limitation and make the CFPB director removable at will by the President.

The CFPB appealed the panel decision to the full court. Participating in the oral arguments were PHH, CFPB and the Department of Justice (DOJ), which, under the Trump Administration, changed sides and took the PHH position.

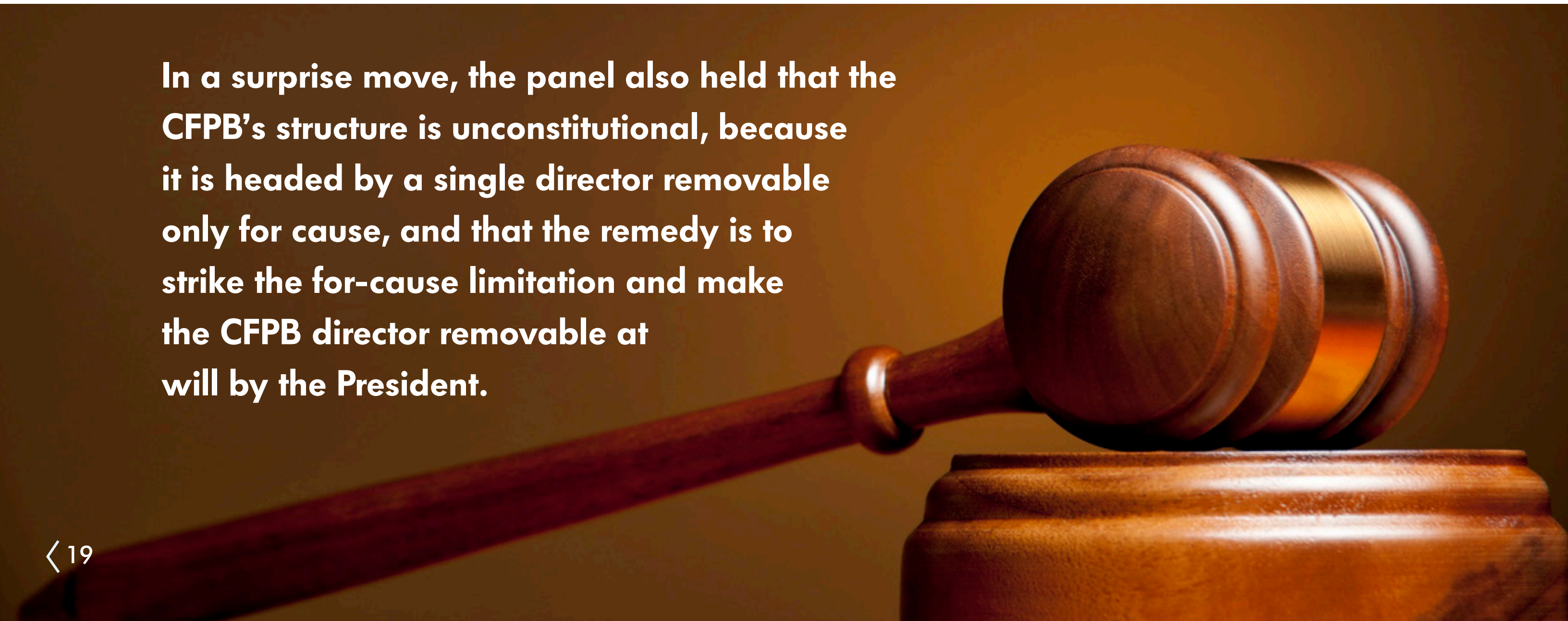
Predicting a Ruling

It's difficult to predict how judges will rule based on their questions during oral arguments. However, the aggressiveness of the questions asked about the constitutional issues—coupled with the near-absence of questions about the RESPA issues—have caused legal observers to be optimistic about a favorable RESPA ruling but to wonder whether the constitutional issues will be deferred to the U.S. Supreme Court.

The Constitutionality of the CFPB's Structure

Nearly all the discussion during the 90-minute oral arguments revolved around the constitutional question.

While two authors of the panel's October decision tried to defend their constitutional ruling, many judges did not seem to share their views. The PHH counsel was constantly interrupted with questions about why this case is different from two other cases in which the Supreme Court upheld similar for-cause limitations on Presidential authority: *Humphrey's Executor (1935),* in which it ruled that President Franklin Roosevelt could not fire a member of the Federal Trade Commission; and *Morrison v. Olson (1988),* in which it rejected the Reagan Administration's claim that a law creating an independent counsel was unconstitutional by creating a fourth branch of government that was answerable to no one.


