



RE/MAX  **INTEGRA**

BROKER/OWNER & MANAGER

RETREAT 2018

Steve Murray

State of the Industry





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THE STATE OF THE INDUSTRY 2018

A presentation by REAL Trends to the Brokerage Affiliates of RE/MAX
Integra

October 23, 2018

The state of the residential brokerage industry

- In recent Harris Insights study (July 2018) recent buyers and sellers said:
- 90% used an agent when buying or selling – no differentiation between Millennials or Gen-x
- 69% said they still depended on a referral from a trusted source as the main way they found and selected an agent
- 89% said negotiation assistance the most valuable service followed by the “provision” of homes that fit my needs or were comparable to my home

The state of the residential brokerage industry

- REAL Trends ranking of top agents and teams for calendar 2017 and published in July 2017 showed
- 15,500 total agents and teams est. 1.2% of all Realtors® in country
- Did 11% of all the closed sides in the country
- Did 23% of all closed volume in the country

Teams

- In recent research REAL Trends and the California Association of Realtors found the following about teams around the country

- Gross Margin 65%

- Profit Margin 45%

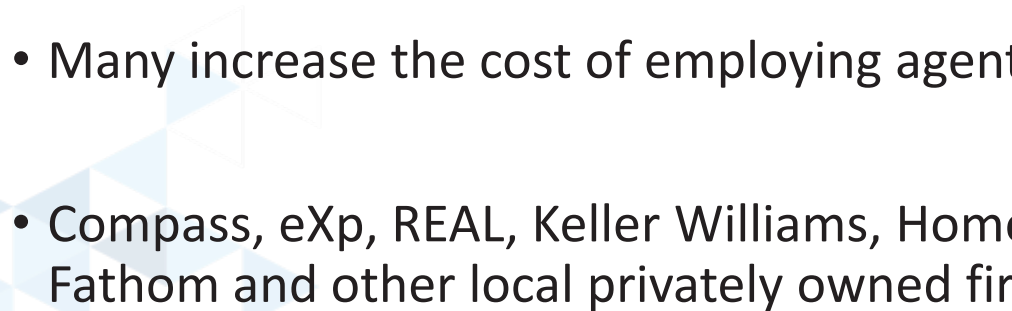
Teams and Lead Generation

- Average Brokerage Gross Margin 15%
- Average Team Gross Margin 65%
- Value of Lead Generation 50%

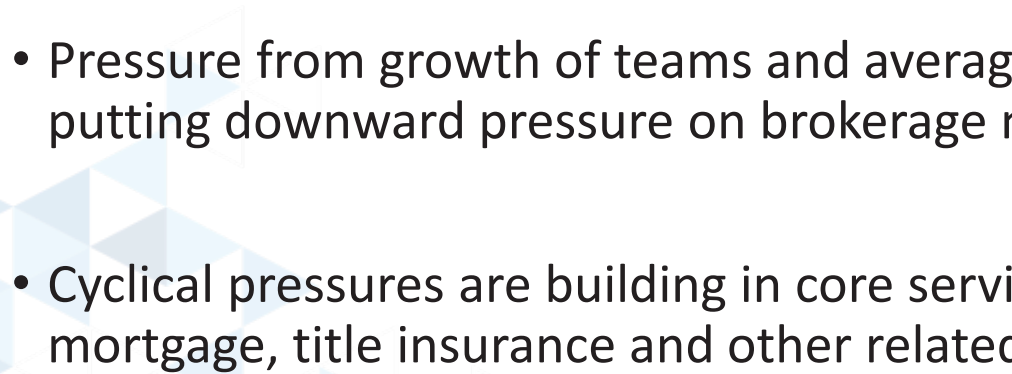
The state of the residential brokerage industry

- Existing home sales have declined on an annual basis in 6 of last 7 months - new home sales are flat with last year and have declined in 2 of last 3 months
- Year over year price increases are flattening
- Inventory shortages are easing somewhat but still critically short in entry levels across the country

