

CHANGE

APRIL 2, 2006

The Consumer: Catalyst of Change.

Strategic Issues Work Group

Association Executives Committee

National Association of Realtors®

**What forces and trends
will be shaping the
U.S. real estate industry
in the next few years?**

I. INTRODUCTION



THE STRATEGIC ISSUES WORK GROUP of the National Association of Realtors® Association Executives Committee was charged with identifying emerging trends and issues that are likely to impact the real estate industry in the near future. The goal was to prepare a document that will assist real estate associations, brokers, sales associates and affiliated professionals in their strategic planning.

The work group held a series of structured discussions in January 2006 with brokers from a variety of business models, top real estate sales associates and consultants familiar with industry trends. For reasons of confidentiality, the names of those participants are not included in this report; however, their comments are cited as direct quotations.

The result of those discussions is this report, which covers:

- **Executive Summary:**
The Consumer: Catalyst of Change
- **Consumer Trends:**
Autonomy vs. Service
- **Market Trends:**
A Return to Stability
- **Technology Trends:**
Empowering All the Players
- **Brokers' Response:**
A Growing Segmentation
- **Agents' Response:**
Standing Out from the Crowd
- **Conclusion:**
Who Will Define Our Future?

There was consensus on many points but strong opposing opinions in others. Rather than try to decide which trend will succeed, we are presenting them all, even if they are contradictory in a few areas. Time will resolve these debates. As with our previous reports in 2001 and 2003, this examination of strategic trends draws no conclusions and makes no recommendations. Any action you take as a Realtor®, association executive or other affiliated professional must be your own decision, based on your own unique market and skills.



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III. EXECUTIVE SUMMARY: The Consumer: Catalyst of Change

IT'S NOT THE INTERNET OR THE LATEST PDA. It's not a new business model or the growth of agent teams. Today, it's the consumer who is the catalyst of change in the real estate industry, affecting every market segment.

"Our industry is being restructured by the consumer."

— A regional broker

This report by the AEC Strategic Issues Work Group focuses on the consumer as the primary driver of change in the real estate industry. Our previous reports (2001 and 2003) also touched on the changing consumer, but observed a greater movement in technology

Consumer behavior is the most powerful force in the North American marketplace. Just ask retail giants like Wal-Mart or Home Depot, which dominate their sectors by offering the consumer a wider selection of choices and lower prices than their competitors. And companies that fail to respond to changing consumer preferences — even once-dominant leaders like General Motors — pay the price.

innovations and alternative business models as key forces of change. Many of the trends identified in previous reports continue to influence the industry, but there are also new forces in play that are shaping the ongoing evolution of the real estate business.

In the real estate market, consumer behaviors and preferences play an equally powerful role. Today's consumers, in general, have a better understanding of the real estate transaction than in the past. They are demanding better service and better performance from their agents and brokers— as they do in all industries. And the Internet's ability to provide easy, convenient access to neighborhood and property data — as well as online mortgage loans and insurance sources — has truly empowered the consumer.

Today, it is clearly the consumer driving change, according to consultants, brokers and agents. Here are the broad trends they have identified that underlie the specific findings outlined in the following sections of this report.

• The real estate industry is moving toward more specialization.

This consumer demand for excellence will result in greater segmentation throughout the real estate industry. Already brokers, agents, multiple listing services (MLSs) and suppliers are successfully developing and utilizing different business models. In fact, the industry appears to be moving quickly away from a "one size fits" all service model and entering a new era of specialization.





More 'bricks and mortar' companies may enter the industry.

- **Consumer adoption of new technologies is driving the pace of industry change.**

From today's perspective, it's apparent that changes in technology are occurring more quickly than changes in consumer behavior. But this enabling power of technology has dramatically increased the influence and altered the demands of the consumer. And it's important to remember that today's vehicle of technology change — the Internet — is barely a decade old. We have just begun to see its impact. That impact may be evolutionary — a continuation of past trends — or it may be revolutionary, such as a new business model that sweeps aside the traditional broker-agent-consumer relationship.

Because consumer behaviors usually change gradually — and because the home buying/selling transaction remains a complex, large-scale financial transaction for most people — this report assumes evolutionary change. However, there is always the possibility of a revolution that could change everything.

