IVAR 2019 REPORT

REALTOR® 2025

A DISCUSSION OF THE MAJOR FACTORS INFLUENCING REALTORS® IN THE COMING YEARS

IN THIS REPORT, WE WILL BRIEFLY LOOK AT A BROAD SET OF QUESTIONS:

- Which way is the wind blowing in the Real Estate Industry?
- What is causing these changes, and how much force is behind it?
- How do Realtors® prepare their "windmills" to take advantage of this shift?

CHINESE PROVERB

"WHEN THE WINDS OF CHANGE BLOW, SOME PEOPLE BUILD WALLS AND OTHERS BUILD WINDMILLS."

ivar
INLAND VALLEYS
ASSOCIATION OF REALTORS®

IVAR 2019 REPORT

REALTOR 2025

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EXECUTIVE SUMMARY

When you work in real estate there's one thing that's constant, and that is, nothing is constant. Whether its rising mortgage rates, fluctuating home values, inventory constraints, or new real estate laws and contract disclosures, Realtors® are always working in a state of flux. This is nothing new. Traditionally, changes impacting how Realtors® did their jobs often related to outside influences such as interest rates and the economy, and although all these outside influences still hold true today, there is another layer of disruption that is impacting how Realtors® conduct business. This new layer of change is consumer driven and technology enabled, and its impacts are influencing the fundamental structure of the traditional Broker/Realtor®/ Consumer relationship.

Prior to the internet, Realtors® possessed the *Holy Grail* -- the MLS book. Comprised of all area home listings, the MLS book was typically printed weekly and distributed only to members of local Realtor® associations. The MLS book was power, it was control, and it gave Realtors® one hundred percent dominion over the flow of housing information. Consumers were on the outside, always looking in. And then the internet arrived.

Forced to adapt to the 21st century, the MLS book became extinct in the 1990's and a new era of digital real estate information was released to hungry consumers. Coldwell Banker Town & Country broker/owner Lance Martin remarked, "When we decided to put our MLS data out digitally to the public, we all thought we'd be out of business within five years." More than twenty years have passed since the online revolution, and the good news is, Coldwell Banker Town & Country and Lance Martin are still in business. But the business is different.

Devices in hand, Buyers and Sellers are now seconds away from researching available homes in a market, determining how much their mortgage payment would be, checking school district test scores, or finding out how much their home may be worth. No longer the sole keeper of housing information, Realtors® have been forced to evolve beyond simple information brokers. Instead, Realtors® are charged -- in part -- with the responsibility of sorting through the mass of information, identifying what's relevant, accurate, and most essential to consumers. However, in spite of all the tools and resources available to Buyers and Sellers, they overwhelmingly rely on the expertise that Realtors® bring to the transaction. Since 2001 both Buyers and Sellers have increasingly chosen to use Realtors® in nearly 90% of home sale transactions; whereas in prior years Realtors® were involved in approximately 80% of Buyer/Seller transactions. (C.A.R. "Buyer/Seller Survey, 2017)

But consumer demands and new technologies are continuing to drive and enable different and more efficient ways of doing business. The Realtor® who happily goes about their business with the belief that they can always do business the same way, is out of touch with the reality of a rapidly shifting real estate environment. Although these changes must be recognized and understood, fear of change is not an option. Accordingly, success will come to those Realtors® and entrepreneurs that most quickly identify and adapt to a new consumer and technology landscape.

Mark Dowling, CEO of IVAR

**"LIFE IS CHANGE.
GROWTH IS OPTIONAL.
CHOOSE WISELY."**

WHICH WAY IS THE WIND BLOWING?

So, it's 2019. What's changing? Let's be honest… buying/selling a home has changed more in the past 20 years than in the previous 100 years. The modern consumer is in control, and they're digitally driven, socially connected, mobile, and empowered, with nearly unlimited access to information and people.