The state of the residential brokerage industry

- New forms of competition have multiplied and in some cases gaining strength
 - Many increase the cost of employing agents and teams
 - Compass, eXp, REAL, Keller Williams, HomeSmart, Realty One Group, Fathom and other local privately owned firms
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The state of the residential brokerage industry

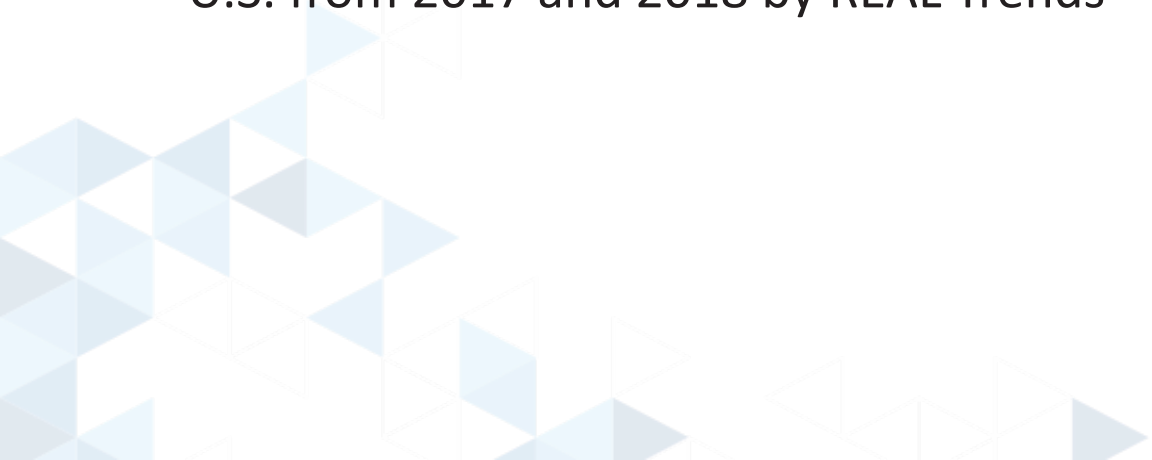
- Due to the extreme competitive environment, brokerage gross and net margins are facing downward pressure
 - Pressure from growth of teams and average size of teams is also putting downward pressure on brokerage margins
 - Cyclical pressures are building in core service margins, such as in mortgage, title insurance and other related realty service industries
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Summary points

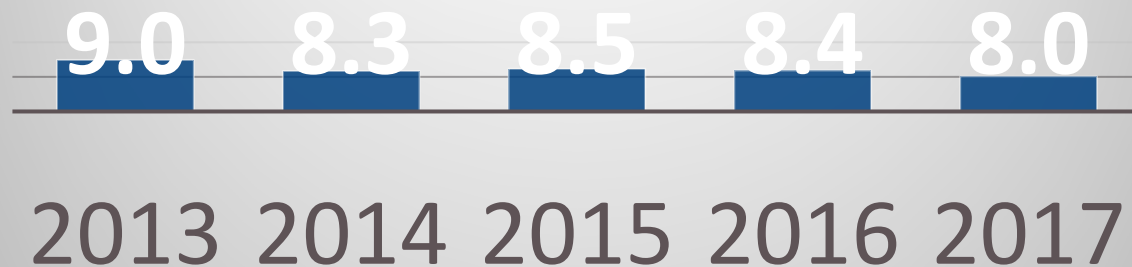
- The brokerage market is forcing firms to either be “unique” or “cheap” that is either specialized small market share boutiques or large low cost (to agents) firms with related core services
- Put another way do you prefer to be a Nordstrom or a Wal Mart?
- This is not a new trend – it started 40 years ago – but increased number of low cost competitors is driving trend faster than ever before

Some data to share

- These are slides prepared from financial and operating data from 300+ brokerage firms of all models, brands, sizes and locations in the U.S. from 2017 and 2018 by REAL Trends