- **New online models could create a revolution.**

The new generation of Internet-based businesses is becoming more savvy and successful in understanding online business and the consumer. Today, there appear to be some online companies with potential market reach to create revolutionary change in the real estate industry. Consumers are comfortable using leading auction sites to buy and sell large items — including some types of real estate. Fast, user-friendly search sites have created a new perception that any information — including data on communities, neighborhoods and properties — is instantly available and free. By creating trust in their "community," they could expand their offerings. These are examples of technology entities that challenge the traditional consumer-broker-agent relationship or the role of the multiple listing service (MLS).

- **More online business models will be developed.**

Many other technology-oriented companies are also looking at capitalizing on the real estate sector either as an advertising or business model, including these already in existence:

- An online alternative to print classified advertising.
- A new online tool to help sellers determine the market value of their current property and buyers to assess prices of prospective homes.
- A consumer subscription service with detailed information on properties in major metropolitan markets.
- A discount brokerage service that helps buyers prepare offers, negotiate terms and coordinate closings.

And there will be more.

- **More 'bricks and mortar' companies may enter the industry.**

Other potential changes come from the "bricks and mortar" sector. A major national retailer might decide to capitalize on its brand name and recognition to offer real estate services. And leading banks and insurance companies continue to look at real estate brokerage as an opportunity to build their relationships with the consumer and grow their "share of wallet" by bundling a package of financial services.

"Consumers want a range of products and a range of pricing choices. They want to be able to pick what they want and don't want."

— An industry consultant



IV. CONSUMER TRENDS: Autonomy vs. Service

IN EVERY REAL ESTATE

TRANSACTION, the consumer stands squarely at the center. It is the buyer and the seller who make the decisions that are executed by brokers, agents, lenders, attorneys and other professionals involved in the real estate transaction. As one broker said, "Some of the increasing demands we now face have been around for years — decades — but are a vital part of consumer expectations." Here are some of the key trends being driven by today's consumers:

- **Conflicting consumer desires.** When it comes to buying or selling real estate, today's consumers want both autonomy and personalized service. They want to feel in control of their destiny, while receiving highly responsive service from their agent and broker. But consumers are not singling out real estate — they are demanding this from all economic transactions. These desires — which often conflict with each other — include:
 - Convenient online services and search tools, including full information about listed properties
 - Immediate responses to their online or telephone communications
- Personal, friendly service from both the agent and the real estate company
- A smoothly integrated transaction process with effective solutions for any hurdles along the way and no surprises at closing
- Low fees and commissions or a choice of fee packages
- A convincing sense that the agent and broker add value to the buying/selling experience
- **Desire for control.** Many consumers are taking more personal control of the real estate process. These buyers and sellers are willing to do more of the work in the transaction in exchange for a discount on commissions and fees — or simply because they want to do it. Many feel they already are doing much of the work that agents did in the past when they search listings on the Internet, drive by/view properties, review property values, and arrange financing options, all before they contact an agent. The Internet has empowered this group of consumers.
- **Growth of the Internet.** One consultant cited a recent study that indicated 78 percent of all buyers now use the Internet to search for a home, and 47 percent to locate agents — and both figures continue to climb. "Consumers expect to buy goods and services over the Internet," said one consultant. "We have always said that real estate is a local business and one that is too personal to be done over the Internet. But there will be a certain number of transactions done over the Internet — maybe even 10 percent — in the next five years."
- **Continued demand for full service.** A large segment of consumers continue to value the traditional model of highly personalized service from a professional real estate agent, supported by a broker, who takes care of everything — and charges accordingly. As one veteran top-producing agent said, "I provide a level of quality and service that is commensurate with the commission. And I have a very loyal base of clients."



- **An integrated transaction process.** Today's consumers would prefer a more integrated, more transparent transaction process. As one consultant said, "It's now a paperwork intensive process with lots of redundancy. Consumers want things to run more efficiently and they want full disclosure. Why do they pay all these fees and what do they all mean?"
- **More requests for "one-stop" services.** Consumer demand for greater efficiency is likely to help real estate companies that offer "one-stop" services — real estate brokerage, mortgage loans, title insurance, homeowners/hazard insurance, and concierge services. It also offers opportunities to technology companies, brokerage firms, or MLSs that have been exploring and developing transaction management platforms. In the words of a successful young agent: "I think

e-signatures and virtual closings would be great. They would make this business more fun and easy, while meeting the needs of consumer. It's what they want."