CONSUMERS WANT ALL OF THE FOLLOWING:

- **Convenience**
- **Transparency**
- **Certainty about dates and dollars**
- **Accurate Information**
- **Responsiveness**
- **Flexibility/Choices**
- **Control over the process**
- **Lower Fees**
- **Higher Seller Prices/Lower Buyer Prices**
- **Quicker Schedules**

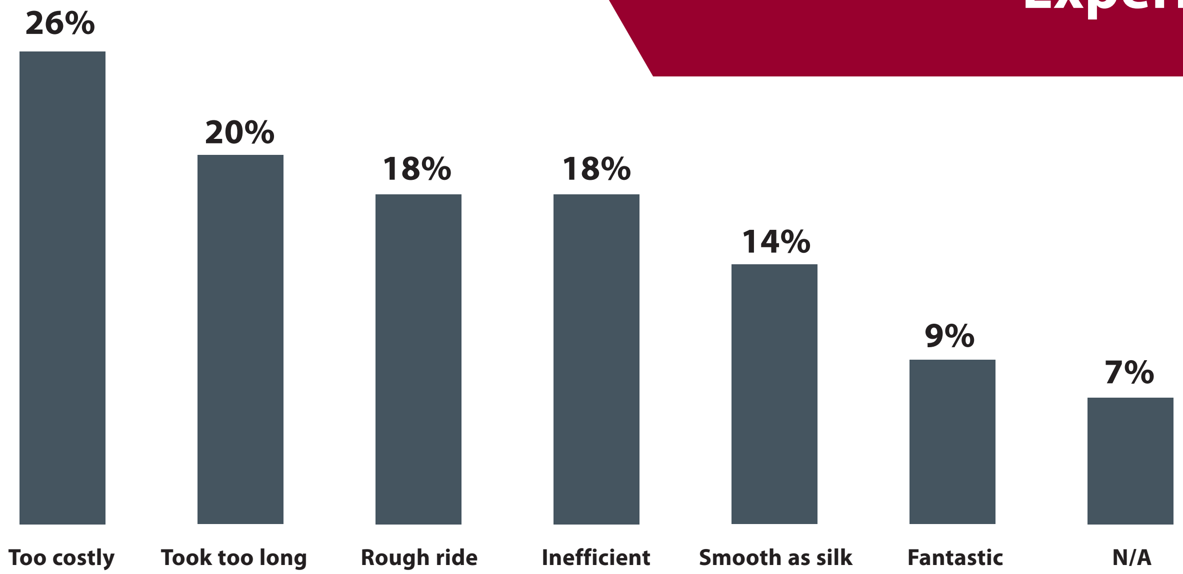
Today's consumers want immediate, succinct, relevant and experienced interactions at all points of the buy/sell cycle. Consumer expectations of buying and selling a home are shifting towards a radically simplified process. These consumers are used to asking, "Can't I do this online?" The trend among service providers has been to increasingly respond by offering push-button tools that perform previously complicated tasks.

DEFINITION: *iBuyers are investors or brokerages that use automated valuation models (AVMs) and other technology to make quick offers on homes, close in days and then resell them.*

Consistent with this evolving consumer expectation of transactions being immediate, transparent, and convenient, the iBuyer real estate phenomenon is beginning to transform various real estate marketplaces and brokerages.

SERIES: 2019 Google Consumer Poll
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Which of the Following Describes Your Home-Buying Experience?



Grabbing headlines and literally hundreds of millions of dollars in investments, the general idea is to offer homeowners an assurance of a quick, hassle-free sale. iBuyer companies emphasize that homeowners can sell their property instantly with a fair market value offer in cash, and bypass showings or home repairs, and be able to set their closing date to their convenience so that they can quickly move on to their next home.