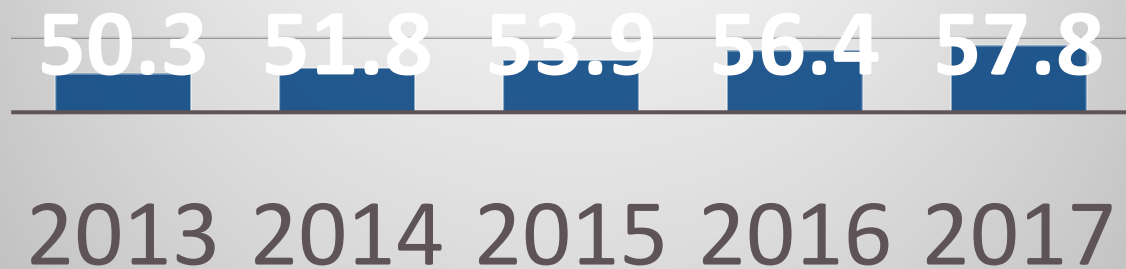


REAL Trends 500 - Sides per Agent



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FIVE HUNDRED

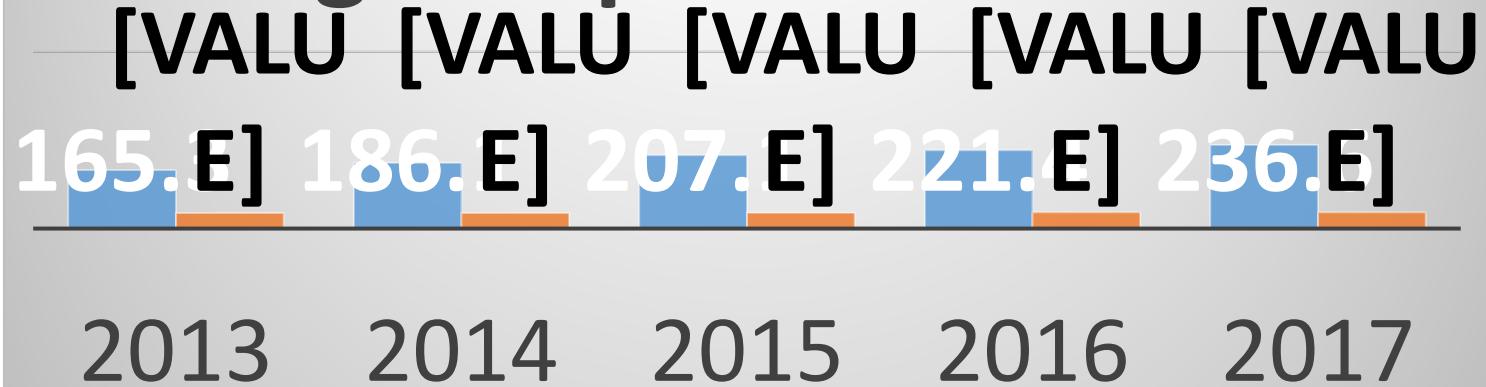
REAL Trends 500 - Agents per Office



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FIVE HUNDRED

REAL Trends 500 -

Agents per Office KW...