Other demographic and employment trends are affecting real estate consumers, including:

- **A new generation of buyers.** Now in their 20s and 30s, these younger adults are comfortable with technology, want instant gratification, and they come from very diverse cultural backgrounds. Generational attitude differences are becoming much more apparent as they stretch across all the participants in a typical transaction. Picture a Hispanic teenager listening to an iPod, IMing (instant messaging) with friends, reading a book in Spanish and finishing a homework assignment in English — all at the same time. This is the first-time buyer of the next decade. How many brokers and agents will understand her values and be able to serve her effectively?
- **"Remote" employment.** With the information economy, virtual offices, telecommuting and frequent air travel, employers are increasingly comfortable with "remote workers." That means a growing number of working-age consumers will be able to choose their location of residence based on quality of life issues. Will agents and brokers be able to promote their local markets effectively? Will population concentrations shift?
- **A more diverse society.** A continuing flow of immigration, coupled with a natural population increase, is producing a more diverse society. In many states, Hispanics, Asians and Europeans are vital forces in the real estate market — with vital implications for sales professionals. As one broker said, "You cannot be in the market unless you match the market. To serve Hispanics, you need Spanish-speaking agents. In much of the country, the minorities are now in the majority." And a more diverse society creates a greater need for real estate professionals to understand their clients' cultural nuances in real estate and investment transactions.
- **A smarter consumer.** Agents, brokers and consultants agree that today's consumer is much more informed and savvy than in the past. As consumers understand the complexity of real estate transactions, they frequently express a decreased desire to do it alone — or accept decreased services. For some real estate professionals, this may appear to be a challenge — for others it is also an opportunity. A smarter consumer is also likely to have a better understanding of the value of professional services. And top performing agents and firms say that one reason they remain successful is their ability to communicate their value proposition to consumers.

MANY U.S. REAL ESTATE MARKETS

— especially those in second-home regions — enjoyed an extended boom from the late 1990s to 2005. Low interest rates allowed many first-time buyers to achieve their dream while the lackluster performance of the stock market fueled demand from investors. As a result, some vacation, coastal and metropolitan markets enjoyed annual appreciation rates of 15 to 25 percent for an extended period — although growth rates were far lower in many Midwest and Northeast communities.

As of first-quarter 2006, it appears that historically high levels of demand are returning to more normal levels in most markets. This raises several strategic concerns expressed by brokers, agents and the industry in general:

- *How will the industry handle a lower volume of transactions? Many think there will be far fewer agents and firms. Will new agents who flocked to the industry during “good times” now leave the profession or will older agents who have been through several business cycles decide now is the right time to retire?*
- *Will smaller and family-owned brokerage firms decide to sell their companies to larger, expansion-oriented players?*
- *Will the new discount or online service companies be able to expand their market share or will they lose traction in a slow-growth environment?*
- *In the face of heightened earnings pressure, what business decisions will publicly traded companies make regarding their real estate brokerage divisions?*

Some trends in the real estate industry are already apparent:

- **Increasing consolidation.**

The return to market stability will accelerate the trend toward

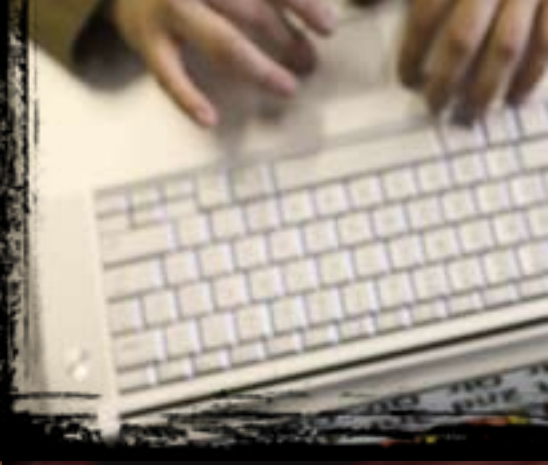


V. MARKET TRENDS: A Return to Stability

brokerage consolidation. “This is a time when the large companies will pick up market share,” said a consultant. “More family-owned firms will be selling and we believe the acquisition market will be very active.” As a growing number of smaller firms seek to be acquired, purchase prices are likely to decline — as one large broker said, “Sellers may have missed the top of the market.” Another consultant expects the continuing industry consolidation to squeeze out the middle-tier brokerages. Larger companies will benefit from economies of scale, while niche brokers will succeed by leveraging their specialty in a local market.

