



D.A.N.G.E.R.

definitive analysis of negative game changers emerging in real estate

REPORT

researched and authored by



Swanepoel
T3 Group

commissioned by



NATIONAL
ASSOCIATION *of*
REALTORS®

the **D.A.N.G.E.R.** report

Definitive Analysis of Negative
Game Changers Emerging in Real Estate



NATIONAL ASSOCIATION OF REALTORS®

The National Association of REALTORS® is America's largest trade association, representing over 1 million members, including NAR's institutes, societies, and councils, involved in all aspects of the residential and commercial real estate industries.

Our membership is composed of residential and commercial REALTORS® who are brokers, salespeople, property managers, appraisers, counselors, and others engaged in the real estate industry. Members belong to one or more of some 1,400 local associations/boards and 54 state and territory associations of REALTORS®

The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict Code of Ethics.

Working for America's property owners, the National Association of REALTORS® provides a facility for professional development, research, and exchange of information among its members and to the public and government for the purpose of preserving the free enterprise system and the right to own real property.

Message from NAR Leadership

We are an industry that values our entrepreneurialism. Being a REALTOR® is not a 9-to-5 job. It's not even a "job". It's a calling. The challenges we face every day are a mix of age-old questions of survival and trailblazing into the unknown. We need to account for both.

This *Danger Report* is a mix of yesterday, today and tomorrow. The truth is, there are a lot of challenges facing the industry. It's important to understand where we've been and where we are, but equally important to anticipate the forces taking shape that we can't yet see.

In an attempt to give 'voice' to these forces, we conducted confidential interviews with many of the top industry minds, from within organized real estate and from without. The result is this Report, which attempts to catalogue everyone's greatest challenges and concerns in one place as a starting point for industry-wide dialogue.

Of course, we will be stronger if we meet these challenges together. But

the pace is quickening. We must be agile and nimble if we hope to be successful. Our deliberations won't come just from the boardroom. They will come in the hallways, the lobbies, and the walks between meetings.

We hope, in reading this Report, you are filled with both passion and resolve to engage in the debate about the future of our industry. By focusing on these challenges, we will make more opportunities than we ever imagined.

CHRIS POLYCHRON

2015 President

National Association of REALTORS®

STEVE BROWN

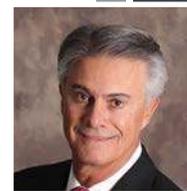
2014 President

National Association of REALTORS®

DALE STINTON

Chief Executive Officer

National Association of REALTORS®



CHRIS POLYCHRON

2015 President



STEVE BROWN

2014 President



DALE STINTON

Chief Executive Officer



STRATEGIC THINKING ADVISORY COMMITTEE

PURPOSE

To identify and gather data that may affect the future of the National Association of REALTORS®, and to monitor and research threats, opportunities, key trends and issues, particularly from the fields that may impact the industry, our members, the Association, and the real estate consumer. To create and deliver an annual report of their findings (including supporting materials) to the Leadership Team, Executive Committee, and Board of Directors.

COMPOSITION

Core of the Strategic Thinking Advisory Committee: 20 at-large members (one of whom is the Chair of the Young Professionals Network Advisory Board, and two who specialize in commercial), plus the Chair (appointed by the President), Vice Chair (appointed by the President-elect), Immediate Past Chair, the elected Leadership Team members (President, Immediate Past President, President-elect, First Vice President, Treasurer), the CEO and Senior Vice Presidents ex-officio (without a vote). Outside participants as needed (non-voting) based on the issues.

Foreword from the Strategic Thinking Advisory Committee

Looking ahead to the future, whether as part of our own business strategy or as members of the REALTOR® organization, requires that we assess the environment that is taking shape and evolving each day. New threats emerge and unexpected opportunities arise, even as we anticipate other developments in the businesses or the organizations with which we are affiliated.

But, effectively planning for the future requires a thorough understanding of the threats and challenges that the real estate industry faces today and during the next few years. As real estate professionals, one of our strengths is an ability to solve problems for our clients, so it is natural that we also want to find solutions for the threats that we see in our business and in our industry. Too often, however, we want to move quickly toward a solution, before we have a thorough understanding of the dangers we are confronting.

To help move the discussion forward in a meaningful and worthwhile manner, the National Association of REALTORS® Strategic Thinking Advisory Committee, along with Stefan Swanepoel, has created a report that seeks to describe as many of the threats and dangers as possible that may affect the real estate industry. At one time or another, each of us has probably had a conversation with a colleague in our office or at a meeting about many of the threats described in

this report. Unlike these irregular, ad hoc discussions, this report brings together the collective wisdom and insights of professionals from all segments of the real estate industry allowing us to gain a more comprehensive view of the industry environment.

Each day, we see evidence of changes in the industry and our business that can be both exciting and unsettling. This report is a forward looking assessment of threats that could emerge from the perspective of agents, brokers, the National Association of REALTORS®, state and local associations and multiple listing services. The time frame during which any of these potential dangers could emerge ranges from months to years suggesting some threats have a higher level of urgency than others. If any of these threats do come to pass, either sooner or later, they could affect the industry with varied intensity. Some could even be “game changers,” shifting the flows of information, capital, and profits in ways that we don’t necessarily understand today.

While the publication of the DANGER Report is one step toward inspiring thought and conversation, we hope that it will go further by allowing your organization, brokerage, or association to begin a dialogue about the dangers you see. After reading this report, you may find areas where you agree and areas where you disagree with the assessment put forward. In either case, we hope this report will be a discussion starter that will help prepare you and your organization for the future.

COLLEEN BADAGLIACCO

2015 Chair
Strategic Thinking Advisory Committee

MICHAEL OPPLER

2015 Vice Chair
Strategic Thinking Advisory Committee

TODD SHIPMAN

2014 Chair
Strategic Thinking Advisory Committee



COLLEEN BADAGLIACCO
2015 Chair



MICHAEL OPPLER
2015 Vice Chair



TODD SHIPMAN
2014 Chair



SWANEPOEL | T3 GROUP

The leading management-consulting firm in the residential real estate industry. The Swanepoel brand has become synonymous with quality market intelligence by publishing its annual *Swanepoel TRENDS Report*, the *Swanepoel Power 200*, and the *T3 Tech Guide* as well as a large portfolio of white papers under the *Real Estate Confronts* brand. Founded in 1997, the company has over the last two decades has assisted over seventy percent of the industry's largest firms.

The Swanepoel | T3 Group serves as hosts of the annual T3 Summit, real estate's foremost leadership conference, where CEOs meet to address industry-wide challenges.

The Group is the also the creator of T3 Experts and T3 Fellows, providing top producing agents and fast growing teams the best practices and business systems needed to ensure success.

An extensive and experienced cadre of management consultants skilled in creating and implementing strategies for high growth organizations, conducting technology as well as risk and compliance audits is available through the consulting division T3sixty.

RETrends.com | SP200.com | T3Summit.com | T3Experts.com | T3sixty.com

Preface from the Author

The *D.A.N.G.E.R. Report* addresses one step in a strategic planning exercise by asking an important question: What are the threats that could impact the residential real estate industry?

We sometimes view the industry through a distorted lens based on limited facts and a lot of conjecture. We decided it was time to change that.

This Report is a bold attempt to help the industry wrap its arms around the future. The future is not doom and gloom but at the same time we should not underestimate it. Change will absolutely happen and you can bet the farm on that. The unexpected often occurs with a single event or a single company. Some risks or threats identified in this report may build slowly through incremental changes while others might be overnight surprises.

- Doubt everything, be profoundly skeptical.
- Be zealous in your pursuit of knowledge.
- Shatter conventional wisdom.
- Laugh at your disbeliefs.

The National Association of REALTORS® commissioned the Swanepoel | T3 Group to uncover, research, and index the potential threats facing the industry. And we did so by reaching out to more than 70 of the industry's leading CEOs

and thought leaders and to over 7,500 brokers and agents across the country.

The opinions of those interviewed were categorized into five key sections and the threats, risks, and dangers resulting from the interviews were analyzed and rated as to their probability, timing, and impact. Remember, this is an art and not a science; you are welcome to have a different opinion on our scoring of each danger.

We tried very hard to keep the information objective and apolitical, and remained one step away from providing solutions. That is the part we kept for you as the captain of your ship.

None of the dangers contained in this Report are predictions, trends, or allegations. Don't read too much emotion or negativity into any statement. See each danger for what it is—a potential threat that could impact you or some part of our industry.

Although we cannot predict the future, there is also nothing unusual about the future. Use this Report as a checklist and starting point to prepare. Information creates knowledge and knowledge produces confidence.

It is incumbent upon each of us to ensure that we are leaving a healthy and thriving

industry to the next generation. To that end, I urge you to read this Report with the intent of not only becoming informed, but with a commitment to actively contribute to the future success of our industry.

STEFAN SWANEPOEL

Analyst/Author of the *D.A.N.G.E.R. Report*
New York Times Best-Selling Author
of 30+ Books/Reports
CEO Swanepoel | T3 Group



STEFAN SWANEPOEL
NYT Best-Selling Author

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CRITERIA, FORMAT, AND STRUCTURE OF THE STUDY

Introduction

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CRITERIA, FORMAT, AND STRUCTURE OF THE STUDY

BACKGROUND

The Strategic Thinking Advisory Committee (list of Committee members appended to this Report) of the National Association of REALTORS® (NAR) was tasked with the responsibility to identify those future events or clashes, both anticipated and unexpected, that could negatively impact the real estate industry. NAR retained the services of the real estate industry's leading analyst, and *New York Times* best-selling author, and author of more than 30 books, Stefan Swanepoel.

The culmination of the research and analysis led to the creation of a 160-page study titled: *D.A.N.G.E.R. Report*. D.A.N.G.E.R. is an acronym for Definitive Analysis of the Negative Game Changers Emerging In Real Estate.

OBJECTIVE

The goal was to provide Organized Real Estate, as well as its members, a comprehensive report identifying the most significant threats, risks, and black swans facing the real estate industry without judging or discarding them, without placing blame or picking sides, and without attempting to

solve them. This way the information gathered and analyzed could be of benefit to many and would hopefully empower people to have a more extensive understanding of the complexities of the industry.

SOLUTIONS

The Report seeks to identify the most significant dangers but does not provide solutions for any danger. It was decided at the beginning of the project that identifying solutions is the responsibility of each respective leader and organization. It is the strategic interpretation of each danger by leaders and how they decide to respond that provides each organization its unique competitive advantage and sets them apart from their competitors.

BENEFICIARIES

"Black swans," it is said, are unpredictable future events. Of course we do not know which black swans, if any, will occur, but with this Report identifying so many, you now have more knowledge than before. It is our wish that the *D.A.N.G.E.R. Report* will be a resource for the entire industry.

MARKETS COVERED

The initial research was focused on the residential real estate brokerage industry in the United States. Subsequent studies covering commercial real estate, property management, and the global markets outside the U.S. are being considered.

EXCLUSIONS

We acknowledge that most catastrophic type events—such as an Economic Collapse, a major Natural Disaster, a Global Disease Outbreak, a significant Terrorist Attack, and/or a Nuclear Accident—would most likely trigger a chain reaction of events negatively impacting society in general, the housing market, and the real estate business. These exceptionally large and unforeseeable phenomena have not been included in the list of dangers tabulated.

RESEARCH

The Swanepoel | T3 Team researched over 200 reports, surveys, focus group studies, student dissertations, white papers, journals, articles, and other related academic resources, including reports from Harvard, Wharton, Deloitte, KMPG, PWC, Credit Suisse, Urban Land Institute, Canadian Real Estate Association, Mortgage Bankers

Association, Fannie Mae, various large real estate franchise groups, and many others.

SURVEY

To ensure that the Report would also include opinions from the brokers/agents in the field, an extensive, random survey of REALTOR® members was undertaken from October 13, 2014 to October 27, 2014 (details of the survey is appended to this Report). The survey received and incorporated 7,899 responses.

INTERVIEWS

In addition to the research and survey, 70 CEOs and other senior executives from the largest franchisors, the largest real estate brokerage companies, national, state, and local REALTOR® Associations, MLS organizations, and a variety of large service providers were interviewed. Each was asked the same open-ended questions. In order to obtain the most accurate information, the interviews were all conducted as one-on-one, face-to-face interviews by Stefan Swanepoel, with contributors included in the Report without attribution.

CRITERIA, FORMAT, AND STRUCTURE OF THE STUDY

REPORT

The results of the research and analysis are incorporated in the *D.A.N.G.E.R Report*. The research data, survey results, and interview responses were categorized into one of five major industry sections: Agents, Brokers, National Association of REALTORS®, State/Local Associations of REALTORS®, and MLS organizations.

Each danger is presented on a double page spread, beginning with its reference number (category and ranking; e.g. A1 – most severe danger in the Agent section), followed by a descriptive title, a short statement of the danger, and an “In Context” section providing clarity on the background of the danger. The final contribution to each danger is the Author’s Perspective. This reflects the author’s perspective and ranking of the danger’s threat level on the Probability, Timing, and Impact of each danger.

PTI INDEX | DANGER INDEX

In evaluating each danger, the overall result is presented in the PTI index (Probability, Timing and Impact), which ranks the danger in order to provide a level of comparison between the dangers/sections of the report. The Danger Index represents a composite, overall score.

#	 Probability	 Timing	 Impact	 Danger Index
5.0	100% Chance	1 Year	Game Changer	81-100 Critical
4.0	80% Chance	1 - 3 Years	Major Impact	61-80 Severe
3.0	60% Chance	3 - 5 Years	Moderate Impact	41-60 High
2.0	40% Chance	5 - 10 Years	Some Impact	21-40 Moderate
1.0	20% Chance	10 + Years	No Impact	0-20 Low

DATA CLASSIFICATION

In order to best evaluate and present each danger, an Index was created based on the probability (P) of each danger occurring, the future timing (T) of the potential danger, and the possible impact (I) of each danger. The combined scoring of these factors results in the PTI Index. The index is not scientific but rather a combined and weighted representation of

the research, surveys, and interviews that enable the dangers to be placed in order of significance as to the level of danger they present.

CHECKLISTS

At the end of the Report a detailed checklist of all dangers is provided—first in priority order by section and second in overall combined priority for quick com-

parison. Download these checklists separately and use them for your next strategic planning or management retreat to ensure that your organization is at least aware of each of these dangers. Slide decks are also available for your personal use and can be downloaded from the websites listed.

IMPORTANT NOTE

Remember that the 50 dangers listed in the *D.A.N.G.E.R. Report* are about hypothetical future events that may or may not occur. The dangers included are a compilation of the opinions of a large group of the most knowledgeable and influential leaders in our industry.

No confidential information was included in this Report. The content does not necessarily reflect the opinion of the National Association of REALTORS®, its management or elected leaders.

As far as possible, the information gathered is provided with its original intent and messaging intact. Information may or may not apply to your market and you are always urged to use sound judgment and consult with proper counsel and experts before making any significant decisions.

DISTRIBUTION

The 160-page *D.A.N.G.E.R. Report* is distributed electronically to the real estate community at no cost. The Report will be available separately in each of the five sections as well as one combined Report and can be downloaded from one of two websites from: realtor.org/dangerreport and dangerreport.com.

A print edition will also be available from the National Association of REALTORS® bookstore.

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Dangers Impacting Agents

Section A | First of Five Sections

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Section A

DANGERS IMPACTING AGENTS

Masses of Marginal Agents Destroy Reputation **A1**

Commissions Spiral Downward **A2**

Agent Teams Threaten the Survival of Brokerages **A3**

IRS Forces Exodus of Independent Contractors **A4**

The Decline in the Relevancy of Agents **A5**

The Agent-Centric Era Ends **A6**

Housing Finance System Fails **A7**

Commoditization of Residential Real Estate **A8**

Commissions Concentrate into Fewer Hands **A9**

The Agent is Removed from the Transaction **A10**



MASSES OF MARGINAL AGENTS DESTROY REPUTATION

The real estate industry is saddled with a large number of part-time, untrained, unethical, and/or incompetent agents. This knowledge gap threatens the credibility of the industry.

IN CONTEXT

The knowledge and competency gap from the most to the least is very large, due to the low barriers to entry, low continuing education requirements, and the lure of quickly making big dollars. For decades the industry has held the opinion that it's a profession, however the reality is that those outside the industry don't hold the same opinion. Most professions (doctors, lawyers, accountants, and engineers) require thousands of hours of study, beginning with a bachelor's degree. Even becoming an earth driller requires an average

of 704 hours of instruction, and becoming a cosmetologist requires an average of a 372 hours. But to become a licensed real estate agent requires an average of only 70 hours with the lowest state requirement being 13 hours.

The delta between great real estate service and poor real estate service has simply become too large, due to the unacceptably low entry requirements to become a real estate agent. Professional, hardworking agents increasingly understand that the "not so good" agents are bringing the entire industry down.

“*I don't like lawyers, but I rarely work with an incompetent one. I like real estate agents more, but there are a large number of incompetent ones.*”

AUTHOR'S PERSPECTIVE

There are too many real estate agents that are simply not qualified to the level they should be. Furthermore, there are no meaningful educational initiatives on the table to raise the national bar for real estate agents across the board. And while this lack of agent knowledge is a significant danger in itself, when combined with a lack of basic competency it could be destructive and harmful to both the industry and the consumer.

Danger Index


100.0

Probability


5.0

Timing


4.0

Impact


5.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



COMMISSIONS SPIRAL DOWNWARD

A variety of powerful forces exert significant downward pressure on real estate commissions.

IN CONTEXT

The continued rise in home prices has facilitated the elevation of real estate earnings based on commissions. Those earnings have not gone unnoticed by consumers, who are responding by placing increased pressure on real estate agents to reduce their commission rates. As a result, many fear a gradual downward slide or a realignment of fees as charged in other countries in the world.

REAL ESTATE BROKERAGE FEES

According to a report by the *International Real Estate Review*, real estate brokerage fees around the world are:

1 - 2% United Kingdom	2 - 3% Australia
1.5 - 2% Singapore	3% Belgium
1.5 - 2% Netherlands	3 - 6% Germany

“Home buyers might not always want to use a real estate agent, but most think they have to. What happens if their perspective changes?”

AUTHOR'S PERSPECTIVE

Consumers are definitely becoming more motivated to find an alternate solution, and a growing new generation of brokers and agents are exploring a legion of new business models and pricing models that will most likely become commonplace in the next 5-10 years.



Danger Index

↓

87.5

Probability

≡

5.0

Timing

⌚

3.5

Impact

⚠

5.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



AGENT TEAMS THREATEN THE SURVIVAL OF BROKERAGES

Teams cannibalize brokerage companies by siphoning off their profits, leaving them exposed to all the risk.

IN CONTEXT

The team concept has been around for a long time, but in recent history it has emerged as a much larger factor in the brokerage industry. Most companies have endorsed or at least tolerated the concept in light of the revenue it generates. However, there are issues that need to be addressed when teams function as an autonomous brokerage unit. From a marketing perspective they often develop their own brands, which in some instances become more powerful than the brokerage brand. Their self-directed status is enhanced by their ability to obtain their own technology and operate more efficiently and effectively for their own benefit. All of which presents the opportunity for the

emergence of the “lead agent-centric” model, the company within the company.

Agent teams greatly expand the broker’s potential legal liability as the master agent imposes standards and best practices on the team that have not been approved by either the brokerage or the broker’s legal counsel.

Economics also come into play here. Master agents with teams tend to make more money than traditional office managers. So here again the industry’s economic profile is being distorted when funds that arguably should be distributed as dividends are being expended for management or labor.

Danger Index



70.0

Probability



5.0

Timing



4.0

Impact



3.5
INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

AUTHOR'S PERSPECTIVE

Teams dominate and make it harder for solo agents to succeed and for companies to act as entrepreneurial as they may wish. There is a strong tendency for teams, as part of their business plan and their own identity/brand, to establish their own operating guidelines, standards, and procedures. Some of these independent decisions and actions may run afoul of Real Estate Settlement Procedures Act

(RESPA) compliance or the Consumer Financial Protection Bureau, especially decisions involving Affiliated Business arrangements.

On the other hand, with good management and oversight, teams can become a strong growth opportunity as demonstrated by some large national franchises.



IRS FORCES EXODUS OF INDEPENDENT CONTRACTORS

An IRS ruling is handed down that reclassifies the legal status of real estate agents from independent contractors to employees.

IN CONTEXT

Real estate law, which in most states requires brokers to supervise their agents, often conflicts with labor laws governing independent contractors. Furthermore, there are issues concerning the involvement of the IRS and the National Labor Relations Board that present challenges. These conflicts have opened the door for attorneys to bring suit against Boston Pads, Coldwell Banker, Redfin, and ZipRealty, claiming these organizations have misclassified their agents as independent contractors rather than employees.

The lawsuits assert that the labor laws controlling

independent contractor status should take precedence over real estate law.

Employment law defines independent contractors in such a way that broker supervision can appear to undermine a contractor's independence. One of the widely adopted tests to determine a person's status is the Economic Reality Test (used by the U.S. Supreme Court) that examines the degree of employer control, the relative investment of both the employee and the employer, the opportunity for profit, the skill required, and the permanency of the relationship.

ECONOMIC REALITY TEST

Criteria used by the U.S. Supreme Court to determine if an individual is an independent contractor.

1. The degree of control exercised by the alleged employer;
2. The extent of the relative investments of the (alleged) employee and employer;
3. The degree to which the employee's opportunity for profit and loss is determined by the employer;
4. The skill and initiative required in performing the job;
5. The permanency of the relationship.

“Part-time agents are a huge risk to our future.”

AUTHOR'S PERSPECTIVE

A decision by the Supreme Court going against the status quo, although unlikely, could have a far-reaching, industry-wide impact, including the transformation of the brokerage revenue model and a significant shift in the operational model.

A scenario in which agents are considered employees would initiate a complete reorganization of the existing revenue model. Most brokerage companies would be unwilling to hire agents

that will not generate enough business to cover their costs. Employee status also does not necessarily include top wages and benefits for everyone. Consider the case of restaurant workers who exchange access to tips for an additional \$2.13 minimum wage. Agents would thus have three primary options: work as an employee for a large company under its operational guidelines, become a broker and work as a sole practitioner, or leave the industry altogether.