REAL TRENDS
FIVE HUNDRED

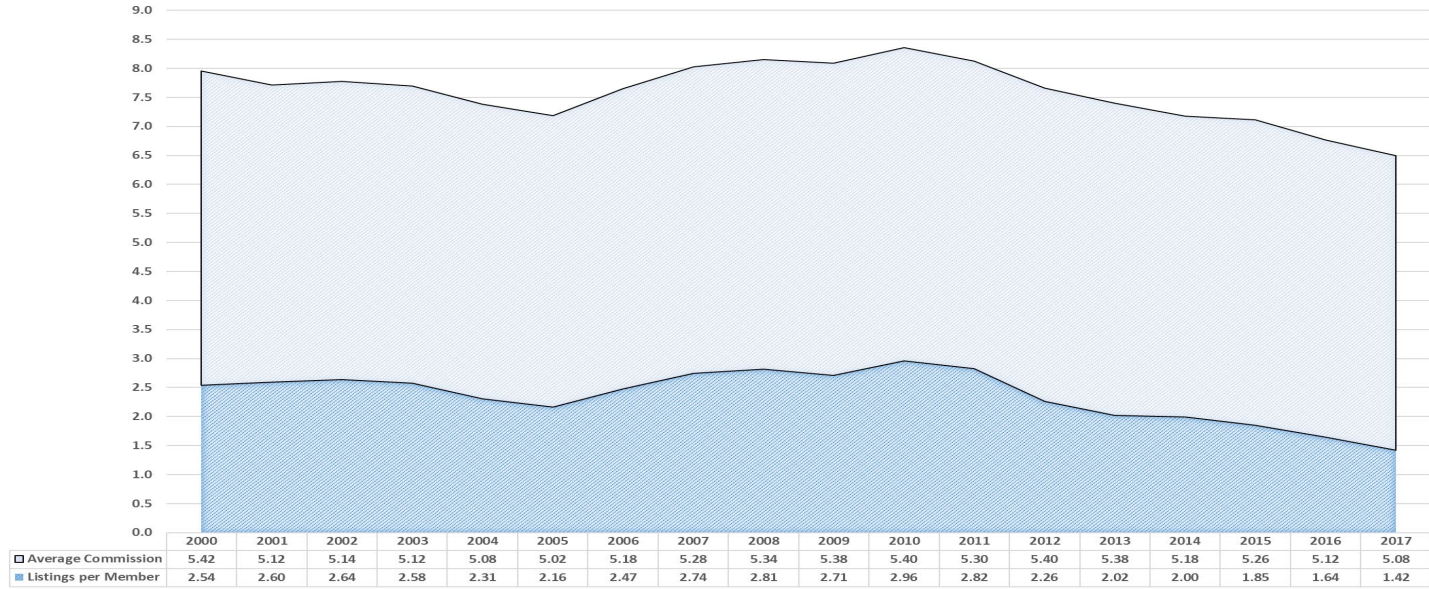
THE REALTRENDS FIVE HUNDRED

RT 500 Average Commission Rate

5.08% lowest since 2005

1991	6.10%
1992	6.04%
1993	5.94%
1994	5.88%
1995	5.83%
1996	5.75%
1997	5.64%
1998	5.48%
1999	5.44%
2000	5.42%
2001	5.12%
2002	5.14%
2003	5.12%
2004	5.08%
2005	5.02%

AVERAGE COMMISSION RATE VS. LISTINGS PER NAR MEMBER



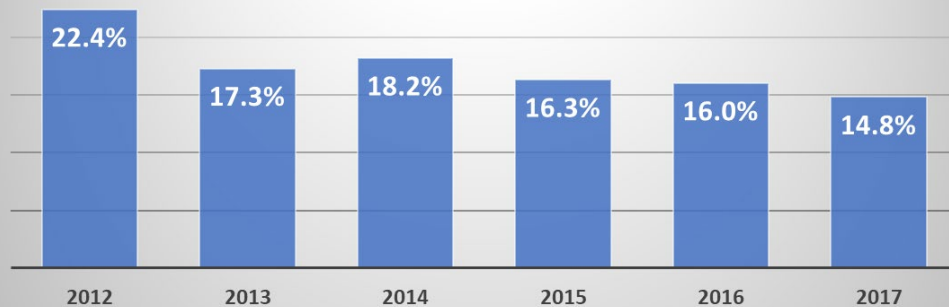
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Retained CO\$ Nationally - All Brokerage Types

