



REALTRENDS
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THE RENTAL CRISIS

Small businesses around the country are getting hammered, and individual owners of rental properties are no exception. What are the larger implications?

By Tracey C. Velt, managing editor

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FEBRUARY 2021 NEWSLETTER

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TRENDS

SHIFTS IN THE REAL ESTATE LANDSCAPE

Remote work, office space, retail—it all impacts the residential real estate industry.

By Steve Murray, senior advisor



The pandemic brought about change at lightning speed. I rounded up just a few of the studies that show some of the more significant change that will impact real estate:

- **Remote Work.** A survey of more than 300 national employers by advisory firm Willis Towers Watson said that 30% of their employees will be working from home full-time in three years—up from 5% three years ago. A New York University study of 3.4 million workers found that at-home workers reported working an average of 26 extra hours a month. Global Workplace Analytics, in a survey of 1,388 people working from home, found that 80% said they would like to work from home three days a week or more, up from 27% before the pandemic.
- **Accelerated Digitization.** Peter Grant of *The Wall Street Journal* commented, “As retailers learn to operate without stores, business travelers without airplanes and workers without offices, much of what started out as a temporary expedient is likely to become permanent. In many ways, digitization is simply the next chapter of a process under way for a century: The dematerialization of the economy. As agriculture gave way to manufacturing and then services, the share of economic value derived from tangible material and muscle shrunk while the share derived from information and brains grew. Solar and wind power require no pipelines or tankers. Carvana has established that people will buy cars virtually.”



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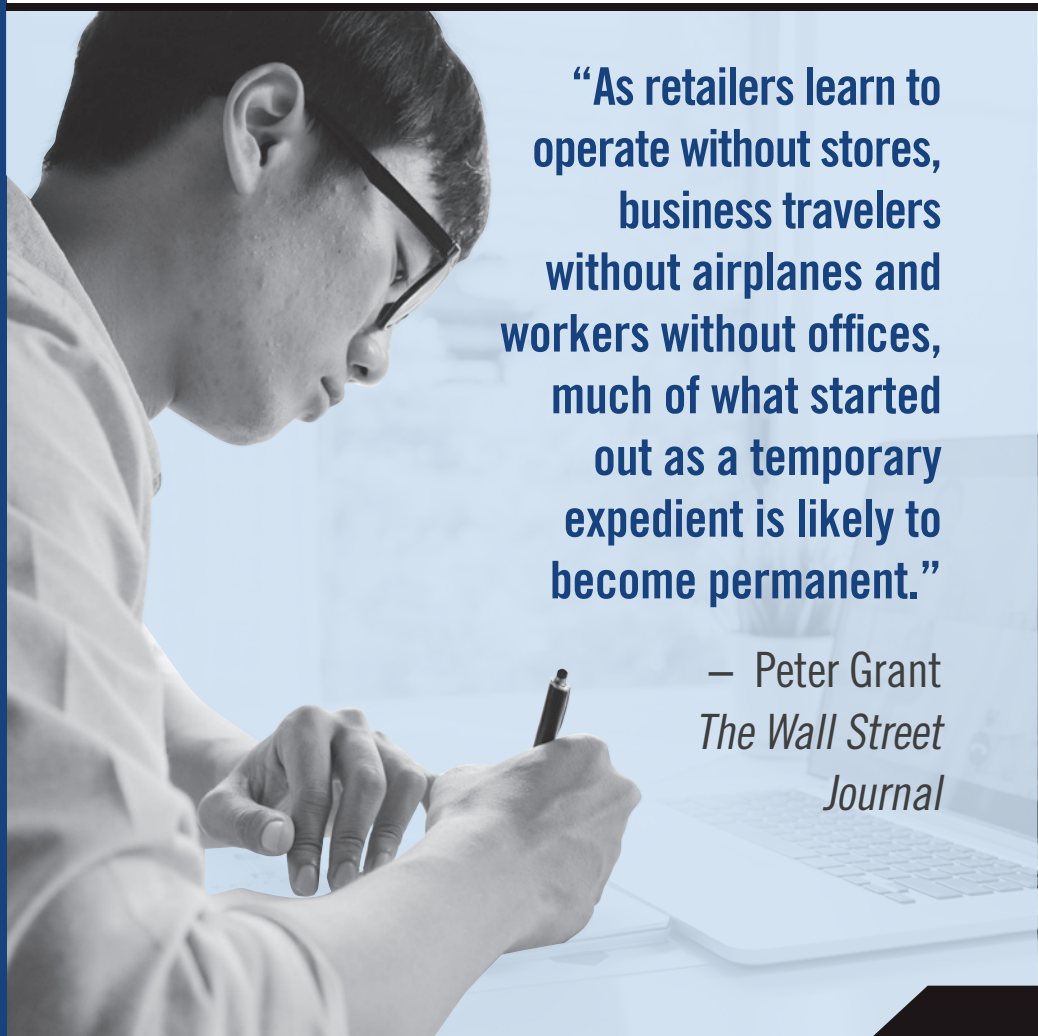
THE TRUSTED SOURCE

