

REAL ESTATE IN A DOWN MARKET:

HOW DO AGENTS PLAN FOR SUCCESS FOR THE NEXT 3-5 YEARS?

A White Paper – January 2006



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OVERVIEW

According to the familiar saying, “A rising tide lifts all boats.” It’s an especially on-target analogy for the current real estate industry, which over the past few years has been awash in a rising tide of good fortune. Lifted by record home sales, record numbers of agents joining the industry and legions of consumers eager to take advantage of historically low mortgage rates, the industry and the hundreds of thousands of professionals who help Americans with the exhilarating but complex experience of buying and selling their homes have enjoyed some of the most prosperous times in the industry’s history. However, yesterday’s boon isn’t necessarily tomorrow’s payday. That is, just as sure as they rise, all tides ebb... and then recede.

In fact, the National Association of Realtors’ (NAR) own chief economist, David Lereah, believes real estate professionals should prepare for the inevitable changes confronting real estate professionals from coast to coast.

In a November 2005 interview with the *New York Times*, Lereah said: “Housing activity has peaked and is coming down a bit, and we expect further cooling in the coming months.”¹

Additionally, inventory — the number of unsold homes — has risen to record levels: *Bloomberg News* reported that inventory in November 2005 was at its highest point since April 1986.²

Factor in rising mortgage rates as a primary reason behind slowing sales, and the telltale signs are in place for a residential real estate industry poised for a slowdown.

But contrary to popular belief and most media accounts, a more normal residential real estate market may not be such a bad thing.

This white paper provides an overview of how rising mortgage rates, changes in the way consumers shop for homes and Internet advertising are forever altering the way agents work with clients and build their businesses and create new opportunities.

It also explores three myths the industry is confronting, and specific steps real estate professionals can take today to better prepare their independent businesses for success during the next three to five years and beyond.

THE CHANGING FACE OF REAL ESTATE: CONSUMER HABITS, INTERNET ADVERTISING AND MORE

When it comes to trends, none is more impressive than the one confronting real estate professionals. That is, consumers' reliance on the Internet. The number of consumers who first go online in their search for homes, neighborhood information, selling tips and all things real estate have risen exponentially since home listings were first posted on the Internet 10 years ago.

Now, according to a recent (and oft-quoted) NAR study, fully 74 percent of homebuyers use the Internet for research before entering the market. A separate study by the California Association of Realtors showed that 97 percent of Internet homebuyers agree that "using the Internet helped them better understand the home-buying process."³

**REAL ESTATE
PROFESSIONALS
WILL SPEND MORE
MARKETING DOLLARS
ONLINE THAN IN
NEWSPAPERS IN 2009
— or sooner.**

- BORRELL ASSOCIATES

The change in consumer habits has ushered in an unheard-of migration in advertising as real estate professionals move their marketing budgets from expensive print publications to more cost-effective online resources.

National research firm Borrell Associates recently revised up their estimates for how quickly real estate professionals are shifting their advertising from print to online. According to Borrell, real estate professionals will spend more marketing dollars online than in newspapers by 2009 — or sooner. As a result of this shift in advertising, real estate professionals can acquire customers more efficiently on the Internet than offline. The use of technology also enables efficient customer acquisition to help cultivate and build sustainable, long-term consumer relationships.

Perhaps not surprisingly, the real estate industry's successes — and especially its profits — of the past few years now have captured the attention of companies outside the industry. Companies who are not interested in partnering with real estate professionals — or worse yet, interested in taking a portion of an agent's hard-earned commission and/or greatly diminishing the role of the real estate professional.

HouseValues is one such company that has built an agent-partnering business model driven by a simple question the company asks before developing any new technology tool or program: "How will this help real estate professionals deliver higher levels of personal customer service and in turn be more successful?"

Perhaps Philadelphia real estate professional Diane Cardane-Casacio said it best: "If you treat every lead the same, provide great service and earn people's trust and respect, your growing pipeline of prospects will guarantee that you always have a steady source of future transactions."