Equipped with AVM's and technology platforms that allow for an expedient consumer experience and close of escrow, the iBuyer concept is even impacting the business strategies of traditional brokerages. Gary Keller confirmed during a presentation of KW's 2019 technology plans on January 11:

"I feel like I have no choice now," Keller added. "I can't allow Opendoor or Zillow to go out and be the only player in the iBuyer space and then begin to dictate terms and build brand around 'they buy houses.'"

"WHAT THE CONSUMER WANTS, THE CONSUMER GETS."

William S. Chee, NAR President, 1993

Keller Williams alone plans to spend $100 million through its iBuyer Keller Offers over the course of 2019, and by the end of the year expects to be active in six to eight major U.S. markets. Meanwhile, rival San Francisco-based iBuyer Opendoor is now available in 19 markets nationwide and Zillow is active in nine across the U.S. (Inman, April 22, 2019)

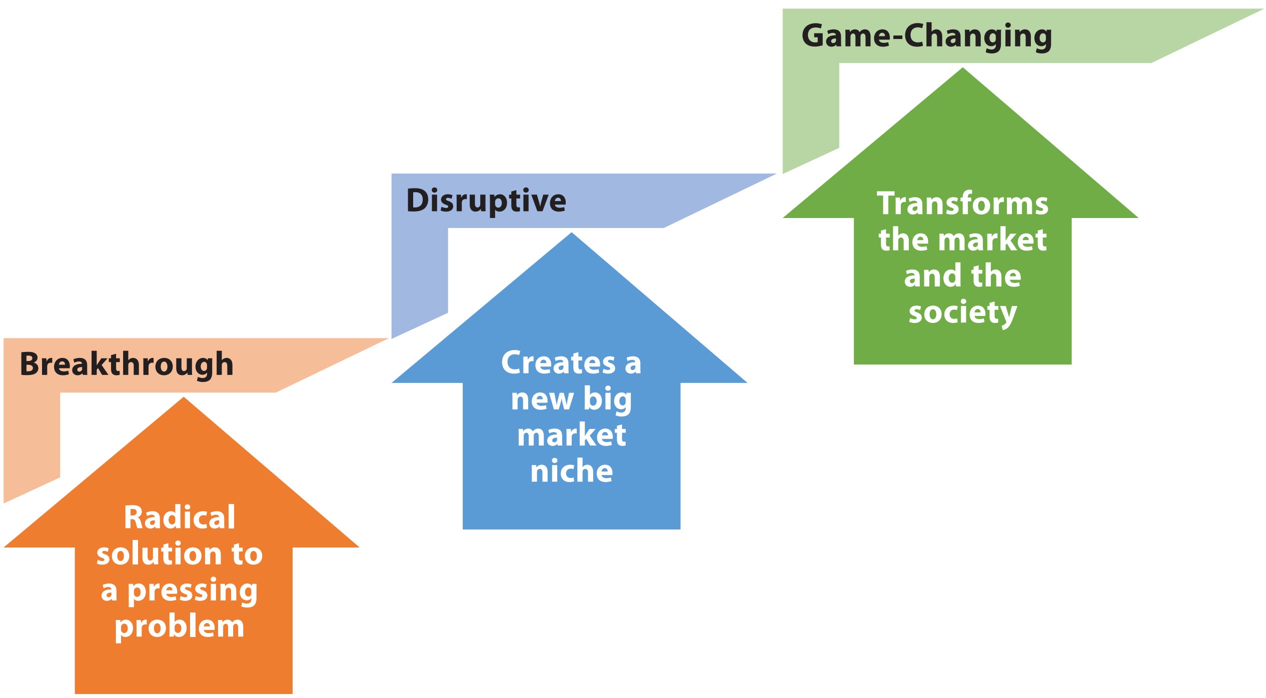
THE VALUE-ADD OF A REALTOR® IS TILTING HARD AND FAST TOWARDS THE PEOPLE-SIDE, NOT THE TRANSACTION-SIDE.

