

REAL *Trends*

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COMMENTARY

The Uncertain Return to Normal Times

After years of hearing how home prices are plummeting and foreclosures are mounting, consumers want to feel hopeful about the housing market – but maybe they're being too optimistic.

In a presentation to the National Association of Real Estate Editors in Austin, Texas Stan Humphries, Zillow.com's chief economist, pointed to four myths he said consumers are latching onto as they try to make sense of recent housing statistics.

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Office:

7501 Village Square Drive, Ste. 200
Castle Rock, CO 80108
Phone: 303-741-1000
FAX: 303-741-1070
E-mail: realtrends@realtrends.com
Web site: www.realtrends.com

Editor:

Steve Murray – smurray@realtrends.com

Associate Editor:

Nicolai Kolding – nkolding@realtrends.com

REAL Trends Staff:

Amy Broset –
abroset@realtrends.com
Daniele Stufft –
dstufft@realtrends.com
Tracey Velt –
tracey@traceyvelt.com
Doniece Welch –
dwelch@realtrends.com

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The four myths:

1. **The housing recession is over.** It's not, Humphries said. He estimates the bottom in home prices won't come until the third quarter, at least from a national perspective. Doug Duncan, chief economist at Fannie Mae, agreed with that estimation.
2. **After markets hit bottom, prices will rebound to boom levels.** Not going to happen, at least for a while, Humphries said. "Once we hit bottom, the bottom is going to be a long and flat affair across the markets," he said. "What we're going to see once we hit bottom is the second phase of the housing recession... that second phase is one of being flat."
3. **The worst of the foreclosure mess is behind us.** More wishful thinking, according to Humphries. He estimates foreclosures will peak later this year, then remain elevated for a while. Rick Sharga, senior vice president of RealtyTrac, an online marketplace for foreclosure properties, said he doesn't envision foreclosure activity stabilizing until late 2011.
4. **The tax credits saved the housing market.** With or without a tax credit, those who bought would have done so anyway, Humphries said. "The biggest impact [in home sales] we believe were low prices... low interest rates and the unsung factor here is the ramped up lending by the Federal Housing Administration."

Snap survey shows declines in most markets in May

REAL Trends spoke with 55 CEO's in early June to determine the level of written business in May 2010 versus May 2009. Perhaps not surprising, markets with lower median prices, more prone to first-time homebuyers, showed decreases in written business in a range from 5 percent to a high of nearly 28 percent. Markets of higher median prices such as New York, Chicago, and San Francisco etc., did not show any measurable decrease and most showed small increases in written business.

Also, those in high median price markets indicated stronger sales of high-end properties than had been the case in the past two years. Markets such as Seattle, Chicago, Washington and San Francisco showed marked improvement in high-end sales.

All of which leads us to recall some famous words from Thomas Paine:
THESE are the times that try men's souls.

The summer soldier and the sunshine patriot will, in this crisis, shrink from the service of their country; but he that stands by it now, deserves the love and thanks of man and woman.

What leading brokerage firms (Winter Soldiers) say they are focused on

These Winter Soldiers are focused on a short list. First and foremost they are holding the line of costs in areas of their business. There is continued restructuring of office space with an eye towards reducing occupancy costs.

Secondly, for those having mortgage, title and other settlement services divisions an intensified effort to increase capture rates. For most leading firms the difference between profit and loss is in Core services. It is also the engine that requires little capital nor employment cost hikes.

Thirdly, recruiting and growing the numbers of productive sales professionals is hugely key. As one CEO shared “my managers know that mentoring, coaching and deal doctoring are all important, but it is successful recruiting and growing production that will keep them employed.”

Lastly, Winter Soldiers are looking at new sources of incremental business. For most this means a more careful harvesting of Internet leads, CRM systems and finding ways to work collaboratively with their sales professionals to generate more business for each dollar of marketing and advertising expense.

Comment on the future

I recall that in the first quarter of 2010 there was consensus among leading economists that rates would rise after the Fed/Treasury stopped buying mortgage backed securities. Without these purchases rates might rise to 6 percent or higher.

So today, we have sub-5 percent mortgages. What happened? Europe happened. The debt crisis evidently drove many in the

world to once again park their money in U.S. debt instruments, raising the supply of capital and lowering its costs.

So, why did the smartest people in the world not know this was happening only three to four months before it exploded to the short term benefit of American money supply? And how does it affect our view of the next six months or year or three years as far as forecasting the housing market? Well it should give all pause as to just how well anyone can predict what will happen to housing and mortgage markets.

So it is with our business. The Winter Soldiers are pursuing that time honored tradition of “hoping for the best and preparing for the worst.” It is likely we have seen the “worst” that housing has to offer. It is likely that housing is in the intermediate stage of the birth of a solid rebound. But May retail sales were totally unexpected from all accounts and the declines in May written contracts are another sign that continues to flash ‘yellow’ – proceed with caution.

That is likely the best course of action at this time. ■

Hear Her Roar: More On the Most Powerful Consumer

by Jeremy Conaway, REAL Trends contributing editor

It was just over a half year ago in November of 2009 that the Meredith National Media Group research unit shared the results of their summer research in an incredible disclosure white paper entitled *The Rise of the Real Mom* that was previously reviewed in this column. Now they are here again this time painting an even more exacting portrait of today's female consumer in another white paper entitled *The Reality of the Working Woman; Her Impact on the Female Target Beyond Consumption*.

As a starting point, the question could be asked; why would anyone in real estate care about what Meredith has to say about anything? As a starting point, Meredith is one of North America's leading media and marketing companies with businesses centering on magazine and book publishing, television broadcasting, integrated marketing and interactive media.

The Meredith National Media Group features 23 subscription magazines – including *Better Homes and Gardens*, *Family Circle*, *Ladies' Home Journal*, *MORE*, *Parents*, *Fitness*, and *American Baby* – and approximately 150 special interest publications. Meredith owns 12 television stations, including properties in top-25 markets such as Atlanta, Phoenix and Portland.

Meredith has approximately 150 books in print and has established marketing relationships with some of America's leading companies including The Home Depot, DIRECTV, DaimlerChrysler, Wal-Mart and Carnival Cruise Lines.

Meredith's consumer database, which contains more than 85 million names, is one of the largest domestic databases among media companies and enables magazine and television advertisers to target marketing campaigns precisely. In short, Meredith is in touch with a lot of people and it asks them questions and measures their consumer related behaviors every chance it gets.

Additionally, Meredith has an extensive Internet presence that includes 32 Web sites and strategic alliances with leading Internet destinations. If these qualifications don't impress the reader consider this. In the research leading to its real mom white paper, Meredith discovered that in today's leading 18 – 43 year old consumer segment only 46 percent of men consider buying a home important as opposed to 86 percent of women. Real estate brokers and agents who can get their heads around those statistics might do well to jump to the next conclusion and do everything possible to know what today's female consumer wants, expects and demands from their consumer experience.

The *Rise of the Real Mom* white paper explores what multiple generations of American women want when it comes to family, work and life in the 21st century. It focuses in depth on Generation X (ages 30 to 44) and millennial (ages 18 to 29) mothers (65% of the real estate market demographic) and how they differ from their older counterparts. It also examines how marketers can and should improve communications that target this demographic.

“*Real Mom*” was based on a quantitative study of 870 men and women 18 and older conducted July 7-14, 2009, using

the SONAR proprietary online research tool. Taking it to yet a higher level of authenticity all data was adjusted to 2007 census estimates across gender, age and household income. It was also the cumulative work of interviews with more than a dozen marketers and marketing experts, as well as qualitative research conducted with women around the country via the video-based community ExpoTV. In short it is “pretty good stuff.”

“Working Woman” drills down even further. The discussion begins with an observation regarding the historic precedence set by the cover of the January 2010 Economist magazine that announces, “We did it.” This exclamation of course refers to the fact that in its fourth quarter 2009 labor statistics the Bureau reported that women held 49.8% of American jobs. This is a big deal for America and even more so for anyone who would attempt to market to working women. For the Y generation this statistic and all that it stands for will be a seminal event.

Those traditionalists who might bellow out that men are still in the majority would do well to reserve their energies for learning rather than pontificating. Experts agree that the tipping point will occur soon or may have already occurred over the past several months. It was also pointed out that just ten years ago, at the beginning of the century men held six million more jobs than women. This figure has been reduced to less than 500,000.

These numbers simply announce an event. For real estate professionals it is the ramifications of the event that will impact the industry and that impact will be significant. Equality of numbers in the job market equates to equality in many other jobs related areas. Certainly the idea of wage and compensation equality has been impacted. Likewise the equality of control and influence has been affected with more and more women assuming positions of responsibility, authority, decision-making and change management. These impacts taken as a whole are creating a whole new attitude regarding a wide range of issues not just for working women but for woman across society and finally for society itself.

Moreover, the evidence is clear that this influence and these changes are moving fast. The rise in “applied women power” will not require years of observation and maturity. The same women will now be in positions to influence so many aspects of modern life have been on the scene for decades going through the experiences designed and mandated in a male dominated workforce. They know what hasn’t worked, why it hasn’t worked and how it has impacted lifestyles.