DEBUNKING THREE REAL ESTATE INDUSTRY MYTHS

MYTH #1

A real estate industry slowdown would be devastating.

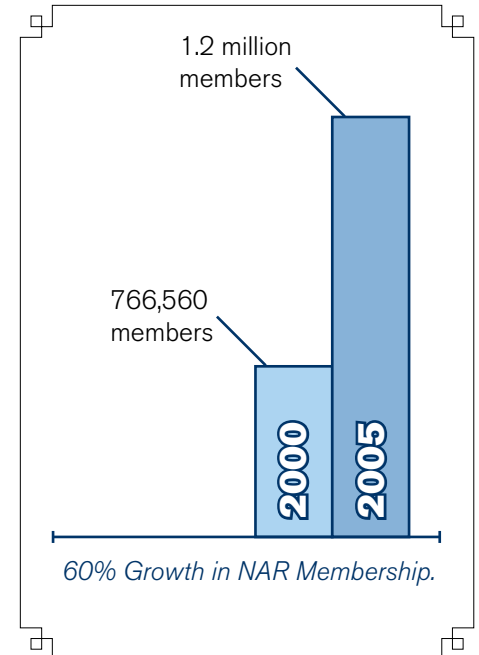
REALITY #1

With the likelihood of a real estate industry downturn, how widely would it be felt? Researchers at the National Association of Realtors don't think widely at all. In fact, they believe home prices will actually continue to rise once again in 2006.

The NAR, in fact, believe in 2006 and that home prices will increase by 6.1%.⁴

Pundits and consumer media reports have offered dire real estate predictions for many months. With more than 7.1 million resale home sales in 2005, a blistering 39 percent increase from just five years ago (when 5.1 million homes were sold, many in the industry feel that a slowdown would provide some much welcomed normalcy for many local real estate professionals. These professionals, who over the past five years, have been tapped out dealing with multiple, full-price-and-above offers, shortened closings and speculative buyers.

A real estate market driven less by investors and speculators and more by lifestyle events, such as marriage, divorce, childbirth, would suit many real estate professionals just fine.



MYTH #2

A real estate slowdown will negatively impact all agents equally.

REALITY #2

Not necessarily. As is the case in any business where there is a boom mentality, a certain "gold rush fever" permeates. This could not be any truer than in the real estate industry, where the number of agents' membership has risen dramatically. According to the NAR, the trade organization had 766,560 members⁵ in 2000 and now boasts more than 1.2 million members, a 60 percent increase in just five years.

Drawn by soaring home prices and the opportunity for large commissions, the percentage of real estate professionals joining the industry has even outpaced the double digit increases in the number of transactions: in California, now more than 500,000 of the state's residents – about 2 percent of the adult

population – have real estate licenses.⁶ As of November 2005, 135,000 people had already taken their real estate exam in California that year.

There is no doubt that, five years from now, a certain number of those people won't be working in real estate. But this inevitable shakeout will primarily impact those agents who entered the profession dazzled by the prospect of six- and seven-figure annual salaries; those who did not invest in the real estate profession as a career; and those who never understood the importance of embracing technology to better serve home buyers and sellers.

All of which present opportunities for the remaining agents to win more customers and listings, complete more transactions, and earn higher incomes.

MYTH #3

The Internet and related technology are making agents superfluous; soon they will no longer be central, or even necessary, to the process of buying or selling a home.

REALITY #3

On the face of it, that myth would seem to have some merit. After all, examples of how technology has permanently altered the way consumers buy and sell products abound. But there are a couple of fatal flaws with this myth.

For starters, there is no experience that can match that of buying or selling a home. It is the largest single purchase or sale most people will ever make during their lifetime. It is an inherently complex process that is fraught with potential glitches and pitfalls that demand the undivided attention and involvement of a local real estate professional who has been trained in the intricacies of steering a transaction to completion. Prudent, savvy real estate professionals are desperately looking for technology and proven systems that produce significant returns on investment, while providing increased levels of customer service.