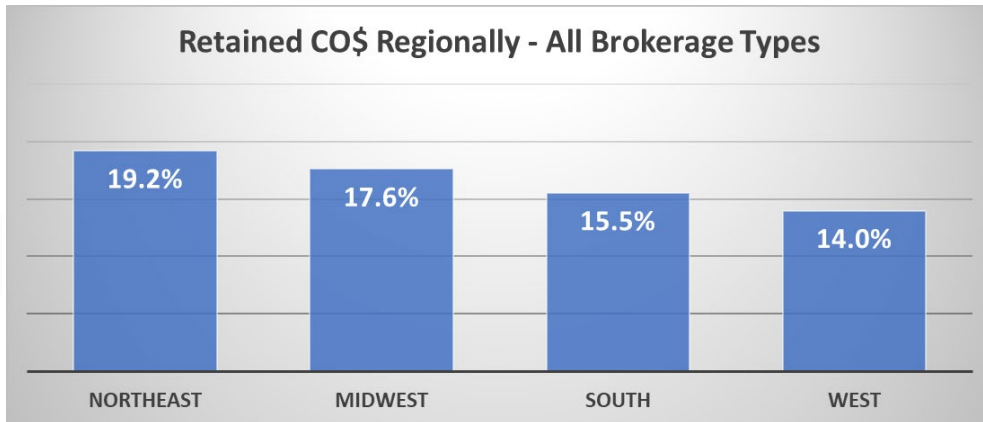




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Retained CO\$ Regionally - All Brokerage Types

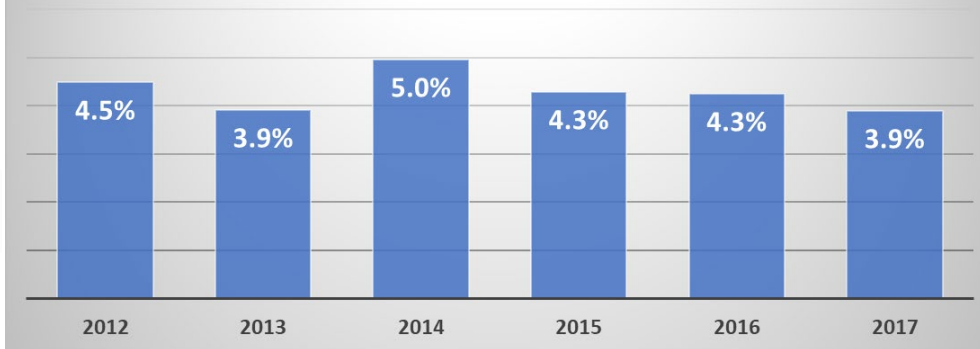




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Return on Revenue - All Brokerage Types

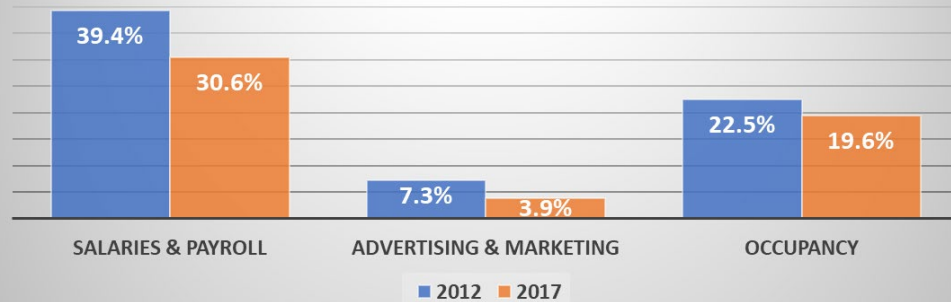




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OPEX Spend as a % of CO\$ - All Brokerage Types





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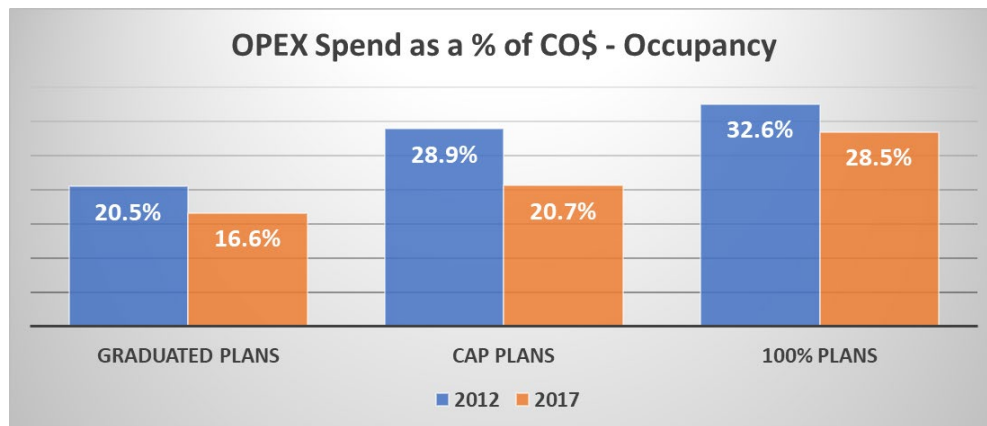
OPEX Spend as a % of CO\$ - Salaries/Payroll-Related





