



REALTRENDS

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TRENDS IN HOUSING AND BROKERAGE

A discussion by REAL Trends

Iowa Association of Realtors

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Trends in Housing and Brokerage 2017

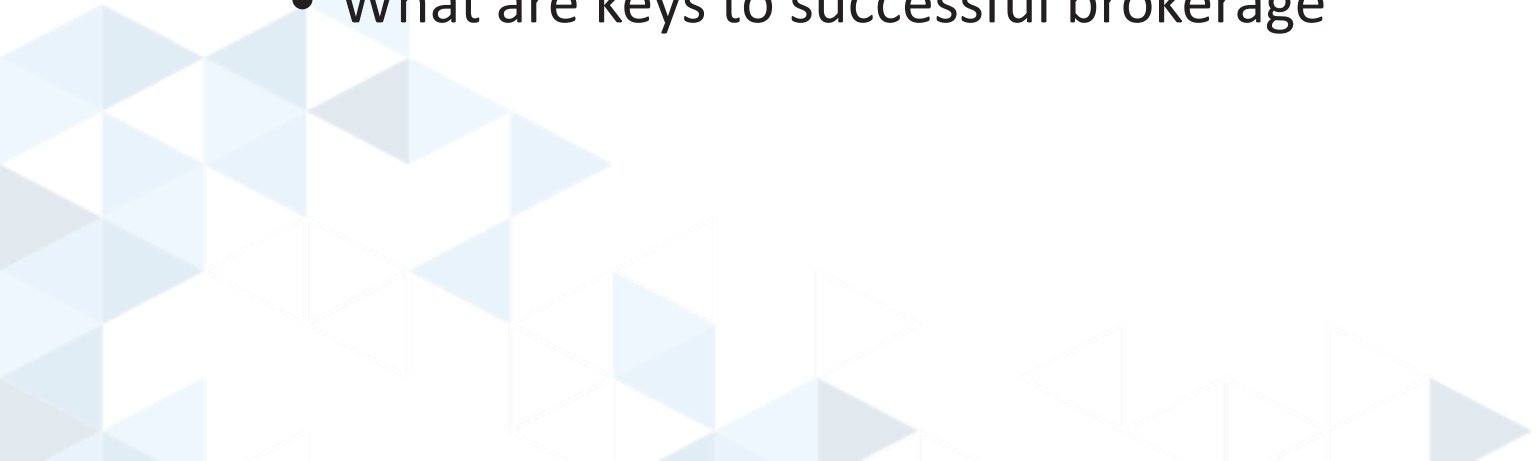
- National trends
 - House price trends
 - Homeownership rate
 - Household formation and new construction
 - Investor owned Single Family Residential (SFR)
 - Commission rates, gross margin and net margins in brokerage
 - Demand for brokerage services

Trends in Housing and Brokerage 2017

- State trends
 - Demographics and economic trends
 - Demand for housing
 - Changes in brokerage performance



Trends in Housing and Brokerage 2017

- Brokerage
 - Valuation and merger acquisition activity
 - New brokerage models
 - What are differences in brokerage model performance
 - What are keys to successful brokerage
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National trends

- Total Households US 122 million
- New household formations (2016) 1.2 million
- Projected household formations
• (2017-2020) 1.4 million


National trends

- Homeownership
 - Rate in Q2 2017 at 63.2% - lowest since 1994
 - Has declined 13 years in a row - high was 69.3% (2004)
 - Minority households from 42.2 among Black households to 46.0% for Hispanic households
 - White households are at 71.9% (Iowa is 91.75% white households)
 - Decline appears to be flattening out but still modest declines

National trends

- Housing construction has not recovered
 - 2016 Total 1.1 million units of single and multi-family
 - 10 year average through 2016 980,000
 - 10 year average through 2005 1.6 million
 - We are currently between 400,000 and 600,000 units per year short of demand

National trends

- Home prices
 - The 2017 (May) national median of \$252,800 set a new U.S. record for existing homes
 - The 2017 (May) national average of \$294,600 set a new U. S. record for existing homes
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National trends

- Vacancy rates and inventory
 - 3.3 months inventory as of June versus 5.1 months average since 1988
 - Single family vacancy rate is 1.9%
 - Multi-Family vacancy rate is 6.9% overall but only 4.4% among professionally managed apartment complexes

National trends

- The Single Family investor owned segment
 - 22-24 million 1-4 family residences owned by investors
 - 14 million are owned by those owning 1-2 properties
 - Less than 400,000 are owned by institutions
 - Equals $1/4^{\text{th}}$ to $1/5^{\text{th}}$ of the entire Scattered Single family residence inventory

National trends

- Commission rates, gross margins and net margins
- 2016 average commission rate = 5.12% down 6 basis points from 2015 and down 108 basis points in last twenty years
- 2016 Gross margin national average = 18.5% down from 26.2% ten years ago
- 2016 Net margin national average (RT 500 firms) was 4.5% equal to that of ten years ago

National trends

- Demand for brokerage services
- The Assisted Rate for all transactions for 2016 is estimated at 85% unchanged from ten years prior
 - Includes all transactions, both sides, new and existing homes

State Trends

- Demographics
- Iowa population is growing at .45-.55% per year, has done so for last five years and is expected to continue to grow at that rate through 2020 (Base 3.1 million persons)
- Iowa had 1.38 million housing units at year end 2016

State trends

- Homeownership rate was 71.5% for Iowa versus 63.4% nationally and is roughly in line with national average of 71.9% for white households
- Iowa has 1.24 million households with average household size of 2.4 persons per household – in line with national averages
- Median household income was \$53,183 versus national average of \$73,298 (2015 data)

State trends

- Iowa housing data
- Vacancy rates multi-family = 6.4% versus national of 6.9%
- Vacancy rate for single family = 1.7% versus national average of 1.9%
- 2.5 months of inventory – half of normal level

Brokerage

- Brokerage
- The number of Realtors[®] both U.S. and Iowa are growing in a range of 3-5% annually National Realtor membership now close to 1.3 million versus a high of approximate 1.4 million in 2006.
- The number of brokerage firms is estimated at 85,000 as of end of 2016.