In a surprise move, the panel also held that the CFPB's structure is unconstitutional, because it is headed by a single director removable only for cause, and that the remedy is to strike the for-cause limitation and make the CFPB director removable at will by the President.

The judges' repeated references to the *Humphrey's Executor* and *Morrison* caused legal observers to speculate that most of the court may feel restricted by prior Supreme Court decisions. Here are some possible outcomes:

1. The court could avoid answering the constitutional question altogether, although it's unlikely given the heavy focus on the issue during oral arguments.

2. The court could reject the panel's constitutional ruling, which PHH could appeal to the Supreme Court. One outstanding question is whether PHH *would* bring such an appeal if it wins on the RESPA issues. Another is whether the Supreme Court would "grant certiorari" (decide to hear the case). If the case does go to the Supreme Court, it's unlikely that a decision would be made before Cordray's term expires in July 2018, at which point President Trump already would have been able to nominate his own CFPB director.

3. The court could affirm the panel's ruling that the CFPB's structure is unconstitutional and that the remedy is to strike the for-cause provision. The CFPB could not appeal this decision to the Supreme Court since it would need DOJ approval to do so, which supports the PHH position. Therefore, Trump could dismiss Cordray before his term expires.

The CFPB's Aggressive Interpretation of RESPA

RESPA issues only received a couple of minutes' worth of attention and were limited to questions directed to CFPB counsel about whether the industry had sufficient notice that the CFPB would consider its conduct to violate RESPA (given HUD's prior conflicting guidance) and whether the CFPB maintains its position that it's not bound by RESPA's three-year statute of limitations.

Interestingly, Cordray's aggressive interpretation of RESPA's anti-kickback provisions received no attention from the judges and was not even defended by CFPB counsel in his oral argument. However, PHH ended by urging the court to reinstate the panel's decisions on the RESPA issues.

Legal observers view the lack of questions about RESPA issues as a sign that the court is inclined to let the panel's RESPA rulings stand.

But, if the RESPA ruling is favorable to the industry, don't expect an immediate about-face by the CFPB on RESPA enforcement, especially if the court fails to confirm the panel's constitutional ruling and Cordray stays in office. The CFPB has not changed its views on RESPA's anti-kickback provision, and it is legally bound to follow the ruling within the court's jurisdiction—the District of Columbia.

On the other hand, a favorable RESPA ruling by this court—arguably the most important federal appeals court for decisions involving independent federal agencies—would create a valuable precedent for those who decide to challenge the CFPB in similar RESPA enforcement cases.

Next Decision

The court is expected to issue its decision in late 2017 or early 2018. But given the number of possible scenarios and the complexity of the issues, it's unlikely that the PHH saga will conclude anytime soon.

BREXIT UPDATE

WHAT'S NEXT FOR BRITAIN'S REAL ESTATE MARKET?

Details about how the Brexit may impact real estate.

By Peter Gilmour, chief foreign correspondent

It's been a year since Britain voted to leave the European Union, Article 50 has been invoked by the British Parliament, and the hastily called general election has been held with the Conservative Party losing their majority. The Conservatives were hoping for a win with a large majority which would have strengthened their Brexit negotiating position, but this did not happen. What does this mean for residential real estate in Britain and London as the premier real estate market?

I reported after the Brexit vote last year that some economists were predicting a short-term flattening of the prime London property market but that the market would sustain itself in the long-term. A new report just released by the Centre for Economics and Business Research (CEBR) is confirming the earlier prediction and forecasting a strong increase in houses prices in the future. It states that towards the end of 2016, indicators pointed to a stabilization in the market and that there has been a slight improvement in the first quarter of 2017. Transaction numbers are improving, and mortgage approvals are strong, boosted by low interest rates and favorable borrowing conditions.

CEBR expects property prices in Britain to climb at rates between 3.5 percent and 4.5 percent over the next two years, but from 2019, this is expected to rise to over 6 percent per year. Continuing shortage of housing and increased demand from investors, particularly in the cities due to the devaluation of the pound, are given as reasons. The U.K. property market would appear to be Brexit-proof and has held up remarkably well in the last year.

In 2017, the average house price in the United Kingdom is expected to be £ 220,000 ($285,000), and CEBR expects this to rise to £ 272,000 ($350,000) in 2021—an increase of 23 percent.