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“As retailers learn to operate without stores, business travelers without airplanes and workers without offices, much of what started out as a temporary expedient is likely to become permanent.”

— Peter Grant
The Wall Street Journal

BoomTown!

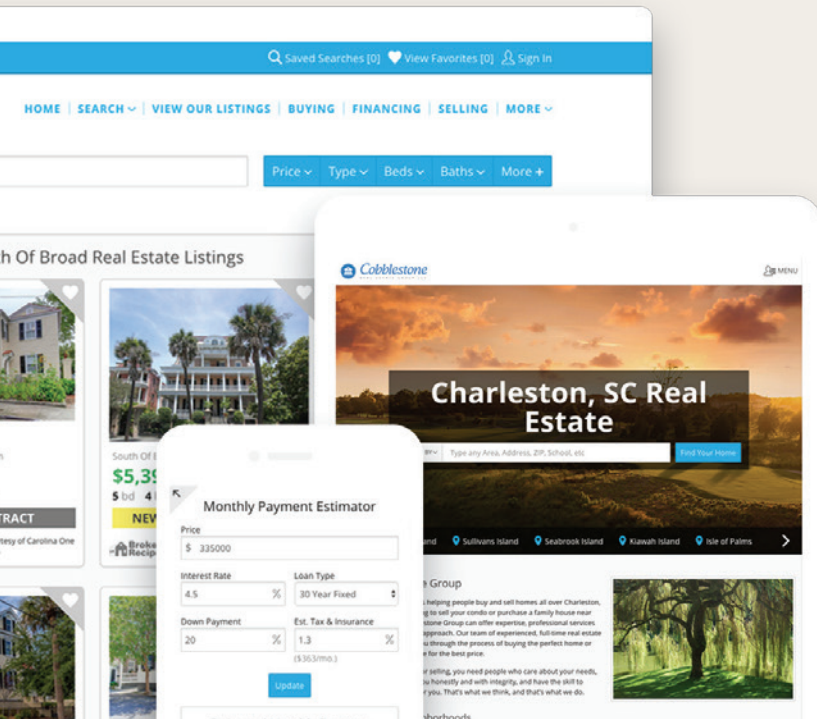
REALTRENDSETTER SPOTLIGHT

KEITH BEATTY & DREW PITTMAN

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- **Virtual Relationships.** Joel Moky, an economic historian at Northwestern University said, “One of the most important and least appreciated roles is the great fake. It enables increasingly lifelike representations of some kind of reality through analog or digital mimicry, referred to as virtualization. One example is that the use of tools like Zoom seeks to recreate in virtual form the physical relations between bosses, employees and customers. However, Moky adds that “diminishing returns work here as well. We can mimic reality, but we are not digital creatures ourselves, and our evolutionary background will continue to demand physical experiences.”

Interestingly, many consumer brand companies also think some permanent changes have occurred and are betting on significant shifts in consumer purchases. Conagra Brands and Kraft Heinz, for example, are buying and upgrading equipment to make more at-home meals. Kimberly Clark is converting a plant from making tissue products from office use to home use lines. Proctor and Gamble is doing the same.

WHAT DOES THIS MEAN FOR THE REAL ESTATE INDUSTRY?