GETTING THE BIGGEST SLICE OF THE BIGGEST POSSIBLE PIES

"Real-estate-industry-disruptors" are taking notice of changes in consumer expectations and are applying new technologies **to gain market share**. To be clear…. it's a zero-gain scenario. In order for you to win market share, someone else has to lose it. Economics tells us several things about how critical market share can be:

- As market share rises, profit margin on sales increases sharply.
- As market share increases, marketing costs decline.
- Market share is more important for infrequently purchased products than for frequently purchased ones.
- Market share is more important to businesses when buyers are "fragmented" (i.e., no small group of consumers accounts for a significant proportion of total sales)

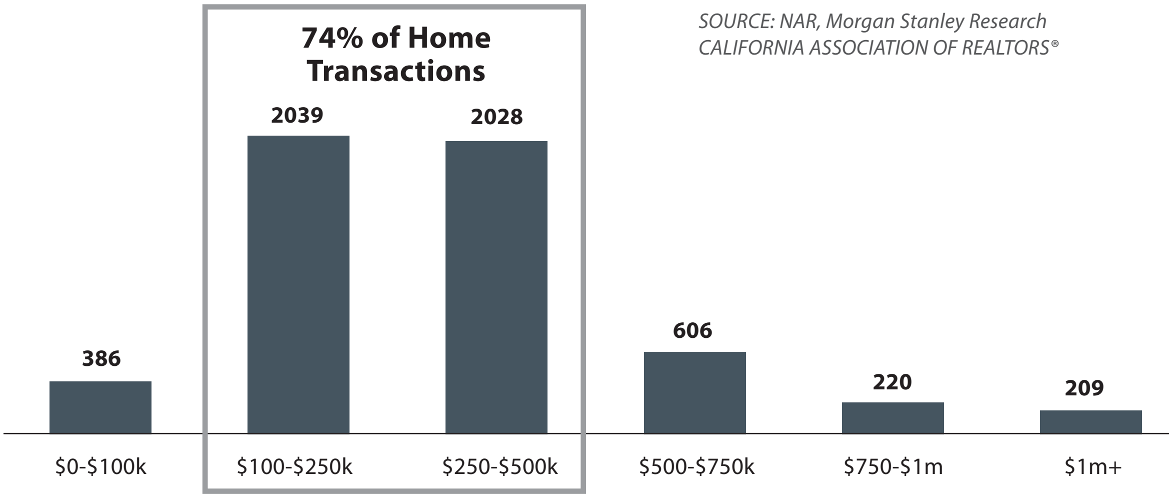
This tells us that there are powerful financial incentives to **think really huge, in terms of both risk and reward**.



By drawing a larger circle around the real estate transaction, it can make it easier to find a new (more profitable) solution. The more elements that can be automated and/or streamlined, the more profitable the entire process can be. The "winning idea" may offer a **WIDE-RANGING MENU OF SERVICES**:

- AI-enabled lead nurturing
- Nation-wide marketing
- Automated valuation
- Instant offers
- Bundled financing
- Block-chain enabled title/escrow
- Minimal repair/rehab
- Moving services

iBuyers' Target: Largest Segment of Home Transactions



Building substantial market share in the real-estate industry is an expensive and risk-laden strategy requiring a careful analysis of consumer needs and preferences, a large amount of investment, and astute timing. So, why are businesses willing to invest and risk so much? Why now? To answer that, it's important to understand that the bigger the scale and scope, the greater the potential rewards. Investors realize that the larger the "circle of disruption" is drawn, the more advantages there are to be gained. **It's a game of large numbers..... and in some people's minds.... the bigger the better.**

Real-estate transactions have evolved over the last 100 years to work within an orthodox industrial model (specialization, standardization, hierarchy of responsibilities, foundation of regulatory controls, etc.). Today, momentum and **focus has shifted to re-designing our industry in transformative, not incremental ways.**

WHAT DO REAL ESTATE PROFESSIONALS SAY ABOUT IBUYERS?