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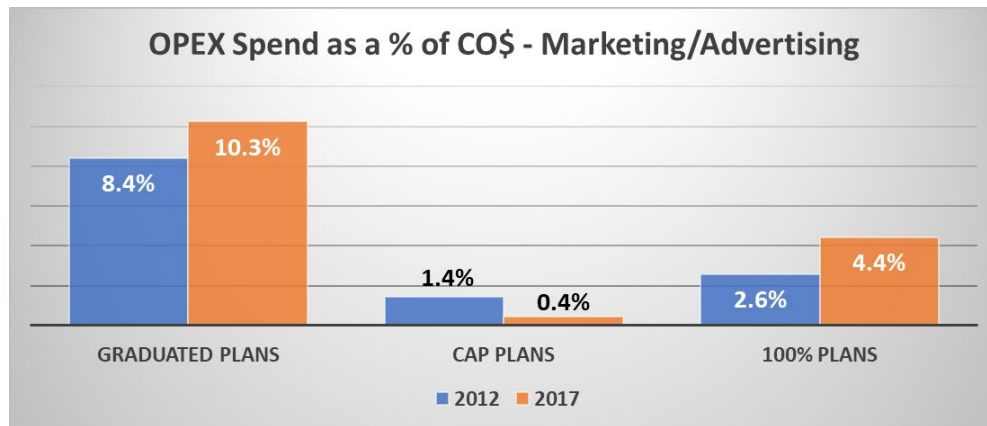
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Valuation of residential brokerage firms

- We are at the tail end of a boom in the market valuation of residential brokerage firms
- Realogy/NRT is no longer buying brokerage firms
- Berkshire Hathaway HomeServices has indicated that it will slow its acquisitions and reduce its price and terms
- However there is great activity remaining but mostly among local or regional competitors
- Some investor activity is present at this time

Valuation of residential brokerage firms

- Valuation is still based on trailing 12 months EBITDA (earnings before interest, taxes, depreciation and amortization)
- Multiples vary depending on size of firm, model of firm, location and size of market, availability of purchasers and brand restrictions
- 2.5 at low end 5.5 at upper end
- Final prices almost always affected by the Terms of a Transaction

Valuation of residential brokerage firms

- Profit is the most powerful indicator of value
- Brokerage's that show increases in agent count, productivity and other factors create an opportunity for higher prices
- Related core services such as mortgage, title insurance and property management are generally valued at prices similar to that of the brokerage firm