Over the next three months, this column will closely examine and share the findings of this important research. It will work to assist real estate brokers in their efforts to benefit and profit from these new social norms and expectations. During this period it would be very helpful if brokers would begin the discussion during management and sales meetings. Some of the subjects that might be used to prime this effort might be.

We already know that today’s consumers will be seeking outside information from their peers regarding your firm’s agents and services. What is our brokerage doing to facilitate the consumer’s ability to contact your recent customers?

We know that today’s female consumer (in fact all consumers) are the busiest they have ever been. What is your firm doing to help its customers get more bang for their time? What innovations have you introduced to reduce the time involved in accessing your services? How have you demonstrated your understanding that there is “never enough time?”

We know that the Generation X and Y consumer appreciate fun and humor. What have you done to make working with your firm and receiving its services more fun? Where have you added humor into your communications and marketing mix? What do you do to make your customers smile?

We know that today’s working woman is investing a lot of time and energy into creating a more satisfying lifestyle for her family and herself. What is your firm doing to understand the concept of life styles? What are you doing to assist your customers with the challenge of life style? In today’s world real estate it is no longer a matter of status and bragging rights. Today’s consumer is looking for a property that will support their new lifestyle everyday in everyday. Has your firm and its agents picked up on these themes?

We know (or should know) that women put much more thought and care into financial decisions than men. What is your firm doing to assist its female customers to work through the complexities and nuances of the most important financial decision of their life? Are your transaction and closing procedures sensitive to these issues or just the way you have always done it?

These discussions are just a starting point to begin your efforts to be a “working woman compatible” brokerage. More in articles to come. ■

ANALYSIS

Demography Is Key to Survival

Business author Kenneth W. Gronbach explains how capitalizing on generational shifts is the key to brand survival

by Bruce Britt

An author and internationally respected demography expert, Kenneth W. Gronbach has spent years crunching numbers to determine how marketers can reach across generational divides to appeal to the broadest audience possible. But statistical calculations aside, Gronbach says, he finds the clearest proof of what works in a much more familiar place: his family's mailbox.

"A local retail store sends coupons to my teenage girls," says Gronbach, founder and CEO of Connecticut-based KGC Direct. "And they always direct the girls to their Web site for more information and additional deals. That's the way it should be done." In mixing its marketing media, he says, that local store has found that even Web-savvy young consumers like his daughters enjoy the idea of getting something in the mail addressed to them and are more than happy to respond, especially digitally. It also has discovered the power of what Gronbach insists will be a key to marketing success in coming years: demographics.

Gronbach reminds us that, with Baby Boomers moving into retirement and their parents well into old age, direct marketers are going to need a deeper demographic understanding of younger customers if they hope to remain relevant.

With 100 million young American consumers in its ranks, Generation Y – aka the "Millennials" – has replaced the nation's 78 million Baby Boomers as the largest consumer group. As a result, Gronbach says, many marketing tactics and strategies designed to appeal to the once dominant Boomer generation must now evolve for the younger crowd. (Likewise, marketers who still covet older generations like the Boomers will also have to keep pace with demographic shifts to adjust their messages and media mixes as their targets' life cycles spin toward the winter years.)

Demographics allow marketers to better segment all of these groups, says Gronbach, and to avoid erroneous assumptions about how to reach them. He cites many brands' ham-handed efforts at digital marketing to Millennials as a prime example of why demographics are key. "We know absolutely that the Internet is going to play a part in the future of marketing, but we also know there are some built-in land mines," Gronbach says. "There's a resistance to advertising on the part of the users of social media sites. If you start jamming things down their throats with pop-ups, or introductions that can't be shut off, that's a slippery slope. You're almost in danger of making enemies."

On the flip side, Gronbach says, his research shows that traditional forms of direct marketing, most notably direct mail and outdoor advertising, continue to appeal to younger buyers. "With direct marketing and billboards, the habits of the viewer haven't changed," insists Gronbach. "No one has taken their mailboxes down, and the outdoor is still right there on the road facing you. Yet for some reason advertisers and marketers are missing two of the biggest opportunities." Everyone checks the mailbox, Gronbach notes in his book, "even the most devoted Internet followers." His book adds, "Direct marketers and their client companies will be the clear winners in the decades to come, no matter what happens to costs, labor and the generational shifts that lay ahead."

Youth movement

In anticipation of these changes, Gronbach has spent considerable time sketching profiles of six distinct generations of consumers: the GI Generation (born 1905 to 1924), which includes those who fought in WWII; the Silent Generation (born 1925 to 1944), the children of the Great Depression, including those too young to serve in WWII; the Baby Boomers (born 1945 to 1964); Gen X (born between 1965 and 1984); and Gen Y (born between 1985 and 2004). And finally Generation Z, born 2005 to present.

Gronbach says that the older generations are waning considerably in influence, and the Boomers, though still an economic force, are rapidly retiring. Meanwhile, Gen X, with about 70 million American consumers, is still smaller than the Baby Boomers and lacks the same punch at the cash register.

But Millennials, he says, more than make up for shortcomings in the preceding generations. "Generation Y is going to make themselves felt like no other generation in the history of our nation," forecasts Gronbach. "They are bright, educated, and they can multitask. They have a social conscience. They don't see [race]." Barring unexpected economic disaster, Gronbach says, these Millennials will fuel explosions in a wide range of industries, from apparel to car sales.

Problem is, even though Millennials represent the most massive marketing opportunity since the Boomers, members of Gen Y can be tough for brands to reach, Gronbach says. While Gen X is thought to respond to both traditional and new media, members of tech-savvy Gen Y are more fickle. "With the exception of the Internet, Generation Y is not being reached with any kind of media," Gronbach complains.

Gronbach refers back to his daughters to drive home his point. “Neither of them has ever read a newspaper in their life,” he says. “Neither of my daughters listens to radio. Magazines? They will go online and pick their stuff.”

He adds that television doesn’t fare much better with younger consumers. The classic TV business model, where networks offer “free” entertainment in exchange for viewers watching heaps of 30-second ads, is sputtering. “It was a good deal, but we’ve gone from five to 10 commercials an hour to as many as they can wedge in,” Gronbach says. “They’ve breached the deal. When people are on Facebook and they can’t get rid of a pop-up, they resist. Internet users don’t transfer the same attitude over from their TV viewing.”

Find what works

Gronbach believes some traditional marketing outlets do have greater potential than others to reach younger consumers. He contends that mail, with its tactile power and potential for personalization and precise targeting, is among those channels that offer cross-generational appeal: “If you mail something to somebody, they get it.”

He adds that direct mail can sometimes act as the Trojan horse that allows marketers to pique Millennials’ interest before making good on the vaunted potential of digital media. “If you have a really good digital presence, a lot of times it’s like an amusement park on a desert island,” Gronbach says. “Either people don’t know you’re there, or they don’t know how to get there. If you want to have some kind of co-promotion between online and direct mail, there’s absolutely nothing better.”

Outdoor media possess the same inescapability as direct mail, he says, and he sees plenty of room for improvement. “Billboards where the images change are a real step in the right direction,” Gronbach says. “I think billboards can speak to the cars. You could actually put a radio signal in the boards, where if someone was interested in the board they could hear a message. There are lots of things you can do.”

He says that marketers must be careful to consider the environmental impact of their vehicles, too, as Millennials tend to be more eco-conscious than older generations of consumers. “Print everything you have on recycled paper, and make sure the recipient knows it,” he says. “Come up with some angle that makes you the friend, not the enemy. It’s not that hard.”

Respect elders

Of course, he urges marketers to do the same when reaching out to older generations, who, despite their diminishing influence and comparatively small numbers, shouldn’t be forgotten. He points out that Boomers, for instance, still wield about \$2 trillion in annual buying power and that Gen

X still includes nearly 70 million American customers.

In reaching Boomers, he says, marketers should know that they are receptive to multimedia messaging, but respond best to many traditional forms of direct marketing because they are more familiar with them. Retiring at a clip of one every eight seconds, Boomers are more age-conscious and respond well to marketing messages that recognize this. “If you want to sell something to the Boomers, offer up something that will keep them young, because they are going to be playing air guitar in rest homes,” he says.

In some ways, Generation X – composed of those born between 1965 and 1984 – mirrors the Boomers. Gen X was already around by the time the technology revolution of the 1980s and 1990s kicked off, so while its members certainly aren’t tech-averse, they continue to make good targets for multimedia marketing campaigns that blend new media with old.

“Gen X is bilingual,” explains Gronbach. “They speak cyber as a second language – but do not respond to Internet marketing efforts. They are as at home in the cyber world as they are with television and, in some cases, radio. They do not read newspapers at all.” However, they do read what shows up in their mailboxes, provided they consider the offers genuine and compelling, says Gronbach. “They are very savvy and see through marketing gimmicks,” he warns. “This is an esoteric group with eclectic tastes and an entitled attitude.

They have vexed Madison Avenue for 20 years,” he says, although Gen X “can’t consume at the level of the Boomers who preceded them because they don’t have the critical mass.”

At this point, the same can be said of the GI Generation (86- plus years old) and the tiny Silent Generation (now 66 to 85 years old), says Gronbach. “Their consumption levels have dropped like a stone,” he notes. He says the Silent Generation will pose particular challenges to certain industries because of its small size compared to the GI Generation. “They’re going to disappoint the assisted living facilities, the funeral parlors and the cremation companies.”