- **Declining revenues.** A downward pressure on commissions and fees that began in the early 1990s — prior to the Internet — will accelerate in today’s more competitive market environment, according to consultants, brokers and agents interviewed for this report. “The downward pressure on commission rates will continue unabated,” said one consultant. “Today, we have a huge overcapacity of real estate professionals relative to the business. It’s our belief that the largest factor to decline in commissions is competition between agents and firms that lack differentiating factors other than price.”


- **Improved efficiency.** Boosting productivity and efficiency are the primary operational goals of most brokers today. In a stabilizing market, some brokers will close marginal offices, cut staff personnel or redirect advertising to less expensive media. The key to success will be operating more efficiently and finding new ways to boost productivity without increasing costs. “Survival and growth are possible only through attention to cutting costs,” said one broker.
- **Greater financial pressure on homeowners.** In the “boom years” many new homeowners relied on the rising value of their homes to cover their spending or grow their net worth. But owners who are overspending their monthly budgets may face financial difficulties in a more stable market. Rising adjustable-rate mortgage payments, higher property taxes, heating costs and insurance premiums are adding to the cost of ownership for many Americans. It’s possible that the market will see an increasing number of distress sales and foreclosures in the next five years.



"Consumers are using better technology to view \$20 books than we do for a \$750,000 home. We haven't caught up yet."

— An industry consultant

VI. TECHNOLOGY TRENDS: Empowering All the Pl



TECHNOLOGY CONTINUES TO EMPOWER THE CONSUMER, while accelerating the pace of the real estate transaction. That's particularly true for consumers in their 20s and 30s, who have very different expectations than the previous generation. "Many younger adults think e-mail is outdated, and prefer instant communications, either online or via cell phones," says one agent. "They are usually far ahead of agents and brokers on the technology front." Others see different technologies used for different items, i.e., e-mail for documents and instant messaging for communications and updates.

Here are some of the ways that technology will continue to affect the industry:

- **More online tools.** Without question, the Internet will continue to grow in importance as a vehicle for information, communications, and transaction management. Both brokers and agents continue to focus on using online tools to stay in close touch with clients, operate more efficiently and smooth the process. "We use our Web site to keep both buyers and sellers informed," said one broker. "Everyone knows what's going on and it's a more efficient process for us — partly because we have empowered the consumer to do more work."

- **Consumer feedback systems.** Major online business players and services understand the power of online ratings and feedback systems. They have used the transaction evaluation process to build consumer trust. Real estate brokers and agents are beginning to use online surveys, rating systems and "blogs" (posted comments from individuals) to evaluate their services and obtain a competitive edge in the marketplace. In the next five years, more consumers will expect to see these types of feedback systems on industry sites.
- **Accelerated response times.** When a prospective buyer sends an e-mail, he/she wants a response within minutes — not hours. And an agent who is able to "IM" (instant message) with a client will be able to respond even more quickly. Savvy brokers and agents will adjust to the accelerated pace of communications, perhaps by carrying a multi-purpose PDA, wireless phone or other mobile communications tool.
- **"Presence" applications.** These sophisticated converged communications tools allow sales professionals to manage both voice and data channels and address their clients' immediacy expectations. For example, an agent could arrange to receive incoming messages from



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a certain client while holding most voice calls and e-mails for later review. As the worlds of voice and data communication grow closer, "presence" tools will play a greater role in the real estate business.