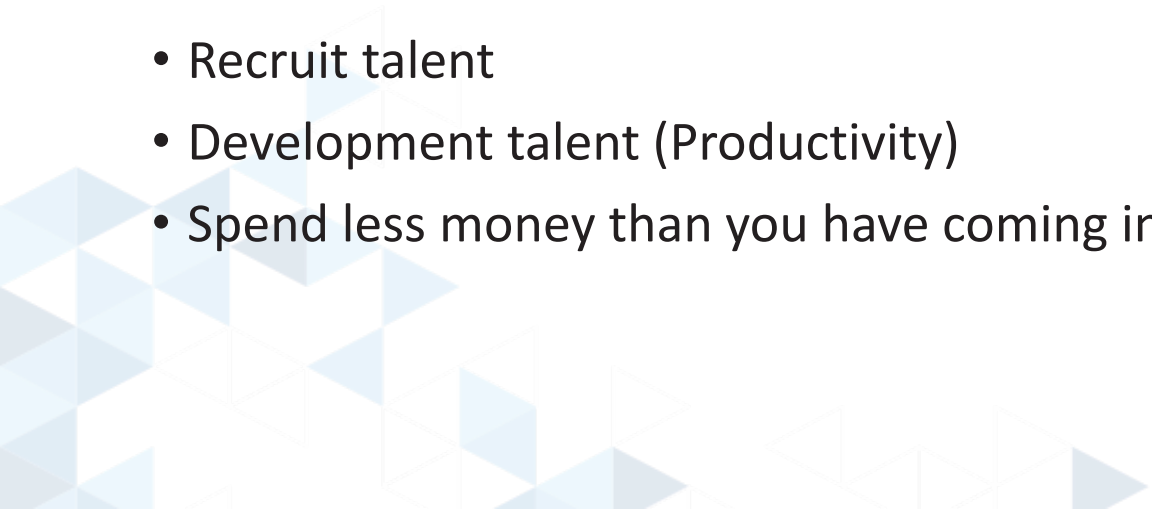
The Impact of Technology

- Current thinking among many new leaders
 - Tech will make the difference between winners and losers
 - Tech will ultimately replace real estate brokers and agents
 - Tech will enable smarter agents and brokers through predictive analytics
 - Tech will enable higher levels of productivity
 - Tech will make the consumer experience much better
 - Tech will enable iBuyers to significantly impact markets

Impact of technology

- There is simply no current proof that any of these future thoughts will actually happen – with some notable exceptions
- Tech does enable great agents and teams to both market and deliver service more efficiently
- Tech will provide an opportunity for consumers to gain more insights into markets and processes
- And It will enable iBuyers to work very efficiently

Fundamentals of growing brokerage

- For 40+ years the challenge of growing a brokerage has been the same
 - Recruit talent
 - Development talent (Productivity)
 - Spend less money than you have coming in
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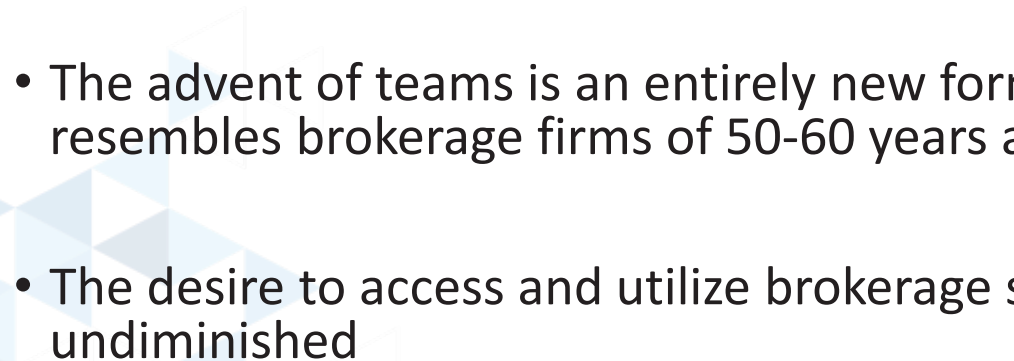
Fundamentals

- Regardless of whether independent or franchised, or model, most brokerage firms in the REAL Trends 500 and Up-and-Comers are performing well on item #3
- Other than Keller Williams all other brokerage firm have grown their agent count less than 1% per year for the last 5 years and their productivity has shrunk in that same time frame

Fundamentals

- There are brokerage firms who have similar Gross Margin and Net Margin profiles as do most RE/MAX affiliates who have grown significantly over the past 5 to 10 years. Here are a few and some points of what they did, how they accomplished their growth
- Your Castle
- @Properties
- Realty Austin

Some conclusions

- The brokerage industry has undergone several different waves of restructuring over the past 40 years – mostly based on lower cost brokerage options. This period is yet another
 - The advent of teams is an entirely new form of business, but actually resembles brokerage firms of 50-60 years ago
 - The desire to access and utilize brokerage services remains undiminished
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REAL Trends 500

The Thousand & America's Best - Top Agents & Teams

Online Performance Study

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LORE Magazine

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