Gronbach predicts

Still, these older consumers shouldn’t be completely forgotten, says Gronbach. And marketers who do seek them out will generally find that they respond best to time-tested marketing methods. “They are devoted newspaper readers, especially the obits,” he points out. “They inhale talk radio and overnight television. They are also direct mail junkies and religiously use coupons and anything else that saves them money, like senior discounts.”

He says they also offer a viable audience for products aimed at kids. “The one real bright spot in their consumption,” says Gronbach, “is called the ‘Bubby Factor.’ They will spend money on their grandkids with a vengeance.”

By the numbers

Of course, Gronbach cautions against making too many assumptions even about older consumers. The hard data, he says, allow for much more educated guesses. And in an age where marketers are more pressed than ever to guess right about consumers' desires and to demonstrate verifiable results from their campaigns, hard data should be embraced as a CMO's best friend.

"The behavior of the consumer is very predictable," says Gronbach. "The Bureau of Labor Statistics has been writing about [demographics] for maybe longer than 30 or 40 years. We know at what ages people buy automobiles, their first

houses or the most clothes. We know when consumption peaks. Demographics don't lie.

Dissecting a Millennial

These kids today: They're confident (at times to the point of arrogance) about their ability to contribute and make a difference in the world.

Attitude Adjustments: Huge in both number and potential impact, they're a sharp departure from Gen X trends and the opposite of Boomer youth behavior.

A bunch of know-it-alls: Technology-enabled in every aspect of their lives from where they shop to what they buy, read, cook, eat and watch. ■



Leigh Brown



Council of
Residential Specialists
The Proven Path To Success

5 Tips for Converting Online Leads Into Closed Transactions

Let's face it-it costs a lot of money to generate leads, even online ones. "If you don't know what it costs, start keeping tabs and calculate your cost per lead, it will change your attitude toward each one," says Leigh Brown, ABR, ePRO, CRS, CDPE, a sales associate with RE/MAX Signature Properties in Concord, North Carolina.

Brown estimates that she converts an impressive 8 to 10 percent of her online leads into buyers. She put a careful system in place

to ensure she reaches out immediately to online queries. "The biggest mistakes I see are that sales associates take too long to get back to the prospect," she says. Brown says that far too many sales associates look at online leads as garbage but that's just not true.

"The ideas for many of my campaigns came from fellow CRS members. I love to brainstorm about ideas, then hone them to fit my business," she says. "Any time you're networking with the best of the best, like I am with CRS, you can get

ideas that help you improve your life and profitability." Here are her tips for converting online leads into buyers.

1. Call immediately. "Contact the lead within five minutes-and if they provide a phone number call them," says Brown. "If the prospect provided a real number, he or she wants you to call. If they want anonymity, they will provide a fake number," she says.
2. Give specifics. Provide specific information in your e-mail contacts. "This could be information regarding a house they looked at, or a link to an article about mortgages, or a link to your testimonial page," says Brown. "You need to say something more than 'thanks for visiting,'" she says.
3. Persistence is key. "I contact each person at least seven times with a combination of e-mail and voicemail at different times of the day and evening," says Brown, who notes that most sales associates give up after one contact.
4. Use social media. "Look up the lead's name on Facebook, Twitter or LinkedIn and try to connect on a more personal level," says Brown. "You're not a machine, you're a person and your clients want to know that."
5. Be creative. Rather than sending out regular e-mails, consider recording a video message that can be e-mailed. "Or record a voice message to e-mail. Always personalize it," says Brown, who has a DRIP marketing campaign through REAL Pro Systems. "I personalize it and tailor it to my needs."

Overall, says Brown, you must stay on top of online leads and track your sources of business. ■

Cooling Off China's Hot Housing Market

A look at how housing markets around the world are fairing

How housing and credit markets perform globally can and do affect what happens in the U.S.

Shortly after the sales indices of 70 cities that China's National Bureau of Statistics regularly publishes showed that residential property prices rose 15% in the 12 months to April, the government announced policy measures designed to cool the overheating. Pundits are now wondering whether real estate prices are about to come crashing down and what will happen to economic growth if they do.

The good news is that the picture might not be as scary as some observers claim. Though some circles are predicting property prices to fall by as much as 30%, others assert that such a steep dip in prices nationwide is by no means a foregone conclusion. Also up for debate is whether significant corrections will be confined to major cities, like Beijing, which have experienced remarkable housing price inflation, and whether the government's latest property-tightening measures will have a limited impact on overall economic growth and only on particular sectors, such as construction.

Unwanted Consequences

When China's government launched a plan to help buoy the property market during the global financial crisis in 2008, many of its measures proved highly successful in staving off dramatic damage – some might say almost too successful. As prices began rising, developers jumped on the bandwagon and construction activity picked up enough to help drive China's GDP growth, which the World Bank estimates will reach 9.5% this year.

The boom has had unwanted consequences. For example, property markets in various tier-one cities have become bubbly. Average property prices in Beijing in the first three months of the year surged 64% from a year earlier, 39% in Shanghai and more than doubled in Shenzhen, according to UBS.

Even so, the government's 10 new property measures unveiled in April surprised observers with their forcefulness. Among the most stringent measures, down payments for first-time buyers have been bumped up from 20% to 30% and the minimum down payment for second homes has been raised from between 30% and 40% to 50%.

Meanwhile, mortgage rates have been raised. On the supply side, local authorities must now increase the amount of land available for public housing and mass-market residential properties, while accelerating construction projects for these areas.

Action and Reaction

There are signs that the policy push is making an impact. In the first week of May, home sales in 15 major cities reportedly

fell nearly 40% in terms of both square feet and number of units sold, causing anxiety among some property developers. Evergrande Real Estate, for instance, anticipates a 15% decline in sales, while property mogul Pan Shiyi of Soho China has been blogging about the possibility of 15% to 20% being lopped off prices this year.

A growing number of analysts are bracing for a steep fall in prices this year, particularly in first-tier cities. Xing Weiwei of China Jiayin predicts a 30% decline in first-tier residential prices this year. One source of concern, according to Yang Qingli of Bocom International, are Beijing's measures – such as suspending mortgages on third homes and to non-residents (wealthy Chinese not from the capital and government officials often aspire to own properties there) – and he reckons its various austerity measures will be replicated by other cities.

Some predict a dire economy-wide impact. For example, James Chanos, celebrity hedge fund manager and president of short-selling Kynikos Associates, declared in April that China is “on a treadmill to hell,” thanks to the “heroin of property development.”

The financial markets have been notably jumpy since the release of the government's new measures. Despite soothing words from Premier Wen Jiabao, who pledged on May 15 to avoid any “negative impact” from the policies, the Shanghai Composite Index fell more than 5% two days later, which was followed by further falls and rebounds. By June 4, the index was down by 22%.

The extent to which property prices nationwide will be hit in part depends on whether the provinces fall in behind the national policy. After all, local governments have an incentive to keep prices high given that land sales account on average for at least 20% of local government revenue, according to UBS estimates.

Speaking at a real estate forum in May organized by the Penn Club of Beijing, Patrick Chovanec, a professor at Tsinghua University's School of Economics and Management, said the government's actions to weaken prices in first-tier cities will simply push investors to cities outside the first tier. If so, this could undermine the ability of the measures to drain capital from the property market.

“Reports of housing prices dropping quickly need to be interpreted with caution,” says Wang Tao, an economist at UBS. “The increase in low-end housing will naturally pull down average prices of new property sales, and the government has requested that the media focus on the success of the property measures,” she notes. (There are also reports that, on the government's say-so, sales of luxury units in Beijing -- defined as property selling for more than RMB 30,000 (US \$4,400) per square meter – are being

delayed temporarily, helping to lower the average price of property sold in the city and burnishing the success of the new policies.)

Many economists also say it's important to be clear about what the government wants to achieve. As Wang puts it, the government's aim is to "stabilize housing prices by restricting demand while increasing supply," not to bring down the property sector or overall growth. A drop in property prices and housing starts may appear in the latter half of the year, but UBS does not expect price cuts to run as high as 20% throughout the country. "We do not expect a significant drop in property prices nationwide," comments Wang.

20/20 Hindsight

What if pundits have been too sanguine? Past experience may be a useful guide. Helen Qiao, a China economist at Goldman Sachs, points out that when, in the spring of 2008, average property prices in Shanghai fell 20% year-on-year and 33% in Shenzhen, foreclosures were low, even among borrowers whose properties were in negative equity.

A survey of 150 Shenzhen property owners, whose property values were worth less than their outstanding mortgages, by China Industrial Bank in August 2008 found that only one foreclosed. Historical comparisons may be instructive in other ways. Morgan Stanley's chief China economist Wang Qing says when the wider consequences were greater than intended after policies were tightened in 2004 and 2007, the government responded too slowly because of personnel changes in politically appointed posts. That won't be the case today. "The timing of the current tightening, which started in early 2010, is not affected by political cycle factors and is appropriately early and pre-emptive, and thus less likely to be very harsh, in our view," he says.