You’ve heard all of this before, but it bears repeating. The move to expanded remote working is permanent for a significant share of the office-based workforce. This will cause a shift in where people can live regardless of where they work. This shift will cause more activity for housing sales in suburban, ex-urban and rural markets and potentially less activity in urban core areas.

A SHIFT AWAY FROM AN OFFICE-BASED CULTURE

For brokerage firms, it should mean a shift away from office based cultures to more digitally interactive relationships. Most brokerage firms, Realto[®] associations, coaches, and educators have learned that they can reach far more real estate professionals, far more frequently, and with rich content with a mixture of online interaction and in-person events.

The big challenge is how brokerage leaders can maintain, build or rebuild their cultures—moving from an office

based culture to a remote-based culture. Brokerage firms that built their businesses on in-person interactions and relationships will need to adapt to a new environment.

TECHNOLOGY VITAL TO BROKERAGE FUNCTIONS

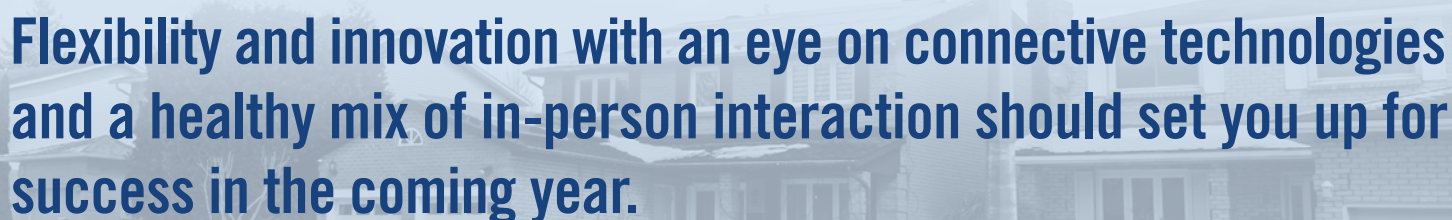
This is a no-brainer and was happening even before the pandemic. Technology will become vital to the functions of a brokerage firm. How agents interact with their customers, from CRM and virtual tours to online transaction processing, will all have to be enhanced for a brokerage to stay competitive and relevant. It also means using technology and information to recruit and develop agents and staff more effectively.

As Moky said, we are physical creatures, not digital, and in-person interaction will remain an integral part of how a business works. In residential brokerage, this will continue to be true more than in other fields

Don’t kid yourself into thinking that it will go back to the way it was 10 to 20 years ago. Most agents and teams abandoned offices years ago when they found they could remotely work from their homes or the local coffee shop. While most home buyers won’t purchase without physically being in the homes they may want to buy, the numbers who will purchase remotely is going to grow to an unprecedented level. The pandemic accelerated changes that were already happening in the real estate industry. The idea of buying a home seen only through a virtual tour, while not mainstream, was accepted by many out-of-state or global homebuyers.

For brokers, flexibility and innovation with an eye on connective technologies and a healthy mix of in-person interaction should set you up for success in the coming year.

Steve Murray is a partner in REAL Trends Consulting, a brokerage consulting, M&A and valuation service. He is also a senior adviser for HWMedia, the owner of REAL Trends content, rankings and more. 🏠



Flexibility and innovation with an eye on connective technologies and a healthy mix of in-person interaction should set you up for success in the coming year.

TRENDING

A MOVE TO MULTI-GENERATIONAL LIVING

The pandemic has seen a shift from living in nursing homes to living with family. Builders are jumping on that trend.

By Steve Murray, senior advisor

More builders are adding floor plans to new homes that provide for multi-generational living arrangements. According to the CEOs of Lennar, Toll Brothers and others, they've seen an increase of home buyers looking for models where they can accommodate older parents. In addition, Accessory Dwelling Units (ADU) are spreading rapidly. These are adjacent, sometimes permanent, additional living quarters that can be built to provide space for other family members.

Accessory Dwelling Units (ADU) are spreading rapidly. These are adjacent, sometimes permanent, additional living quarters that can be built to provide space for other family members.

Underlying this trend is a decrease in the numbers of older persons living in assisted living and nursing home facilities.

According to the National Investment Center for Seniors Housing and Care, the occupancy rates have fallen 2.5% in each of the last two quarters, where no decreases had been seen before.