- **Surveillance tools.** Today, when a sales professional hosts an open house, the consumer may be watching with a Web cam. After receiving a "confidential" e-mail message, the recipient might forward the information to a friend, a business associate or an attorney. Real estate professionals need to be aware that their behaviors or comments may be recorded or preserved for the future.
- **MLS consolidation.** Demands for MLS consolidation appear to be limited to parts of the country where several MLS systems cover the same large market area or where large firms have offices in multiple states. Faced with the costs and complexities

of belonging to multiple local MLS systems, many large brokers would like to see a consolidation into regional or statewide services.

"There are too many systems and we live in a global marketplace", said one consultant. But technology already exists that could provide solutions of seamless information access across different MLS systems. Brokers also wrestle with data compatibility issues, and would like to obtain MLS data in a consistent format to use with their company internal systems and web sites.

- **Data security.** For brokers, agents and MLS systems, security and accuracy of data remain important issues. In the past decade, the Internet has become a vast repository of real estate content — but there are no central controls to that listing data assuring it remains current and accurate. As one broker said, "We need to spend more time on how

we can secure the data so we feel comfortable as brokers and agents that we've done the right thing for the consumer."

- **Consumer access to MLS data.**

Perhaps the key MLS issue for the future is consumer access to content. It is a given that property data will be available to the public in some manner so the debate is on control and content. Should a local or regional MLS allow consumers to access listing information — and retain control of the process — or simply serve as a database for brokers and their agents? One MLS system decided to provide limited access to consumers who would have to pay a daily fee to the MLS for more information or contact a real estate agent to receive a code that would allow them to search the listings. This is but one example of many possible responses. As one consultant said, "We have a lot of preconceived notions about the multiple listing service. Perhaps we should think about what we would create if we were starting from scratch and there was no MLS."





*How do we create
new models that will
effectively respond to
the new world?
— A national broker*

VII. THE BROKERAGE RESPONSE: A Growing Segmentation

IN 1908, HENRY FORD ESTABLISHED AN ASSEMBLY LINE to produce the first of his Model Ts. For the next two decades, Ford sold more than 15 million Model Ts and laid the foundation for today's automotive industry. Yet Ford's disdain for changing consumer behavior — "They can have any color as long as it's black" — allowed his competitors to increase their market share. The success of General Motors, Pierce-Arrow, Chrysler and other manufacturers resulted in a "new" industry with distinct market segments.

The real estate industry has evolved many new models and traditional model brokerages have morphed by effectively using parts of the new concepts. The industry is in the midst of reinventing itself with a dazzling array of possibilities. Progressive brokers and agents have made incredible advances while others have remained unchanged. In the next few years, the real estate brokerage business is likely to be characterized by growing segmentation, with several distinct business models for serving consumers:

- **"One-stop" companies** that offer real estate brokerage, mortgage, title insurance and/or homeowners insurance under one roof. This model is often implemented to

offset declining profits in real estate brokerage — although margins are also under pressure in the mortgage industry as well. "The one-stop approach is the best way for us to maximize both our efficiency and our profitability," said one regional broker. "It also allows us to be a consistent thread of fabric, woven through the entire transaction."

- **Full-service, full-commission brokerage firms** that focus on personalized assistance with the real estate transaction. Once the dominant business model, this still leading segment is mostly likely to be seen in regional or niche-oriented companies. Continued positioning as a valued professional service is critical in this model.
- **Low overhead models** where agents work primarily from home. This allows the broker to open small "bricks and mortar" facilities while being able to tap the services of a large commissioned sales force. With minimal overhead the value proposition is normally based on low cost to consumers.
- **Discount brokers** that promote low price and may offer a menu of marketing services to sellers. This segment was spurred by the real estate market's rapid appreciation in the early 2000s. Some consultants wonder how this segment will be affected by change to a "buyer's

market" in many regions of the country. Price is the differentiator.

- **Flat-fee services** (both physical office and online) that provide minimal marketing assistance to FSBO (for sale by owner) sellers. This service is a combination of lower price and defined services. Again, this segment enjoyed significant growth in the recent boom years, but may see slower growth in a more stable market climate.

As the real estate industry becomes increasingly segmented — and commission revenues continue to decline — brokers will need to determine which business model makes the most sense for their ongoing operations. "Real estate has offered one model — the full service approach — for a long period of time," said one consultant. "I think the future will consist of consumers who will choose any one from all of these different models."