In 2004 and 2007, moreover, policy makers were taking aim at fairly high inflation and strong fixed-asset investment. Today, inflation is relatively modest and investment growth is moderating. Indeed, Wang does not see macro tightening as the main thrust of the new policies. "The primary purpose of these policy measures is to curb speculation and rein in rapid price increases," which goes in favor of more moderate implementation, he notes.

It is true that, by dint of the higher levels of debt accrued over the past two years, households and the government are more exposed to a property correction, points out Goldman Sachs's Qiao. However, absolute levels of household and government debt remain low, and asset levels are high.

There's also the global context to consider. "Any tightening in China will hinge on the pace of recovery of the global economy," Wang of Morgan Stanley observes. In 2007, China's leaders incorrectly assumed a strong global economy when designing their policies, unlike today. "We all know the global economy is improving but is still weak," as the Greek

crisis shows. "The Chinese government is unlikely to make such a low-level mistake in messing up the economy as seems to be feared by the market," he concludes.

A Tale of Two Policies

Looking beyond short-term dynamics, most analysts see strong long-term prospects for China's real estate. Among the reasons why: Urbanization, demand for upgrading old housing, wealth accumulation and fewer households with different generations living together. However, the pervasive concern is that a housing bubble could still have negative consequences, highlighting the importance of several new policies, including proposals to begin taxing residential properties.

Tsinghua's Chovanec cites one local trend that a new property tax might address: "What you see in the residential sector is people using empty residential units as a store of value, like gold," he says. And like gold, real estate does not produce anything, but in China it is a place where you can "stash your cash," as he puts it. "People are buying multiple residential units as a form of savings.... They don't intend to live in them; they don't even intend to rent them out."

China's limited investment options is one reason why buying property is so popular, says Chovanec, and while investors have learned in recent times that the stock market does not inevitably move upwards, few have experienced a sustained downturn in real estate since private ownership of property became common in the early 1990s. New mortgage restrictions will do little to discourage individuals with ready access to funds to buy properties for investment purposes, and instead will hurt people who need loans to buy houses they will actually live in, Chovanec reckons. Meanwhile, a property tax is also seen as a way to wean local governments off land sales as a revenue source. The idea of a tax appears to be gaining ground among policy makers. In the most recent move, at the end of May the State Council said it would gradually "push forward" property tax reform.

However, it is unclear what form a residential property tax might take. Local press have been reporting rumors and counter-rumors, with suggestions that the government is considering on the one hand a U.S.-style tax based on a property's market value and on the other a tax modelled on the existing commercial property tax, which is based on the original price at which property was bought.

Local governments are reported to be considering property taxes of their own. Shanghai has been widely tipped to be the first to do so, but other reports suggest that Wuhan will be running a pilot, though it would only apply to state-owned property. Others have cast doubt on whether local governments can levy a tax before a central government reform is introduced. Only one thing looks relatively sure: The nationwide roll-out of a property tax is a long way off given the need to build up a large network of property assessors.

The policy that could be implemented sooner involves developing more and cheaper public housing. Among its aims, the new policy would help low-income residents purchase property. Apart from easing the housing difficulties for low-income Chinese, it could also help offset a decline in construction at the luxury end.

It is thought that previous attempts to spur public housing have failed in part because local authorities and developers collude to build lucrative high-end developments. In 2008, low-income housing's share of total floor space sold fell from 10% in 2004 to 6.1%, according to UBS. To counter the decline, the government set a target last year to provide

3.1 million public housing units, or 11% of commodity housing starts and 12% of total sales for the year. However, only two-thirds of these were made available to residents and not all were newly built, says UBS.

In 2010, the target for constructing new public housing has been set at three million units. As with the government's other new measures, hitting that target will depend to a significant degree on the willingness of the regions to fall into line.

Source: *The Wharton School of the University of Pennsylvania*
www.knowledge@wharton.com ■

New Survey Reveals Shocking Increase in Strategic Defaulters

by Steve Cook, *Real Estate Economy Watch*

A new survey of homeowners released today found that two out of five, or 41 percent, of homeowners would consider walking away from their mortgages if their homes were worth less than the amount they owed.

The survey, by search site Trulia.com and RealtyTrac, the online marketplace for foreclosed properties, demonstrates the growing popularity of "strategic defaults," which were the subject of a recent *60 Minutes* segment. The Trulia-RealtyTrac survey produced the highest number yet of potential strategic defaulters.

The percentage of foreclosures that were perceived to be strategic was 31 percent in March 2010, compared to 22 percent in March 2009 according to new data released two weeks ago from the team of researchers at the University of Chicago and Northwestern University that first identified the scope of "strategic default" behavior last year. Some 288,992 foreclosures per quarter are strategic defaults, according to the University of Chicago and Northwestern researchers.

Translated into actual homeowners with a mortgage, the Trulia-

RealtyTrac survey would produce about 21 million homeowners who would walk away from their homes if they were under water. More than 11.3 million homeowners – nearly one-fourth of all Americans with a mortgage – owe more on their loan than their home is now worth, according to a February report by FirstAmerican CoreLogic. More than 10 percent of people with mortgages owe 25 percent or more than their home is worth.

A key finding in the research on strategic defaults is the likelihood that homeowners will opt to walk away if they know others who have done so, or live in an area with a high percentage of foreclosures. Its findings, compared with actual rates of strategic default through the first quarter, suggest that the option is growing in popularity and acceptance, and will produce significantly more strategic defaults in the months to come unless property values suddenly improve.

This May 2010 survey was conducted online within the United States by Harris Interactive via its QuickQuery^(SM) online omnibus service on behalf of Trulia between May 10-12, 2010 among 2,596 U.S. adults aged 18 years and older. The sample included 1,690 homeowners, 1,137 of whom currently have a mortgage, and 832 renters. ■

From the Heart of Mike Staver

by Michael Staver, CSP, professional speaker and coach,
CEO The Staver Group

Last week, I was asked by a coaching client to help her deal with a direct report who was challenging to her. The direct report kept sticking her nose into things that were none of her business. This nosiness was not only distracting and annoying, but it took focus off the work that needed to get done.

To make matters worse, when my client didn't give her direct report the answers she wanted, she got offended and defensive. So, what does a person do when they find themselves in this spot? There are all kinds of ways to handle it, but I think there are four specific things that must be done when a person is allegedly trying to help but is really nosy and not helpful.

Here are four things you can do; in this order:

1. **Assume** - that their heart is in the right place. Further assume that their intentions are good.
2. **Acknowledge** - their concern, interest, etc. ("I get that this is troubling you and it would be better if it was going smoother.")
3. **Appreciate** - the passion and intensity they bring to the concern.
4. **Ask** - great questions. ("What are the things you have control over right now that would make this situation more productive for you?") ■

REAL Trends Housing Market Report – June 2010

May 2010 housing unit sales were up 19.8 percent over May 2009 for the second best report of 2010. The average price of homes sold was up 6.9 percent and, while not as strong as April 2010, continued the 9 month trend of stronger sales and rising prices.

Unit sales were up in all four regions of the country. The Northeast again led the surge with a 27.8 percent increase in units sold in May 2010 over May 2009. The West had the lowest increase in units closed at a 14.4 percent improvement over May 2009.

Prices were up in every region. The West region had the largest increase in average prices of homes sold at 11.6 percent over May 2009 while the Northeast was up 7.8 percent. The region with the weakest price increase was the South with an increase of 2.3 percent in average sales price comparing May 2010 with May 2009.

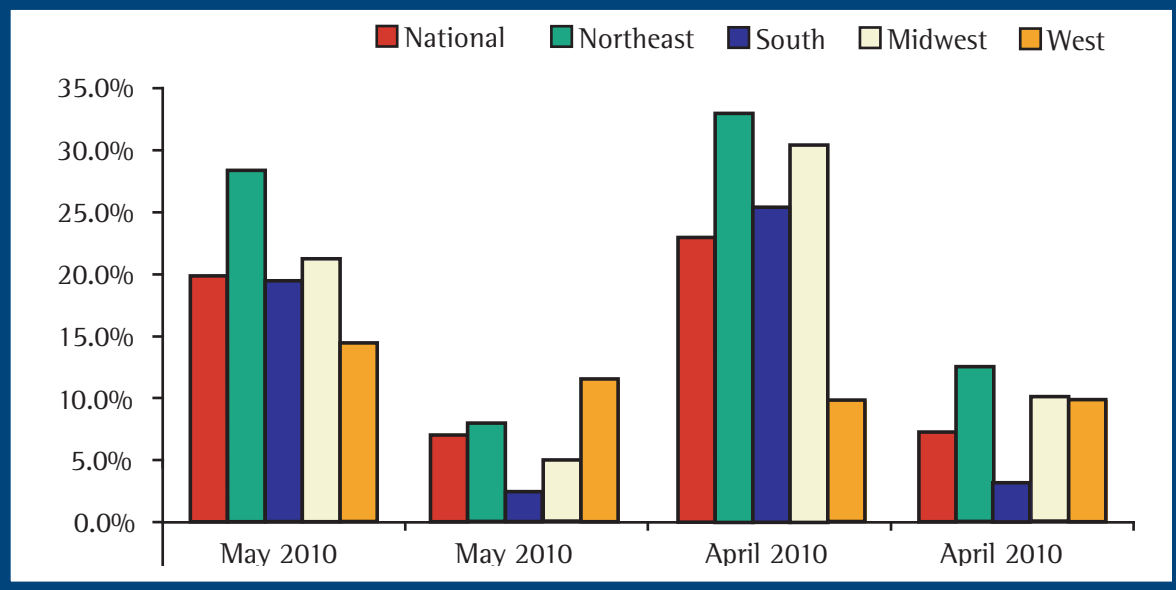
“The market is reacting as most expected. With a huge number of contracts written before April 30 to take advantage of the tax credit for homebuyers and closings that must take place prior to June 30 to qualify, industry experts expected that May and June 2010 closings would be higher than normal,” said Steve Murray, editor of the REAL Trends Housing Market Report. “We expect that housing sales will continue to show a strong increase in June 2010 over June 2009. Based on estimates of May contracts, however, we expect that third and fourth quarter 2010 closings may well be less than the first two quarters of 2010 and

may well be lower than the closed units in the last two quarters of 2009.”