IVAR recently brought together a group of Realtors® to discuss the nitty-gritty factors that will influence the adoption rate of the iBuyer model. These individuals operate in the highly competitive market of the Inland Empire (comprised of 4 million residents in San Bernardino and Riverside Counties of Southern California). With over 100 years of combined real estate experience between them, these industry experts engaged in a 2-hour freestyle/no-holds-barred discussion. Although no one had a crystal ball, the following insights did emerge:

Reasons that iBuyers ***WILL NOT*** be a major disruption to the real estate industry:	Reasons that iBuyers ***WILL*** grow into a significant proportion of the marketplace:
Can't handle anything more than minor repairs, fixes, or rehabilitation.	People love certainty and transparency.
Can't take into account "hyper-local" market conditions and trends.	People will pay for convenience. Is there an "app" for selling my house? Why can't Alexa do my real estate market research for me?
Can't provide trustworthy/face to face customer support.	People want to avoid having a bad experience with an unprofessional real estate agent.
Can't deal with unknowns and hidden risks discovered during and after the transaction.	People compare the level of service they get from their real estate agent to the BEST customer service they receive in ANY situation.
Can't set/negotiate the most competitive prices.	Artificial Intelligence and the huge amount of digital information available on consumers, will allow computers to more quickly identify likely buyers and sellers than any human can ever hope to compete with.
Can't be profitable in declining markets.	A streamlined, automated, transparent, digitized transaction can squeeze out cost savings and reduce risks in a way that can dramatically change the way homes are bought/sold. It will follow the same trend as retail products (AMAZON), used cars (CARMAX/CARVANA) personal travel (UBER/LYFT), TV viewing (NETFLIX/HULU) tax returns (TURBOTAX/TAXCUT), small business legal services (LEGALZOOM), travel agents (EXPEDIA) etc.
Most sellers can afford to wait for a better offer.	Aggregating multiple services under a single technology "stack" can lower the transaction fees to a point where there is no difference or possibly a slight advantage to iBuyers.
Older homes, unique homes, homes with special circumstances fall outside of the parameters that iBuyers require.	The more that consumers accept automated valuations as the "baseline" definition of fair-market-value, the more that iBuyers will become an accepted alternative.

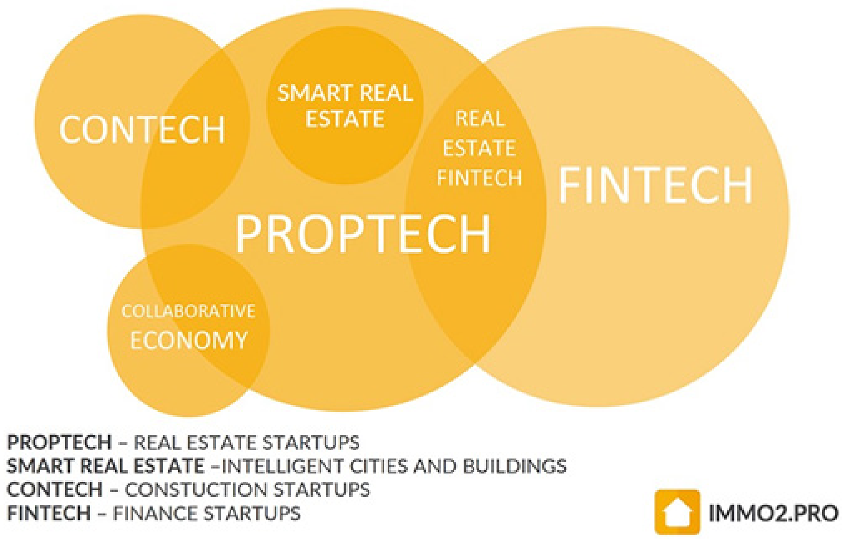
WHY ARE THEY PICKING ON REALTORS®?