Danger Index



63.0

Probability



3.5

Timing



4.0

Impact



4.5
INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



THE DECLINE IN THE RELEVANCY OF AGENTS

The role, function, and perceived value of agents deteriorates as agents fail to properly assess and respond to changing consumer demands and expectations.

IN CONTEXT

The real estate industry has long served the consumer at a local level, but in the opinion of many leaders it has never really had a firm understanding of consumers as a collective, let alone understood that consumers are constantly evolving and changing. The industry's most frequently cited weakness is its inability to understand what the consumer wants. The problem is that consumers don't care about agents—as much as agents would like to think consumers do—and the role of the agent not only can be, but is being redefined.

Furthermore, numerous participants in the industry are guilty of violating key parts of The Consumer Bill of Rights, especially the consumers' rights to be informed (of all the facts), to choose (from among competing services), and to be heard (to have all their questions understood and answered). The root cause is often the failure to listen, or worse, appearing to listen but failing to respond by focusing on the transaction and not the consumer.

AUTHOR'S PERSPECTIVE

Agent photos and self-branding are omnipresent in home sales. In many cases the promotion of the real estate sales person surpasses the importance of the house being sold. That's uniquely different to most other sales industries where the role of the sales person is secondary. Too many real estate agents believe their role is critical and their relationship with home buyers and sellers is beyond reproach. It's that kind of overconfidence that often results in failure.



“Time to clearly define the value proposition for REALTORS®.”

Danger Index

↓
60.0

Probability

≡
5.0

Timing

⌚
3.0

Impact

⚠
4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/ sections of the report. Danger Index, represents a composite, overall score.



THE AGENT-CENTRIC ERA ENDS

The disproportionate power that independent contractors have enjoyed over the past three decades goes out of vogue as capital or economies of scale change the rules and the Wall Street reign begins.

IN CONTEXT

Unlike brokers, the majority of agents do not have the same level of financial investment in the industry. Many agents have been unable and/or unwilling to effect the changes the brokers need to build effective and profitable businesses. It remains a numbers game and brokers frequently don't make decisions that are in the best interests of the brokerage, they make decisions

to appease their top-producing agents.

With the growing impact of technology, consumers are now wielding newfound power and imposing increased demands on the brokers through their agents, which further complicates the existing model and favors change.

“ *Technology is constantly evolving and agents aren't. The difference is noticeable and it's getting larger.* ”

AUTHOR'S PERSPECTIVE

As real estate brokerage companies and franchise organizations continue to consolidate and expand in size, head count, and profitability, the obvious need for increased standardization of best practices and the implementation of best systems has become critical.

Going forward in the evolution of the brokerage business, there is danger in failing to address the legacy of fragmentation that was brought about in large part by agent-centricity, which has become a multilevel handicap to the brokerage business and the ability of brokers to adapt and move forward.

To realign from an agent-centric model, significant time and money will need to be invested in realigning company assets to ensure that the organization's foundation will be able to sustain, or carry, the scalability of size required to change the paradigm. And in many cases that scalability will need to be added on top of an existing, fragile, and in some cases inadequate structure. In the process, the importance of the sales associate and a strong and powerful sales team should never be underestimated or underappreciated.

Danger Index


52.5

Probability


3.5

Timing


3.0

Impact


5.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



HOUSING FINANCE SYSTEM FAILS

Mortgage-backed securities as a method of financing is discontinued because it's too risky and the related fines imposed on banks too severe.

IN CONTEXT

The U.S. has \$9 trillion in outstanding home mortgages, not including \$1 trillion in seconds and home equity loans. In response to the financial crisis, the Fed began quantitative easing (QE) to stimulate the economy, including purchases of mortgage-backed securities (MBS) issued by Fannie Mae and Freddie Mac.

One of the most significant effects was a decline in mortgage rates to generational lows, which supported the housing market and the economy during one of its most

vulnerable periods.

The financial crisis highlighted the importance of the secondary mortgage market and the vulnerability of financing for homebuyers in times of crisis. Should lenders decide to move away from mortgage lending because of onerous regulations or increased risks in the secondary market, home buyers' ability to access affordable mortgage financing would be severely limited.

Danger Index



48.0

Probability



3.0

Timing



4.0

Impact



4.0
INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

AUTHOR'S PERSPECTIVE

When and to what extent Fannie Mae and Freddie Mac are revamped or replaced remains unknown. A secondary market that is not available in all economic climates and that does not preserve access to affordable mortgage financing for qualified home buyers would place agents and the entire industry in jeopardy.

DANGER
A8

COMMODITIZATION OF RESIDENTIAL REAL ESTATE

The concentration of residential ownership into the hands of a few large investors commoditizes residential real estate and impacts market dynamics and liquidity.

IN CONTEXT

The significant increase in the liquidity of residential real estate brought on by the slow down starting in 2006, the emerging foreclosure crisis of 2007, and the recession of 2008, created the peril that institutional investors would acquire and control major housing resources as a sound long-term investment asset. Over the past few years Residential Real Estate Investment Trusts (RREIT) have grown and publicly traded companies like Blackstone and Colony Financial currently own one and a half percent of the approximately 14 million rental homes in the U.S. RREITs have expended \$20 billion to

acquire somewhere near 200,000 single-family rentals in just the last two years.

The type of single-family rentals desired by RREITs and their location is remarkably consistent: the ideal asset is a three-bedroom, two-bathroom house in a good school district and close to jobs. Like individual homebuyers, these institutional investors prefer long-term appreciation and therefore their target markets are infill neighborhoods over the new “exurban” communities.

Largest RREIT companies and the total number of homes they own

43,000	Invitation Homes (Blackstone)
27,000	American Homes 4 Rent
16,000	Colony American Homes (Colony Financial)
11,400	Starwood Waypoint
8,200	Altisource Portfolio Solutions
6,000	American Residential Properties
5,600	Silver Bay

Source: nasdaq.com, Seeking Alpha, CoStar Group, 2014

“Wall Street has discovered constant housing income streams.”

AUTHOR'S PERSPECTIVE

When a small number of RREIT companies own a large number of homes, they have the ability to place a large number of homes on the market at the same time, possibly depressing values. Some are even exploring partial ownership or the right to use the home for a certain time period without becoming the owner. It has been estimated that this represents a \$1.5 trillion opportunity.

The single-family market could follow in the footsteps of the multifamily market, with a large percentage of all rental homes eventually being owned and managed institutionally. This could, over time, change the market dynamics of neighborhoods and subsequently the neighborhood agent.

Danger Index


42.0

Probability


3.0

Timing


3.5

Impact


4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
A9

COMMISSIONS CONCENTRATE INTO FEWER HANDS

A very small group of very efficient and effective agents discover the winning formula and secure a disproportionate market share.

IN CONTEXT

The 80/20 rule (Pareto Principle), or some variation thereof, most certainly applies to real estate sales. Few agents are responsible for a large portion of all real estate sales.

In a recent book titled *80/20 Sales and Marketing*,

author Perry Marshall takes the Pareto Principle to the next level. This can also be expanded such that the 80/20 rule also exists within the top 20 percent. Meaning that the top 20 percent of the top 20 percent (or the top 4 percent overall) represent 64 percent of sales.

“We don’t need more agents. Just better ones.”



AUTHOR’S PERSPECTIVE

As the industry successfully adapts to an ever increasing amount of technology, there are agents that have learned to create systems that leverage themselves to even higher levels, with a number of closed transactions not previously achieved. And there are a rapidly growing number of rookies that are also finding success much quicker and at a higher level than has previously been the case.

Danger Index



40.0

Probability



4.0

Timing



2.5

Impact



4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
A10

THE AGENT IS REMOVED FROM THE TRANSACTION

A tech company cracks the code and connects enough of the dots to conduct real estate transactions without the need of an agent.

IN CONTEXT

The industry has always had a group of homeowners that have attempted to conclude the sale of their home without the help of a licensed real estate professional, thereby attempting to save all or a part of the commission. Commonly referred to as FSBO (For Sale By Owner), this market segment has historically remained constant at around 10 percent of the total market. While certain lower economic profiles may be the central focus of today's growing consumer cash consciousness, it isn't the only driving force. There are consumers who consider independence from institutional norms to be a symbol of successful lives. Self-healing, doing your own taxes, growing your own food, and involvement in all aspects of life are positive personal goals for many.

With the Millennial Generation drawing closer to its natural home buying juncture, it's obvious that their "first time" will not be as easy as it was for the Civic or Boomer generations. To start with, the opening economic profile for the Millennials is not what it was for their predecessors. It's generally believed that the younger generations will have less cash to work with and more challenging financial thresholds to meet. As a result, Millennials will be looking for ways to shave costs from their real estate transaction. At the other end of the spectrum are the Boomers who are seeking to downsize from large homes to more affordable, "sized right," and accessible housing options. Their primary objective will be to convert as much of their equity into cash as possible. Shaving costs from their real estate transaction may also become increasingly important.

Danger Index



31.5

Probability



3.5

Timing



3.0

Impact



3.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

Examples of New Models

- Uber
- AirBnB
- TurboTax
- LegalZoom
- ScottTrade

“The ‘UBERIZATION’ of real estate threatens agents the same way it did cab drivers.”

“Agent-centricity may be our downfall.”

AUTHOR’S PERSPECTIVE

Some consumers may be dissatisfied with how complex the home buying process is, but most of them can’t do anything to change that. There is one element that can change all of that: Money. Keep in mind that FSBO doesn’t necessarily mean without assistance—it means without an agent as we know it today. Consumers are availing themselves of alternative options regarding search and research.

Furthermore, business models constantly change. Portals that may never have had the intention of being brokers may believe they have to, and an e-commerce or online auction company providing consumer to consumer services via the Internet may decide to expand their channel into residential sales.

The bottom line is that change is certain. It is the approach that’s an unknown.

DANGER CHECKLIST: DANGERS IMPACTING AGENTS

DATA CLASSIFICATION

In order to best evaluate and present each danger, an Index was created based on the probability (P) of each danger occurring, the future timing (T) of the potential danger, and the possible impact (I) of each danger. The combined scoring of these factors results in the PTI Index. The index is not scientific but rather a combined and weighted representation of the research, surveys, and interviews that enable the dangers to be placed in order of significance as to the level of danger they present.

INDEX

In evaluating each danger, the overall result is presented in the PTI index (Probability, Timing and Impact), which ranks the danger in order to provide a level of comparison between the dangers/sections of the report. The Danger Index represents a composite, overall score.

#	☰ Probability	🕒 Timing	⚠️ Impact	📉 Danger Index
5.0	100% Chance	1 Year	Game Changer	81-100 Critical
4.0	80% Chance	1 - 3 Years	Major Impact	61-80 Severe
3.0	60% Chance	3 - 5 Years	Moderate Impact	41-60 High
2.0	40% Chance	5 - 10 Years	Some Impact	21-40 Moderate
1.0	20% Chance	10 + Years	No Impact	0-20 Low

	Danger	☰ Probability	🕒 Timing	⚠️ Impact	📉 Index
<input type="checkbox"/>	A1 Masses of Marginal Agents Destroy Reputation	5.0	4.0	5.0	100.0
<input type="checkbox"/>	A2 Commissions Spiral Downward	5.0	3.5	5.0	87.5
<input type="checkbox"/>	A3 Agent Teams Threaten the Survival of Brokerages	5.0	4.0	3.5	70.0
<input type="checkbox"/>	A4 IRS Forces Exodus of Independent Contractors	3.5	4.0	4.5	63.0
<input type="checkbox"/>	A5 The Decline in the Relevancy of Agents	5.0	3.0	4.0	60.0
<input type="checkbox"/>	A6 The Agent-Centric Era Ends	3.5	3.0	5.0	52.5
<input type="checkbox"/>	A7 Housing Finance System Fails	3.0	4.0	4.0	48.0
<input type="checkbox"/>	A8 Commoditization of Residential Real Estate	3.0	3.5	4.0	42.0
<input type="checkbox"/>	A9 Commissions Concentrate into Fewer Hands	4.0	2.5	4.0	40.0
<input type="checkbox"/>	A10 The Agent is Removed from the Transaction	3.5	3.0	3.0	31.5



Dangers Impacting Brokers

Section B | Second of Five Sections

Realtor.org/**DANGER**Report

DANGERReport.com

Section B

DANGERS IMPACTING BROKERS

- Regulatory Tsunami Hits **B1**
- Paper Brokerages Cause Disruption **B2**
- Brokers Lose Control of Data **B3**
- A Consumer Brand Crashes the Party **B4**
- New Business Models Go Mainstream **B5**
- Brokers Simply Go Broke **B6**
- Technology Becomes a Runaway Train **B7**
- FSBO Develops into a Do-It-Yourself Model **B8**
- Sales Tax Threatens Margins **B9**
- Portals Leverage Lead Gen Dominance **B10**



REGULATORY TSUNAMI HITS

Regulatory creep and large financial penalties increase compliance costs.

IN CONTEXT

The CFPB was established as a new bureau through the authorization of the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act of 2010. It has overwhelmed each of the industries it has entered (Student loans, Automobile loans, Credit cards, and Mortgages) and, given its short but impressive history, there is every indication it will have a significant impact on national, large, and/or diversified real estate groups. The intent behind its creation is to:

- Give consumers a vehicle to enforce the provisions of the Dodd-Frank Act and other consumer financial protections laws.
- Educate the public about financial transactions.

- Utilize research to prevent future financial crises, such as another housing bubble.

In its mission to rebuild the mortgage banking landscape, the CFPB has attempted to examine every aspect of the home buying transaction and the roles of the various participants facilitating the transaction. Its investigations haven't been limited to the lenders whose practices were a large contributor to these recent changes; the investigations have extended to real estate brokerages. Important to note here is that the CFPB was also granted responsibility to oversee the Real Estate Settlement Procedures Act (RESPA), which was formerly overseen by the U.S. Department of Housing and Urban Development (HUD).

“*Dodd-Frank is a train wreck.*”

AUTHOR'S PERSPECTIVE

Only time will tell how much of an impact the CFPB will have on real estate brokers, resulting in increased costs due to compliance, increased risk for small brokers with limited capital, increased scrutiny on marketing agreements, and the increased risk of agents moving to firms with strict compliance in place. What we do know is that the failure to comply at any level is not an option, and the penalties for failure will be costly. Those who suggest that real estate service providers are not vulnerable under the Financial Services provisions need to remember that there has been little or no effective RESPA enforcement by HUD over the past decade. Most brokerage companies are either ignorant of the fact or believe they are in compliance with CFPB/RESPA regulations, however most are likely in violation already.

Danger Index

↓

100.0

Probability

≡

5.0

Timing

⌚

4.0

Impact

⚠

5.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



PAPER BROKERAGES CAUSE DISRUPTION

With no walls and little operating costs, Paper Brokerages proliferate and become a major force overnight.

IN CONTEXT

Paper Brokerages are companies that join multiple listing services (MLSs) in order to gain access to listing data and subsequently display it online. They do not, however, provide traditional brokerage services to consumers; they are created to generate leads for other brokerages. Paper Brokerages that obtain a brokerage license, or partner with a licensee who can be their “broker of record,” are able to display

Internet Data Exchange (IDX) listing feeds compiled by MLSs.

As Paper Brokerages don’t have the same operating and cost structures as traditional brokerage companies, the concern is that they are “misusing” the MLS system and that the widespread adoption of the Paper Brokerage business model will undermine participation in IDX and the MLS system itself.

Danger Index



80.0

Probability



5.0

Timing



4.0

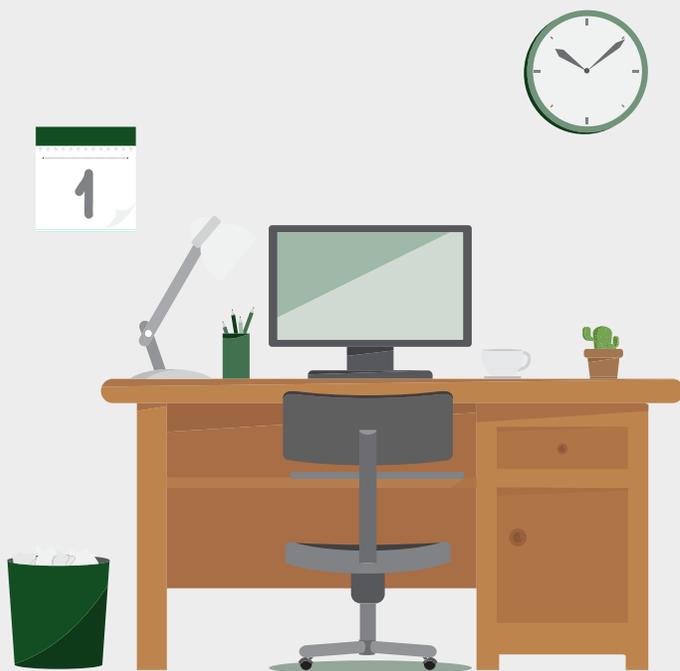
Impact



4.0
INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

“IDX is in a fragile state. We are fighting on the front patio with the back door open.”

**AUTHOR'S PERSPECTIVE**

As the real estate industry evolves and increasingly experiments with different business models, IDX opens a new variation of models not originally contemplated. Existing big brokers have become vulnerable because some MLS services have enabled non-traditional entrants (basically non full-time brokers) to utilize their information in a variety of ways. In some cases the owner does the negotiating and sale with the buyers agent and uses the cooperating brokerage company to facilitate the closing.

This shift has marginalized large brokers, causing many to consider withdrawing from the MLS, and others to question the viability of MLS going forward.

DANGER
B3

BROKERS LOSE CONTROL OF DATA

Consumer confidence in industry data erodes due to the multiplicity of conflicting data sources.



IN CONTEXT

Traditionally, data was aggregated on a local level with an excess of terms, conditions, and criteria, all of which was deemed to be accurate. With the advent of the portals there is a movement toward the aggregation and syndication of data that has resulted in data collection from multiple sources that are not always kept updated, and is therefore compromised. The battle over the ownership of the data has resulted in certain data sources being disallowed, which in turn has further compromised the accuracy of the data.

Furthermore, the data mentioned really only refers to the listing data and, while it is a key piece, it is just part of the overall real estate data portfolio—tax records, insurance info, demographic records, mortgage loans, credit reports, drive times, lifestyle information, school performance, criminal activity, etc. So now the entire industry is focused on and concerned with controlling the consumer search process, which incorporates the creation, compilation, and distribution of all data.

“*Mindsets have to change.*

Margins have to change.

Management has to change.”

AUTHOR'S PERSPECTIVE

Innovation pushes the boundaries of existing paradigms and mindsets with new opportunities that test both current and new players.

The struggle facing brokers is that decisions regarding the management of real estate data—with regard to the release, withholding, and application of data—are made by a fragmented industry and are very diverse and inconsistently implemented. Inaccuracy of data and ownership of such data has become a major issue in our industry.

As a result, there are numerous models that are constantly evolving, creating voids and roadblocks that many outside the industry view as opportunities. The industry finds itself at the early, challenging stage of laying down new rules and guidelines for managing real estate data with the delivery of unique content that is unavailable elsewhere.

Danger Index

↓

72.0

Probability

≡

4.0

Timing

⌚

4.0

Impact

⚠

4.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



A CONSUMER BRAND CRASHES THE PARTY

A well-established consumer brand is introduced into the marketplace and a new multi-billion dollar residential real estate brokerage brand is created.

IN CONTEXT

Historically, introducing a new brand from outside the residential real estate brokerage marketplace has been difficult, and considered by many as very unlikely due to the fragmented, hyper local, and highly personal nature of the industry. With growing consolidation in the industry and the increased addition of systems and technology, the previously held limitations on building a brand no longer apply.

Over the past decade, Realogy has proven that it is feasible to take certain “outside” brands such as BH&G and Sotheby’s and successfully introduce them into residential real estate franchising. Warren Buffett has proven that a completely unknown brand in the residential real estate industry such as Berkshire Hathaway can be introduced and built into a new powerhouse.

AUTHOR'S PERSPECTIVE

It would not be a stretch for home improvement giants Home Depot (\$133 billion market cap; \$79 billion in annual sales) and Lowe's (\$70 billion market cap; \$55 billion in sales), to expand into the residential real estate brokerage business.

One example would be to take the model that Lowe's has, assisting REALTORS® in providing marketing benefits and finding savings for their clients, and expand it into an online lead generation service model. A second example would be to take Lowe's existing partnership program with construction and repair vendors and expand it into a type of DIY real estate model, while a third option could be to acquire a successful existing global real estate brand such as RE/MAX.

Other interesting possibilities could include banks or HGTV. They already have a recognizable brand in the financial or home lifestyle markets and can expand into, partner with an existing company to create, or leverage a new real estate brokerage brand. However, while the dollars are always enticing, the fragmented and byzantine structure of the industry goes against the nature of these organizations.

“New leadership at a large company often causes a change in the direction of that company.”

Danger Index

↓

64.0

Probability

≡

4.0

Timing

⌚

4.0

Impact

⚠

4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



NEW BUSINESS MODELS GO MAINSTREAM

The existing compensation structure gets eclipsed as new business models gain rapid traction.

IN CONTEXT

The relationship between brokers and agents has been redefined a number of times during the last 50 years. Each time the redefinition of the relationship resulted in the formation of a new company and/or group of companies. The innovations brought to the industry by those new companies caused a disruption in the industry that resulted in an increase in the number of agents jumping between companies.

In the 1960s and 1970s the franchise model

created new national entities, in the late 1970s and 1980s the 100 percent model exploded, and in the 1990s and 2000s the interdependent and team model gained significant traction.

Each new business model led to new global companies that dominated the industry for decades. The next winning model could be a technology-powered, agent-centric, flat fee, transaction-based fee, salaried, or auctioneering model.