While much of this is due to the pandemic, some believe that living with one's family will be preferred to living in assisted living or nursing homes.

According to the National Association of Realtors®, nearly 25% of all houses bought in the last nine months were priced above \$500,000, up from only 14% in the prior year. Much of this is driven by the scarcity of low-priced, entry-level homes in almost every market in the country.

Once the pandemic eases and those at risk are vaccinated, we don't see the trend away from nursing homes and assisted living facilities changing in the short term. ▲

THE RENTAL CRISIS

Small businesses around the country are getting hammered, and individual owners of rental properties are no exception. What are the larger implications?

By Tracey C. Velt, managing editor

When the pandemic began and an eviction moratorium was put in place, the cause was admirable. Shutdowns and economic uncertainty required an empathic hand when dealing with unemployed workers who also faced eviction. However, the unintended consequences can be dire, especially for individual rental property owners, which make up about half of all rental units, according to the 2018 Rental Housing Finance Survey. I know in Florida, we've had a glut of investors, both from out of state and globally, buying affordable properties as investment properties, many of whom are investing their retirement funds in these properties. In this article, I'm mainly referring to single-family homes.

When eviction moratoriums are lifted, I believe we're going to see evictions happening at record rates. According to the National Multifamily Housing Council (NMHC), only 76.6% of U.S. apartment households had made a full or partial rent payment as of January 6, the lowest level since the beginning of the coronavirus pandemic.

This is down from 79.3% as of Aug. 6 and follows the stoppage of the additional \$600 monthly insurance payments that was being paid to unemployed individuals, according to the National Association of Realtors®.

Individual rental property owners and corporate-owned rentals will be forced to raise rents to even attempt to recoup their losses from the last year. After all, in some cases, these landlords have given away their product for more than a year, all while paying the brick-and-mortar costs of maintaining the properties and paying taxes. Oh, and did I mention, we have an affordable home crisis in our country?

I don't have a crystal ball, nor have I studied this issue with the time it deserves. I've spoken to a number of real estate leaders

who believe this rental crisis will be impactful. How do you provide affordable housing and make a living? Of course, the recently passed COVID-19 relief package included \$25 billion on rental assistance and expanded unemployment insurance. According to a recent Zillow survey, "While the extra assistance helps on a monthly basis, millions behind on their rent still face an incredible challenge of catching up on payments that have piled up before temporary eviction moratoriums expire."

In addition, for the individual owners, selling may be the only feasible option, and that may be good for the real estate market, which is desperate for inventory. However, if the landlords themselves haven't been able to keep up the hard costs, you're looking at a surplus of foreclosures.

I would love to hear your opinion of this. Please email tvelt@realtrends.com with your thoughts on this potential crisis and what you think should be done.

Tracey C. Velt is the managing editor of REAL Trends, now owned by HWMedia. ▲

ONLY 76.6% OF U.S. apartment households had made a full or partial rent payment as of January 6, the lowest level since the beginning of the coronavirus pandemic.



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PUZZLE MAKERS

HOW REAL ESTATE AGENTS CREATE OFF-MARKET TRANSACTIONS



How do you get transactions when there isn't any inventory? Creative sales associates know how.

By Larry Kendall, author of Ninja Selling

2021 looks to be a strong real estate market with rising prices and low interest rates. Right now, the only headwind seems to be a shortage of inventory in many markets. How do we close transactions when there isn't enough inventory? The most creative sales associates are what I call *Puzzle Makers*. They create off-market transactions.

WHAT'S AN OFF-MARKET TRANSACTION?

To clarify, an off-market transaction is NOT a listing that is being held off the market. It is a transaction that does not

exist in the normal marketplace. Off-market transactions consist of sellers who want to sell but are not on the market, and buyers who want to buy but are not actively looking. How do you find these parties and match them up? That is the magic of the puzzle makers.

One of the best puzzle makers in our office creates about 12 off-market transactions every year. I asked her to share her secret sauce. Here's what she said, "The key is knowing your people's dreams. Knowing their pain and their pleasure and then helping them get from the life they have to the life they

dream about. This may require going out and finding a home for them that is not on the market. The key is the depth of your relationship with them."