They aren't….. This is about more than just having iBuyers tap on their phone and magically produce Residential Purchase Agreements. Institutional investors have teamed up with technology companies to make the process faster and easier, while enabling them to capture a piece of the various monies connected to the transaction.

DEFINITION: *Proptech is one small part of a wider digital transformation in real estate transactions. It considers both the technological changes in the industry and mentality changes in consumers.*

Investment banks, private-equity firms and hedge funds are turning to a variety of financial vehicles and building the technology to become the largest buyers of most Americans' biggest asset. The trend could improve housing affordability, make it easier to buy and sell a home, and increase mobility.

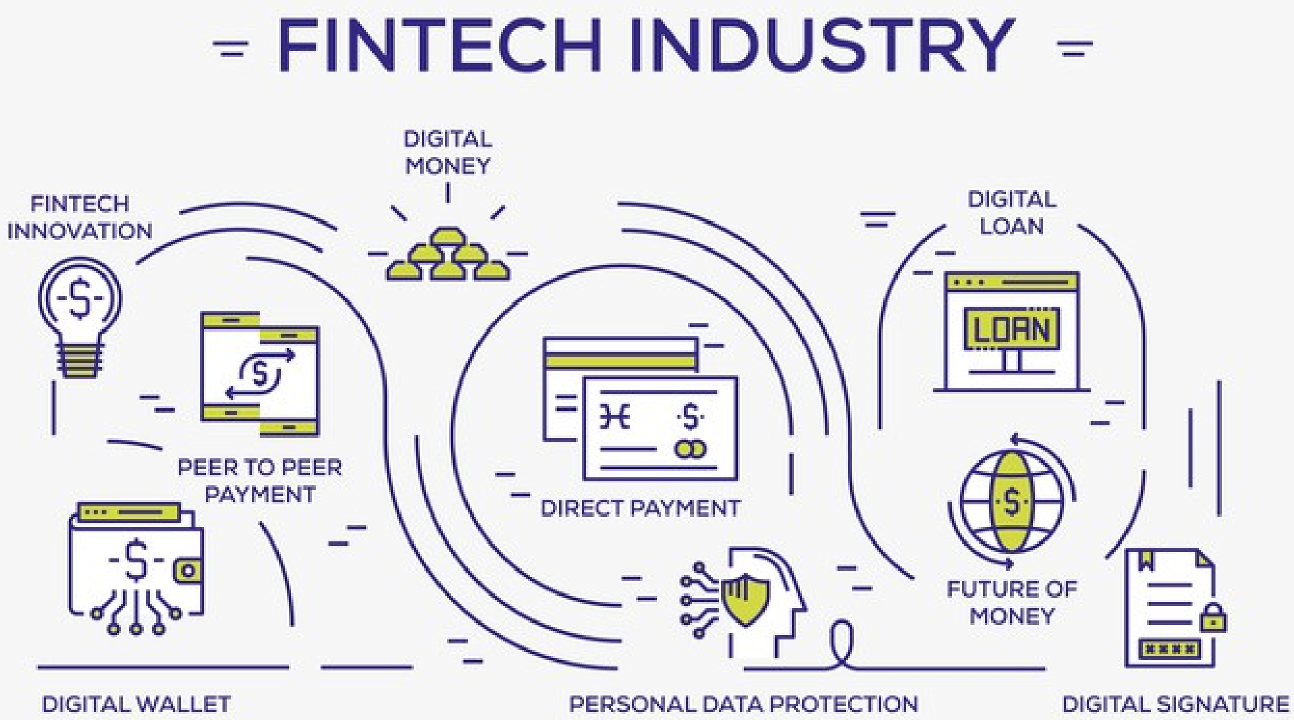
Every innovation in "PropTech" increases the commoditization of these transactions that enables investors to operate and manage sophisticated trading strategies to the benefit of home buyers and sellers.



[1]

[1] https://immo2.pro/

CAN FINTECH "UBERIZE" REAL-ESTATE?