“*The residential real estate business is in turmoil. Everyone—brokers, agents, the MLS, associations—are all up for grabs... and brokers seem to be extremely vulnerable.*”

AUTHOR'S PERSPECTIVE

It is interesting to note that over 40 percent of Fortune 500 companies in 2000 were no longer around in 2010, yet at the same time those top companies that were in the real estate industry in 2000 are all still here.

Two of the successful models, RE/MAX and Keller Williams International Realty, both took a decade (or more) to gain significant national critical mass. Interesting companies such as Redfin (in its fifth round of funding and

in 48 metros), HomeSmart (a technology-offering already in place), and eXp Realty (a cloud-based virtual real estate brokerage) are still in early enough stages that in time they may become dominant national models.

The entrepreneurial spirit in residential brokerage is strong. Innovation of the broker/agent relationship, whether initiated by internal or external forces, is just around the corner.

Danger Index

↓
63.0

Probability

≡
4.5

Timing

⌚
4.0

Impact

⚠
3.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



BROKERS SIMPLY GO BROKE

Brokers are undercut by outsiders offering the same support and services at a fraction of the cost.

IN CONTEXT

Over the past couple of decades, brokers' control over their agents and the services they offered has shifted. This is changing the financial viability of the brokerage model. Many say it is being eroded by technology, and especially in recent times by portals. Portals capitalized on the slow responsiveness by brokerage companies that for a long time were either not able to, or chose not to, generate online leads for their agents.

Historically, lead generation hasn't been the responsibility of the broker as agents have generated their

own leads from a variety of sources. Previously, no one single source could generate enough leads and therefore agents' relationships were not dependent on one entity. This is, however, changing as portals grow and become more powerful. For example, the largest portals have millions of homes viewed daily, and this in turn generates significant enquiries. Zillow has so many leads every day that they have been able to sign up over 60,000 agents to pay them for those leads. And many agents in turn have built a strong business from this source.

“Something is always displaced when something new is created. That’s Capitalism.”

AUTHOR’S PERSPECTIVE

Not only are all leads not equal, not all leads are really leads. But maybe that doesn’t matter. With the explosion in online leads the portals created a new category of lifestyle and home searching that previously did not exist at this level. Now there are not only more home sales, there is more interest. And it’s the entities that control the interest that, diluted or not, gain access to the consumers.

It’s not that portals will put brokers out of business, it’s just one example of a service being offered to agents by third parties. And it is uncertain to what extent this relationship will undermine the relationship between brokers and their agents. The proliferation of the web has however most certainly triggered the transformation of the existing brokerage business model—for better or worse.

Danger Index


56.0

Probability


4.0

Timing


4.0

Impact


3.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



TECHNOLOGY BECOMES A RUNAWAY TRAIN

The financial resources necessary to build the technology solutions required exceed the average broker's ability to remain competitive.

IN CONTEXT

There is a widely held assumption that technology will make everyone and everything better. That's simply not true. But at the same time, technology has changed the world.

Around 40 percent of the world's population has an Internet connection today. In the early days of 1995 it was less than one percent. Within a decade the number of individuals connected to the Internet reached its first billion in 2005; a second billion in 2010, and a third

billion in 2014. By the end of 2016 it is estimated that it will eclipse half of the world's population. As for connected devices, it is expected that the number will exceed 4.9 billion in 2015, up 30 percent from 2014, and will reach 25 billion by 2020. But the number of Internet users and connected devices drive many other consumer trends. Digital disruption is now felt on all levels of business. This huge wave of innovation makes it very hard for small real estate entrepreneurs to remain competitive and relevant.

AUTHOR'S PERSPECTIVE

Technology innovation has taken place at an alarmingly rapid rate, but brokerage companies aren't technology companies, nor are they structured to grow at this rate. Even many of the large brokerage companies and national franchises, with more capital than most in the industry, are unable or unwilling to invest the financial and human resources needed to compete with publicly funded technology companies. It never was a level playing field, but the gap is becoming wider and wider, and it will become increasingly harder for real estate brokerages to create or deliver the latest state of the art technology in any specific area. Things are just moving too fast.

*“Beware of digital overload
and technology fatigue.”*

Danger Index

↓

48.0

Probability

≡

4.0

Timing

⌚

4.0

Impact

⚠

3.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



FSBO DEVELOPS INTO A DO-IT-YOURSELF MODEL

With so much real estate information and so many apps at their fingertips, it has never been easier for consumers to buy and sell real estate.

IN CONTEXT

The For Sale By Owner (FSBO) option has been available in the industry for many decades, and has been used primarily on an individual basis (local level) by consumers that want to take control of the transaction in order to save money. The FSBO share of the real estate market in 2014 amounted to nine percent of the 5.1 million houses sold. Should this method be packaged in a more dynamic and formal offering—bundled together with a portfolio of technology and mobile applications—and be aggressively marketed and sold to consumers, the model could gain rapid adoption by a new generation.

Today's consumer is demanding choice in every aspect of the real estate process from search to closing, and there are numerous companies offering new tools in the DIY arena that are steadily empowering this "digital consumer." The question facing the industry is whether or not the DIY movement will become a major disruption to the way the industry currently operates, or will it just continue to bump along as it has in the past. There are numerous factors impacting that outcome, like FSBO sites that are using technology to reach out to the consumer at the outset of the process, providing them with a flexible DIY structure and an easy process to follow.

EXAMPLES OF DIY WEBSITES

FSBO.com

Owners.com

ListByOwnerInMls.com

BuyerCurious.com

10Realty.com

SaleByOwnerRealty.com

AUTHOR'S PERSPECTIVE

Community marketing opportunities can be found in many colleges, universities, hospitals, and other professional environments that experience high levels of employee relocation. These environments have in essence created and facilitated private property listing operations that enabled homeowners to sell their properties directly to new arrivals in their communities.

In a similar vein, more and more neighborhoods have undertaken to create websites that provide hyper-local information regarding a wide range of life-style related subjects. By enhancing the FSBO concept with an automatic value model, global portal exposure, access to standard forms, and with the emergence of 'RealtyZoom', an Enabled FBSO is increasingly being explored.

If this Do-It-Yourself variation of the traditional FBSO was to gradually double the existing FSBO niche, it could result in billions of dollars in real estate commissions being saved by the consumer and lost by the real estate industry.

Danger Index


42.0

Probability


4.0

Timing


3.0

Impact


3.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



SALES TAX THREATENS MARGINS

Sales tax on real estate commissions impacts already thin profit margins and forces fundamental change to the already strained broker/agent relationships.

IN CONTEXT

States are scrambling for income in the face of declining tax revenues and increasing demands for services. Advocates have indicated that the taxing of services is simply a matter of fairness and good sense, and that there should be a “spreading out the tax burden” as widely as imaginable. According to the Federation of Tax Administrators, a majority of states apply their sales tax to less than one-third of 168 potentially taxable services.

For real estate, the touch point of taxes on “services” is the sale from the employer (broker) to the ultimate

purchaser (consumer). To the extent that the tax is passed on, or built into the commission, it is owed by the broker, and thus increases the cost of the sale. In South Dakota for example, commissions received by a real estate broker under any type of agency agreement, or any fee originating from the sale of real property sold in the state—regardless of the broker’s or agent’s residence—are subject to state and applicable municipal sales tax based on where the property is located. The sales tax is due during the reporting period in which the broker receives the commission, determined by the time of closing.

STATES THAT TAX REAL ESTATE COMMISSIONS

Examples of states that have already introduced the taxing of real estate commissions.

New Mexico
5 - 8 percent

Hawaii
4 percent

South Dakota
4 percent

AUTHOR'S PERSPECTIVE

At the present time, sales tax on real estate commissions is not a widespread practice, but the danger of it gaining more traction is real and will increase as more state taxing authorities explore options for enlarging their tax base.

A service tax on commissions would have a direct impact on the sales price and the entire real estate industry as fees (and taxes) are—and have historically been—passed on to the consumer.

Danger Index

↓
40.0

Probability

≡
4.0

Timing

🕒
2.5

Impact

⚠️
4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



PORTALS LEVERAGE LEAD GEN DOMINANCE

Portals leverage online dominance and morph their business model into a more aggressive transaction-based revenue sharing concept.

IN CONTEXT

It's estimated that the real estate brokerage industry annually spends between \$6 to \$10 billion on advertising and promotion. Historically this has been spread across multiple media sources, including printing, magazines, newspaper, and online advertising and promotional items. As the online portal channel continues to grow, a handful of companies now offer—for the first time—advertising options on a national basis, thereby consolidating the advertising revenue. At the present time the leading

portal's revenue from that pool is approximately \$200 million, which accounts for only about two to three percent of the total while their online traffic garners between 30 to 50 percent of the eyeballs browsing for houses. With portals' publicly stated goal to capture more of the agent ad dollar market revenue, it is not improbable that they may in the future capture 30 to 50 percent of the advertising dollars.



“Agents expect portals to act in their best interests...Why? Portals have no higher responsibility to the industry. They are a business, like everyone else, out to make a buck.”

AUTHOR'S PERSPECTIVE

The re-directing of the industry's ad dollars spent on new sources is significant, but it does not threaten the industry per se. It is, in essence, a consolidation and reallocation of existing advertising and marketing dollars.

The brokers' fear is that once a national company obtains a dominant share, it may enable that company to change its revenue model to one based on transactions, resulting in a higher fee.

With a growing number of agents becoming increasingly dependent on portals to provide them leads, it will be interesting to see if this new source of lead generation becomes the dominant choice and thereby dramatically impacts other existing sources. Agents will most likely continue to work for brokers but may be less dependent on them as the result of their receiving a large number of leads via the portals.

Danger Index

↓

36.0

Probability

≡

3.0

Timing

🕒

4.0

Impact

⚠️

3.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER CHECKLIST: DANGERS IMPACTING BROKERS

DATA CLASSIFICATION

In order to best evaluate and present each danger, an Index was created based on the probability (P) of each danger occurring, the future timing (T) of the potential danger, and the possible impact (I) of each danger. The combined scoring of these factors results in the PTI Index. The index is not scientific but rather a combined and weighted representation of the research, surveys, and interviews that enable the dangers to be placed in order of significance as to the level of danger they present.

INDEX

In evaluating each danger, the overall result is presented in the PTI index (Probability, Timing and Impact), which ranks the danger in order to provide a level of comparison between the dangers/sections of the report. The Danger Index represents a composite, overall score.

#	☰ Probability	🕒 Timing	⚠️ Impact	📉 Danger Index
5.0	100% Chance	1 Year	Game Changer	81-100 Critical
4.0	80% Chance	1 - 3 Years	Major Impact	61-80 Severe
3.0	60% Chance	3 - 5 Years	Moderate Impact	41-60 High
2.0	40% Chance	5 - 10 Years	Some Impact	21-40 Moderate
1.0	20% Chance	10 + Years	No Impact	0-20 Low

	Danger	☰ Probability	🕒 Timing	⚠️ Impact	📉 Index
<input type="checkbox"/>	B1 Regulatory Tsunami Hits	5.0	4.0	5.0	100.0
<input type="checkbox"/>	B2 Paper Brokerages Cause Disruption	5.0	4.0	4.0	80.0
<input type="checkbox"/>	B3 Brokers Lose Control of Data	4.0	4.0	4.5	72.0
<input type="checkbox"/>	B4 A Consumer Brand Crashes the Party	4.0	4.0	4.0	64.0
<input type="checkbox"/>	B5 New Business Models Go Mainstream	4.5	4.0	3.5	63.0
<input type="checkbox"/>	B6 Brokers Simply Go Broke	4.0	4.0	3.5	56.0
<input type="checkbox"/>	B7 Technology Becomes a Runaway Train	4.0	4.0	3.0	48.0
<input type="checkbox"/>	B8 FSBO Develops into a Do-It-Yourself Model	4.0	3.0	3.5	42.0
<input type="checkbox"/>	B9 Sales Tax Threatens Margins	4.0	2.5	4.0	40.0
<input type="checkbox"/>	B10 Portals Leverage Lead Gen Dominance	3.0	4.0	3.0	36.0



Dangers Impacting NAR

Section C | Third of Five Sections

Realtor.org/**DANGER**Report

DANGERReport.com

Section C

DANGERS IMPACTING NAR

- Decision-Making Structure Becomes A Hindrance **C1**
- The Three-Tier Structure Liability **C2**
- Out Positioned as Industry Spokesperson **C3**
- Mission Creep **C4**
- The Catch-22 Tech Quandary **C5**
- The Quality / Quantity Challenge **C6**
- Insufficient New Blood **C7**
- Shortage of Leadership Talent **C8**
- REALTOR® Brand Loses its Desirability and Power **C9**
- Core Standards Too Low **C10**



DECISION-MAKING STRUCTURE BECOMES A HINDRANCE

NAR's complex governance structure encumbers its ability to adopt the strategies, tactics, and policies that are appropriate for the future.

IN CONTEXT

Big national associations have a large, complex, and multi-tiered decision-making structure that is cumbersome by its very nature. To compare these associations and how they operate with an entrepreneurial-driven business isn't a fair apples-to-apples comparison. That said, the comparison is still made because the lines separating the two camps have been blurred. The National Association of REALTORS® (NAR) is the world's largest trade organization with 1,099,102 members as of December 31, 2014. It has approximately 2,500 members serving on approximately 80 committees, forums, and advisory boards, and its board of directors officially has a whopping 841 voting members.

By their very nature, contemporary trade associations that have a global reach are different than business corporations because they have to satisfy a much wider range of players on the business, professional, and cultural fronts. Decisions made in that environment are complex and often very unclear, regardless of how many individuals are on the committee. It is interesting to note that even large organizations in our industry aren't free from division and discourse, even those that have a single majority shareholder. Perhaps in the final analysis the danger exists because it's the nature of operating a huge organization.

Danger Index



100.0

Probability


4.0

Timing


5.0

Impact


5.0

AUTHOR'S PERSPECTIVE

What makes NAR unique is that it is one of the few trade associations that represents the interests of both the officers (brokers) and the enlisted ranks (agents) within the industry. Many have historically seen serving as a NAR director as a badge of honor with various perks. It's time to let go of the Boomer Generation association groupies who have become hooked on the benefits, including status and travel. Today, both companies and individuals are held to an even more business-like and more transparent standard.

“ Leaders desiring to win need to be nimble. NAR governance makes it very difficult to respond quickly. ”

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



THE THREE-TIER STRUCTURE LIABILITY

The unique three-tier REALTOR® Association structure emerges as the trigger of major crippling channel conflicts between national, state, and local REALTOR® Associations.

IN CONTEXT

NAR's three-tier structure is a complicated assembly of 54 state and territorial associations and 1,341 local associations. This operating agreement was developed in a world that respected status and seniority. Today it is being judged in a different world of transparency and accountability. The varying perceptions of how the three-tier structure operates has resulted in parties placing the blame on NAR for perceived failures when often NAR has little, if any control over many activities. The reason is that the state and local associations are independent and separately incorporated companies with different charters, articles, and boards of directors. They are somewhat akin to a franchise, where only certain items are shared, such as branding, members, and ethical standards. As a

result, many decisions fall under the purview of each organization and therefore many associations, as independent entities, can easily find themselves on opposite sides of the table.

For example, a local association negotiating with a vendor may differ from a nationally negotiated agreement. Disconnects like this between the three-tiers prompted Dale Stinton at the 2014 Midyear REALTOR® Conference to state that "The three-way agreement [between local, state, and national associations] is not written in the [NAR] constitution anywhere. It's an understanding, [but even] so let's deal with the three-way agreement and let's figure out what it means at all three levels." The key, Stinton said, is to "stop duplication at three levels."

“Like the Government, many non-profit associations have too much redundancy. Time to make some meaningful cuts.”

AUTHOR'S PERSPECTIVE

This structure is one of NAR's biggest and most unique assets, providing huge benefits to NAR and its REALTOR® members. There are many benefits that can be derived from maximizing scale and volume, and NAR has done well by leveraging its position as the largest trade association in the world. But size can also be the enemy. The challenge is in separating the respective issues in order to identify where and when uniqueness requires local or tailored solutions. Too often customization is driven by politics and personal opinion. Remember that personal/company biases must be left at the door when trying to decide what is best for the association and the members being represented.

Danger Index

↓

80.0

Probability

≡

4.0

Timing

🕒

5.0

Impact

⚠️

4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



OUT POSITIONED AS INDUSTRY SPOKESPERSON

The continued proliferation of voices and huge ad budgets challenge NAR's position as "The Voice of Real Estate."

IN CONTEXT

NAR announced that its 2015 Consumer Advertising Campaign—part of its \$35 million annual advertising campaign—will, through 22,800 radio, TV, and digital spots, reach the consumer an average of 35 times with 3.9 billion impressions.

For decades NAR has prided itself in being "The Voice of Real Estate" for its members, America's homeowners, and the millions of people who aspire to

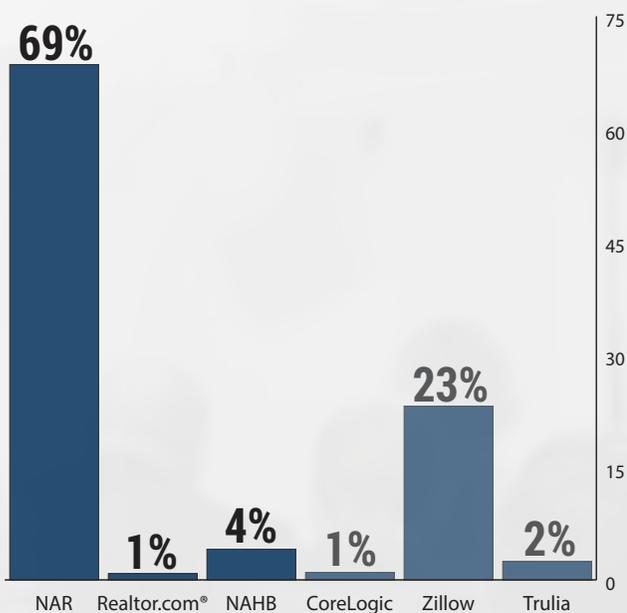
one day own their own home. With that stature NAR has done an incredible job of becoming the leading advocate for homeownership and in creating huge recognition in the media. The monthly NAR Housing Report on Existing-Home Sales is always widely quoted, although in recent years it has shared the spotlight with the Case-Shiller Home Price Index and Zillow's Home Value Index.



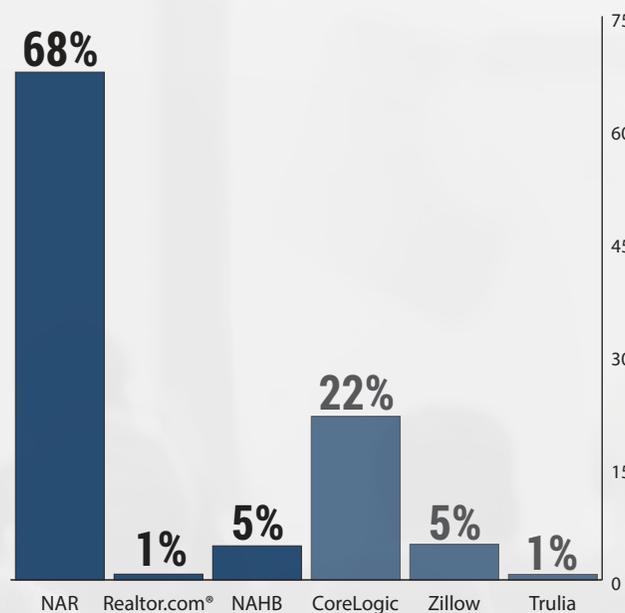
SHARE OF VOICE

These charts report the percent of visibility of different brands as they relate to homeownership and real estate data respectively as tracked by media monitoring firm, Cision, for January 2015.

HOMEOWNERSHIP



REAL ESTATE DATA



AUTHOR'S PERSPECTIVE

The real estate industry is populated by several strong voices, some providing similar housing and economic information and others building their brand. NAR, as a industry-wide advocacy organization, has a very unique and special cache that no other company can replicate—that is very valuable.

Danger Index

72.0

Probability



4.5

Timing



4.0

Impact



4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



MISSION CREEP

NAR expands beyond its core focus, which hinders its ability to respond to a broad base of threats.

IN CONTEXT

A gradual and unplanned shift in objectives often results in an unintentional long-term commitment that is not always beneficial. However, when an organization makes deliberate planned changes—to improve its position, market share, or services levels—that is widely considered a sound strategy. NAR, being the large organization it is, has during the last decade introduced many new initiatives such as:

- REALTORS® Property Resource
- Second Century Ventures
- Xceligent
- SentiLock
- Top Level Domains
- REALTORS® Federal Credit Union
- REALTOR® University
- HouseLogic
- RET Radio



AUTHOR'S PERSPECTIVE

It appears that trade associations for doctors, dentists, lawyers, and other professions have all fallen from grace in recent years, and it seems that their fall is not correlated to whether or not they are staying true to their core mission. The issue isn't about critiquing NAR on the success of its non-core activities especially since its performance venturing into uncharted waters has been no less successful than that of many entrepreneurial companies. Many large companies are able to multi-task and successfully manage different initiatives. So the debate is whether or not diversification by an association is a dilution of resources or a progressive strategy. The industry appears divided on that.

Danger Index

↓

64.0

Probability

≡

4.0

Timing

🕒

4.0

Impact

⚠️

4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



THE CATCH-22 TECH QUANDARY

Major technology initiatives by NAR succumb to political headwinds.

IN CONTEXT

REALTORS® Information Network (RIN), Realtor.com, and REALTORS® Property Resource (RPR) are examples of initiatives that have had to battle political headwinds. RPR, a free membership service, was launched in 2009 and has, to date, received funds totaling \$98.9 million; by the end of 2016 its funding is expected to exceed \$142.7 million.

Redfin is similar to RPR. It was founded in 2004, launched in 2006, and went through a fifth funding round of \$70.9 million in 2014 (bringing the total funding to \$166.6 million). Although the two companies have a different charter, both are young tech-based upstarts in the real estate space.