THREE GROUPS OF MAGIC QUESTIONS

"How does this work, specifically?" I asked. "How do you discover their pain, pleasure, and dreams?" She offered three groups of magic questions.

1. F.O.R.D. questions. Here are the questions and some recent responses during the pandemic:



One of the best puzzle makers in our office creates about 12 off-market transactions every year.

- **Family.** “How’s the family?”
Response: “We are doing OK, although we are struggling with home schooling. Our house is not set up for a classroom.”
 - **Occupation.** “How’s work?”
Response: “Both of us are working from home right now. It’s a challenge not having a home office—especially with the kids at home all day.”
 - **Recreation.** “What are you doing for fun?”
Response: “Not much. We can’t watch live sports or go to restaurants and church. About the only thing we can do is walk, and we are not really in a very walkable neighborhood.”
 - **Dreams.** “If you could wave a magic wand and have your home just the way you want it, tell me about that.”
Response: “We would have a bigger house with two home offices and a work-out area. We would be in a neighborhood with open space and a walkable environment.”
2. “With today’s low interest rates, have your thought about doing this sooner than later?”

Response: “Yeah we have, but we don’t want to put our home on the market until we find our new home, and there’s not much to pick from right now.”

3. “If I can find you a home that fit what you are looking for, would you take a look at it?”

Response: Well, we really aren’t in the market right now.”

Puzzle Maker response: “Sure. You don’t need to buy but you always need to look. There’s no harm in looking.”

Puzzle makers
are masters at putting
“chains of transactions”
together.

Response: “I guess when you put it that way, we’ll take a look at it.”

The Mechanics: How do you put an off-market transaction together? There are a number of ways:

- They solve it. It’s amazing what happens when buyers get the bug to

move and find a home they love. They suddenly find ways to make it happen. They discover extra cash or a bridge loan/HELOC that doesn’t require them to sell their house first. Or, they decide to keep their house as an investment property.

- An experienced puzzle maker often already has the potential buyer for their house in mind. Puzzle makers are masters at putting “chains of transactions” together.
- Does your company offer a guaranteed sales plan? This is where your company guarantees the sale of their current home. Many companies are developing these plans due to the marketplace need plus the competition from iBuyers.
- Enroll iBuyers to help sell their existing home. Don’t be afraid of iBuyers. Use them as a resource to help your clients. Be proactive. Take control of the situation and orchestrate the iBuyer offers.

Here’s the bottom line: We get paid to help people go from the lives they have to the lives they dream about. The creative puzzle makers are masters of helping people make it happen. ▲



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TRENDING

2020 MIGRATION TRENDS

You've heard the news about people fleeing the cities for more rural areas. It's bigger than that—they are fleeing the states.



By Tracey C. Velt, managing editor

While the news has been full of reports that people are fleeing the big cities, that migration has been happening for years. The pandemic; however, appears to have accelerated those moves. Now that people can work remotely, finding a new place to live offers many more options than those close to the office.

Two moving companies: U-Haul and North American Van Lines recently released their migration reports. Both indicate that Americans are leaving the Northeast and Midwest in favor of the Southeast and Southwest.

The COVID-19 pandemic has coincided with more do-it-yourself movers leaving densely populated U.S. areas, specifically New York City and the San Francisco Bay Area, according to

a U-Haul® special report analyzing migration trends from 2020.

U-Haul transaction data also reveals Americans are moving again in growing numbers, and have been since May.

In addition to its annual growth states and growth cities rankings and reports, U-Haul considered the potential influence the virus had on self-movers, and looked at regions where overwhelming demand for one-way U-Haul trucks mirrored consistent out-migration.

“While some people were hesitant to move during shelter-in-place mandates, those who moved were doing so out of necessity,” U-Haul President John “J.T.” Taylor said. “We have been open and available to help all along as an essential service provider. As 2020 went along,

we saw that more and more individuals and families recognized they can move safely.”

According to the 2020 Migration Report from North American Van Lines, people are fleeing California for Texas and Idaho. The top eight states for inbound moves are Idaho, Tennessee, South Carolina, North Carolina, Florida, Texas and Colorado.

As for outbound migration, New York led the way, followed by New Jersey, California, Maryland, Pennsylvania, Michigan, Illinois, Minnesota and Ohio, according to North American.