HERE ARE OTHER KEY TRENDS AFFECTING BROKERS:

- **Multiple service options within the same company.**

Some real estate companies are experimenting with offering sellers a choice of full-service or limited-service options within the same firm — so it can compete simultaneously in two different market segments. This approach requires educating company managers, agents — and the consumer — to be successful. Therefore, it may be easier for a large real estate company to offer segmented services under different “brands” that utilize different personnel.

- **Educating consumers about brokerage services.**

It is easier for consumers to understand pricing than the level of services associated with selling or buying a home. “Pricing is a simple approach to a complex issue,” said one consultant. “Brokers and agents need to educate consumers on what the different pricing means to them. For instance, a company might offer three ways to list a home at three different pricing schedules and let the consumer choose.” A clear separation of price models and service models is needed.

- **Empowering consumers for greater efficiency.**

A few leading-edge brokers are offering a suite of “empowering” Internet tools to the consumer, so their agents have to spend less time with each client. “We have a site that helps buyers and sellers make their decisions, equipping them with graphing tools so they can analyze the latest data,” said a broker. “But there is a cost associated with that technology investment, and very small brokerage firms might have to go a different direction to provide service.”

- **Reducing demands on agents’ time.**

In the future, a real estate brokerage may resemble other professional offices, where the most time-consuming tasks are performed by salaried personnel rather than the agent. For instance, a prospective buyer would be greeted by a receptionist, interviewed by a salaried assistant, then directed to the agent, who would analyze the buyer’s needs

and advise on the appropriate course of action. After the buyer makes an offer, the broker’s office staff handles the rest of the transaction. This model of specialized service delivery is already being used by many successful agent teams — suggesting it has wide applicability in the industry. As one large broker said, “We fully support the agent in every step of the process so they will focus on the customer contact and care. As a result we do not have any agent teams here.”

- **Managing Internet leads.**

Many brokers today are wrestling with the question of Internet leads generated internally and externally. Some are investing in their own lead development and management technology, and then referring the leads to their agents in exchange for a set fee or different commission split on the transaction. Meanwhile, agents are developing their own lead capturing capabilities and relationships, while third-party service companies are offering innovative solutions. Brokers, agents and their vendors all recognize that online leads will be increasingly important in the future. “Some brokers expect Internet leads to be 10–12 percent of their total business in the next few years,” says one consultant. “They will compete for these leads more aggressively than in the past. We will see more referral relationships and alternative marketing models popping up.”

- **Growth in referral fees.** Many brokers are concerned about paying referral fees to third-party companies, especially for online leads. One broker noted that more than 25 percent of all transactions now have some type of referral fee attached — a trend that could have significant consequences for their long-term profitability. Several brokers felt that online marketing companies that focus on capturing leads and referring them to brokers add little value to consumer relationships, and are simply using technology tools to take advantage of the industry’s cooperative referral system.

- **Tracking referrals.** Determining the value of traditional or online referrals is difficult for brokers who don’t have effective tracking systems in place. Since the capture rate for online referrals is low, one consultant mentioned that brokers should invest in tracking systems to determine the source of their customers and where they should spend their advertising dollars.

- **Succession planning.**

Management development is a consistent concern for brokers — many of whom have office and sales managers in their 50s and 60s. “If the market turns tougher, a high percentage of these managers will consider retiring,” said a consultant, “and most brokers don’t have a plan for their replacements. Having strong managers in place will be even more important, though, in a period of tougher competition when they will have to fight for every piece of business.”

- **A focus on younger agents.**

Many real estate firms are looking past the concept of “median age” to the actual percentage of agents under the age of 30 within their firm. This appears to be a quietly growing group that has received far less attention than the Baby Boomers nearing retirement age. Consultants and brokers report a clear trend of younger agents choosing real estate as a first career for many positive entrepreneurial reasons. Many of these agents are fresh out of college and already have strong sales and planning skills. As more of these “next generation” agents enter the business, they will steadily increase their share of the marketplace.

- **Greater need for training.** With the growth of the real estate agent population in recent years, and the arrival of younger agents, real estate brokers and associations will be called upon to provide effective education, training and mentoring programs using a wide variety of technologies and experienced managers.