Redfin has grabbed the industry's imagination and is often associated with innovation, best website,

best mobile app, etc., while RPR has received criticism and boycotts. Both have yet to turn a profit, but Redfin is widely expected to become a billion dollar IPO within the next 12 months. NAR does not have as many options as a private company and cannot disinvest from their investments since many of their services are designed as free member benefits.

There seems to be a perception that REALTOR® entities should not be engaged in producing technology initiatives, whether competitive or not, and that REALTORS® will not automatically purchase technology from associations just to demonstrate their loyalty to the cause. NAR has had to constantly overcome REALTOR® objections, making success even more complicated than it would have been had it been a non-NAR initiative.

AUTHOR'S PERSPECTIVE

NAR has been saddled with the reputation that it hasn't been good at developing technology. At the same time it is criticized for not being aggressive enough in competing with tech companies in the space. What a catch-22 dilemma!



Danger Index

↓
64.0

Probability

≡
4.0

Timing

🕒
4.0

Impact

⚠️
4.0

“*REALTOR® Associations need to be run like a business. Are we willing to make the hard decisions to make this happen?*”

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
C6

THE QUALITY / QUANTITY CHALLENGE

The discord caused by trying to be both an association for everyone and an association only for the best reaches a breakpoint.

“ Too many agents aren't worthy of the REALTOR® brand.”

IN CONTEXT

NAR is a membership-driven, dues-based organization. Therefore its revenue stream is primarily driven by size, which results in the majority of the decisions being based on the masses. The leadership, both on the national and regional (state and local) levels, is often divided when having to take decisions. Do they serve the best of the best and thereby often focus on a small group of members, or do they support the wishes of the majority. These two membership segments have very different needs and wants that are almost always impossible to satisfy at the same time.

NAR Membership Milestones

1911	3,000
1913	6,000
1920	10,000
1944	20,000
1948	40,000
1957	60,000
1965	80,000
1972	100,000
1975	250,000
1977	500,000
1986	750,000
2004	1,000,000
2005	1,250,000

Source:
National Association of REALTORS®

AUTHOR'S PERSPECTIVE

It is widely acknowledged that NAR's membership numbers are very cyclical and strongly influenced by the condition of the housing market. Despite that fact, its membership growth over the past century has been nothing short of incredible.

Many REALTOR® Association structures are built around the principle of head-count, thereby forcing many key decisions to be based on quantity rather than quality. And that's okay. Not everything always has to be equal or fair to everyone. Different services for different members at different times is a completely acceptable business practice.

The time has come to resolve the decades-long confusion of whether NAR should be a membership-driven organization or an association focused on quality, professional membership.

Danger Index



60.0

Probability



4.0

Timing



3.0

Impact



5.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



INSUFFICIENT NEW BLOOD

All levels of the REALTOR® Association world—national, state, and local—struggle to attract young recruits.

IN CONTEXT

Real estate sales has rarely been seen as a first choice career, which has resulted in the industry being populated by people that enter at a latter stage in their career, for a variety of different reasons: easy entry with minimum requirements, the perception of easy money, etc. Due to the fact that there is no standard retirement age, brokers and agents remain in the industry much longer than in most other occupations. The combination of these two facts has resulted in the real estate industry developing a very mature demographic.

Many feel NAR is the best positioned to package real estate sales as a career for a new generation of young people.

*“Youth is a gift
the industry is
yet to receive.”*

AGE OF REALTORS® (2003 - 2014)

	2003	2009	2014
Under 30 years	5%	4%	3%
30 - 34 years	6%	4%	4%
35 - 39 years	9%	7%	5%
40 - 44 years	13%	9%	7%
45 - 49 years	12%	12%	10%
50 - 54 years	16%	16%	16%
55 - 59 years	15%	15%	16%
60 - 64 years	12%	15%	16%
65+ years	12%	17%	24%
Median age	51	54	56

Source:
National Association of REALTORS®

AUTHOR'S PERSPECTIVE

NAR's membership profile has gradually aged over the last decade from 51 (in 2003) to 56 (in 2014). Furthermore, as can be seen from the table, the under 40 group has declined from 20% (in 2003) to 12% (in 2014) while the over 60 group has risen from 24% (in 2003) to 40% (in 2014).

Attracting the next generation of REALTORS® is necessary to assure that the real estate industry retains the vitality necessary to innovate and grow. Promoting real estate as a first-career choice is one way to reverse the unsettling demographic trends evident during the past several years.

Danger Index



56.0

Probability

**4.0**

Timing

**4.0**

Impact

**3.5****INDEX**

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
C8

SHORTAGE OF LEADERSHIP TALENT

There simply isn't a large pool of talented, dynamic, knowledgeable, young executives available to lead Organized Real Estate (ORE).

“A one-year term for President is too short to get anything done. We don't need a new president every year.”

IN CONTEXT

Since the Digital Revolution and the shift to the information age, the profile of the leaders needed in ORE has changed significantly. The skills and attitude now required in a take-charge CEO are those of a profit-driven, service-competitive, Internet-leveraging individual. The problem is that ORE has been far too comfortable with the status quo; it has been afraid to change, leaving it with many aging leaders that are finding themselves overwhelmed and out of touch. Compounding this problem is the widespread failure of the industry, from NAR down to the smallest association or brokerage company, to adequately plan for this transition, a transition that it has seen coming—and purposely avoided—for decades.

“Many leaders want to be liked more than they want to make a difference.”



AUTHOR'S PERSPECTIVE

Not all leaders are the same, and therefore the results they generate will vary. ORE has many examples of great leaders that have been able to successfully adapt into their new role as 21st century leaders, but they are in the minority. Often there is too much in-fighting. Few discussions really make things better and/or move ORE significantly forward. If ORE is to survive the challenges being presented, it must become far more proactive and successful in recruiting young leaders to take charge of leading it into the 21st century and to focus on what matters most.

Danger Index

↓

48.0

Probability

≡

4.0

Timing

🕒

4.0

Impact

⚠️

3.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



REALTOR® BRAND LOSES ITS DESIRABILITY AND POWER

The widely recognizable and powerful REALTOR® brand no longer has the same appeal, prestige and value proposition it once did.

IN CONTEXT

An organization's brand is one of its most valuable assets. Although the value of a brand is notoriously difficult to quantify, it reflects the essential elements of consumers' experience with that organization including perceptions about the value of the products and services received. In 2014, Absolute Brands appraised the value of the REALTOR® brand at approximately \$5 billion, ranking it among some of the most valuable brands.

The word REALTOR® refers specifically to members of the REALTOR® association (national, state or

local). And it is within this world of Organized Real Estate that there is a growing concern about what the brand REALTOR® stands for today. Questions that are being asked include:

- Is the REALTOR® movement the same as five decades ago or has it changed?
- Are REALTORS® more professional than non-member real estate agents?
- Is the data provided by REALTORS® more accurate than that provided by non-member agents?



CORE STANDARDS ARE TOO LOW

If not enforced, or if sub-contracted by another association, the standards will be another exercise in futility.

IN CONTEXT

Core means basic, fundamental, and essential. NAR's standards are exactly that, essential basic practices for good business. While the progressive associations already surpass these requirements—as to be expected—they aren't the ones that need to step up to the plate. As part of the Core Standards announcement, NAR indicated that "all" associations must reach and maintain standards in several key areas: ethics,

advocacy, consumer outreach, unification and REALTOR® organization support, technology, and financial solvency.

Addressing the need for and the importance of the core standards, NAR President, Steve Brown said: "By instituting a set of core standards for every one of our 1,400 local and state associations, we take a giant step forward in ensuring that we reach our goals together."

NAR CORE STANDARDS

NAR's new Core Standards represent action to be taken by all associations in six specific areas:

1. **Code of Ethics:** Maintain a viable set of professional standards.
2. **Advocacy:** Include in dues billing a voluntary contribution to meet any NAR established fundraising goals.
3. **Consumer Outreach:** Demonstrate consumer engagement through no fewer than four meaningful consumer activities.
4. **Unification and Support of the REALTOR® Organization:** Have a strategic or business plan that includes an advocacy element.
5. **Technology:** Maintain an interactive website, with information concerning professional standards, arbitration filing processes, links to other levels of the association, etc.
6. **Financial Solvency:** Adopt policies to ensure the fiscal integrity of their financial operations.

AUTHOR'S PERSPECTIVE

In a "collective," the lowest common denominator often gets to set the agenda. Thus the need for minimum or core standards is vital. The fact that these core standards had to be created can be seen as a reflection on some REALTOR® leaders that haven't taken their associations seriously enough.

Raising the level of the bar should be a continuous, ongoing way of managing any organization and therefore should be encouraged. One would hope that these core standards will quickly lead to the next step; establishing benchmarks. In the end, however, it's the implementation, monitoring, and accountability that will determine the future of this initiative.

Danger Index

↓

30.0

Probability

≡

3.0

Timing

🕒

4.0

Impact

⚠️

2.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER CHECKLIST: DANGERS IMPACTING NAR

DATA CLASSIFICATION

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2.0	40% Chance	5 - 10 Years	Some Impact	21-40 Moderate
1.0	20% Chance	10 + Years	No Impact	0-20 Low

	Danger	☰ Probability	🕒 Timing	⚠️ Impact	📉 Index
<input type="checkbox"/>	C1 Decision-Making Structure Becomes A Hindrance	4.0	5.0	5.0	100.0
<input type="checkbox"/>	C2 The Three-Tier Structure Liability	4.0	5.0	4.0	80.0
<input type="checkbox"/>	C3 Out Positioned as Industry Spokesperson	4.5	4.0	4.0	72.0
<input type="checkbox"/>	C4 Mission Creep	4.0	4.0	4.0	64.0
<input type="checkbox"/>	C5 The Catch-22 Tech Quandary	4.0	4.0	4.0	64.0
<input type="checkbox"/>	C6 The Quality / Quantity Challenge	4.0	3.0	5.0	60.0
<input type="checkbox"/>	C7 Insufficient New Blood	4.0	4.0	3.5	56.0
<input type="checkbox"/>	C8 Shortage of Leadership Talent	4.0	4.0	3.0	48.0
<input type="checkbox"/>	C9 REALTOR® Brand Loses its Desirability and Power	4.0	3.0	3.0	36.0
<input type="checkbox"/>	C10 Core Standards Too Low	3.0	4.0	2.5	30.0



Dangers Impacting Associations

Section D | Fourth of Five Sections

Realtor.org/**DANGER**Report

DANGERReport.com

Section D

DANGERS IMPACTING ASSOCIATIONS

Leaders Not in Unison with Fast-Paced World **D1**

Too Many Uninformed Decisions Are Taken **D2**

Broad Resistance to Consolidation **D3**

The Lowest Common Denominator Impediment **D4**

The Unwieldy Governance Structure **D5**

Reluctance of Leaders to Step Up **D6**

Loss of Primary Revenue Source **D7**

Changing of the Old Guard **D8**

Local Association Charter Revoked **D9**

The Dues Disconnect **D10**

DANGER
D1

LEADERS NOT IN UNISON WITH FAST-PACED WORLD

The inability to recruit, train, and engage the skills required to lead associations through transition.

TRADITIONAL CEO	DIGITAL CEO
Drives Employees	Lets Employees Explore
Depends on Experience	Depends on Technology
Inspires with Authority	Inspires with Innovation
Places Blame	Finds Upgrades
Knows How It's Done	Shows How It's Done
Takes Credit	Shares Credit
Says, "Go!"	Says, "Who's In?"

IN CONTEXT

The Digital Revolution, the change from analog, mechanical, and electronic technology to digital technology, began in the late 1980s and early 1990s with the mass adoption of the Internet and the use of cell phones. With the proliferation of those technologies, among others, the Digital Revolution brought about the information age at a startling pace that has left many businesses antiquated and struggling. Association leaders in this environment battle to continuously remain current and relevant.

“ *There is way too much focus on protecting the status quo! Too many leaders are not willing to bite the bullet and embrace significant change.* ”

AUTHOR'S PERSPECTIVE

The profile of a nonprofit association in real estate during the 1980s was that of a non-transparent, pre-Internet business. And that profile has been the design and structure of all aspects of the real estate industry for the better part of the last century. But since the Digital Revolution and the shift to the information age, that profile has changed significantly. The size of local associations ranges dramatically from fewer than 10 members to many tens of thousands. The leadership skills, abilities, and mind-sets of association leaders vary significantly across this large spectrum.



Danger Index

↓

100.0

Probability



5.0

Timing



4.0

Impact



5.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



TOO MANY UNINFORMED DECISIONS ARE TAKEN

Misguided decisions are made by leaders who don't clearly understand their obligations and responsibilities.

IN CONTEXT

There are a number of issues associated with running a nonprofit organization with a large dependence on volunteer help, like the demand for uncompensated leadership time. The fact that REALTOR® Associations consist of REALTORS® who are not only volunteers but are also independent contractors, makes the board election process an especially difficult issue.

Due to their independent nature, many elected REALTORS® have limited exposure to the industry in its totality. It is further complicated by personal/local interests that are sometimes not aligned with the overall needs of the majority of the members of the association.

Squabbles and infighting at board and committee

meetings are not uncommon, transforming meetings into battlegrounds where the victor is often the one with the strongest or loudest voice, not necessarily the one with the best knowledge or most comprehensive understanding of what's needed.

Furthermore, the battle for control and the benefit of the few versus the benefit of many has always been a challenge. But in the case of the REALTOR® Association it's often not a debate, it's frequently the result of a few egos and personal agendas dictating decisions. Individual agents have a loud voice at their association and as a result, decisions are often taken that benefit a small group of constituents rather than the larger collective.

*“Dumbing down doesn’t solve the problems,
it’s just the easy way out.”*

AUTHOR’S PERSPECTIVE

As previously stated, association size varies drastically, as do skills, abilities, and mind-sets. Leadership aside, in-fighting is often the cause of misguided decisions and seldom leads to healthy conclusions.

Many elected leaders don’t distinguish clearly enough between the best interests of the association, its various constituents, its members, and their own personal needs. The complexity of wearing multiple hats leads to flawed logic, inconsistent discussions, and a messy political environment where the decision-making process suffers.

Danger Index


80.0

Probability


5.0

Timing


4.0

Impact


4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



BROAD RESISTANCE TO CONSOLIDATION

Hundreds of small associations fear loss of identity, custom services, and a voice.

IN CONTEXT

The apparent reluctance on the part of many associations, especially the smaller associations, to consolidate lies in the fact that most view themselves as distinctive and uniquely qualified to best serve the needs of their members as a smaller entity, rather than as a part of a larger enterprise. While there are rare circumstances in which that logic may apply, for the majority, economies of scale will result in more competitive pricing and a higher quality of service offering that outweigh the counter argument.

The concept of consolidation involves combining existing entities into a structure that will make them

better, not just bigger. However, one of the failures of the process is that very seldom are any standards, best practices, or objectives put in place.

As a way to indirectly promote, and possibly facilitate consolidation, the new Core Standards issued by the National Association of REALTORS® in 2014 introduced new criteria that apply pressure to associations to achieve certain minimum standards. This may result in an increased number of the smaller associations reconsidering consolidation as a viable strategy.

NUMBER OF REALTOR® ASSOCIATIONS

State and Local Associations reached an all time high in 1984, but since then have declined at a rate of approximately 10 percent per decade.

1984 2,012 associations

1994 1,752 associations

2004 1,453 associations

2014 1,341 associations

Source:
National Association of REALTORS®

AUTHOR'S PERSPECTIVE

The perception is that associations resist consolidation, but statistics reveal that this is not a valid statement. Organized Real Estate (ORE) has consolidated by one-third over the past 30 years. There is, however, significant room for more consolidation.

For example, approximately 83 percent of the current 1,341 associations have less than 1,000 members, with those in the smallest 10 percent having less than 50 members each. A fragmented industry with many uneconomical and under-performing associations significantly complicates the challenge of remaining relevant.

Danger Index


70.0

Probability


5.0

Timing


4.0

Impact


3.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
D4

THE LOWEST COMMON DENOMINATOR IMPEDIMENT

The inconsistent REALTOR® mindset regarding the understanding and implementation of ethical standards, best practices, governance, organizational structure, and business planning has resulted in the standard of the lowest common denominator being allowed to continue to drive key decisions, defying efforts to strengthen organized real estate.

IN CONTEXT

Operating as the largest trade association in the world, one would expect the organization to have a wide diversity of membership experience and qualifications. With over one million members this is most certainly the case for NAR. But this diversity, while often beneficial, can also be detrimental to the decision-making process as those decisions are often determined by trying to accommodate the lowest common

denominator. This is further frustrated by the fact that as a result of low barriers to entry, the membership base represents an exceptionally eclectic selection of skills and knowledge. And any organization's success is significantly influenced by the quality and experience of the leadership in making key decisions.

“Groupthink is the norm in many associations, but it is seldom the best path to a good solution.”

AUTHOR'S PERSPECTIVE

Groupthink is widely observed in the association world, especially in the smaller associations, but it is a double-edged sword. The industry has huge extremes, with some of the most professional, well educated, and ethical people trying to work with some of the most incompetent, amateurish, and unprincipled individuals. There are many dangers associated with failing to raise the bar at the association level, and playing to the lower end of membership competency is an unacceptable option.

Danger Index

↓

64.0

Probability

≡

4.0

Timing

⌚

4.0

Impact

⚠

4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
D5

THE UNWIELDY GOVERNANCE STRUCTURE

The cumbersome association governance structure and process limits the ability of associations to timely and effectively address the complex challenges currently facing them.

IN CONTEXT

The adherence to legacy rules and longstanding operating policies and procedures—such as nominating procedures, antiquated agendas, inadequate planning, ineffective implementation, failure to agree upon strategic intents, and/or holding staff accountable to drive success—makes managing an organization very complicated indeed.

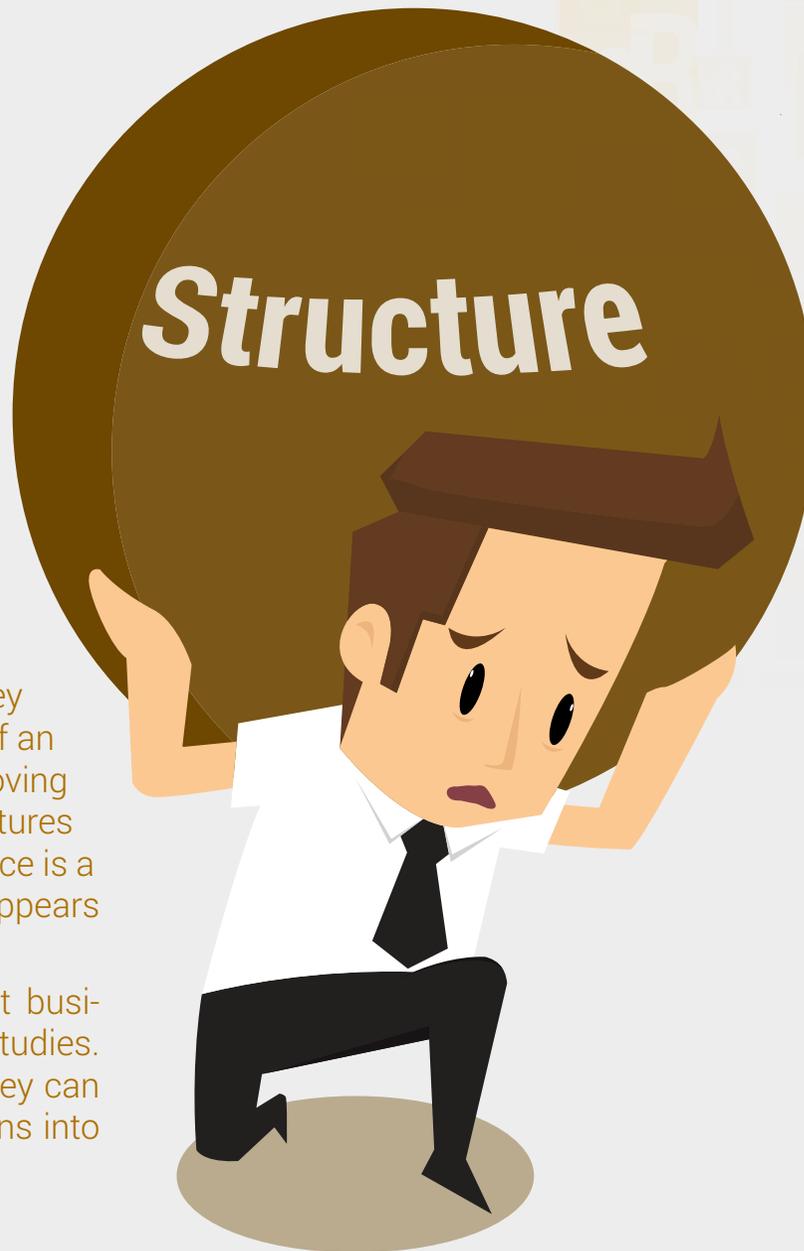
ORE is often expected to function and/or compete with outside organizations as if it were one entity, yet it clearly isn't. It's a conglomeration of over 1,300 separately incorporated companies with 1,300 different sets of shareholders, charters, and boards of directors, and they each function differently. However, even though they are bogged down with governance, the impact varies based on the quality of the CEO leading the association.

“Associations are often their own worst enemy.”

AUTHOR'S PERSPECTIVE

Although governance structures and procedures exist for a reason, and more often than not a good reason, they are also usually dated and in dire need of an overhaul. Therefore, periodically improving complex association governance structures in an effort to improve overall performance is a crucial exercise, one that the industry appears to be in need of.

Fortunately, there are many great business books, best practices, and case studies. If association leaders are committed, they can revitalize and transform their associations into newer, more effective organizations.



Danger Index

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60.0

Probability

≡

5.0

Timing

⌚

3.0

Impact

⚠

4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
D6

RELUCTANCE OF LEADERS TO STEP UP

Many business leaders are unwilling to spend time in committee meetings, debating unproductive issues with uninformed brokers/agents.