What trends are you seeing in your market? Email me at tvelt@realtrends.com with your thoughts. 🐾

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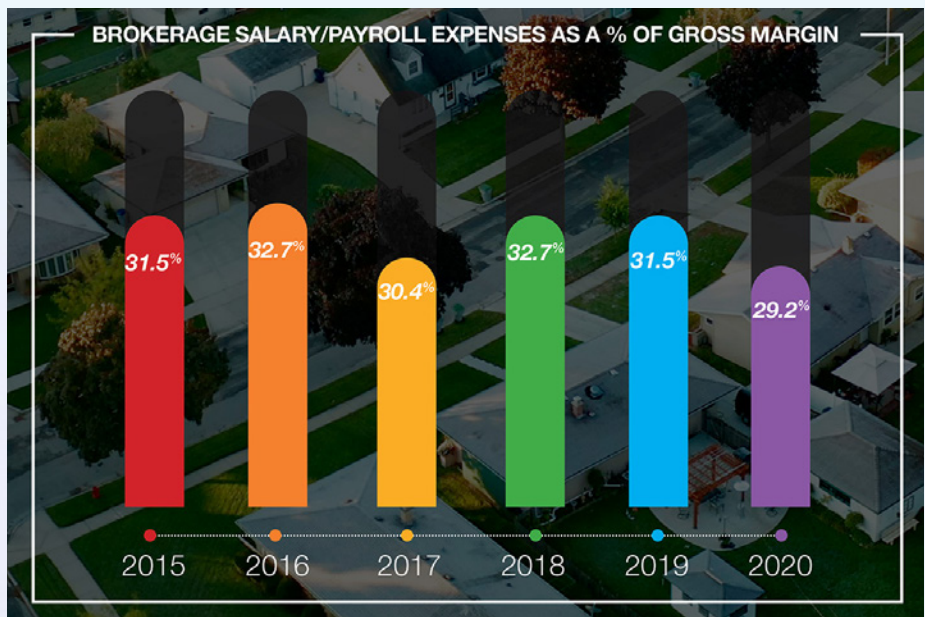
ARE YOUR PERSONNEL COSTS IN LINE WITH YOUR COMPETITORS?

Payroll-related costs are a huge expense for brokerage leaders. How huge is huge? We took a look at recent data to find out the trends.

By Scott Wright, partner

For most businesses, personnel expenses lie atop the operating budget. The residential real estate brokerage industry is no exception. On average, payroll-related expenses in our industry are a good 10 points higher than the next major expense category (occupancy.) According to our benchmark studies, this isn't likely to change any time soon.

As measured by a percentage of gross margin, personnel expenses account for nearly one-third of the average firm's operating expenditures. While these expenses fluctuate based on commission or operating model, it's still the largest expense for most brokerage firms



Personnel expenses account for nearly one-third of the average firm's operating expenditures. While these expenses fluctuate based on commission or operating model, it's still the largest expense for most brokerage firms.

As part of our consulting practice, REAL Trends Consulting takes a close look at what our clients are spending in this area, and we rely on this benchmark to assess the firm. If a firm materially exceeds the benchmark, it's probably wise to examine how to better optimize its employee roster.

2020 STRIKES AGAIN

If we take a closer look at this benchmark data, there's a deviation that we must watch. In the five years preceding 2020, you'll notice a pretty tight window in the low 30s. As more 2020 data comes in, we're seeing personnel expenses noticeably slide. While not dramatically lower year over year, they are at a level unseen in this industry's history.

What's the impetus for 2020's decline in personnel expenditures? The simple answer is the pandemic. The second quarter of 2020 was a time of extreme uncertainty for business owners, and many acted swiftly in reducing their overhead. Naturally, many brokerages focused on personnel, furloughing receptionists and office employees

As the second half of the year unfolded and the market started opening up again, many firms eased cost cutting including bringing back furloughed personnel. The question that remains to be answered is: Given all that's played out over the year, will brokerages go back to pre-pandemic levels of personnel spending?

A STRUCTURAL SHIFT

Due to the universal acceptance of virtual business spawned by the pandemic, we believe a structural shift is underway that will indeed create a new normal in personnel spending. This new normal is not due to people being less important in running a successful business, rather it'll be a reaction to less infrastructure strain as brokerages rethink their physical footprint.