FINTECH COVERS A WIDE RANGE OF APPLICATIONS, FROM DIGITAL WALLETS AND CRYPTOCURRENCIES TO FRAUD PROTECTION AND NEW LOAN PROCESSES. IMAGE SOURCE: GETTY IMAGES.

These days, all large amounts of money are moved electronically, unless of course you're a movie villain or a drug lord — although they probably use an app for that, too.

DEFINITION: *FinTech are the new applications, processes, products, or business models in the financial services industry, composed of one or more complementary financial services and provided as an end-to-end process via the Internet.*

DEFINITION: *Uberize means to bring changes to the way services are offered by making them available "on demand" through direct contact between a customer and a supplier, usually via mobile technology.*

New financial technologies are attempting to cut out the middle man in a wide variety of real estate transactions, and this is causing traditional lenders, buyers and investment groups to take notice. Both lending and borrowing are now faster processes, with fewer delays and lower costs. In addition, consumers have shortcuts for financing, finding properties and closing deals.

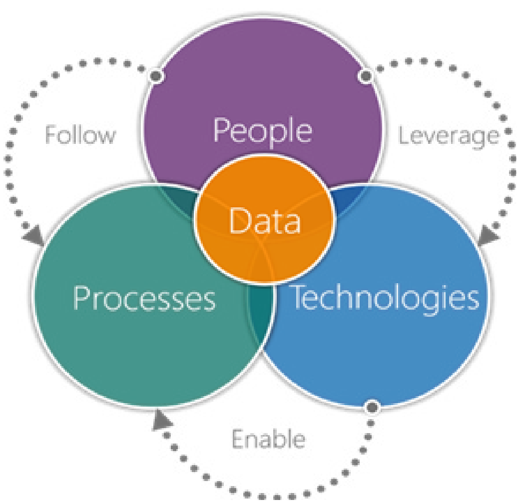
Here are examples of some of these innovations:[2]

- A number of residential real estate firms have developed web-based platforms where the entire home buying or selling process can be conducted online. Fintech startups such as SideDoor, Door, Trelora, and House Simple have all developed their own online process for real estate transactions, including qualification, contract negotiation and closing services.
- Digital-only mortgage originators estimate the loan an applicant qualifies for within three minutes using stated income and a credit score check. Once borrower uploads required documents, completed underwriting and a "verified pre-approval letter" can be issued within 24 hours, allowing house hunters to compete with all-cash buyers.
- Speeding up the mortgage approval process with 3rd-party, cloud-based software. Prospective borrowers can upload their bank statements, tax returns and pay stubs. That chops days off the approval process and reduces document fraud. Wells Fargo and U.S. Bancorp were already implementing this in 2018.
- Founded by ex-Googlers, "Upstart" (a San Carlos CA based company) is the first lending platform to leverage artificial intelligence and machine learning to price credit and automate the borrowing process. Using alternative data such as education, employment history and whether applicants know their own credit score to underwrite and price loans. After five years of training its algorithms, it now approves 47% of loans without human intervention and with some of the lowest default rates in the industry. Last year launched "generic" platform to power lending for banks and credit unions. $1.5 billion in loans have been originated to 120,000 borrowers using this technology.

In a recent report[3], Forbes highlights some interesting facts about longstanding iBuyer, Opendoor:

- Uses data and algorithms to value and buy homes (sight unseen), delivering cash to seller in a matter of days, minus a service charge averaging 7%. Makes any needed fixes and resells the homes.
- Funding: $1 billion, including recent $400 million from SoftBank Vision Fund Latest valuation: $2 billion
- Bona fides: Buying homes at a run rate of around $3.8 billion a year.

As new systems are created to figure out how to eliminate 90% of the hassle, double the number of options while charging half the price of buying/selling a home, it will fundamentally change how real estate is purchased/sold, paid-for, used, developed, managed and invested in.