IN CONTEXT

A major challenge facing associations is the shortage of qualified and knowledgeable leaders of large real estate companies that are willing to step up and dedicate a large amount of their time to their association. Furthermore, many brokers and owners of their own businesses can't afford the absence of their leader for

significant periods of time. This has resulted in positions being filled with sales associates who are frequently uninformed or only vaguely aware of the inner workings of the major issues impacting the industry, and are therefore unable to evaluate and debate decisions at a level comparable to large billion-dollar Wall Street companies.



“ Within every 12 month association presidential election cycle are six months of madness, leaving very little time to get something substantial accomplished.”

AUTHOR'S PERSPECTIVE

In these trying times the residential real estate industry needs more leader involvement, not less. The absence of knowledgeable, skilled, and experienced decision-makers at key levels is damaging organized real estate, resulting in disappointing results and unintended consequences. Having well trained volunteer leaders is a key to successful associations.

Danger Index

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56.0

Probability

≡

4.0

Timing

⌚

4.0

Impact

⚠

3.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/ sections of the report. Danger Index, represents a composite, overall score.



LOSS OF PRIMARY REVENUE SOURCE

The loss of MLS ownership, control, and/or revenue threatens those associations that depend heavily on this asset.

“*If Associations no longer had their MLS revenue, many wouldn't survive.*”

IN CONTEXT

Many associations hold equity in and/or serve on the board of directors of an MLS organization. For many, the revenue derived from their MLS investment or the financial benefit associated with association membership have insulated them from severe membership or revenue loss.

Some feel that the unwillingness of many in the MLS industry to consolidate is perhaps the result of their close association with REALTOR® associations. The benefits that accrue to those consolidated and much stronger MLSs are, however, often disregarded in light of the revenue and power that are lost by the smaller MLSs. In the case of the association, its dues revenue is enhanced by the fees it charges for membership in the MLS, thereby making them vulnerable to any decline in that revenue.

AUTHOR'S PERSPECTIVE

The most pressing issue facing associations that own and operate MLSs is their strong resistance to aggressively evolve and meet the demands and expectations of the industry. This struggle has often placed the associations in the middle of an increasingly strong disagreement between groups in the industry, such as the big brokers and the Realty Alliance.

Many parties are in advanced discussions to take the MLS business into different directions. Some of the decisions will be taken in the foreseeable future, but will likely have a large impact over many decades.



Danger Index

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54.0

Probability

≡

4.0

Timing

⌚

3.0

Impact

⚠

4.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
D8

CHANGING OF THE OLD GUARD

As association executive officers age, innovation declines.

IN CONTEXT

Association leadership is often caught in the power struggle between full-time corporate executives and the annual elected leadership, specifically the newly elected president. With long serving AEs, their personal identity is so intertwined with the organization that they become very reluctant to

release control to someone else or make any new changes. This is further complicated by the fact that many association AEs are approaching retirement.

Furthermore, a consolidation of two or more associations will invariably lead to the reduction of many senior executives and AEs. This growing threat has created industry-wide insecurity, causing leaders to make decisions, even subconsciously, that are not always in the best interests of the needs of the association.



“*Many AE’s have created fiefdoms. Local association structures are generally not strong enough to do what needs to be done.*”

AUTHOR’S PERSPECTIVE

While the broad statements clearly don’t apply to all AEs, the general perception is that a large number of association executives fall into this quandary. So if ever there is a time for AEs to step up their game it is now. Many can do this if they seize the opportunity. AEs that aren’t willing to show progressive leadership and make bold decisions going forward will most likely negatively impact their associations for years to come.



Danger Index

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42.0

Probability

≡

4.0

Timing

⌚

3.0

Impact

⚠

3.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



LOCAL ASSOCIATION CHARTER REVOKED

Local REALTOR® Associations that do not meet the Core Standards requirements may find their charters revoked.

IN CONTEXT

NAR announced in 2014 that all state and local associations must reach and maintain core standards in several key areas:

- 1. Code of Ethics:** Maintain a viable set of professional standards process.
- 2. Advocacy:** Include in dues billing a voluntary contribution to meet any NAR established fundraising goals.
- 3. Consumer Outreach:** Demonstrate consumer engagement through no fewer than four meaningful consumer activities.
- 4. Unification and Support of the REALTOR® Organization:** Have a strategic or business plan that includes an advocacy element.
- 5. Technology:** Maintain an interactive website, with information concerning professional standards, arbitration filing processes, links to other levels of the association, etc.
- 6. Financial Solvency:** Adopt policies to ensure the fiscal integrity of their financial operations.

AUTHOR'S PERSPECTIVE

NAR's Core Standards are basic, fundamental, and essential, and although every association should be able to comply, some may or may not choose to. Whether by choice or as a result of being revoked, loss of the REALTOR® charter will be a game changer. NAR products, services, designations, and training will no longer be available to brokers/agents. Life outside the powerful REALTOR® family will most certainly continue, but it will be very different than before. Few REALTOR® Associations are ready for that.



Danger Index

↓

36.0

Probability

≡

3.0

Timing

⌚

4.0

Impact

⚠

3.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER
D10**THE DUES
DISCONNECT**

REALTOR® Association dues no longer correlate to the actual costs and efforts involved in delivering contemporary association programs, products, and services.

IN CONTEXT

With increasing competition and cost to capture the heart and minds of agents, the value of belonging to a REALTOR® association may increasingly be questioned. There could also be a growing risk that association dues do not reflect the value proposition of the services being provided, as many of the services offered become available in the market for much less—some maybe even without cost.

Future friction, duplication and overlap between associations, large brokers, franchisors and third-party service providers may place REALTOR® associations in a precarious position. REALTORS® may not

fully recognize the full range of member benefits, including advocacy, access to the MLS and the power of the “REALTOR®” brand, if associations falter in clearly conveying their overall value proposition to the next generation of members in the face of low or no-cost alternatives.

A growing confusion regarding dues paid and the partitioning thereof between national, state, and local associations could also impact the relevancy of REALTOR® associations.

*“Associations work well as a club.
But in 2015 we need more than a club.”*

AUTHOR'S PERSPECTIVE

Some associations have done a modest job in packaging and explaining their value proposition and marketing their services to their members. Associations must become better at positioning themselves so that they can be seen as more than just the products/services they deliver. This is especially true if one considers that the advocacy work associations do is in many cases sufficient to justify their value proposition.

That said, REALTOR® associations, at all levels, can and should deliver programs, products, training and services that have high value and high relevance to their members' businesses and careers. If they are unable to do so effectively, members will look for those resources elsewhere.



Danger Index

↓

30.0

Probability

≡

3.0

Timing

🕒

4.0

Impact

⚠️

2.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER CHECKLIST: DANGERS IMPACTING ASSOCIATIONS

DATA CLASSIFICATION

In order to best evaluate and present each danger, an Index was created based on the probability (P) of each danger occurring, the future timing (T) of the potential danger, and the possible impact (I) of each danger. The combined scoring of these factors results in the PTI Index. The index is not scientific but rather a combined and weighted representation of the research, surveys, and interviews that enable the dangers to be placed in order of significance as to the level of danger they present.

INDEX

In evaluating each danger, the overall result is presented in the PTI index (Probability, Timing and Impact), which ranks the danger in order to provide a level of comparison between the dangers/sections of the report. The Danger Index represents a composite, overall score.

#	☰ Probability	🕒 Timing	⚠️ Impact	📉 Danger Index
5.0	100% Chance	1 Year	Game Changer	81-100 Critical
4.0	80% Chance	1 - 3 Years	Major Impact	61-80 Severe
3.0	60% Chance	3 - 5 Years	Moderate Impact	41-60 High
2.0	40% Chance	5 - 10 Years	Some Impact	21-40 Moderate
1.0	20% Chance	10 + Years	No Impact	0-20 Low

	Danger	☰ Probability	🕒 Timing	⚠️ Impact	📉 Index
<input type="checkbox"/>	D1 Leaders Not in Unison with Fast-Paced World	5.0	4.0	5.0	100.0
<input type="checkbox"/>	D2 Too Many Uninformed Decisions Are Taken	5.0	4.0	4.0	80.0
<input type="checkbox"/>	D3 Broad Resistance to Consolidation	5.0	4.0	3.5	70.0
<input type="checkbox"/>	D4 The Lowest Common Denominator Impediment	4.0	4.0	4.0	64.0
<input type="checkbox"/>	D5 The Unwieldy Governance Structure	5.0	3.0	4.0	60.0
<input type="checkbox"/>	D6 Reluctance of Leaders to Step Up	4.0	4.0	3.5	56.0
<input type="checkbox"/>	D7 Loss of Primary Revenue Source	4.0	3.0	4.5	54.0
<input type="checkbox"/>	D8 Changing of the Old Guard	4.0	3.0	3.5	42.0
<input type="checkbox"/>	D9 Local Association Charter Revoked	3.0	4.0	3.0	36.0
<input type="checkbox"/>	D10 The Dues Disconnect	3.0	4.0	2.5	30.0



Dangers Impacting MLS

Section E | Fifth of Five Sections

Realtor.org/**DANGER**Report

DANGERReport.com

Section E

DANGERS IMPACTING MLS

- Entry by a New Player **E1**
- Unclear End Result **E2**
- Control of a National MLS **E3**
- Decentralized Infrastructure Becomes Obsolete **E4**
- Large Patent Troll Attack **E5**
- Security Breach **E6**
- Off-MLS Listings Escalate **E7**
- Increased Hostility in the Real Estate Community **E8**
- Consumer-Facing Websites at the Crossroad **E9**
- A Better Mouse Trap **E10**



ENTRY BY A NEW PLAYER

The current warlike environment in real estate becomes attractive to a large non-industry company that sees opportunity.

IN CONTEXT

In an industry that is based on information as its core, we continue to caution against selling or providing that information to “third-parties.” Many feel that MLSs should have been the biggest protector of the information, but instead many believe they have become the direct opposite; the primary distributor of data. The fear is that data is flowing everywhere and if it isn’t managed, brokers and agents will

see their influence and power diminish in the future.

Many MLS organizations fear that a large company like Google could fall in love with real estate, along with its many resources. With a market cap of \$356 billion and an insatiable appetite for acquiring companies, buying a large real estate portal and becoming a dominant player in the MLS or portal world is not too big of a stretch.

“MLS organizations make themselves more important than they are.

A new player could change that.”

AUTHOR'S PERSPECTIVE

Data is becoming more and more valuable and increasingly companies will seek quicker and innovative ways to get, enhance, and display it. That strategy doesn't only apply to MLS companies, it applies to the other players that may want to play in the MLS space.

The industry is frequently so busy guarding our data and maintaining the existing prototype that we forget to explore innovative ways to change the paradigm. For example, many agents feel that it took way too long for the industry to make the required changes at Realtor.com.

Expanding into a new market is a highly desirable strategy for large, well-funded technology-based companies. It affords them the opportunity to leverage their—or the acquired company's—core business. And when they make the move, the change happens very quickly.

Danger Index


100.0

Probability


5.0

Timing


4.0

Impact


5.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



UNCLEAR END RESULT

The MLS movement hasn't thought through what a post REALTOR®-owned MLS might look like or how it would operate.

IN CONTEXT

For the last half century the REALTOR®-owned MLS has been the informational gateway and transactional intersection of the marketplace. In real estate, the management of listings and other real estate data has historically been provided and managed on a local level with the MLS committees operating as the guardians, directing control over who could see or use the information. With the advent of the Internet, the proliferation of listings has eroded the brokers' awareness and control of where their listings are featured. Syndication and national portals have placed new demands and complexities on listing information, which has resulted in brokers

fearing that they have lost control. One of the new solutions being offered is Project Upstream.

Project Upstream represents a decision on the part of brokers to take back control of their listings. It will basically function as a hub from which the listings will be fed, providing the brokers control and negotiating power over where the listings are sent and on what terms. Although initiated by large brokers within The Realty Alliance, support has already been publicly acknowledged by Leading Real Estate Companies of the World, and the largest franchises including Realogy Franchise Group, RE/MAX, Keller Williams Realty International, and Berkshire Hathaway HomeServices.

“MLS and/or IDX has reached a tipping point and could collapse at any time.”

AUTHOR'S PERSPECTIVE

A number of industry initiatives suggest that the current MLS-centric era might be coming to an end. After half a century of operating as the only gateway, there is a strong likelihood that the MLS may lose its exclusive positioning as the principal source of real estate listings.

While there are a significant number of issues that Upstream will need to overcome, it is widely expected that it will become a reality. Upstream will most certainly, whether intentionally or not, act as a catalyst in the reshaping and consolidation of the MLS.

A danger of course is that while the industry has a “civil war” with the status quo players, new money could swoop in with the solution and become the victors.

Danger Index

↓

90.0

Probability

≡

5.0

Timing

🕒

4.5

Impact

⚠️

4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



CONTROL OF A NATIONAL MLS

A national MLS has been talked about for decades, but never before has the likelihood of it actually becoming a reality been so high. The threat arises out of who ends up with control and how they will use it to further their business and fiscal agenda.

IN CONTEXT

To create a national MLS, the need must be evaluated from the point of view of whether we are talking about national software, a national organization, or a national database. These concepts each require separate attention, and parties inside and outside the industry are already hard at work developing each of them. While they are progressing individually, the ultimate result may well be a national database of all listings

that function on one national software system under the direction of a major player or players: large brokers, franchises, portals, or some combination thereof.

As the role of the MLS includes the facilitation of compensation and cooperation, whichever element moves aggressively toward a national MLS system, there will still be a need for the aforesaid as well as dispute resolution between agents.

**ONE NATIONAL
MLS SOFTWARE****ONE NATIONAL
MLS ORGANIZATION****ONE NATIONAL
MLS DATABASE****Pro**

It could potentially increase competition and innovation in an “app store” environment.

Provided that one organization would have one database, there would be just one organization to join—a bonus for the largest brokerages or those on the borders of multiple MLSs. A single MLS organization would also be well positioned, in terms of both governance and funding, to take on big challenges.

Those requiring datasets that cross MLS boundaries could more easily get that data from one place; better national statistics and data would be available.

Con

The difficulty in customizing to the needs of 850 MLSs and the fact that it would most certainly destroy competition; at least for the core system.

Monopolies rarely provide the best products and services at the lowest possible cost over the long term. Governance issues for one national MLS organization would be very hard to effectively integrate considering the complexity involved in trying to understand the needs of the varying local markets.

The biggest negative would probably be that we will have created a single legal target for those seeking MLS access or recompense for patent or other infringements; a single point of failure and security risk. There are limited benefits of a national database for the real estate practitioner doing business locally.

Danger Index


72.0
Probability


4.0
Timing


4.0
Impact


4.5
AUTHOR'S PERSPECTIVE

Fears that portals will put the MLS out of business haven't been realized. If anything, after 10 years in the business, the portals are more eager than ever to work with the MLS.

The inherent danger is the conflict that will arise from the struggle to gain control of a national MLS. For some it's about ROI, for some it's about business, but either way it's the

control of a power source or the extinction of life as they know it. Each of these groups will be willing to defend their position in a manner that is consistent with their stated interests.

Considered separately, out of the three options detailed above, the creation of a single database is the most credible and most likely to become a reality, and yes, the most widely held view is that a portal will create one.

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



DECENTRALIZED INFRASTRUCTURE BECOMES OBSOLETE

Driven by technology advances, the pre-Internet local MLS model is dated and consolidation is a logical step.

IN CONTEXT

Although the large number of MLSs is easily understood when examining the reasons for its historic growth, current technologies have since eclipsed the necessity of a large number of local and small MLSs. New scalable technology can significantly streamline MLS functions and services at appreciably lower costs, while at the same time still maintaining geographic uniqueness.

Smaller MLSs don't have the capital they need to compete with the portals, but they still don't favor the option of consolidation or merger because of protectionist boundaries, dues-bound membership, and

revolving leadership. While this is generally not the case in larger, well-managed MLSs, the wide disparity that exists across the industry is blocking the road to consolidation.

There is broad thinking within the industry—and within some in the MLS industry—that there are far too many MLSs. They believe that the organization structure is inefficient and is just being held together by the need for dues revenue to shore up REALTOR® associations. The solution that has been consistently put forth is the call for consolidation, but there is a closed-minded element within the system whose opposition continues to hamper progress.

An estimated \$250 - \$500 million in MLS fees are attributable to duplication, redundancy, and excess among MLSs every year. If economies of scale were implemented nationwide, MLS fees would be significantly less.

AUTHOR'S PERSPECTIVE

This is a century old bridge being used to carry the traffic of a busy modern highway. The number of vehicles is exponentially greater, the traffic is faster, and the role of the road, vis-a-vis transportation need, has shifted considerably. It is just a matter of time before the bridge becomes unsafe (a political determination), the bridge actually breaks (an engineering determination), or the bridge becomes obsolete because traffic adopts another course (a business determination).

The industry continues to cling to a paradigm that is both expensive and impractical. The resistance to consolidate from some 850 MLSs down to a dozen or so—the exact number is insignificant—will continue to cost brokers and agents hundreds of millions of dollars every year.

“The number of MLSs doesn't matter, but any number more than a handful is redundant.”

Danger Index

↓

70.0

Probability

≡

5.0

Timing

⌚

4.0

Impact

⚠

3.5

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



LARGE PATENT TROLL ATTACK

Lawsuits and other legal actions undertaken by “Patent Trolls” pursuing questionable patent rights could cause economic and innovative instability in the industry.

IN CONTEXT

Patent Trolls, or Patent Assertion Entities (PAE), are companies that often buy software patents and then follow up by suing technology giants. While PAEs have been an ongoing problem in the real estate industry, in the past few years they have been targeting more non-tech companies with their business model.

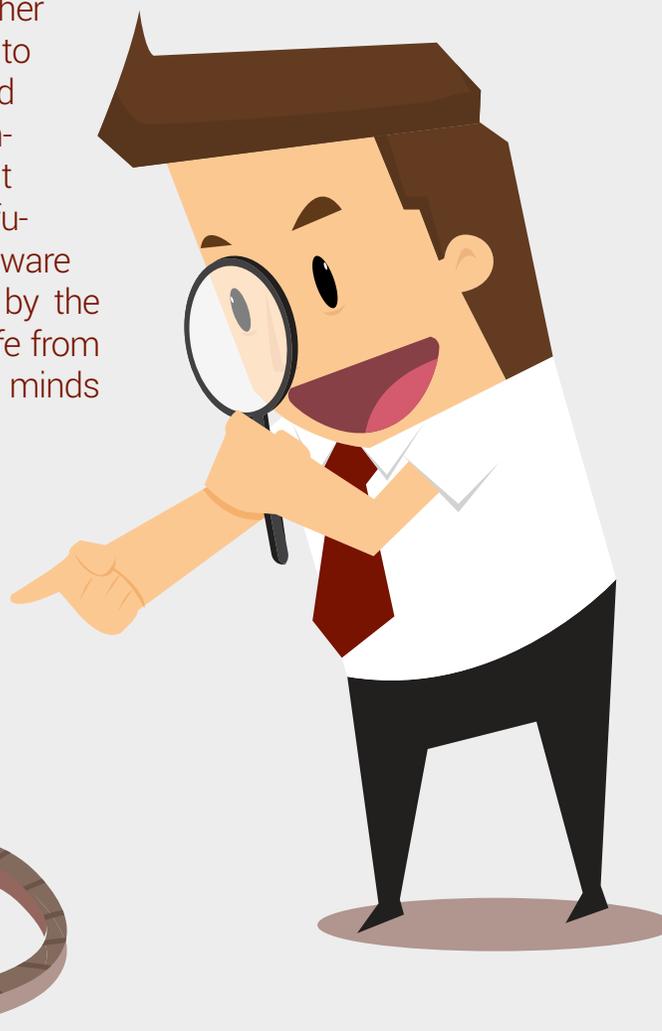
In the case of MLS organizations, many

have received demand letters claiming patent infringement regarding systems and methods for remotely accessing a select group of items from a database through a common real estate website. The most well known lawsuit was filed by CIVIX-DDI LLC, a company that holds patents on location-based Internet search techniques.

AUTHOR'S PERSPECTIVE

While recent Supreme Court cases have finally started to rule against bad patents held by PAEs, there is still the danger of action against MLSs.

The danger lies in the failure to verify whether or not an MLS has "right standing" with respect to patent filings and whether or not proper notice had been given. The danger of potential financial consequences resulting from the loss of a PAE lawsuit can be substantial, and may significantly impact future operation. With the growing number of software and business-method patents being approved by the U.S. Patent and Trademark Office, no MLS is safe from PAEs. However annoying and dangerous to the minds and pocketbooks of the industry, this is and will continue to remain a danger that must be resolved through legal and legislative avenues.



Danger Index

↓

64.0

Probability



4.0

Timing



4.0

Impact



4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



SECURITY BREACH

Cyber criminals could attack the industry, breach the MLS, and cause disruption.

IN CONTEXT

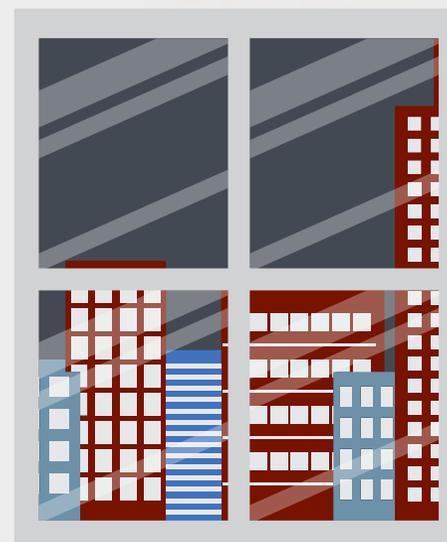
With many MLSs creating and exploring integration with financial and other transactional systems, the level of exposure is constantly increasing.

One of the factors facing all MLSs today is that most of them have a fairly low level of security quality and encryption compared to organizations of comparable size that have already experienced major security breaches. Most MLS organizations, even when they are aware of the cost of cyber-crime and/or data loss, are unaware of the impact of the ever-changing regulatory environment. Laws governing data

breaches are increasingly favoring victims, and plaintiff attorneys are increasingly taking cases involving smaller firms. In 2013, out of 450 global data breach investigations, 63 percent were linked to third party IT system administration, support, development, and maintenance that had security deficiencies that were easily exploited by hackers. That is a major concern for the increasing number of MLSs that are outsourcing the storage of their information to third-party providers.