Brokerage leaders have long been worried that downstream and upstream technological advancements in our industry would reduce the need for human capital. Yet, if you look at the five years preceding 2020, spending on

personnel costs held the line rather well. Despite all the tech hype, people have and will always be vital to running a successful brokerage.

At REAL Trends, we think that personnel expenditures will be reactionary to what is likely going to be a structural shift in how firms are spending on occupancy-related expenses. Based on what we're seeing play out with our own clients, as well as responses from various surveys we've conducted, many brokerages fully plan to reduce their physical footprints by either closing offices as leases expire or reducing their square footage.

Reducing physical infrastructure will naturally reduce the need for various human support roles. While I don't think personnel spending will fall dramatically, I do believe that what unfolded last year is a harbinger of things to come.

Scott Wright is a partner with REAL Trends Consulting. Reach him at 303-741-1000. ▲

Based on what we're seeing play out with our own clients, as well as responses from various surveys we've conducted, many brokerages fully plan to reduce their physical footprints by either closing offices as leases expire or reducing their square footage.



COVID-19 RECOVERY

CONSUMER INCENTIVES ARE GENERALLY OK UNDER RESPA

Settlement service providers who gift consumers for using its services is fine, but there are certain conditions.

By Sue Johnson, strategic alliance consultant



May a real estate broker, lender, or other settlement service provider give a gift, rebate, or discount to a consumer for purchasing its services (or its affiliated services) under Section 8 of RESPA?

“Generally, yes,” said the Consumer Financial Protection Bureau (CFPB) in its RESPA Frequently Asked Questions (FAQs) published on October 7.

The FAQs were released in the same CFPB blog post that rescinded its controversial 2015 Marketing Services Agreement (MSA) Bulletin. As discussed, in the November and December 2020 *REAL Trends Newsletters*, they also provided guidance for MSAs and for gifts and promotional activities.

THE CFPB FAQs ON CONSUMER INCENTIVES

The CFPB’s new FAQs provide the following regarding consumer incentives under RESPA:

Q: Under the Real Estate Settlement and Procedures Act (RESPA) Section 8, may a lender or other settlement service provider give a gift, refund or discount to a consumer for using that lender or provider?

A: Generally, yes.

RESPA Section 8 does not prohibit a lender or other settlement service provider from giving a consumer a gift or an incentive (e.g., a discount, refund of fees, chance to win a prize, etc.) for doing business with that entity. However, RESPA Section 8 prohibits, for example, giving an incentive to a consumer in exchange for the consumer referring other business to that lender or other settlement service provider.

Other federal and state laws may also have restrictions that apply and should be consulted.

The CFPB’s interpretation is consistent with guidance provided by the Department of Housing and Urban Development (HUD) when it was responsible for administering RESPA.

EXAMPLES OF CONSUMER GIFTS, REBATES, OR DISCOUNTS

While consumer incentives in the real estate industry can take many forms, here are some examples of gifts, rebates, and discounts provided by real estate brokers and agents that could be allowable under RESPA given the right circumstances:

THE CFPB FAQs MAKE CLEAR that one should always check with state laws and regulations when offering consumer incentives, even if they are allowed under Section 8 of RESPA.

AS ALWAYS, consult with your attorney before proceeding with a consumer incentive program.



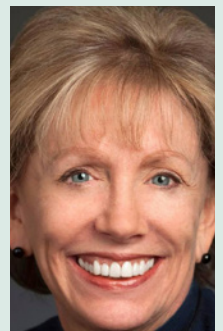
- Closing gifts: A real estate broker or agent may give a \$500 gift certificate to the client as an expression of the broker's or agent's appreciation for the client's business without violating RESPA. But, the gift certificate should not be an expression of appreciation for referring other clients, even under an unspoken understanding. The basic rule of the IRS is that if you give someone a gift for business purposes, your business expense deduction is limited to \$25 per person per year.
- Real estate commission rebates: Real estate agent or broker commission rebates to borrowers would not violate Section 8 of RESPA as long as no part of the commission rebate is tied to a referral of business. However, many states forbid sharing fees with anyone who doesn't hold a real estate license. If allowed under state law, the rebate must be listed as a credit on the Closing Disclosure and the name of the party giving the credit must be identified.
- Incentives to consumers who use the affiliated company: A gift card, discount, free service, or payment of closing costs to a consumer who uses a real estate broker's affiliate mortgage or title company is allowed under RESPA as long as the consumer is not required to use the affiliated service (although if an incentive becomes too great it could be viewed as a required use); the incentive is bona fide (meaning that its value is not made up by increasing costs elsewhere in the transaction); and the affiliated service separately is available at prevailing market prices.
- Discounts on a package of affiliated services: Since 1992,