VIII. THE AGENT RESPONSE: Standing Out from the Crowd

IN TODAY'S MARKET, an agent has to stand out from the crowd to be successful. "You have to capture the attention of the client and build a personal relationship," says one veteran agent. Here are some of the approaches being used by top agents:

- **Immediate responsiveness.**

Some agents carry PDAs with voice and data capabilities that enable them to respond immediately to telephone and e-mail calls. "Forget about a 24-hour response time," said one agent. "You have to get back to the consumer right away."

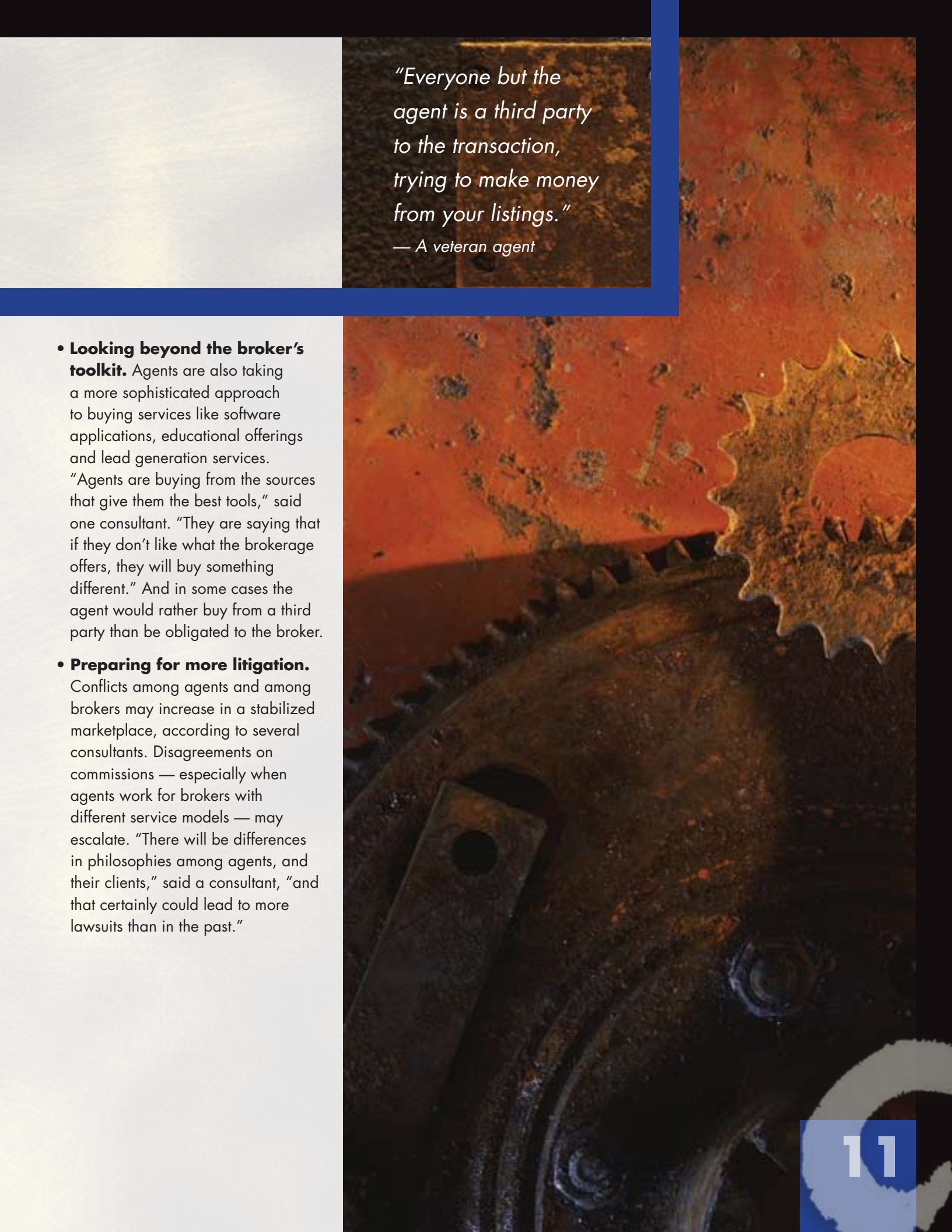
- **A team of specialists.** The ongoing trend toward agent teams appears to be accelerating because of the potential benefits in productivity. Agent teams are no longer composed of clerical assistants but are now specialists in listing presentations, buyer representation, negotiating, marketing, transaction coordination, staging houses, technology/web sites, etc. With the support of this new type of team, a top agent can focus on developing new relationships and resolving the difficult issues.