In London, U.K.'s prime residential market, average house prices have jumped over 500 percent in the last 20 years—more than 11 times faster than average incomes and this has impacted younger buyers who are looking to get onto the property ladder. In the last 15 years, the number of Londoners renting has doubled to about 30 percent, and many of these may never own their own home according to the Office for National Statistics. Home ownership in the United Kingdom is now at its lowest level in 30 years signaling an increased concentration of wealth in the hands of the wealthy Britains and international investors.

Earlier this year, Sadiq Khan, the son of a Pakistani immigrant, was elected Mayor of London. He's committed to a policy which supports a 50 percent affordable housing provision in all new residential developments as well as the possibility of some form of rent control. As the Brexit negotiations proceed, the world will be watching to see whether these projections play out. But for now, it seems that residential real estate in the U.K. and London, in particular, continues to be a good investment.

Outskirts of London, England

VALUING REAL ESTATE TEAMS

DO YOU HAVE A TEAM WITH VALUE?

Are you a convenience, personality or business team? It matters when it comes to valuing your team.

By Scott Wright, director of mergers and acquisitions

More and more teams are coming to REAL Trends to find out their value. When we do work with teams, we first find out what type they are, and like brokerages, they come in all shapes and sizes. After peeling away the layers, we typically find that teams fit into one of three categories; convenience, personality and business teams.

Convenience and personality teams mostly rely on leads directly generated from the personal database of the team leader. This leader is typically a rainmaker who generates so much business from personal referrals and sphere marketing that he or she needs help. While these teams can be financially lucrative, they don't carry any more transactional value than that of an individual top-producing sales associate. The business of this team lives and dies by the rainmaker.

Business Teams Have Value

Business teams are an entirely different story. Under this team type, most business is generated through a marketing system (online, direct mail or other) that is independent of the team leader's personal database and referrals. If this system is structured correctly, leads can be generated, and business can be closed regardless of who owns it (assuming there's a talented listing agent in the fold). The business of a business team is transferrable, thus giving it transactional value.

As most in the real estate industry are fully aware, we've seen a big increase in the number of successful business teams in recent years. Many of these teams are realizing that they have value beyond the team leader.

Value Beyond the Team Leader

In the valuation of a team, it's critical to separate sphere and system, and thankfully most teams are good about tracking their sources of business. Since the sphere portion is considered personal goodwill, this source has minimal value. If a brokerage, team or sales associate acquires this business, there would be little, if any, upfront cash. The majority of the purchase price would be in the form of an earn-out over time.

> If you're a team leader who operates a business system capable of generating quality leads independent of your sphere, then you likely own a business with transactional value

A team's business system is valued much like a traditional brokerage firm. The most common valuation model is the income approach, which is simply a multiple of net operating cash flow. Teams aren't yet at the point where they're getting multiples that are as high as what brokerage firms see, but in several recent transactions, business systems are selling at a premium.

The bottom line: If you're a team leader who operates a business system capable of generating quality leads independent of your sphere, then you likely own a business with transactional value. If your goal is to monetize this business, then continue to work to reduce your personal value to this team. Develop and build your system so that somebody else can successfully run it.

DIGITAL MARKETING CAMPAIGNS

TRACK THESE *PERFORMANCE INDICATORS*

By Paul Salley, manager of marketing strategy and business development

Digital marketing has made it easy for business owners to reach their intended audience using popular Display Networks and social channels, predict behavior and use an algorithm to attract new customers.

All of this is great, but you must quantify the performance of digital marketing campaigns to track your return on investment (ROI). Good news, there are a few things you can do to monitor performance.

Above all, set your objectives early. Is your goal to increase brand awareness? If so, you're probably less focused on metrics such as Click Through Rate (CTR) and more focused on reaching as many people as possible (impressions). On the other hand, if your goal is to convert clicks into leads, then you must do more strategizing. At the very least, the landing page you're using for campaigns should be optimized for conversion tracking.

Implement numerous capture opportunities without creating a poor user experience. Think simple calls to action with enticing lead capture forms. Make sure you have a Google Analytics Tag installed on your site and, if necessary, a conversion pixel implemented and tracked on your chosen marketing platform.

Aside from conversions, it's important to understand other performance indicators:

1. **Traffic to your site.** The rule *quality over quantity* applies here, but your site traffic will help you understand your marketing efforts. If your traffic increases 20 percent, that's great! Now, establish a strategy for capturing leads once your visitors land on your site. Pay attention to which pages are driving the increase in traffic. If those pages are campaign-related, chances are your digital marketing efforts are paying off.