RESPA regulations have said that the offering of a package or combination of settlement services or the offering of discounts or rebates to consumers for the purchase of multiple settlement services does not constitute a *required use*, which is prohibited under RESPA affiliated business regulations. However, any package or discount must be optional to the purchaser, the discount must be a true discount below the prices that otherwise are generally available, and the discount must not be made up by higher costs elsewhere in the settlement process.

BEWARE OF STATE RESTRICTIONS!

The CFPB FAQs make clear that one should always check with state laws and regulations when offering consumer incentives, even if they are allowed under Section 8 of RESPA. As noted above, some states forbid sharing fees and/or providing gifts to anyone who doesn't hold a real estate license, and many states that permit it require that any rebates be disclosed to all parties in the transaction. Some state regulators may totally prohibit consumer incentives in a particular industry. As always, consult with your attorney before proceeding with a consumer incentive program.

Sue Johnson is the former executive director of RESPRO, the Real Estate Services Providers Council Inc. She retired in 2015 and is now a strategic alliance consultant. ♡



RESIDENTIAL PROPERTY PRICES IN AUSTRALIA HAVE INCREASED

Despite lockdowns, some global real estate markets are doing well.

By Peter Gilmour, chief foreign correspondent

Around the world, the economic fallout from the coronavirus pandemic and the lockdowns that followed have a far-reaching impact on real estate markets. Property prices in some areas are showing unexpected resilience despite this disruption.

In Australia, the largest portal—realestate.com.au—reports that regional areas dominate the list of areas with the largest price growth for the four-month period to the end of August 2020.

“Western Australia has seen strong price growth which reflects the fact that low interest rates, government stimulus, and the bounce back from COVID-19 have led to strong demand in the state, which is pushing prices higher,” says the portal’s Executive Manager for Economic Research Cameron Kusher. “There’s also strong price growth in mining regions reflective of the strong demand for commodities. As with many other countries, there is a strong interest in outer-cities and country living with families leaving inner-city areas.”

TOP REGIONS FOR GROWTH

The top 10 regions for price growth in Australia are led by country areas in Western Australia which have seen prices rise by 74% and 62% in the last few months. Country areas in Victoria and New South Wales have seen price increases of between 30% and 45%. Kusher also said that many of the top regions for price growth have had less expensive median prices than the broader market, which suggests that city dwellers are trying to escape expensive city property prices. The median price across the top 50 best performing regions was \$275,000 compared with the national median home price of \$425,000.

The largest real estate company, Ray White on the Gold Coast, reports that in October 2020, 21 of their 30 auctions were sold prior to or at the auction. Some 42% of their registered auction buyers were from out of state with an unprecedented number of expats booking showings virtually. They’ve also seen a large number of buyers from densely populated cities like Melbourne and Sydney moving to Queensland and that has fueled price increases.

QUEENSLAND SURGE

Queensland has seen a surge in real estate demand with locals repositioning themselves to reduce debt or change lifestyles. Investors no longer want to leave money dead in the bank or risk an overheated stock market. Ray White reports that rental inquiries on the Gold Coast in the last three months have doubled, and the current vacancy rate on residential properties is .07%, down from an average of over 3% pre-COVID-19. Three Australian cities made the top 20 in an international ranking of rising housing markets in the world, namely Perth, Gold Coast and Sydney.

Most of Australia was fortunate to ease out of lockdown restrictions in time for the spring buying season. The real estate market is now benefitting from the fact that the country has managed the pandemic a lot better than many other countries.

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

*Varsity Lakes
suburb, Gold Coast,
Australia*