“The increase in housing sales is the 9th month in a row where housing sales for the present month were above the same month from the prior year. And price increases just hit their 6th month in a row on the same basis. We expect housing sales for the year to be above the level of 2009 in the range of 4-7 percent even with somewhat of a decline in this year’s second half. Home prices will continue to strengthen for at least the next three months but may level out thereafter. The upper end of most housing markets remains soft at this time with no apparent recovery at this time.” ■

REAL Trends May/April Housing Market Report (Versus same month a year ago)

| | May 2010 Closed Sales | May 2010 Avg. Price | April 2010 Closed Sales | April 2010 Avg. Price |
|------------------------|--------------------------|------------------------|----------------------------|--------------------------|
| National | +19.8% | +6.9% | +23.1% | +7.3% |
| Regional Report | | | | |
| Northeast | +27.8% | +7.8% | +32.9% | +13.1% |
| South | +19.4% | +2.3% | +25.4% | +2.9% |
| Midwest | +21.4% | +5.0% | +30.6% | +10.5% |
| West | +14.4% | +11.6% | +10.0% | +10.2% |



Assisted Down Payment Programs Still Viable and Expand Market

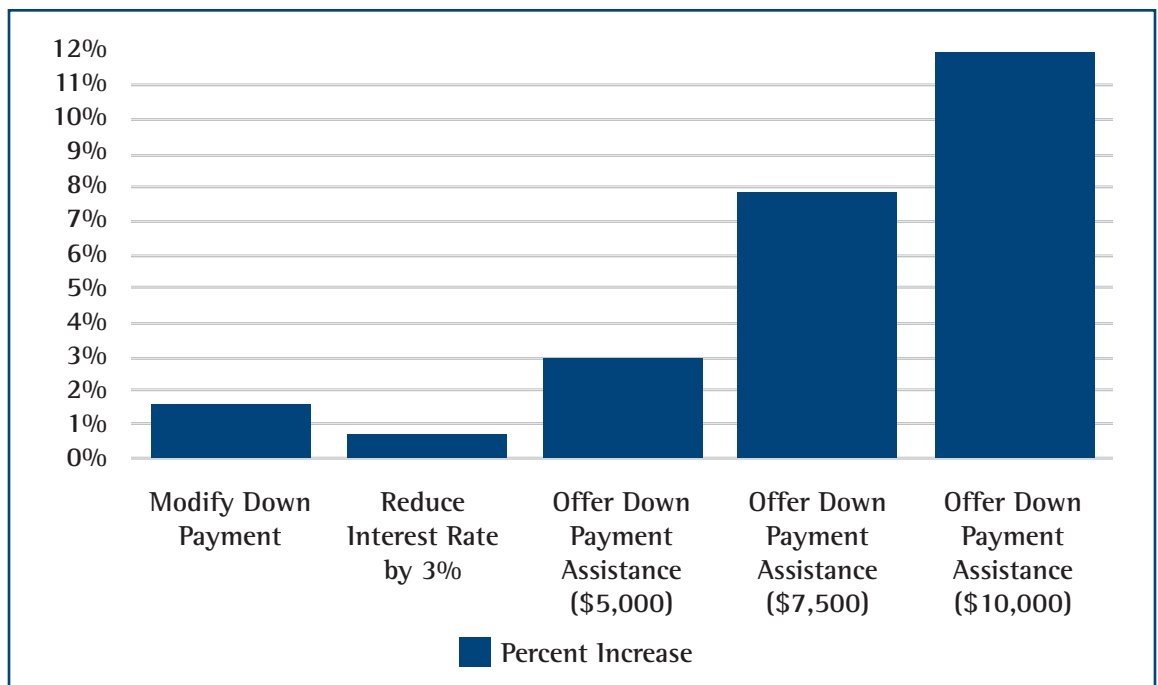
While many consider that gifted down payment programs contributed towards the housing crisis by putting families into homes they might not be able to afford, one firm, Workforce Resource of Atlanta, GA, sees a continuing need for these programs and has developed a means for how real estate professionals can access these programs to help buyers get the resources they need to purchase homes.

Workforce Resource developed an electronic platform to help consumers acquire scarce affordable housing in U.S. urban job centers, making it possible for school systems, hospitals and police departments, as well as corporations and small businesses to recruit and retain employees. Those protectors, educators, healthcare and other service workers who are willing to “drive till they qualify” often endure long daily commutes that exacerbate traffic congestion, create air pollution and otherwise diminish their quality of life and that of their families and communities.

Workforce Resource licenses its proprietary Down Payment Resource_ online service to professionals across the housing industry to promote awareness of, increase access to and simplify prospective homebuyers’ applications for down payment assistance programs. Using this service, real estate agents, home builders,

lenders and housing counselors can quickly match first-time homebuyers with available funding, ensuring those eligible for assistance are provided with maximum opportunities for home ownership, while they strengthen client relationships and increase sales.

Launched during second quarter of 2009 in metro Atlanta (the country’s eighth largest Metropolitan Statistical Area), Down Payment Resource supports consumers who want to buy affordable housing in Clayton, Cobb, DeKalb, Fulton and Gwinnett counties, as well as in the cities of Atlanta, Marietta and Sandy Springs. Workforce Resource is building a national platform to expand coverage to the 250 largest MSAs in the U.S. starting in the Southeast and in California. ■



Nation's Largest Mortgage Lenders - Fourth Quarter 2009

| Rank | Company | Location | 2009Q4 | 2008Q4 | Change | Market Share |
|------|--------------------------------|-------------------|---------|---------|--------|--------------|
| 1 | Wells Fargo Company | San Francisco, CA | 447,402 | 245,576 | 82% | 28.05% |
| 2 | Bank of America | Charlotte, NC | 420,379 | 256,652 | 64% | 26.36% |
| 3 | Chase | Iselin, NJ | 176,406 | 156,635 | 13% | 11.06% |
| 4 | U.S. Bank Home Mortgage | Bloomington, MN | 58,441 | 45,753 | 28% | 3.66% |
| 5 | CitiMortgage, Inc. | O'Fallon, MO | 53,833 | 96,107 | -44% | 3.38% |
| 6 | Branch Banking & Trust Company | Wilson, NC | 37,806 | 30,570 | 24% | 2.37% |
| 7 | PHH Mortgage | Mt. Laurel, NJ | 37,657 | 25,047 | 50% | 2.36% |
| 8 | SunTrust Bank | Richmond, VA | 37,359 | 35,160 | 6% | 2.34% |
| 9 | MetLife Home Loans | Irving, TX | 34,214 | N/A | N/A | 2.15% |
| 10 | Provident Funding Associates | Burlingame, CA | 33,317 | 14,043 | 137% | 2.09% |

TRENDS

A Chat with Margaret Kelly, CEO of RE/MAX

For many, it is hard to believe, but RE/MAX is nearly forty years old. From its humble beginnings with a single office in Denver in 1973 to over 4,000 offices with more than 75,000 sales professionals in 75 countries today, it stands as one of the world's largest and most recognizable real estate brands. Today, the face most recognized as being synonymous with RE/MAX is that of Margaret Kelly, who has been with the brand since 1987 and has served as its CEO for the last six years.

With a background in finance and accounting, Mrs. Kelly is somewhat rare in an industry in which top positions, even at many of the national brands, are often held by those who rose through the ranks after starting in the trenches managing brokerage offices. But for Mrs. Kelly, she found that, rather than being perceived as a numbers person she saw that she could use her education and training to her advantage. "Somewhere along the way I was told I had a personality and was pretty good with people so I had an opportunity to grow that side," she says, and with that she rose steadily through the organization, capably balancing her business savvy with her ability to connect with sales professionals.



In her time with RE/MAX, she has been intimately involved in the brand's ongoing evolution, including the latest initiative: a 24-hour, on-demand, global broadcast network. To a degree, this is an update of the RE/MAX Satellite Network (RSN) the brand has been offering since 1994. Now, the brand will expand the concepts behind RSN by offering broadcast-quality programming, aired from their own professional studio located at their headquarters, and make it customizable and readily available either via internet feeds or in high-definition via television sets (through Roku boxes).