2. **Average time on site/bounce rate.** If you're driving more traffic to your site, your goal is to keep them there. Pay attention to the number of clicks your campaigns receive, the page users land on and how long they stay there. If the bounce rate is high, visitors are probably landing on a page that doesn't accurately reflect information they were expecting.

3. **Monitor the traffic sources to your site.** Smartphones are taking over as the No. 1 device used when browsing the web. However, this may not be true for certain sites or even specific pages on your site. If you're driving traffic to a page that isn't optimized for mobile, but your campaign traffic is primarily mobile, then you have a problem.

All metrics are important. So, understand the numbers generated from your campaigns. Metrics such as CTR and impressions are still important and must be evaluated. Understand the averages for your market or industry, as well as campaign type. Display campaigns will generally have a lower CTR than search, so do your research before jumping to conclusions when evaluating campaign reports.

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CYBER SECURITY

COMMON TYPES OF CYBERCRIME

By Paul Salley, manager of marketing strategy and business development

Cybercrime is on the rise. Unfortunately, most of these crimes stick around long after the infraction is committed. It's important to understand the most common methods of cybercrimes in the real estate industry to know exactly what and where to monitor for these security breaches.

The most common cybercrimes committed in our industry are elaborate phishing scams targeted at buyer or seller transactions. Many of these scams are so elaborate, that it's difficult to distinguish whether these individuals are members of the brokerage or not. Hackers take over a sales associate's email address and use it to correspond with the buyer or seller. The messaging in these scams usually involves a false sense of urgency that a payment is needed, along with wiring instructions. Steps that brokerages can take to prevent these complex forms of fraud include:

- Hold cybersecurity training seminars
- Become familiar with red flags that indicate a threat
- Avoid wiring large sums of money
- Instruct customers up front that you will not request wiring changes
- Be present when the client wires money
- Take out cybercrime insurance
- Conduct a cybersecurity audit

Cybercrimes will only become more sophisticated. It's more important than ever to invest in understanding and preventing these potentially disastrous infractions.

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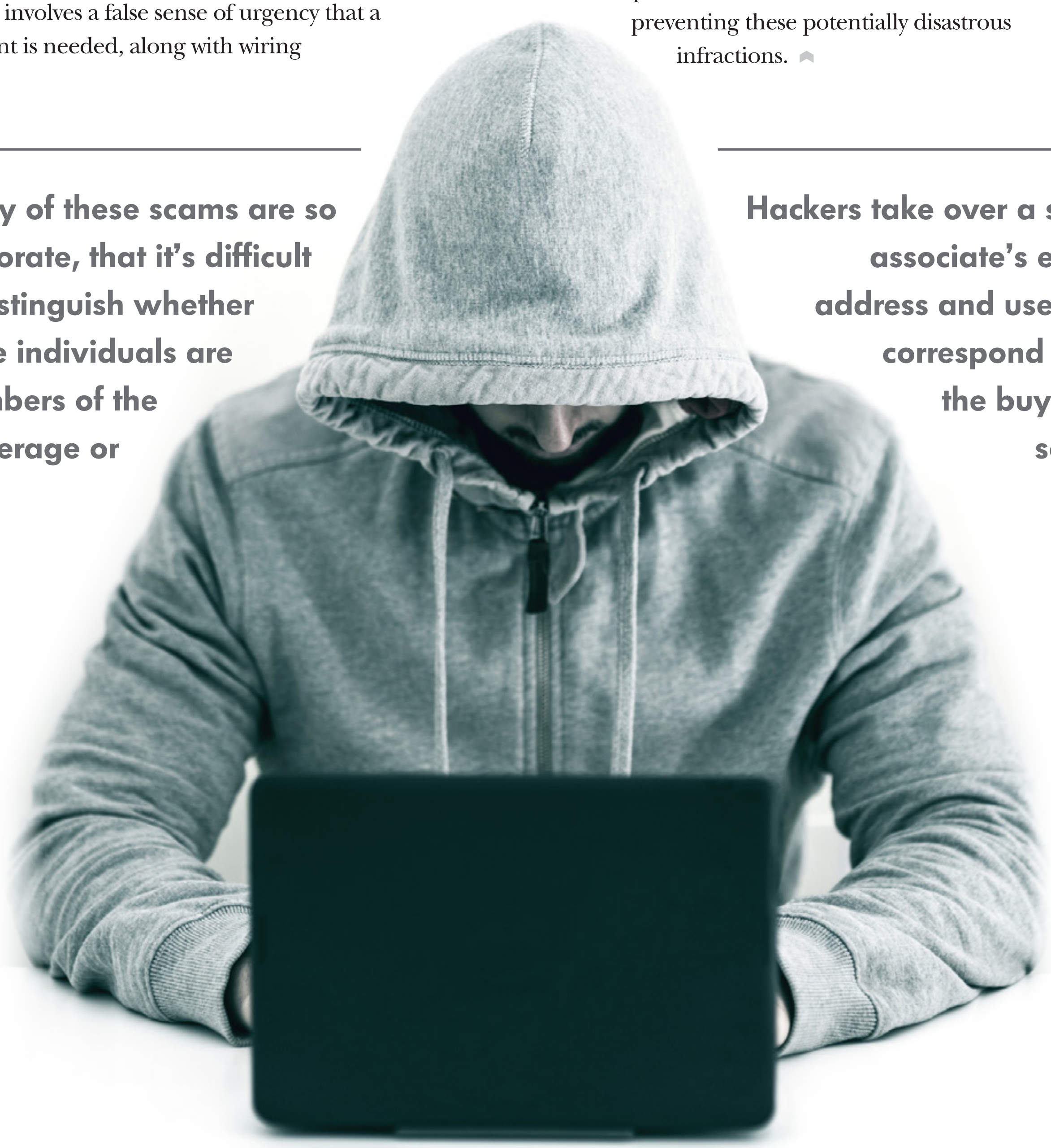