“It’s a matter of when, not if.”



Danger Index

↓

60.0

Probability



5.0

Timing



4.0

Impact



3.0

AUTHOR'S PERSPECTIVE

The danger of failing to adequately address the security of personal data is real. Fortunately, MLS systems don't have the most valuable and personal information cyber criminals are looking for, but as transaction management systems and mortgage systems are added or integrated, this threat becomes more serious. Breaches will cause a disruption to transactions and a loss in the credibility of the MLS.

INDEX

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OFF-MLS LISTINGS ESCALATE

Off-MLS Listings (pocket listings), and/or the availability of pre-MLS listings on major portals and MLS organizations becomes common practice.

IN CONTEXT

Pre-MLS, pocket listings, and off-MLS listings have always been around, however today their impact is more significant because of the digital age of the Internet. There are numerous reasons for the increase in this marketing strategy: market conditions (fewer houses on the market); the advance of technology; the desire to work with a specific group of agents (listing clubs); and agent compensation (dual agency).

The MLS rules require REALTORS® to place all listings in the MLS within two days of contract, but they also allow pocket listings when a certification signed

by the seller is submitted with the listing. However, the overriding issue isn't whether or not the practice is legal, the issue is whether or not the practice benefits or harms the seller. This issue brings to the table the matter of the responsibility of the listing agent to ensure that the best interests of the seller are maintained, and that proper disclosure is made to all parties concerning dual agency. To do otherwise is to violate the code of ethics, which requires REALTORS® to "promote and protect" the interests of the client.

Danger Index



48.0

AUTHOR'S PERSPECTIVE

Off-MLS listings may contribute to the unraveling of the MLS as we know it, and its replacement by a private network that serves to benefit a certain group of participants. While it's controversial and its future is uncertain, the growth of off-MLS listings or "coming soon listings" may well blow up the model of cooperation.

The increased use of these listing practices may also be one of the greatest legal risks facing REALTORS® today. With governmental agencies like the CFPB focusing on consumer protection in real estate, a serious class action suit involving a breach of fiduciary duty resulting from the use of an off-MLS listing without fully detailing the impact to the seller could impact the whole industry. There is a real threat that regulators, trial lawyers, and legislators will at some point respond with legal action.

Probability



4.0

Timing



4.0

Impact



3.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



DANGER
E8

INCREASED HOSTILITY IN THE REAL ESTATE COMMUNITY

Today's rapidly transitioning marketplace becomes a growing source of controversy between brokerage operations: big versus small, franchise versus independent, local versus regional, branded versus unbranded, and 100 percent versus traditional.

IN CONTEXT

Many big brokers and national franchises have a strong desire to counter the growth of portals or limit the increased involvement by outside third parties because they are a real danger that could erode their position. Reinventing the MLS is hard enough; making it a battleground between users is an unhealthy example of the industry's infighting. Many big brokers feel as if the smaller brokers hold them hostage and, because the MLSs are so fragmented, it is almost impossible to get an industry-wide decision or cooperation.

This issue was highlighted in 2014 with Wilmington Regional MLS stopping syndication of its listings to third-party websites. Subsequently, the Austin Board of REALTORS® made a similar decision. These decisions were made with regard to brokers reclaiming control of their data. In both cases, the third-party providers still received the majority of listings directly from the brokers. In another challenge, the Combined Los Angeles/Westside MLS (CLAW) chose to delay its feed to third-party websites by 48 hours. In that case, one portal was still

able to publish 93 percent of the listings that were coming from CLAW, directly from the brokers without delay.

On the one hand the issue of selectively allowing or delaying syndication, for the most part, doesn't really affect the large brokers. On the other hand, there were many small brokers that were penalized by the MLS because they didn't have the capability of a direct feed.

“ *Brokers are rightfully concerned about the future of the MLS.* ”

AUTHOR'S PERSPECTIVE

The capability of portals to get the data directly from the brokers in effect nullifies syndication at the expense of the small brokers who do not have the capability of providing the direct feed to those providers. Providers that lead in the number of unique monthly visitors have gained control of the search process and as a result, there is a danger that the MLS will default further control to the portals and/or large brokers.

Danger Index


48.0

Probability


4.0

Timing


3.0

Impact


4.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.



CONSUMER-FACING WEBSITES AT THE CROSSROAD

Friction escalates regarding Association/MLS-owned Consumer-Facing Websites.

IN CONTEXT

Few issues have such diverse and emotionally charged viewpoints as Consumer-Facing Websites (CFW). A large segment of the industry believes that CFWs are either a deliberate or unintentional attempt to displace or foster the displacement of the REALTOR®. Another large contingent believes that CFWs are a great example of strength in unity and are one of the most powerful tools to combat third-party outsiders.

In the beginning, the MLS was focused on B2B (Business-to-Business). But today, in an effort to maintain its place in the industry, MLS has added a B2C (Business-to-Consumer) component that is sharply dividing the industry. The conflict has led to board level debates concerning brokers' charges of "leveling the playing field" and "unfair competition," along with their threats to leave the MLS.

TOP WEBSITES IN REAL ESTATE

Top 10 websites in residential real estate:

1 Zillow
(zillow.com)

2 Trulia
(trulia.com)

3 Realtor
(realtor.com)

4 Yahoo! Homes
(homes.yahoo.com)

5 Homes
(homes.com)

6 Redfin
(redfin.com)

7 Movoto
(movoto.com)

8 Century 21
(century21.com)

9 Hot Pads
(hotpads.com)

10 Curbed
(curbed.com)

Source: comScore, January 2015

“ *The MLS industry wastes a lot of energy on duplication and in-fighting.* ”

AUTHOR'S PERSPECTIVE

As there is no MLS website or CFW in the top 10 real estate websites, it's clear that the industry isn't seriously competing with the portals and technology companies. The industry's struggle in deciding to play, or not to play, has created an opening for outsiders to grab a dominant position.

Danger Index


36.0

Probability


4.0

Timing


3.0

Impact


3.0

INDEX

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A BETTER MOUSE TRAP

The MLS process is at risk of becoming obsolete if the real estate listing and transactional order is changed.

IN CONTEXT

Portals worldwide are making it easier for agents to operate without having to be associated with a brand or having to use a MLS system. For MLSs there is a growing risk that the level of irrelevancy created by the portals will only be increased should the portals advance into the area of transaction management systems.

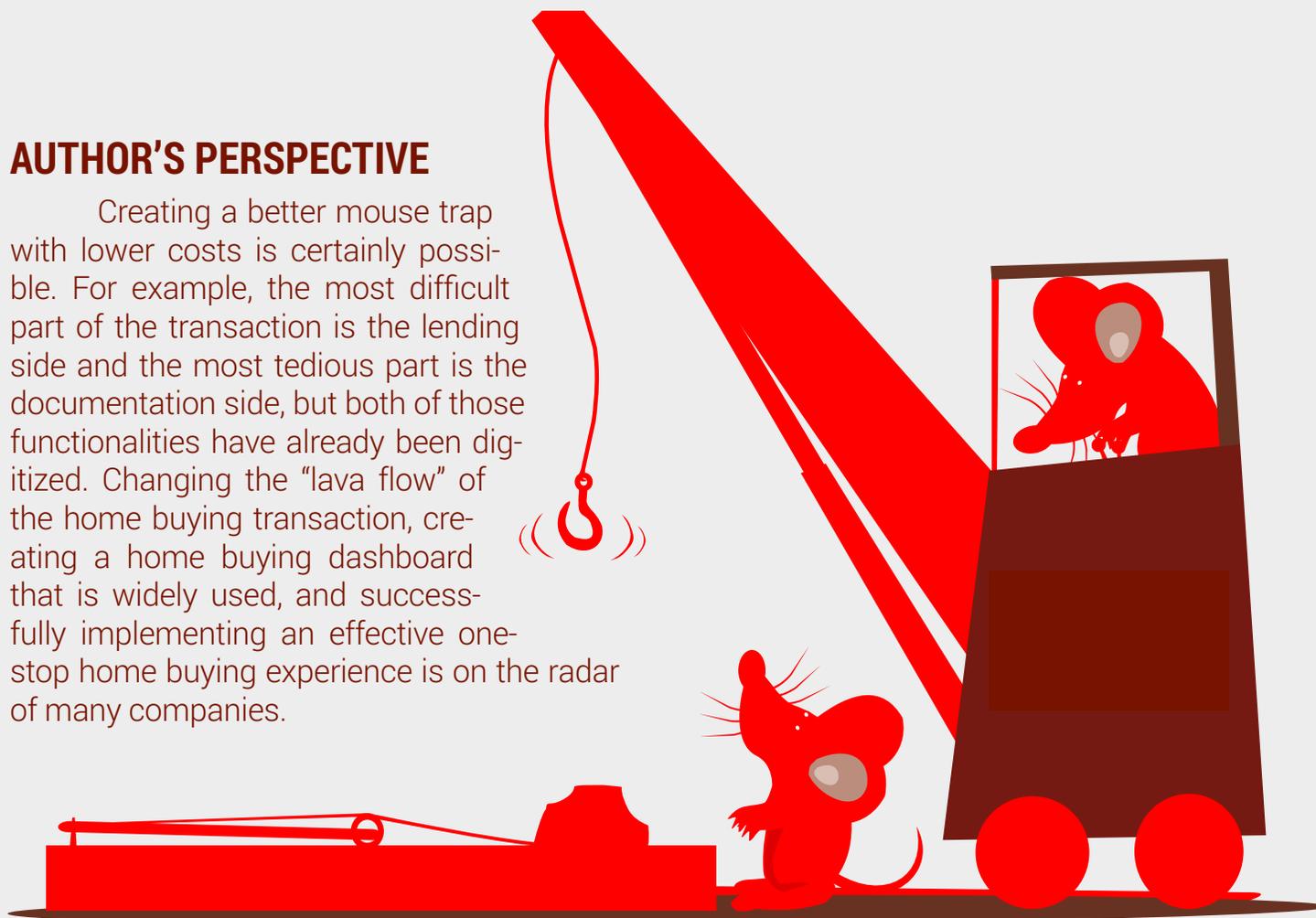
The advance of outside third parties into the real estate industry is most evident in the search process,

but portals are also developing systems and services to assist agents with lead generation, mortgage pre-approval, contact management, reviews, CRM, etc. It would certainly be fairly easy for a portal to utilize its technology to develop a one-stop-shopping experience by adding more and more services to their product offering.

“Portals have potentially made MLS organizations the least relevant they have been in the past 50 years.”

AUTHOR'S PERSPECTIVE

Creating a better mouse trap with lower costs is certainly possible. For example, the most difficult part of the transaction is the lending side and the most tedious part is the documentation side, but both of those functionalities have already been digitized. Changing the “lava flow” of the home buying transaction, creating a home buying dashboard that is widely used, and successfully implementing an effective one-stop home buying experience is on the radar of many companies.



Danger Index

↓

36.0

Probability



4.0

Timing



3.0

Impact



3.0

INDEX

Danger evaluated in terms of PTI to provide comparison between the dangers/sections of the report. Danger Index, represents a composite, overall score.

DANGER CHECKLIST: DANGERS IMPACTING MLS

DATA CLASSIFICATION

In order to best evaluate and present each danger, an Index was created based on the probability (P) of each danger occurring, the future timing (T) of the potential danger, and the possible impact (I) of each danger. The combined scoring of these factors results in the PTI Index. The index is not scientific but rather a combined and weighted representation of the research, surveys, and interviews that enable the dangers to be placed in order of significance as to the level of danger they present.

INDEX

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#	☰ Probability	🕒 Timing	⚠️ Impact	📉 Danger Index
5.0	100% Chance	1 Year	Game Changer	81-100 Critical
4.0	80% Chance	1 - 3 Years	Major Impact	61-80 Severe
3.0	60% Chance	3 - 5 Years	Moderate Impact	41-60 High
2.0	40% Chance	5 - 10 Years	Some Impact	21-40 Moderate
1.0	20% Chance	10 + Years	No Impact	0-20 Low

	Danger	☰ Probability	🕒 Timing	⚠️ Impact	📉 Index
<input type="checkbox"/>	E1 Entry by a New Player	5.0	4.0	5.0	100.0
<input type="checkbox"/>	E2 Unclear End Result	5.0	4.5	4.0	90.0
<input type="checkbox"/>	E3 Control of a National MLS	4.0	4.0	4.5	72.0
<input type="checkbox"/>	E4 Decentralized Infrastructure Becomes Obsolete	5.0	4.0	3.5	70.0
<input type="checkbox"/>	E5 Large Patent Troll Attack	4.0	4.0	4.0	64.0
<input type="checkbox"/>	E6 Security Breach	5.0	4.0	3.0	60.0
<input type="checkbox"/>	E7 Off-MLS Listings Escalate	4.0	4.0	3.0	48.0
<input type="checkbox"/>	E8 Increased Hostility in the Real Estate Community	4.0	3.0	4.0	48.0
<input type="checkbox"/>	E9 Consumer-Facing Websites at the Crossroad	4.0	3.0	3.0	36.0
<input type="checkbox"/>	E10 A Better Mouse Trap	4.0	3.0	3.0	36.0



Appendix

D.A.N.G.E.R. Report

APPENDIX

The Danger Checklist : Ordered by Section	i
The Danger Checklist: Ordered by Danger Index	ii
Industry Leaders Interviewed	iii
Strategic Thinking Advisory Committee	iv
REALTOR® Survey Results	v



The Danger Checklist

Ordered by Section

Appendix | Section i

THE DANGER CHECKLIST ORDERED BY SECTION

DATA CLASSIFICATION

In order to best evaluate and present each danger, an Index was created based on the probability (P) of each danger occurring, the future timing (T) of the potential danger, and the possible impact (I) of each danger. The combined scoring of these factors results in the PTI Index. The index is not scientific but rather a combined and weighted representation of the research, surveys, and interviews that enable the dangers to be placed in order of significance as to the level of danger they present.

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#	 Probability	 Timing	 Impact	 Danger Index
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4.0	80% Chance	1 - 3 Years	Major Impact	61-80 Severe
3.0	60% Chance	3 - 5 Years	Moderate Impact	41-60 High
2.0	40% Chance	5 - 10 Years	Some Impact	21-40 Moderate
1.0	20% Chance	10 + Years	No Impact	0-20 Low

	Danger	 Probability	 Timing	 Impact	 Index
<input type="checkbox"/>	A1 Masses of Marginal Agents Destroy Reputation	5.0	4.0	5.0	100.0
<input type="checkbox"/>	A2 Commissions Spiral Downward	5.0	3.5	5.0	87.5
<input type="checkbox"/>	A3 Agent Teams Threaten the Survival of Brokerages	5.0	4.0	3.5	70.0
<input type="checkbox"/>	A4 IRS Forces Exodus of Independent Contractors	3.5	4.0	4.5	63.0
<input type="checkbox"/>	A5 The Decline in the Relevancy of Agents	5.0	3.0	4.0	60.0
<input type="checkbox"/>	A6 The Agent-Centric Era Ends	3.5	3.0	5.0	52.5
<input type="checkbox"/>	A7 Housing Finance System Fails	3.0	4.0	4.0	48.0
<input type="checkbox"/>	A8 Commoditization of Residential Real Estate	3.0	3.5	4.0	42.0
<input type="checkbox"/>	A9 Commissions Concentrate into Fewer Hands	4.0	2.5	4.0	40.0
<input type="checkbox"/>	A10 The Agent is Removed from the Transaction	3.5	3.0	3.0	31.5

THE DANGER CHECKLIST ORDERED BY SECTION

	Danger	☰ Probability	⌚ Timing	▲ Impact	📊 Index
<input type="checkbox"/>	B1 Regulatory Tsunami Hits	5.0	4.0	5.0	100.0
<input type="checkbox"/>	B2 Paper Brokerages Cause Disruption	5.0	4.0	4.0	80.0
<input type="checkbox"/>	B3 Brokers Lose Control of Data	4.0	4.0	4.5	72.0
<input type="checkbox"/>	B4 A Consumer Brand Crashes the Party	4.0	4.0	4.0	64.0
<input type="checkbox"/>	B5 New Business Models Go Mainstream	4.5	4.0	3.5	63.0
<input type="checkbox"/>	B6 Brokers Simply Go Broke	4.0	4.0	3.5	56.0
<input type="checkbox"/>	B7 Technology Becomes a Runaway Train	4.0	4.0	3.0	48.0
<input type="checkbox"/>	B8 FSBO Develops into a Do-It-Yourself Model	4.0	3.0	3.5	42.0
<input type="checkbox"/>	B9 Sales Tax Threatens Margins	4.0	2.5	4.0	40.0
<input type="checkbox"/>	B10 Portals Leverage Lead Gen Dominance	3.0	4.0	3.0	36.0
<input type="checkbox"/>	C1 Decision-Making Structure Becomes A Hindrance	4.0	5.0	5.0	100.0
<input type="checkbox"/>	C2 The Three-Tier Structure Liability	4.0	5.0	4.0	80.0
<input type="checkbox"/>	C3 Out Positioned as Industry Spokesperson	4.5	4.0	4.0	72.0
<input type="checkbox"/>	C4 Mission Creep	4.0	4.0	4.0	64.0
<input type="checkbox"/>	C5 The Catch-22 Tech Quandary	4.0	4.0	4.0	64.0
<input type="checkbox"/>	C6 The Quality / Quantity Challenge	4.0	3.0	5.0	60.0
<input type="checkbox"/>	C7 Insufficient New Blood	4.0	4.0	3.5	56.0
<input type="checkbox"/>	C8 Shortage of Leadership Talent	4.0	4.0	3.0	48.0
<input type="checkbox"/>	C9 REALTOR® Brand Loses its Desirability and Power	4.0	3.0	3.0	36.0
<input type="checkbox"/>	C10 Core Standards Too Low	3.0	4.0	2.5	30.0

THE DANGER CHECKLIST ORDERED BY SECTION

	Danger	Probability	Timing	Impact	Index
<input type="checkbox"/>	D1 Leaders Not in Unison with Fast-Paced World	5.0	4.0	5.0	100.0
<input type="checkbox"/>	D2 Too Many Uninformed Decisions Are Taken	5.0	4.0	4.0	80.0
<input type="checkbox"/>	D3 Broad Resistance to Consolidation	5.0	4.0	3.5	70.0
<input type="checkbox"/>	D4 The Lowest Common Denominator Impediment	4.0	4.0	4.0	64.0
<input type="checkbox"/>	D5 The Unwieldy Governance Structure	5.0	3.0	4.0	60.0
<input type="checkbox"/>	D6 Reluctance of Leaders to Step Up	4.0	4.0	3.5	56.0
<input type="checkbox"/>	D7 Loss of Primary Revenue Source	4.0	3.0	4.5	54.0
<input type="checkbox"/>	D8 Changing of the Old Guard	4.0	3.0	3.5	42.0
<input type="checkbox"/>	D9 Local Association Charter Revoked	3.0	4.0	3.0	36.0
<input type="checkbox"/>	D10 The Dues Disconnect	3.0	4.0	2.5	30.0
<input type="checkbox"/>	E1 Entry by a New Party	5.0	4.0	5.0	100.0
<input type="checkbox"/>	E2 Unclear End Result	5.0	4.5	4.0	90.0
<input type="checkbox"/>	E3 Control of a National MLS	4.0	4.0	4.5	72.0
<input type="checkbox"/>	E4 Decentralized Infrastructure Becomes Obsolete	5.0	4.0	3.5	70.0
<input type="checkbox"/>	E5 Large Patent Troll Attack	4.0	4.0	4.0	64.0
<input type="checkbox"/>	E6 Security Breach	5.0	4.0	3.0	60.0
<input type="checkbox"/>	E7 Off-MLS Listings Escalate	4.0	4.0	3.0	48.0
<input type="checkbox"/>	E8 Increased Hostility in the Real Estate Community	4.0	3.0	4.0	48.0
<input type="checkbox"/>	E9 Consumer-Facing Websites at the Crossroad	4.0	3.0	3.0	36.0
<input type="checkbox"/>	E10 A Better Mouse Trap	4.0	3.0	3.0	36.0



The Danger Checklist

Ordered by Danger Index

Appendix | Section ii

THE DANGER CHECKLIST ORDERED BY DANGER INDEX

DATA CLASSIFICATION

In order to best evaluate and present each danger, an Index was created based on the probability (P) of each danger occurring, the future timing (T) of the potential danger, and the possible impact (I) of each danger. The combined scoring of these factors results in the PTI Index. The index is not scientific but rather a combined and weighted representation of the research, surveys, and interviews that enable the dangers to be placed in order of significance as to the level of danger they present.