This enables individual offices to set up training centers and create classroom-style sessions at any time. A recent example of the potential of this, Mrs. Kelly described, was a program on short-sales that was produced by RE/MAX with in-studio guests from the U.S. Department of Treasury and a major lender. This was quickly organized and distributed network-wide, but with live audience participation, so as to keep agents up to speed with the latest trends and issues without having to wait for conventions or regional meetings.

This ties in to what Mrs. Kelly sees as the future for the industry, both in terms of how sales offices will function and what the new generation of agents entering the business demand as the world goes ever more mobile. "With our technology, we don't need the space" that most brokerages

continue to have, Mrs. Kelly said. "You'll see more meeting space, smaller offices" as agents do more and more away from the office but still want a place to get together for training and collaboration. She sees in the newer agents, especially those who consider themselves Generation Y or Millennials, a desire to set their own schedules but with a yearning to still learn and interact together.

"The Gen Y'ers that we see in our business right now are usually the kids of some of the brokers or experienced agents. They're coming in following their parents' footsteps and this is wonderful. They understand the business," Mrs. Kelly said. "Real estate is ideal for them. They want their control, they want their freedom. There's always going to be a younger generation that is always going to want something different than the generation before them and that's just the way it works. Right now the way the business works it's really ideal for the stereotypical Gen Y individual." She also sees in Gen Y an increased awareness of community service and volunteerism that fits perfectly with the business. "Helping people buy and sell a home and accomplishing the American Dream fits into that beautifully. It really fits into that generation."

Attracting the newer agents is going to be critical to RE/MAX's success. As has been the case with almost all of the larger franchisors (and the industry as a whole), RE/MAX's global agent count has dropped considerably over the last few years. But some of this attrition had been expected and, frankly, perhaps even welcome.

"Too many people jumped in and it didn't represent us well. A lot of part-timers and beginners that didn't know how to deal with this but they've since gotten out," Mrs. Kelly said. "The serious people are in." The numbers support her assertion as RE/MAX's per-person productivity (14.3 transactions per U.S. agent in 2009) continues to lead all other brands and is about twice that of the national average.

As to the market's future, Mrs. Kelly thinks it is bright. "This market is going to take off again, I really think, though through the remainder of this year we're going to bump along a little bit but I think we'll see some growth again in 2011." She says she wants an end to government interaction. "There's been so much artificial stimulus to help the economy that really was needed but the time has come now to get the artificial stimulus out. Let us settle to the new normal," she said. But she also believes some help is necessary. "The biggest challenge is the high-end properties aren't moving," she says. "The economy won't recover until housing recovers and housing won't recover until we take care of the luxury problem and the foreclosure problem."

Like many others, though, she concludes that true stabilization will only come when buyers' faith in the market returns. "Consumers really need to get confident that owning a home is a good thing. Let's get that confidence back." ■

Market Update

How did the tax credit affect sales in your area? REAL Trends spoke with four brokers from different areas of the United States and Canada to find out what's happening in their markets.

D'Ann Harper, president & broker/owner
Coldwell Banker D'Ann Harper, REALTORS
San Antonio, Texas
7 offices; 340 sales associates

REAL Trends: What is your market like today compared to last year?

Harper: We're up compared to last year. Based on the first quarter 2010, we're on track to have a 10% increase in units sold this year. January and February were slow, then the tax credit put a fire under everyone and we got busy. Through April, our board had 12,149 listings and we were tracking about 90 days on the market. We have a 7-8 months supply, which is not bad considering what the economy has been through. We didn't have the huge ups and downs that other markets have had.

Some 74% of homes sold in the first quarter were under \$200,000— that shows you the first-time homebuyer tax credit helped. Through April, we saw an increase of 39 percent in price compared to same time 2009; closed transactions have seen a 20 percent increase over 2009. Our average board sales price was \$176,623, about 3 percent down from last year. However, our company average sales price held even at \$179,858.

REAL Trends: Are there any bright spots in the market?

Harper: Our unemployment is nowhere near as high as other parts of country. In addition, we had a recent base restructuring at Sam Houston Army Base and we'll see 12,000 jobs coming in before the end of 2013. In addition, we've got a lot of Mexican nationals moving here buying second homes and moving businesses out of Mexico and into Texas.

REAL Trends: What percentage of your sales are short sales and foreclosures?

Harper: Some 11% of the homes sold were foreclosures. We're seeing some short sales but not enough to even measure.

REAL Trends: Are you seeing any investor activity?

Harper: We do have many investors buying in San Antonio, such as the Mexican nationals. However, it's been difficult for investors because of new HUD rules so that's slowed that market down. We saw that April began to see more of investors getting into the market. Many are taking a wait and see attitude to see what the government will do.

REAL Trends: Is there anything significant going on in your area that is affecting sales?

Harper: We've had several smaller companies who are moving their headquarters to San Antonio. We've been very aggressive with incentives to get companies here. We have several call centers moving here. They may not be high dollar salaries but it's kept us going.

REAL Trends: What is the biggest challenge your market is experiencing right now?

Harper: Our biggest challenge is the new RESPA and HUD rules dealing with appraisals. Because of these new rules our closings are delayed from 30 days to 45-60 days.

Ines Hegedus-Garcia, broker
Majestic Properties
Miami Beach

REAL Trends: What is your market like today compared to last year?

Hegedus-Garcia: The Miami Beach real estate market is, without question, moving more than last year. The average time on the market for the most part, has decreased, except for the luxury market, which has seen an increase from last year.

For example: The Venetian Islands has only had five single-family home sales this year, giving the highly coveted islands 43 months of inventory. Last year, the same inventory would have sold in 12 months. Similarly, The Sunset Islands have 20 months of inventory today whereas that same inventory would have sold in 12 months last year.

When it comes to the lower-end market, homes are selling quickly and in some areas we even see an unusual seller's market with strong back up offers. The higher-end homes that are moving are the ones that have lowered prices.

REAL Trends: Are there any bright spots in the market?

Hegedus-Garcia: The bright spots are homes in the \$500,000 and under range for the reasons mentioned above and celebrity homes that create a sense of value isolated from the rest of the surroundings. We're seeing an overall decrease in inventory and only serious sellers staying on the market. A great hot spot in Miami right now is The Brickell Financial District— properties are flying off the shelves and they're all cash deals.

REAL Trends: What percentage of your sales are short sales and foreclosures?

Hegedus-Garcia: We don't specialize in the distressed market at all, but we are handling a few short sales and foreclosures, which makes a minimal part of our business.

REAL Trends: Are you seeing any investor activity?

Hegedus-Garcia: We're seeing investors who will rent the property and hold it for two to five years and those who are getting a great deal on a distressed property and can actually flip it. Yes, we are seeing flipping of properties again.

REAL Trends: Is there anything significant going on in your area that is affecting sales?

Hegedus-Garcia: Appraisals are still killing deals for financed properties. We've seen the same property appraised by two different individuals with a 25 percent disparity. We understand that banks need to be conservative now, but sometimes it gets out of hand.

REAL Trends: What is the biggest challenge your market is experiencing right now?

Hegedus-Garcia: The biggest challenge we're seeing is second homebuyers who don't understand the financial restrictions in certain condo projects. They don't understand why banks won't approve buildings because of delinquency rates and how a lot of great deals must be cash only transactions. They question how it can be a great deal if the bank is not willing to back it up.

Larry Liebross, CEO
Parkside Properties
Atlanta

REAL Trends: What is your market like today compared to last year?

Liebross: Our niche is selling new home foreclosures, so we've stayed out of the resale market. However, we are slowly getting back into it through the banks. The market is a mixed bag. There's a little bit of a false sense of hope out there. But, sales are probably even with last year, maybe even a little ahead. Prices are down on average 3 percent for the first 4-5 months of this year compared to last year. We're close to stabilized but foreclosures have taken a toll on pricing, and that's the bad news. Our average price is around \$140,000.

We have a 10-11 month supply of inventory, which is down from last year. I think after April 30, we'll see a drop off in sales.

REAL Trends: Are there any bright spots in the market?

Liebross: Because of the tax credit, our under \$300,000 market has been pretty good. The high-end market is improving but still not anywhere close to where it should be.

REAL Trends: What percentage of your sales are short sales and foreclosures?

Liebross: About 98 percent of our homes are foreclosures and we've had a couple of short sales. In our overall market, around 45% of all sales are distressed properties.

REAL Trends: Are you seeing any investor activity?

Liebross: We're seeing investors buying a little more aggressively. We're a high spec-driven new-home market so we're seeing investors buy lots at big discounts. We're also seeing the production builders, such as Pulte and Horton back in the market aggressively buying lots to build.

REAL Trends: Is there anything significant going on in your area that is affecting sales?

Liebross: With us, it's about job formations and right now if there's any going on we're lagging the country. That's a real issue here and I've never been in a market that's come back without jobs being formed.

REAL Trends: What is the biggest challenge your market is experiencing right now?

Liebross: Because of the nature of our business, we're running out of inventory on new home foreclosures. There may be spot inventory but they're not replacing the houses we sold. Last year we were getting new listings ahead of sales.

We've had 10 quarters of new home sales over new home starts. We went from a city that produced 50,000 starts a year to 4,500 a year, so everything has come to a screeching halt. It's good for the market, but the resale foreclosures still have the potential for more coming down the pike. As long as that exists it creates price instability and the construction lenders get nervous about putting out construction loans when they don't know where pricing is going.