SMART HOME DEVICES

PROTECT YOURSELF FROM HACKS

By Guest Contributor Jeremy Cook

When looking at houses, potential buyers may be interested in built-in smart home devices such as programmable thermostats, smart appliances or security systems. While they can certainly make your customers' lives easier, and even save money in many cases, there are security issues to consider.

IoT (Internet of Things) devices are quite sophisticated, comparable in many ways to full-fledged computers of several decades ago. If neglected, their connectivity means they can be ripe for hacking, perhaps even becoming part of a *botnet* that can be used to attack other systems. Here's how to make sure your customers and their devices are protected.

1. **Change the Default Password.** You may remember a particularly bad DDOS (distributed denial-of-service) attack in October 2016 that affected internet traffic in parts of the United States. This attack was in part accomplished by a botnet named "Mirai," which runs on, and propagates through, smart devices.

   DDOS attacks like this use a network of computers—or IoT devices as it were—to flood another computing system with superfluous data requests. This makes it impossible, or at least extremely slow, for legitimate traffic to get through.

   Though smart devices have become more and more sophisticated at preventing hackers, password management has not always kept up. Mirai obtained access to other devices—and spread—using a list of just 62 username/password combinations, including the username of "admin," along with the password "admin." In other words, it's an extremely good idea to change the device password to something non-default.

   It would be even better to input something that you haven't used anywhere else, and is complicated enough to make it difficult for a machine to guess, but nearly anything different would be a huge improvement.

2. **Keep Systems Updated.** In a more recent example, the WannaCry ransomware attack that was first observed last month encrypted important files on the victim's computer. Once files are encrypted, the ransomware demands payment of $300 or $600 to get these files back. As reported by Reuters, over 300,000 computers had been infected as of May 19.

   The good news is that security researchers found a way to decrypt these files, though it's "not a perfect solution," according to Matthieu Suiche, a hacker who helped develop this fix. The other good news is that a patch for this exploit was released for this exploit on March 14. If your computer was updated properly, this shouldn't be an issue.

   Although this isn't an IoT problem per se, it's a good reminder to make sure that the devices and Wi-Fi routers in a home are updated as needed. Make sure the router's software is current, or encourage homeowners to purchase a new router with extra security features.

3. **Open Devices.** If you set up your devices as *open*, then anyone can see what's going on. Perhaps you would like others to view a security camera view of non-sensitive areas or some other type of data, but obviously, you'd like some control over what's seen. In fact, a site called Insecam features a directory of publicly-accessible network security cameras. Though cameras are generally public, on the Insecam homepage, it's noted that "Only filtered cameras are available now. This way none of the cameras on Insecam invade on anybody's private life." This would imply that some people set cameras up without thinking about whether someone could be looking in on them—a scary thought.

Other IoT Considerations

Though securing these devices—cameras, DVRs, thermostats and more—is a relatively new concept, taking an active role in one's security shouldn't be. Just as you wouldn't set a key in plain view outside of your house, there's no reason to give out the digital keys to your devices either!

As an engineer, Jeremy Cook writes for The Home Depot and explores technology topics. He provides advice on everything from how to keep your wireless router from being hacked to powering your home with alternative energy.

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