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2.0	40% Chance	5 - 10 Years	Some Impact	21-40 Moderate
1.0	20% Chance	10 + Years	No Impact	0-20 Low

	Danger	☰ Probability	🕒 Timing	⚠️ Impact	📊 Index
<input type="checkbox"/>	A1 Masses of Marginal Agents Destroy Reputation	5.0	4.0	5.0	100.0
<input type="checkbox"/>	B1 Regulatory Tsunami Hits	5.0	4.0	5.0	100.0
<input type="checkbox"/>	C1 Decision-Making Structure Becomes A Hindrance	4.0	5.0	5.0	100.0
<input type="checkbox"/>	D1 Leaders Not in Unison with Fast-Paced World	5.0	4.0	5.0	100.0
<input type="checkbox"/>	E1 Entry by a New Party	5.0	4.0	5.0	100.0
<input type="checkbox"/>	E2 Unclear End Result	5.0	4.5	4.0	90.0
<input type="checkbox"/>	A2 Commissions Spiral Downward	5.0	3.5	5.0	87.5
<input type="checkbox"/>	B2 Paper Brokerages Cause Disruption	5.0	4.0	4.0	80.0
<input type="checkbox"/>	C2 The Three-Tier Structure Liability	4.0	5.0	4.0	80.0
<input type="checkbox"/>	D2 Too Many Uninformed Decisions Are Taken	5.0	4.0	4.0	80.0

THE DANGER CHECKLIST ORDERED BY DANGER INDEX

	Danger	☰ Probability	⌚ Timing	▲ Impact	📊 Index
<input type="checkbox"/>	B3 Brokers Lose Control of Data	4.0	4.0	4.5	72.0
<input type="checkbox"/>	C3 Out Positioned as Industry Spokesperson	4.5	4.0	4.0	72.0
<input type="checkbox"/>	E3 Control of a National MLS	4.0	4.0	4.5	72.0
<input type="checkbox"/>	A3 Agent Teams Threaten the Survival of Brokerages	5.0	4.0	3.5	70.0
<input type="checkbox"/>	D3 Broad Resistance to Consolidation	5.0	4.0	3.5	70.0
<input type="checkbox"/>	E4 Decentralized Infrastructure Becomes Obsolete	5.0	4.0	3.5	70.0
<input type="checkbox"/>	B4 A Consumer Brand Crashes the Party	4.0	4.0	4.0	64.0
<input type="checkbox"/>	C4 Mission Creep	4.0	4.0	4.0	64.0
<input type="checkbox"/>	C5 The Catch-22 Tech Quandary	4.0	4.0	4.0	64.0
<input type="checkbox"/>	D4 The Lowest Common Denominator Impediment	4.0	4.0	4.0	64.0
<input type="checkbox"/>	E5 Large Patent Troll Attack	4.0	4.0	4.0	64.0
<input type="checkbox"/>	A4 IRS Forces Exodus of Independent Contractors	3.5	4.0	4.5	63.0
<input type="checkbox"/>	B5 New Business Models Go Mainstream	4.5	4.0	3.5	63.0
<input type="checkbox"/>	A5 The Decline in the Relevancy of Agents	5.0	3.0	4.0	60.0
<input type="checkbox"/>	C6 The Quality / Quantity Challenge	4.0	3.0	5.0	60.0
<input type="checkbox"/>	D5 The Unwieldy Governance Structure	5.0	3.0	4.0	60.0
<input type="checkbox"/>	E6 Security Breach	5.0	4.0	3.0	60.0
<input type="checkbox"/>	B6 Brokers Simply Go Broke	4.0	4.0	3.5	56.0
<input type="checkbox"/>	C7 Insufficient New Blood	4.0	4.0	3.5	56.0
<input type="checkbox"/>	D6 Reluctance of Leaders to Step Up	4.0	4.0	3.5	56.0

THE DANGER CHECKLIST ORDERED BY DANGER INDEX

	Danger	☰ Probability	⌚ Timing	⚠ Impact	📉 Index
<input type="checkbox"/>	D7 Loss of Primary Revenue Source	4.0	3.0	4.5	54.0
<input type="checkbox"/>	A6 The Agent-Centric Era Ends	3.5	3.0	5.0	52.5
<input type="checkbox"/>	A7 Housing Finance System Fails	3.0	4.0	4.0	48.0
<input type="checkbox"/>	B7 Technology Becomes a Runaway Train	4.0	4.0	3.0	48.0
<input type="checkbox"/>	C8 Shortage of Leadership Talent	4.0	4.0	3.0	48.0
<input type="checkbox"/>	E7 Off-MLS Listings Escalate	4.0	4.0	3.0	48.0
<input type="checkbox"/>	E8 Increased Hostility in the Real Estate Community	4.0	3.0	4.0	48.0
<input type="checkbox"/>	A8 Commoditization of Residential Real Estate	3.0	3.5	4.0	42.0
<input type="checkbox"/>	B8 FSBO Develops into a Do-It-Yourself Model	4.0	3.0	3.5	42.0
<input type="checkbox"/>	D8 Changing of the Old Guard	4.0	3.0	3.5	42.0
<input type="checkbox"/>	A9 Commissions Concentrate into Fewer Hands	4.0	2.5	4.0	40.0
<input type="checkbox"/>	B9 Sales Tax Threatens Margins	4.0	2.5	4.0	40.0
<input type="checkbox"/>	B10 Portals Leverage Lead Gen Dominance	3.0	4.0	3.0	36.0
<input type="checkbox"/>	C9 REALTOR® Brand Loses its Desirability and Power	4.0	3.0	3.0	36.0
<input type="checkbox"/>	D9 Local Association Charter Revoked	3.0	4.0	3.0	36.0
<input type="checkbox"/>	E9 Consumer-Facing Websites at the Crossroad	4.0	3.0	3.0	36.0
<input type="checkbox"/>	E10 A Better Mouse Trap	4.0	3.0	3.0	36.0
<input type="checkbox"/>	A10 The Agent is Removed from the Transaction	3.5	3.0	3.0	31.5
<input type="checkbox"/>	C10 Core Standards Too Low	3.0	4.0	2.5	30.0
<input type="checkbox"/>	D10 The Dues Disconnect	3.0	4.0	2.5	30.0



Industry Leaders Interviewed

Appendix | Section iii

REACHING OUT TO INDUSTRY LEADERS

The National Association of REALTORS® requested the Swanepoel | T3 Group to uncover, research, and clarify the imminent and potential dangers facing the real estate industry, and present those results in a comprehensive report to inform the industry of the dangers as the first step in focusing the collective forces of the industry on developing solutions. And we have done so by reaching out to 70 of the industry's most senior thought leaders from across the spectrum of Organized Real Estate, exploring their thoughts concerning the dangers facing the residential brokerage industry.

THEIR THOUGHTS

For the first time, CEOs of the largest franchisors, largest real estate brokerage companies, Associations (national, state and local), and MLSs have been interviewed face-to-face and confronted with the same key questions.

1. As you look across the U.S. residential real estate landscape, what causes you the most concern?
2. What is the U.S. residential real estate brokerage business' greatest weakness?
3. Who in the real estate business is most at risk; Agents, Brokers, Franchisors, MLS, Associations, etc., and why?
4. Who or what is potentially organized real estate's worst enemy?
5. What do you think has a low probability of occurring but could have a huge impact on the industry?
6. Is there anything the industry is blind towards or that the industry simply fails to understand... Black Swans?

Mark Allen

Chief Executive Officer

Minneapolis Association of REALTORS®

Robert Authier

Chief Executive Officer

Massachusetts Association of REALTORS®

Walter Baczkowski

Chief Executive Officer

San Francisco Association of REALTORS®

Robert Bailey

Chief Executive Officer

Bailey Properties

Richard Barkett

Chief Executive Officer

Greater Fort Lauderdale Association of REALTORS®

Curt Beardsley

VP Product Marketing

Move, Inc.

Russ Bergeron

Chief Executive Officer

Midwest Real Estate Data

Amy Bohutinsky

Chief Marketing Officer

Zillow

Bobby Bryant

President

iBuy Realty

Andrea Bushnell

Chief Executive Officer

North Carolina Association of REALTORS®

Michele Caprio

Chief Executive Officer

Greater Las Vegas Association of REALTORS®

David Charron

Chief Executive Officer

MRIS

Sherry Chris

President and CEO

BH&G Real Estate

Jon Coile

President and CEO

Champion Real Estate (a BHHS affiliate)

Industry Leaders Interviewed

Title/Company as at date of interview

Jeremy Conaway

Consultant

RECON Intelligence Services

Matthew Consalvo

Chief Executive Officer

ARMLS

Kipp Cooper

Chief Executive Officer

Huntsville Area Association of REALTORS®

Rick Davidson

President and CEO

Century 21 Real Estate

Ginger Downs

Chief Executive Officer

Chicago Association of REALTORS®

Dave Liniger

Founder and Chairman

RE/MAX

Tom Ferry

Chief Executive Officer

YourCoach

Michael Fischer

Chief Operating Officer

Coldwell Banker Real Estate

Steve Francks

Chief Executive Officer

Washington REALTORS®

Constance Freedman

Managing Director

Second Century Ventures

Michael Golden

Co-Founder and Owner

@Properties

Bob Hale

Chief Executive Officer

Houston Association of REALTORS®

Cindy Hamann

CEO/Team Leader

Keller Williams Realty: The Woodlands

Wendi Harrelson

Regional Director

Keller Williams Realty Austin

Dallas Hancock

Chief Executive Officer

Peoria Area Association of REALTORS®

Jim Harrison

Chief Executive Officer

MLSListings

Paul Hilgers

Chief Executive Officer

Austin Association of REALTORS®

Budge Huskey

Chief Executive Officer

Coldwell Banker Real Estate

Margaret Kelley

Chief Executive Officer

RE/MAX

Glenn Kelman

President and CEO

Redfin

Dawn Kennedy

Chief Executive Officer

St. Louis Association of REALTORS®

Industry Leaders Interviewed

Title/Company as at date of interview

Gregg Larson

Founder and CEO
Clareity Consulting

Kevin Levent

President
BH&G Real Estate Metro Brokers

Victor Lund

Partner
WAV Group

Craig McClelland

Chief Operating Officer
BH&G Real Estate Metro Brokers

Michael McClure

Chief Operating Officer
T3 Experts

Elizabeth Mendenhall

Chief Executive Officer
RE/MAX Boone Realty

Jack Miller

Chief Technology Officer
Swanepoel | T3 Group

Robert Moline

President and COO
HomeServices of America

John Mosey

Chief Executive Officer
Regional MLS of Minnesota

Peter Niederman

Chief Executive Officer
Kentwood Real Estate

Pam O'Connor

President and CEO
Leading Real Estate Companies of the World™

Ron Peltier

Chairman and CEO
HomeServices of America

Alex Perriello

President and CEO
Realogy Franchise Group

Spencer Rascoff

Chief Executive Officer
Zillow Group

Dale Ross

Chief Executive Officer
REALTORS® Property Resource

Diane Ruggiero

Chief Executive Officer
Kansas City Regional Association of REALTORS®

Errol Samuelson

Chief Industry Development Officer
Zillow Group

Glenn Sanford

Chief Executive Officer
eXp Realty

Greg Schwartz

Chief Revenue Officer
Zillow

Gary Simonsen

Chief Executive Officer
Canadian Real Estate Association

Joel Singer

Chief Executive Officer
California Association of REALTORS®

Richard Smith

Chairman and CEO
Realogy Holdings Corp.

Cary Sylvester

VP Technology Innovation
Keller Williams Realty International

Alan Tennant

Chief Executive Officer
Calgary Real Estate Board

Mary Tennant

Chief Operating Officer
Keller Williams Realty International

Christine Todd

Chief Executive Officer
Northern Virginia Association of REALTORS®

Terry Watson

Chief Executive Officer/Broker
GM King Realty

Philip White

President and CEO
Sotheby's International Realty

Matt Widdows

Chief Executive Officer
HomeSmart

Mark Willis

Chief Executive Officer
Keller Williams Realty International

Thaddeus Wong

Co-Founder and Owner
@Properties

Joe Valenti

President and CEO
CBSHOME Real Estate

Bruce Zipf

President and CEO
NRT, LLC



Strategic Thinking Advisory Committee

Appendix | Section iv

Strategic Thinking Advisory Committee

NAR Leadership Team

Chris Polychron
President

Thomas F Salomone
President-Elect

Bill Brown
First Vice President

Michael C McGrew
Treasurer

Steven Brown
Immediate Past President

Michael Ford
Vice President

Charlie Oppler
Vice President

Dale Stinton
Chief Executive Officer

Senior Vice Presidents

Janet Branton

Jerry Giovaniello

Bob Goldberg

Doug Hinderer

Katie Johnson

Mark Lesswing

John Pierpoint

Stephanie Singer

Walt Witek

Lawrence Yun

NAR Staff

Paul Bishop
Staff Executive

Stephanie Davis

Caroline Van Hollen

Committee Members 2014/2015

Colleen Badagliacco
Chair 2015

Michael Oppler
Vice Chair 2015

Todd Shipman
Chair 2014

Ryan Asao

Steven Asher

Louis Baldwin

Malcolm Bennett

Eugene Blefari

Charles Bonfiglio

Toby Bradley

Kevin Brown

Sandra Butler

Michael DiMella

Scott Griffith

Strategic Thinking Advisory Committee

Committee Members 2014/2015

Christine Hansen

Rebecca Hill

Bobbi Jo Howe

Gregory Hrabcak

Budge Huskey

Sharon L Keating

Shannon Williams King

Mark Makoto Kitabayashi

Nick Kremydas

Christine Kutzkey

Scott Louser

Danai Mattison

Bette McTamney

Carmen Mercado

Stephen Meszaros

Jason Pantana

Gregory Pawlik

Beth Pearce

Matthew Phipps

Joanne Poole

Tracy Rancier

Judd H Sampson

Randy Scheidt

Baryalai Shalizi

Bonnie Smith

Linda St. Peter

Michael Theo

Gary Thomas

Kurt Thompson

Melanie Thompson

John Vranas

Dan Wagner

Furhad Waquad



REALTOR[®] Survey Results

Appendix | Section v

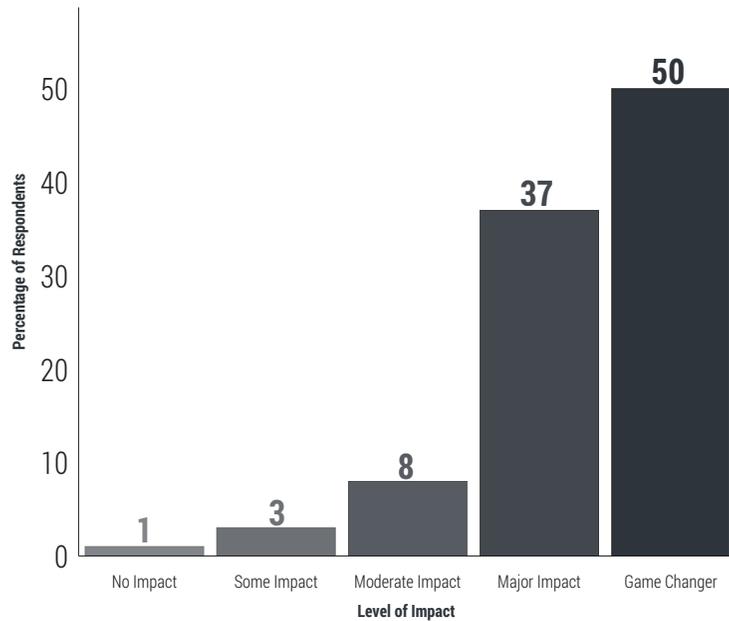
REALTOR® SURVEY RESULTS

In October 2014 a survey of REALTORS® was conducted asking them to evaluate the impact of 19 potential disruptions or dangers to the real estate industry. Respondents were asked for their opinion about the impact of each danger on agents and brokers and not whether it would be positive or negative or even whether or not it is likely to occur in the future. The goal of the survey was to collect REALTOR® opinions on the question: Assuming that each danger did occur in the next 3 to 5 years, how much would it impact agents and brokers? Respondents rated each danger on a five point scale ranging from “No Impact” to a “Game Changer” impact.

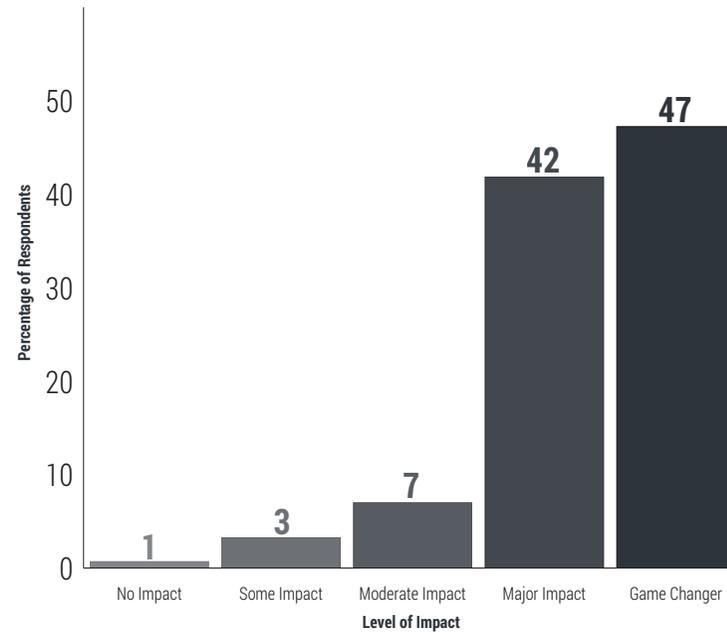
Reviewing the results, REALTORS® often agreed on the level of impact of each danger, frequently with at least three quarters of respondents believing some dangers would have a “Major Impact” or would be a “Game Changer”. The intensity was particularly strong in a few instances with at least half of REALTORS® indicating that a particular danger was a “Game Changer”.

The survey results that follow are based on 7,899 responses reflecting an adjusted response rate of 5.8%.

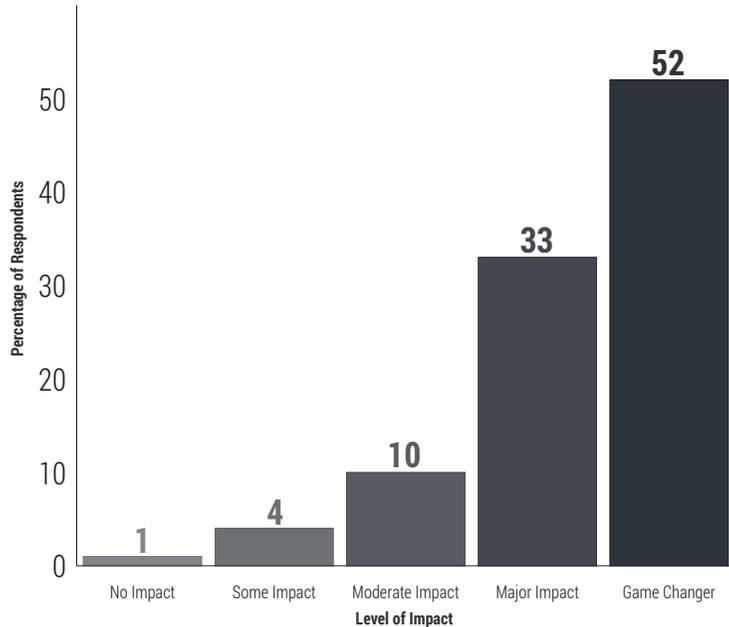
S1 DANGER Legislation or regulatory action mandating the payment of sales taxes on real estate commissions.



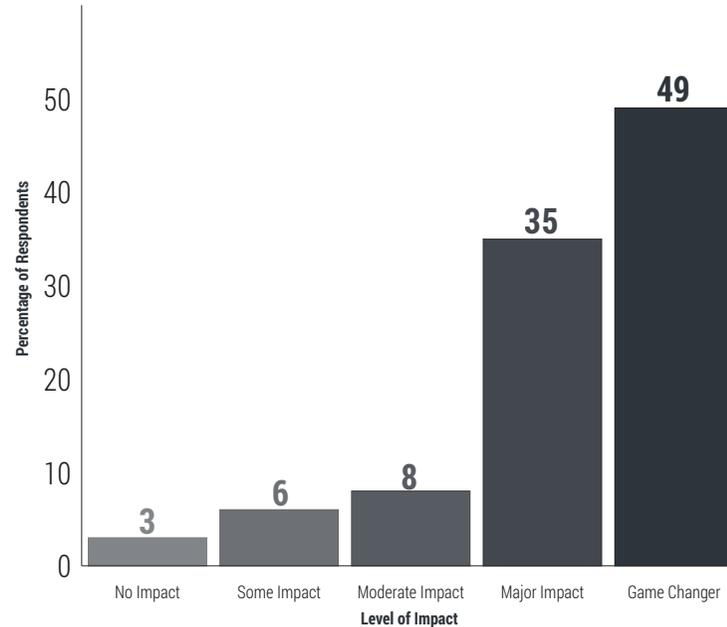
S3 DANGER A permanent reduction in real estate commissions.



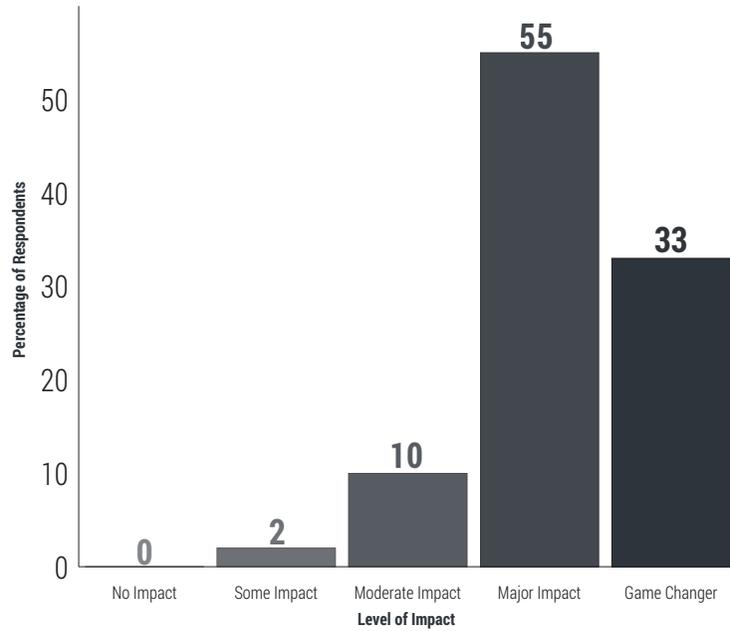
S2 DANGER Elimination of the current federal tax deduction for mortgage interest.