Gino Romanese, senior vice president and broker
Royal La Page Real Estate Services LPD
Greater Toronto
15 offices, 1250 sales associates

REAL Trends: What is your market like today compared to last year?

Romanese: Unit sales are up 59 percent as of the end of April. Our market took a nosedive in October 2008. Inventory was down but we're seeing more listings come on the market and we had a quick recovery. Our new listings coming on to the market are up 60 percent in the month of April compared to same time last year.

We're becoming a more balanced market. This January and February, we clearly started moving toward a sellers' market. But, in March and April we saw signs of a more balanced market. Our average listing is on the market 21 days compared to 37 days. But that 21 days is increasing slightly each month so market is changing a little bit. We currently have 2.1 months of inventory compared to 2.9 at the same time last year. Prices are up 17 percent year over year. The

rate of price appreciation is starting to decrease. We're seeing signs the market is easing but it's still strong.

REAL Trends: Are there any bright spots in the market?

Romanese: The market is strong in virtually all price points. However, the high end in some markets has slowed somewhat in the last couple months. We're seeing less in the way of multiple offers for high-end properties and fewer properties selling over asking price.

REAL Trends: What percentage of your sales are short sales and foreclosures?

Romanese: We have very little of that. The Canadian banking system is a little more conservative than the U.S. banking system.

REAL Trends: Are you seeing any investor activity?

Romanese: Yes, especially in the condo market. There are 17,000 high-rise condo units that are scheduled to close and people will take possession. We've had a fair number of investors jump on those projects buying at what they felt were pre construction prices. Many of these units will hit the market because investors will flip them. The media is reporting that the market is at an all time high. Every brokerage house is forecasting that the market will slow—not fall apart but slow.

REAL Trends: Is there anything significant going on in your area that is affecting sales?

Romanese: The condos coming on to market will affect our

inventory. In addition, there's a new initiative called the Harmonized Sales Tax that's preoccupying some areas of Canada. That takes affect July 1. Basically, it's combining both the provincial sales tax (8%) and the federal sales tax (5%). Rather than pay two separate taxes, they're combining them to help businesses streamline their sales. However, one of the taxes never applied to real estate commissions and other related services, so homebuyers will be paying a higher tax on those services as of July 1. Where they used to pay 5%; they'll be paying 13%. So anyone looking to buy a new home has been scrambling to do it before July 1.

And, those looking to sell are looking to do it before July 1 because, if they can save tax on real estate commissions, they will. That's contributed to this crazy spring market. Another thing affecting the market now is housing affordability. With the exception of a blip in 2008, our prices have been rising for years and there's no sign of abatement. On the positive, one of the things that was a threat to affordability was the rise of interest rates and it looks like they won't be rising anytime soon.

REAL Trends: What is the biggest challenge your market is experiencing right now?

Romanese: It's a whole bunch of concerns—not just one big one. How much supply will come on to market? How much will demand fall off? How much demand will fall by virtue of affordability? Will interest rates increase or not? The general economy is a worry. We're anticipating that the second half of the year will be slower than first half. While it will slow, it will be a healthy market. ■

Creating a Different First Impression: Value

Commentary on Trends in New NOME Sales

by *Boyce Thompson*
www.BUILDERonline.com

I can't get over the difference in model home presentations today versus five years ago. If the idea during the housing boom was to floor potential buyers with upgrades and design details, the objective today is to purposely understate.

The perception builders want to create today is that their homes are a great value, that not a penny has been wasted on the frivolous. But this must be done, of course, without sacrificing what makes new homes better than existing ones—more openness in floor plans, greater energy-efficiency, great kitchens, and layouts that reflect how people live today.

This is a refreshing change of pace. Production housing models, especially in the luxury categories, got completely out of hand during the housing boom. As builders and architects strove to top each other with the next big thing, you saw interior courtyards that interfered with the functioning of floor plans, basement build-outs that you

could get lost in, kitchens so big they would only work for caterers, home theaters that could seat the whole neighborhood. Space planning basics received short shrift.

Builders today must focus very hard on how homes actually live. This starts with design value-engineering. Spaces that people use the most—family rooms, master bedrooms, laundry rooms, back porches—must receive the most attention. Places that people rarely use—living rooms, dining rooms, multiple courtyards—should be downplayed or eliminated, depending on the price point.

The results are often a more practical home, one that facilitates family routines. Bringing in groceries from the car is no longer an ordeal. Meals can be easily transported from the kitchen to eating areas. Laundry doesn't have to be carried up and down stairs. Families can watch television together in a cheery space. Backpacks and boots can be deposited by the back door. You can go somewhere to read a book. Homework can actually be done in the bedroom.

Some floor plan efficiencies are gained automatically from the smaller homes built today. But others come from builders and architects going the extra mile to think about how families will actually live in the homes they build and design. Strong, favorable impressions can be created by a simple, well-organized master closet, a workable kitchen with counter space in the right places, a family room that

accommodates a large television, or an outdoor eating area conveniently located adjacent to the kitchen.

The objective is to create a new kind of value, to say to potential buyers, “You won’t over-spend if you buy this house.” Less is the new more. ■

Serving the Multicultural Community

The multicultural landscape has changed dramatically in the past 10 years. *REAL Trends* spoke with Daniel Carrillo, managing partner of the Gonzales Group, a business development and research agency that works with real estate companies to develop strategic plans for reaching this growing market. Here’s what he has to say:

REAL Trends: Tell us a little about the multicultural real estate market. How has it grown? How has it evolved in the past 10 years?

Carrillo: If we look back at what’s happened in the last 10 years, it’s all in the numbers. According to the U.S. Census Bureau, there was a 35 percent increase in the Hispanic market between 2000 and 2010. To compare, the white/Caucasian population only grew 5 percent. So, right away you see a significant change taking place in a fairly short period of time.

When you look at the Asian market, it’s also changing—increasing 32 percent over that same time. And, I may note, we’re talking about documented, legal U.S. citizens. There is a fascinating book called “Boomers and Immigrants: Forging a New Social Contract for the Future of America,” by Dowell Myers that shows a clear study about what’s taking place around the nation. We have an aging baby boomer population that’s white and a rapidly growing immigrant population that’s young and multicultural. There’s great opportunity there.

A second significant shift is from people of color being discriminated against in terms of purchasing property. We went from a society where fair housing issues were driving the need for multicultural education to a society that is busy developing business with this marketplace. This is a market driven by opportunity and the path that America is going.

REAL Trends: What are the top three trends you’re seeing in this market?

Carrillo: First, understand sustainable homeownership. We’ve had success in increasing homeownership, now we need to get a better grasp of sustainable wealth creation in homeownership. It’s a challenge because we are in the middle of a difficult housing market. You have changes that should be making it easier for growth markets to sustain their ability to purchase but you have difficulties in lending practices and products. If you look specifically at multicultural markets, you have barriers

to entry that aren’t related to product as much as they are related to the fact that customers don’t understand the process and what it means to own a home. They need to be educated on what it means to own a home, stay in that home and they must have financial literacy skills.

Second, real estate professionals are finally getting past the initial awareness of the opportunity in this market and now they need the tools to help them. Brokers must give real estate professionals the tools they need to reach and serve this market. Third, brokers must align themselves with the right partners. Look at what’s happened to the marketplace — so many different companies have gone out of business or are crippled by the economy, and they’re no longer the partners they used to be. Who do you want as part of your team? Do your research.

REAL Trends: What ethnic groups of buyers do you see become a real force in the US market? Are there any emerging markets that look particularly strong?

Carrillo: Obviously, the Latino market is huge because of the numbers. We’re getting calls from people in market areas like Raleigh-Durham, Kansas City and Bellevue, Wash., asking us how to serve the Latino community. These aren’t first or even second-tier cities for the Latino community but we’re getting calls asking how to dissect this opportunity. This means there’s even more opportunity for more real estate professionals. These minorities are looking for more affordable places to live than New York, Houston and Miami. The median age for Latinos right now is 25 years old. They’re on the brink of being a new homebuyer and that’s a massive sweet spot.

REAL Trends: What are some common misconceptions about the multicultural market?

Carrillo: The first misconception is that you need to speak the language to serve the client. That is just not true, many of them speak English. In addition, culturally, they don’t have to work with individuals who mirror their own look.

Second is you must get out of that mindset of one size fits all. So, taking your Web site and translating it doesn’t cut it. You must be aware of the needs of the communities you’re trying to serve. You don’t treat relocation clients all the same. It’s a specialized area because each relocation prospect has different needs. It’s the same in the multicultural arena.

REAL Trends: What are three suggestions for brokers to help them serve this market better?

Carrillo: Know that your market is changing. Get right to the numbers and increase your awareness of what's going on. Start reading and learning about the cultures coming into your community. Understand the skills you need to address those opportunities down to the Zip code level.

Develop a strategic business approach and understand that you may need new skills. You may have a receptionist who speaks Chinese or Spanish. You may need to recruit more multicultural real estate salespeople. Create the right service model. The services that consumers are looking for are no different in the multicultural

market but you must have the right people in the right positions and you must have excellent communication in place.