- **Internet lead tools.** While leads generated by traditional direct mail are usually active buyers and sellers, it may take an online buyer 16 to 24 months of looking at communities, neighborhoods and actual listings before "getting serious" about making a purchase. Forward-thinking agents are using semi-automated tools (newsletters, e-mail responses) as well as their support staff to cultivate and nurture an online relationship for an extended period of time. "Smart agents are using software — and their team members — to respond to those leads," said one consultant. "The others are getting frustrated."

- **Relationship management applications.** Leading-edge agents are exploring how to use customer relationship management (CRM) applications to maintain loyalty beyond one transaction. For instance, an agent could move beyond the traditional birthday and anniversary reminders to offer a quarterly market update on the increased value of a customer's home. Most successful are tools that provide for the personalization of information and ongoing contacts based on a database understanding of each individual customer.

Of course, agents' relationships with their brokers continue to evolve as well. Here are some of the new issues identified by top producers:

- **A desire for "belonging."** Many successful agents want a feeling of support, belonging and recognition from their broker, along with the financial rewards of success. "I want a model that supports me as a human being," said one agent. "I want to do the best possible job for my clients, and I want to have a say in the company's decisions to ensure I can receive that support."
- **Setting high standards.** A broker who sets high standards of service may be more likely to capture the loyalty of successful agents than one who simply looks at the financial side. "I expect honesty, integrity, openness and willingness to listen from my broker," said one agent, "along with the ability to paint a vision of what the future will look like for the company, and for my team."



"Everyone but the agent is a third party to the transaction, trying to make money from your listings."

— A veteran agent

- **Looking beyond the broker's toolkit.** Agents are also taking a more sophisticated approach to buying services like software applications, educational offerings and lead generation services. "Agents are buying from the sources that give them the best tools," said one consultant. "They are saying that if they don't like what the brokerage offers, they will buy something different." And in some cases the agent would rather buy from a third party than be obligated to the broker.
- **Preparing for more litigation.** Conflicts among agents and among brokers may increase in a stabilized marketplace, according to several consultants. Disagreements on commissions — especially when agents work for brokers with different service models — may escalate. "There will be differences in philosophies among agents, and their clients," said a consultant, "and that certainly could lead to more lawsuits than in the past."

"We need to define ourselves or we will be defined by the outside forces."

— A national broker

X. SUMMARY: Who Will Define Our Future?

How do you:

Work with the empowered consumer?

Deliver the highest possible level of service?

Operate most efficiently?

Move successfully through a market correction?

And stay at least a step or two ahead of the competition?

WE BELIEVE IT IS ESSENTIAL FOR EACH REAL ESTATE PROFESSIONAL, brokerage firm or industry organization to examine these strategic issues on a regular basis. This is a highly competitive industry — and one where consumer behavior is constantly changing — gradually or suddenly. "We have to make sure the consumer feels we bring value to the transaction," said a broker. "Otherwise, consumers go where they feel they get the best deal."


Therefore, we invite each reader of this report to ask yourself:

- ***If the trends outlined in this report occur, how will my business or organization be affected?***
- ***How can I stay in close touch with consumers in my market?***
- ***What tools do I have that can be leveraged more efficiently for the consumer?***
- ***Where are the greatest opportunities to build my business or strengthen my organization in the next few years?***

The AEC Strategic Issues Work Group advises readers to look to the industry innovators and pioneers who are already wrestling with the next round of consumer-driven changes. As one broker said, "The future is defined by people on the edges. They may be a small percent of the total, but they represent a crucial window on the future."

“The future is defined by people on the edges. They may be a small percent of the total, but they represent a crucial window on the future.”





*"Consumers want a range of products
and a range of pricing choices.
They want to be able to pick what
they want and don't want."*

— An industry consultant

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