Perhaps most important, buying or selling a home is, for many people, an extremely emotional experience. Technology is a wonderful, powerful tool – but that's precisely what it is, a tool designed by people to be used by other people to help yet other people. It cannot and will never be able to offer the assurance, guidance and friendship that are unique to the kind of personal interaction which agents and their customers enjoy.

According to Northern California real estate industry veteran Carol Rodoni, “a real estate slowdown would be welcomed. In fact it would be a good thing for local Realtors to show how valuable they are,” she said.

Rodoni was formerly president of three highly respected Bay Area multi-office operations: Alain Pinel, Cornish and Carey and Fox & Carskadon. “For the first time in years, you now need someone to guide you through the process, strongly negotiate and ensure you're playing with the market, not against it.”

PREPARING YOUR BUSINESS TODAY FOR SUCCESS TOMORROW

As the industry returns to a less frenetic pace, and as real estate professionals continue to embrace more technologically-savvy home buyers and sellers who use the Internet as their primary source for local home and neighborhood information, real estate agents will need to more effectively position and market themselves to succeed during the next three to five years.

Regardless of the size of their company or market, real estate professionals who want to succeed over the next several years must develop business plans that, first and foremost, put them where consumers are: online.

Ben deAnda, a real estate professional from Highland Village, Texas, recommends that, "If you use a lead cultivation system to stay in touch with your growing pipeline of prospects success will quickly follow."

The following are additional recommendations aimed at helping real estate agents prepare today for their success in the coming years:

- It can't be overstated: Agents must go where consumers are, which is increasingly online. To succeed over the next several years, agents will need to partner with online lead generation companies whose products have been designed to help agents connect faster and more easily with greater numbers of potential customers. The tools and programs these companies offer are designed to help agents build a large and steady pipeline of business and cultivate those leads using technology to create not only 1:1 relationships but 1:100 as well.
- Similarly, there is no getting around the critical need to establish an online presence. Consumers today want to know that their agents know how to use technology to better serve them, and a professional Web site is a great way to do just that. An effective Web site will offer existing and potential customers an array of features and services that make their home-buying and selling experience enjoyable, including new aerial mapping technology that lets them view homes, neighborhoods, school information, crime rates, recently sold homes, etc.
- Agents must use their online presence and implement a comprehensive business management system that automates as much of the communications and follow-up with online consumers as possible. Examples of the tools available include: electronic newsletters containing local market news and interest rate updates; automated email marketing campaigns; electronic "Just Sold" and "Just Listed" postcards that can be sent in seconds to an agent's entire database, and programs that let agents email CMA or sold property information to prospective sellers.
- To earn trust with consumers, real estate professionals need to advertise their listing where buyers are looking. With more and more consumers going online to begin the home-buying and selling process, advertising dollars are following, shifting from traditional print sources to online sources. Agents need to reevaluate their marketing plans and advertising spending to ensure they maximize their return on investment.

And finally, as they map out their game plans for success over the next three to five years, agents need to ask themselves a simple – but profoundly important – question: “Who, exactly, is driving the change in the real estate industry?”

At HouseValues, we believe beyond a doubt it is consumers... consumers who are increasingly going online first to prepare for the process of buying or selling a home. Consumers who then turn to — as they always have and always will — local real estate professionals who can infuse the process with expertise and a critical, and irreplaceable, personal touch.

SOURCES:

- ¹ David Lereah interview with *New York Times*, “Home Sales Fall 2.7%, Suggesting a Drag on '06 Economy,” November 29, 2005
- ² *Bloomberg News*, “U.S. Existing Home Sales Fall More Than Forecast,” November 28, 2005
- ³ RealtyTimes.com, “New Report Shows Gulf Between Internet and Traditional Homebuyers,” http://realtytimes.com/rta/pages/20010126_report.htm
- ⁴ The National Association of Realtors, <http://realtor.org/reioutlook.nsf/pages/forecast?opendocument>
- ⁵ The National Association of Realtors, <http://www.realtor.org/libweb.nsf/pages/fg003>
- ⁶ *Real Estate Intelligence Report*, November, 2005



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