Brokerage

- The REAL Trends 500 increased its collective sales by 13.1% in 2015 and 6.6% in 2016 both above the national growth rate
- First time in 25 years that the RT 500 collectively increased its share in an “up” market condition
- The number of firms operating a commission split with a fixed fee or cap on commission splits now exceeds those with other plans for the first time

Brokerage

- Merger and acquisition activity is at an all time high with record numbers of combinations and acquisition occurring throughout the country in 2016-2017.
- HomeServices of America and Realty are the most active acquirers in this arena.
- However far more transactions are occurring among local privately owned firms with 5-50 sales agents.

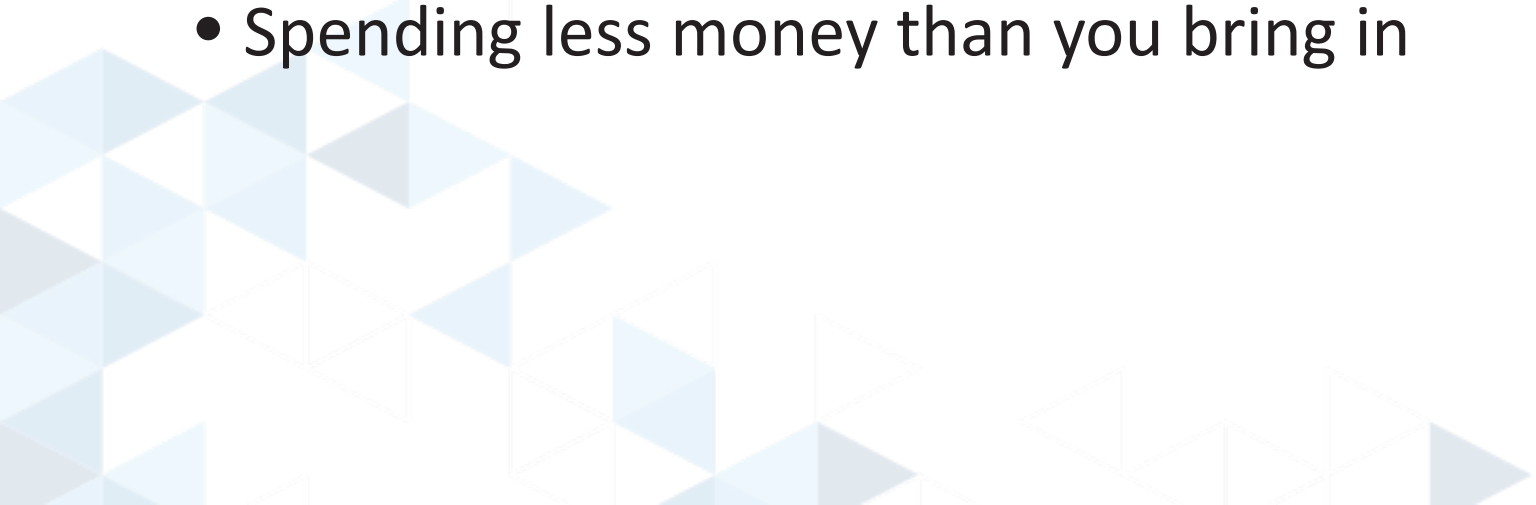
Brokerage

- Numerous new model brokerage firms have entered the national market in the past five to six years. Most have these factors in common:
 - Flat fees – typically per month and per transaction
 - Little to no office space
 - Tech platform is generally offered
- Some of better known are eXp Realty, Fathom Realty, HomeSmart, Realty One Group

Brokerage

- What are some differences in models?
- Flat fee/low cost firms tend to have lower average productivity per agent.
- Have lower gross margins but tend to have similar net margins due to lower costs.
- Tend to peak in terms of agent market share between 12-15% of all agents.

Brokerage

- Keys to brokerage performance 1980-2017
 - Recruiting good talent
 - Developing the skills of your talent
 - Spending less money than you bring in
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Brokerage

- Whether a firm is 100% commission plan, capped company revenue plan or graduated commission plan, in most cases while gross margins differ greatly, among the best firms the national average net margin is approximately the same among all models of brokerage

Brokerage

- Our studies show the following:
 - The relative performance of independent brokerage firms versus nationally affiliated firms is roughly the same over the last ten years.
 - The relative performance of the three basic brokerage models is the same over the last ten years.
 - The relative performance of brokerage firms in high average price areas versus low average price areas is roughly the same.

Brokerage

- We ask the question - that if it is not the brand or the model or the location, what was is it that explains the difference in performance between brokerage firms over time?
 - Leadership and culture
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Brokerage

- Attributes of leading brokerage firms in terms of performance

- Vision
- Empowerment
- Accountability
- Community

Communication

Discipline

Transparency



Things to consider

- The use of agents by consumers show few signs of diminishing.
- The selection of agents through a personal relationship is softening.
- The view of the compensation plan by consumers remains favorable.
- Why?
 - Infrequency, complexity and the cost of failure