What's your brand intent? If you're in the middle of a large Russian or Armenian community, what do you want them to know about your company that makes them trust you're the right company with which to do business? Be more involved in the community. Non-profits have come a long way and are oftentimes key to relationship building with these multicultural markets. Write it down and have a plan that's tested and retested based on measureable metrics. ■

Profile Series: Personal Touch Boosts Productivity

In the first of an on-going series, REAL Trends will interview branch managers from around the country to find out their challenges, secrets to success and more. This month we talked to Charlene Zoratti, broker and sales manager for RealtyUSA.com in western New York. Here's what she had to say:

REAL Trends: What are your three biggest challenges as a branch manager?

Zoratti: The first is staying abreast of new trends and changes in the marketplace—locally, nationally and globally. It's a huge quest because so many things fall into that—legal, technology, marketing tools, standards of practice.

I stay involved with the Association of Realtors® and am past president of our local board and a state director. I sit on the communication committee for the National Association of Realtors and that keeps me informed of new ventures that NAR is unveiling. It also keeps me in the loop with other brokers and managers who can share ideas. I strategize with them. You must stay in the loop as much as possible and invest in yourself from an educational standpoint.

My second challenge, in no particular order, is finding quality candidates for our sales team. I draft an annual business plan that addresses adding to our branch team. From that, I implement a system. So, my business plan for finding and adding quality people is by design and it's incorporated into each week and into each day. For instance, a couple of years ago I added social networking to my hiring business plan. I like to stay open to new trends in the market as well, so that's played into creating events and seminars to connect with potential recruits and build relationships with good people outside the industry.

The third challenge is to be an effective leader. The branch manager determines the culture of the office. My goal is to deliver value to my team. I want to offer an experience that's stable and secure but open to the trends in the marketplace. It's important to be flexible and implement new ideas and new strategies so you can remain competitive in the marketplace.

REAL Trends: What is your greatest strength? Tell us about a successful new program you may have implemented.

Zoratti: I'm a huge advocate of sitting with each of my 75 sales associates each year and helping them prepare a written business and marketing plan. With all the changes and challenges of the industry, it's important to review, analyze and adjust the plan. Our office has had the greatest yearly increase in production per agent and I think it's my personalized approach to business planning and brainstorming that has helped us get there.

REAL Trends: What does it take to be a great branch manager?

Zoratti: They're leaders. They're good communicators. They're good at empowering people and work to help them grow. Good managers are invested in the community and in the industry. They're viewed as experts and they recognize each agent's strengths and weaknesses and zero in on improving them. They're passionate and full of integrity. They bring value to the table by offering substance in all communications and they invest in themselves with education.

But, most of all, a great manager recognizes that you can't fit a square peg into a round hole and they value that uniqueness and diversity within their sales force. ■

Social Media Showing Strains

Words to the wise for real estate brokerage and sales professionals

Facebook's imbroglio over privacy reveals what may be a fatal business model. I know because my students at Parsons The New School For Design tell me so. They live on Facebook and they are furious at it. This was the technology platform they were born into, built their friendships around, and expected to be with them as they grew up, got jobs, and had families. They just assumed Facebook would evolve as their lives shifted from adolescent to adult and their needs changed. Facebook's failure to recognize this culture change deeply threatens its future profits. At the moment, it has an audience that is at war with its advertisers. Not good.

Here's why. Facebook is wildly successful because its founder matched new social media technology to a deep Western cultural longing – the adolescent desire for connection to other adolescents in their own private space. There they can be free to design their personal identities without adult supervision. Think digital tree house. Generation Y accepted Facebook as a free gift and proceeded to connect, express, and visualize the embarrassing aspects of their young lives. Then Gen Y grew up and their culture and needs changed. My senior students started looking for jobs and watched, horrified, as corporations went on their Facebook pages to check them out. What was once a private, gated community of trusted friends became an increasingly open, public commons of curious strangers. The few, original, loose tools of network control on Facebook no longer proved sufficient. The Gen Y'ers wanted better, more precise privacy controls that allowed them to secure their existing private social lives and separate them from their new public working lives.

Facebook's business model, however, demands the opposite. It is trying to transform the private into a public arena it can offer advertisers. In doing this, the company is breaking three cardinal cultural norms:

It is taking back a free gift. In order to build profits, Facebook has been commercializing and monetizing friendship networks. What Facebook gave to Millennials, it is now trying to take away. Millennials are resisting the invasion to their privacy.

Facebook is ignoring the aging of the Millennials and the subsequent change in their culture. Older Gen Y'ers want less

sociability and more privacy as actors outside their trusted cohort enter the Facebook space in search of information and connection. These older Millennials want more privacy tools for control of their information and networks. Facebook is behaving as though it owned not only its proprietary technology platform but the friendship networks created on it. It doesn't. Millennials believe that ownership of their networks of friends belongs to them, not Facebook, and resist their commercialization.

Facebook, under intense pressure, is belatedly agreeing to streamline and strengthen its privacy tools. That will lower the anger of its audience but increase the anxiety of its advertisers. The brand value of Facebook has already taken a hit and competing social media platforms that promise privacy are beginning to appear.

What lessons can we draw from the Facebook flameup? Lifecycle changes can trump generational change and cultural values perceived as crucial at the age of 13 can be very different at 20. A business founded on the values of a generation, such as Facebook, has to keep up with, and respect, evolving lives and needs.

Ownership in the social media world of networks is different from selling products and services in the traditional marketplace. Understanding the underlying cultural context of "free," "gift," and "creation" is important to businesses, including and perhaps especially high tech companies. It is not impossible to monetize that which is free. Apple did that with 99 cent songs on iTunes. But it is difficult.

Giving economic value to social networks is the new holy grail in advertising and the media. An army of economists and mathematicians are at work on this task. To date, most of the work has focused on metrics – how many friends, how many linkages, how much influence. Facebook's problems with privacy highlight the need to understand culture as well.

Bruce Nussbaum, former assistant managing editor for Business Week, is professor of Innovation and Design at Parsons School of Design. ■

EDITOR'S NOTE

The REAL Trends 25

We are pleased to present this list of the 25 largest housing services firms in the United States from our survey of over 1,000 leading brokerage firms. This ranking is of the largest

diversified real estate service providers that reported at least one settlement service in addition to brokerage. ■

| RANK | COMPANY | HEADQUARTERS | RESIDENTIAL SIDES | SETTLEMENT TRANSACTIONS | TOTAL TRANSACTIONS |
|------|------------------------------------|-------------------|-------------------|-------------------------|--------------------|
| 1. | NRT LLC | Parsippany, NJ | 274,179 | 260,294 | 534,473 |
| 2. | HomeServices of America, Inc. | Minneapolis, MN | 123,817 | 156,163 | 279,980 |
| 3. | The Long & Foster Companies, Inc. | Chantilly, VA | 69,925 | 64,131 | 134,056 |
| 4. | Hanna Holdings, Inc. | Pittsburgh, PA | 31,765 | 29,661 | 61,426 |
| 5. | Prudential Fox & Roach Realtors | Devon, PA | 20,591 | 28,451 | 49,042 |
| 6. | Crye-Leike Realtors | Memphis, TN | 22,611 | 15,545 | 38,156 |
| 7. | Real Estate One | Southfield, MI | 17,128 | 8,798 | 25,926 |
| 8. | Coldwell Banker United, Realtors | Bryan, TX | 21,303 | 1,152 | 22,455 |
| 9. | Allen Tate Companies | Charlotte, NC | 12,610 | 9,346 | 21,956 |
| 10. | Shorewest, Realtors | Brookfield, WI | 9,775 | 12,047 | 21,822 |
| 11. | Realty USA | Orchard Park, NY | 18,420 | 3,021 | 21,441 |
| 12. | Sibcy Cline Realtors | Cincinnati, OH | 8,924 | 10,256 | 19,180 |
| 13. | First Weber Group | Madison, WI | 10,502 | 7,270 | 17,772 |
| 14. | Baird & Warner | Chicago, IL | 12,763 | 3,304 | 16,067 |
| 15. | Hunt Real Estate Corporation/ERA | Depew, NY | 10,843 | 5,133 | 15,976 |
| 16. | Prudential HomeSale Services Group | Lancaster, PA | 8,114 | 6,934 | 15,048 |
| 17. | John L. Scott Real Estate | Issaquah, WA | 10,582 | 4,397 | 14,979 |
| 18. | F. C. Tucker Company | Indianapolis, IN | 6,827 | 6,455 | 13,282 |
| 19. | Watson Realty Corp. | Jacksonville, FL | 10,117 | 3,065 | 13,182 |
| 20. | Prudential Douglas Elliman | S. Huntington, NY | 11,009 | 2,103 | 13,112 |
| 21. | William Raveis Real Estate, Inc. | Shelton, CT | 9,239 | 3,472 | 12,711 |
| 22. | Prudential Florida Realty | Sunrise, FL | 9,230 | 2,911 | 12,141 |
| 23. | Northwood Realty Services | Pittsburgh, PA | 6,847 | 4,824 | 11,671 |
| 24. | RE/MAX Alliance | Arvada, CO | 10,695 | 696 | 11,391 |
| 25. | Keller Williams Realty | Dallas, TX | 10,353 | 1,014 | 11,367 |

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