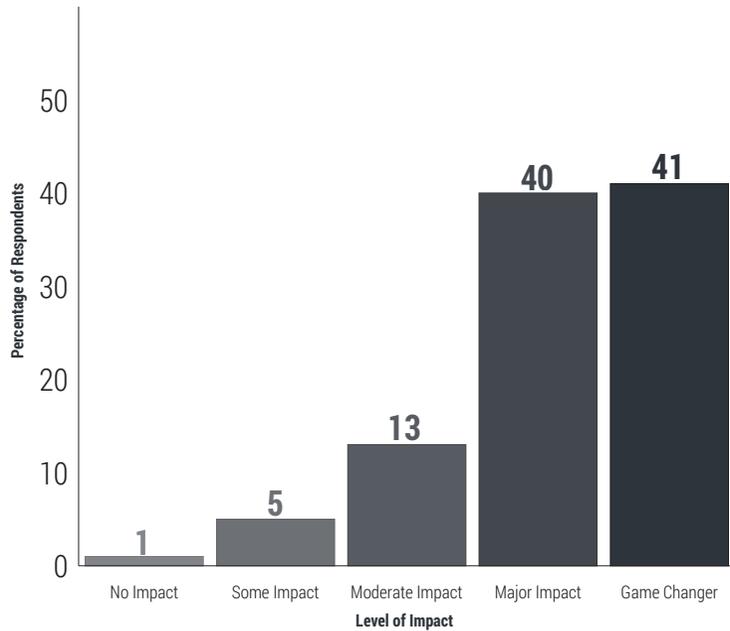
S4 DANGER The loss of relevancy of the Code of Ethics to a point where it becomes obsolete.



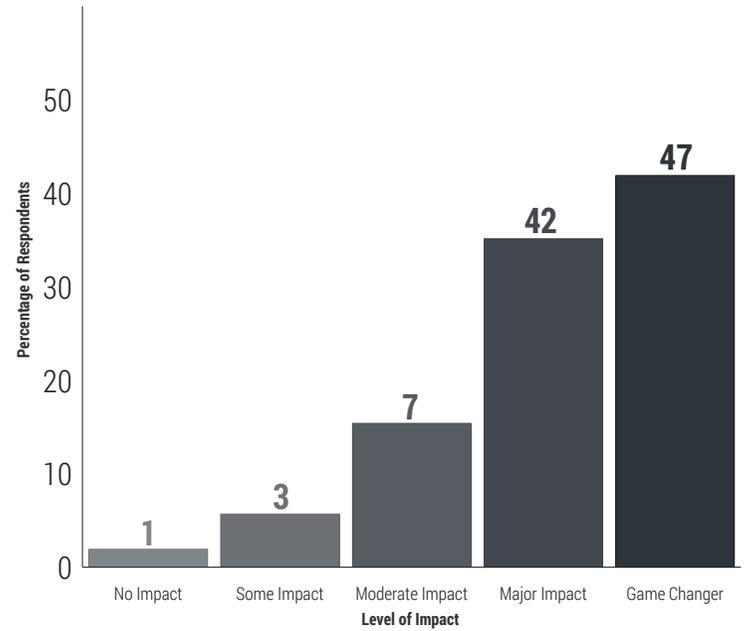
55 DANGER | A steep decline in the rate of home ownership from the current level.



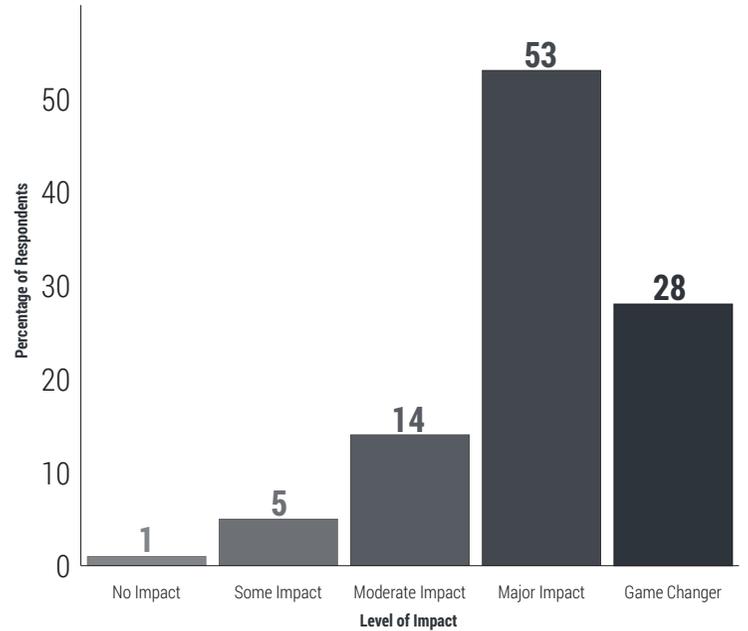
56 DANGER | A shift of control over the MLS from organized real estate to other entities.



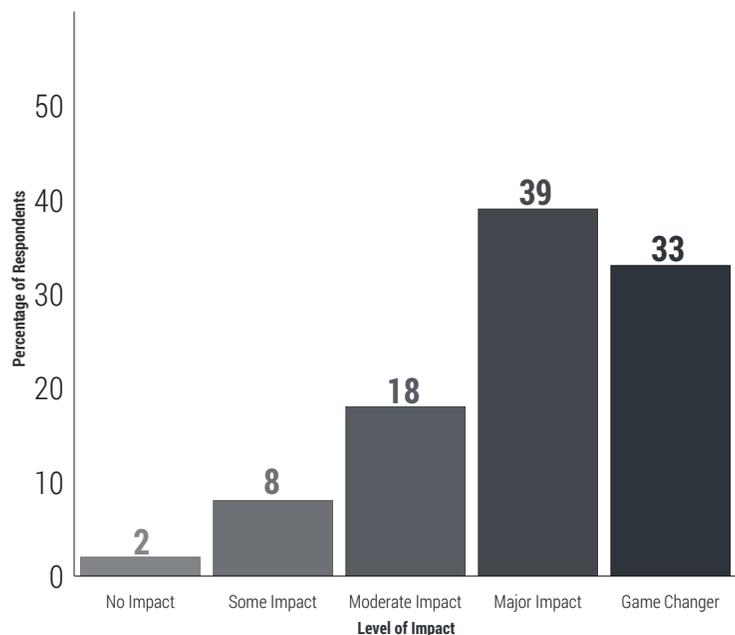
57 DANGER | A shift from independent contractor status to employee status.



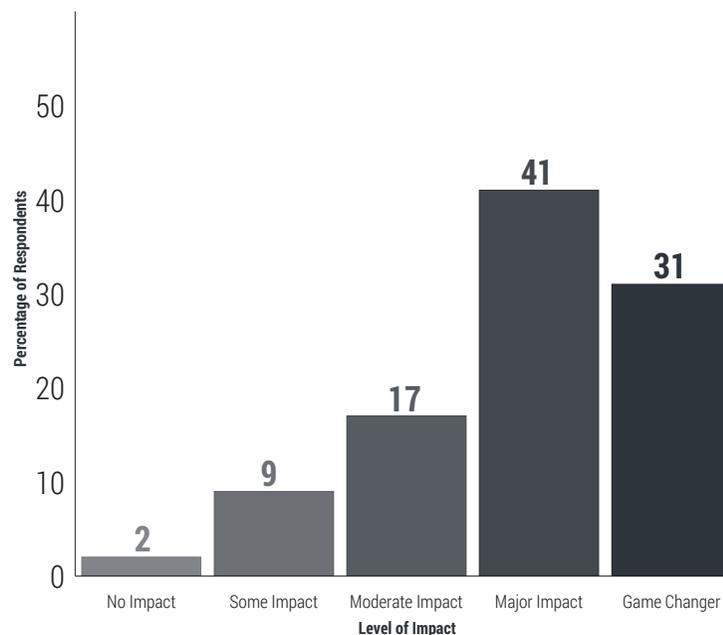
58 DANGER | The withdrawal from the MLS by many agents associated with a large brokerage network.



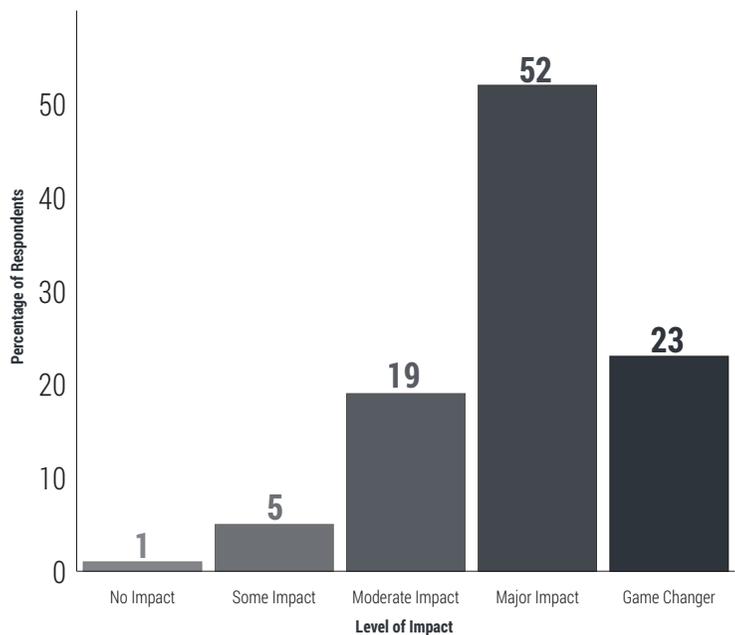
S9 DANGER | The creation and dominance of a national MLS.



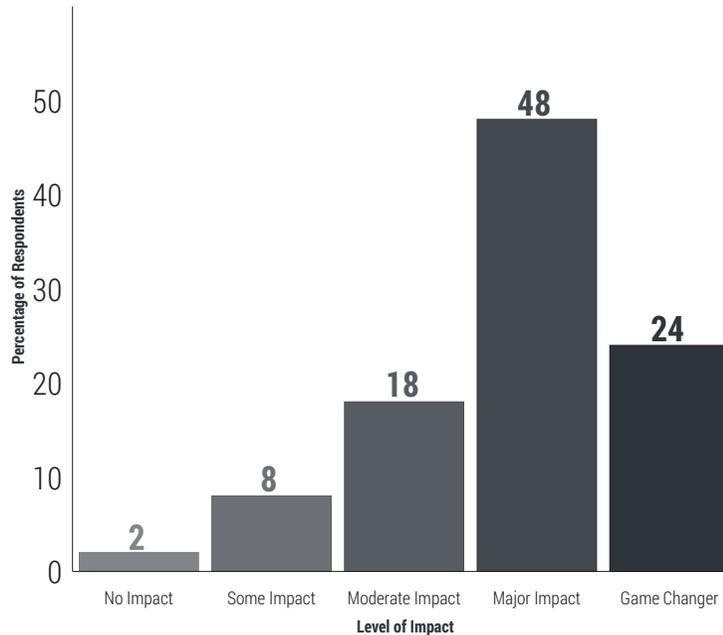
S11 DANGER | Major online/offline retailers enter into Real Estate.



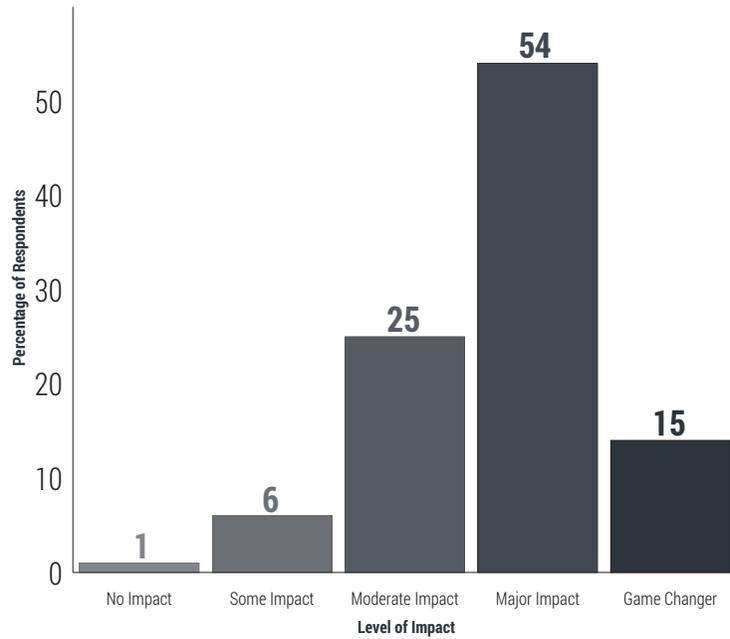
S10 DANGER | Regulations that result in reduced access to capital for commercial real estate development.



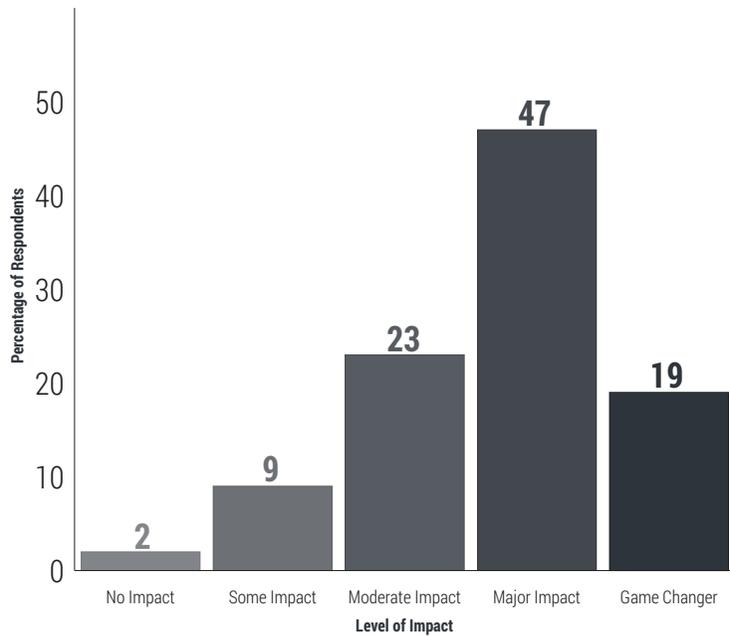
S12 DANGER | A significant and publicly reported security breach of an MLS that exposes real estate or consumer information.



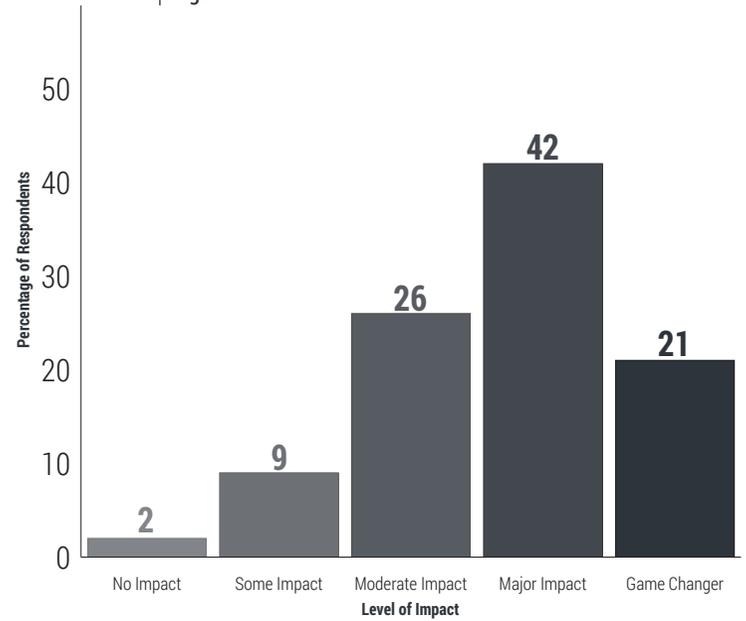
S13 DANGER A determination that millennials significantly delay or decline to pursue home ownership.



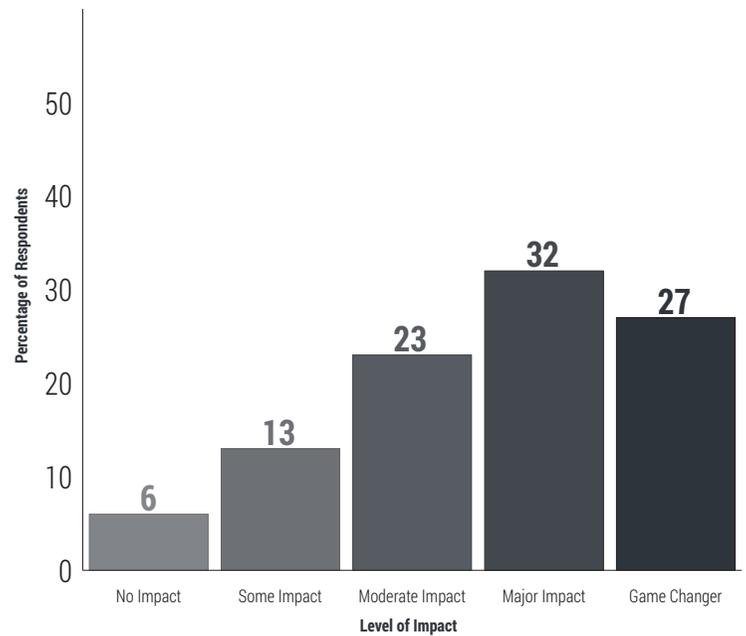
S14 DANGER The continued growth of "off MLS" (pocket listing) listing practices.



S15 DANGER Heightened federal regulatory activity aimed at real estate by the Consumer Financial Protection Bureau or other regulatory agencies.

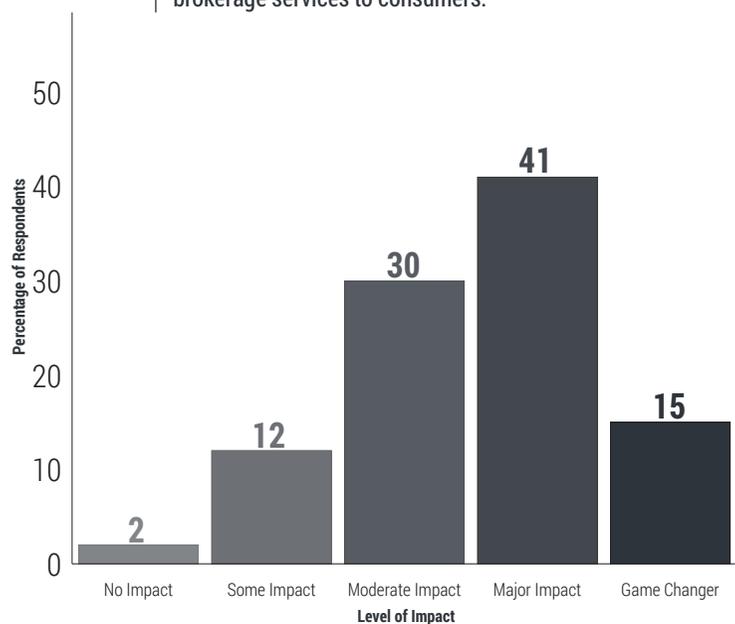


S16 DANGER Real estate licensing under federal, rather than state, authority.



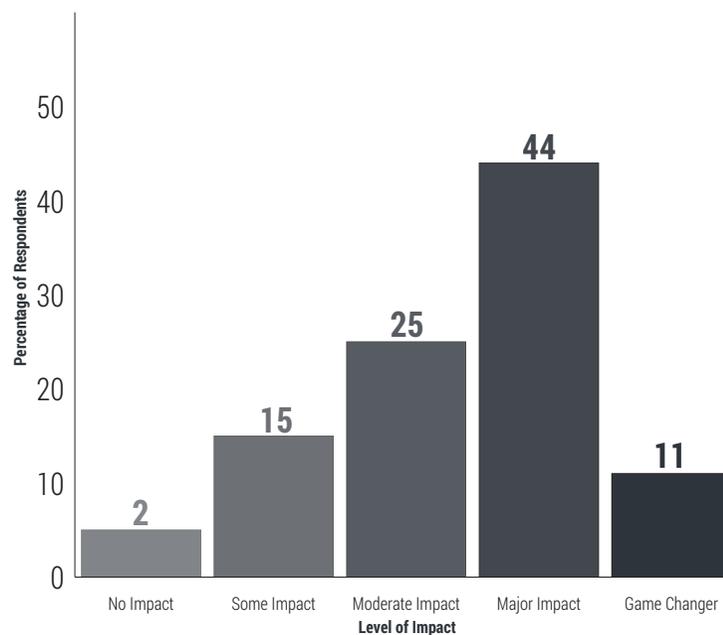
S17 DANGER

Greater participation in the real estate transaction by portals and aggregators including the recruitment of agents to provide brokerage services to consumers.



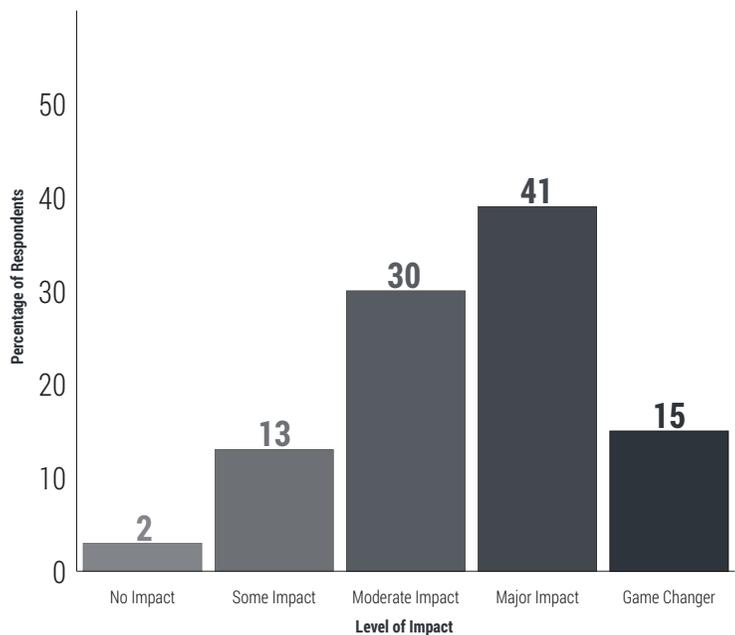
S19 DANGER

A steep decline in NAR membership.



S18 DANGER

Continued acquisitions and consolidation resulting in dominance by a small group of real estate companies.



Realtor.org/**DANGER**Report

DANGERReport.com

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ASSOCIATION *of*
REALTORS®