[2] *"Forbes Fintech 50 2018: The Future of Real Estate Investment And Finance", by Samantha Sharf*

[3] *https://www.forbes.com/fintech/2019/#4b55791f2b4c*

ALGORITHMS VS. PROFESSIONAL VALUATIONS… WHAT DEFINES "GOOD ENOUGH"?

Automated valuation models (AVMs) can make quick offers to residential home sellers. In 2017, Zillow said they would offer a $1 million award to the "person or team who can most improve the Zestimate algorithm". The company claimed that its error rate nationwide was 5%, a level it called "incredibly low," while acknowledging that the tool could be improved. Zillow has always maintained that their algorithm is meant to serve as a starting point in helping people estimate the value of a property.

Zillow said it publishes Zestimates on more than 110 million homes in the U.S., based on 7.5 million "statistical and machine learning models that examine hundreds of data points on each individual home." It draws data from multiple listing services, brokerages, tax assessor records, and more. On average, Zillow said, the Zestimate is typically within 5% of the actual sale price ($10,000 for a median-priced home of about $223,900).

In January 2019, Zillow announced the $1 million-dollar winners of their 2017 contest. With the findings from the contest, the average Zestimate will soon be less than 4% off the actual price of any given home.

Does anyone want to throw away $10,000? Of course not, but an appraisal is not the definitive market value of a home. ... The fair market value of a property is the price that a willing and knowledgeable buyer would pay to a willing and knowledgeable seller, when both parties are acting voluntarily and in their best interests. Appraisals can be very accurate or downright faulty. So, can an algorithm to a better job of predicting the fair market value of a home than a human?

No algorithm is perfect, but humans aren't perfect either. For the consumer, it boils down to what they will accept as "good enough". If an iBuyer will offer you a price that is within 4% of what you probably will get anyways, and they will give it to you in 2 to 48 hours,… Is that good enough?

Stan Humphries, Zillow's chief analytics officer, visits Jordan Meyer in his hometown of Raleigh, North Carolina to surprise him with a $1 Million grand prize

A consumer armed with a computer-generated estimate already has a "pre-baked" expectation of what a home should sell for.

Andy Santana, a Keller Williams agent serving the Lehigh Valley, said he uses the conversation about online estimates as an opportunity to gain rapport with his clients and show the more nuanced aspects of the pricing that only he knows.

CAN ALEXA® REPLACE A REALTOR®?

There is a lot of buzz around voice assistants and what robots can do for businesses. What could it mean for real estate? How much can these voice-enabled devices really do? What if you could ask your favorite AI (Alexa, Siri, Google) to find a home for you?

There are apps on the market that connect with Alexa, allowing agents to get their names and listings in front of more homebuyers. When a user asks Alexa to help them find a house, Alexa will narrow down their search and pair them with an agent. (You!) The user gets details about the houses in their neighborhood, and also gets an email with your contact information.

Imagine you're hosting an open house in a high-volume area. Maybe dozens of people show up, and they've all got questions. What if Alexa was hanging out in the living room, ready to answer questions about the property? When Alexa is paired with the app AgentNeo, this is possible. This app is perfect for in-demand homes, and areas with booming markets. Essentially, it gives you a little clone of yourself – more questions answered, and more connections in the same amount of time!

Here are some statements from Gary Keller in 2018:

- We're in the age of machines that are "always on, always learning, always thinking."
- "AI can either be a partner or a competitor".
- "data is the new oil" … it's the raw material that is worthless until refined/transformed into some useful product. But without data, there can be no 'gasoline'.

Amazon sees "Alexa-enabled-devices" as another means of connecting with its customer base — its most avid, engaged customers. Amazon has reported that as of January 2019 more than 100 million Alexa devices had been sold, and these devices have 80,000 different skills (voice applications). There are more than 150 products with Alexa built-in from third-party manufacturers. And Alexa works with more than 28,000 devices, like smart home devices and other hardware, from across 4,500 brands. [4]

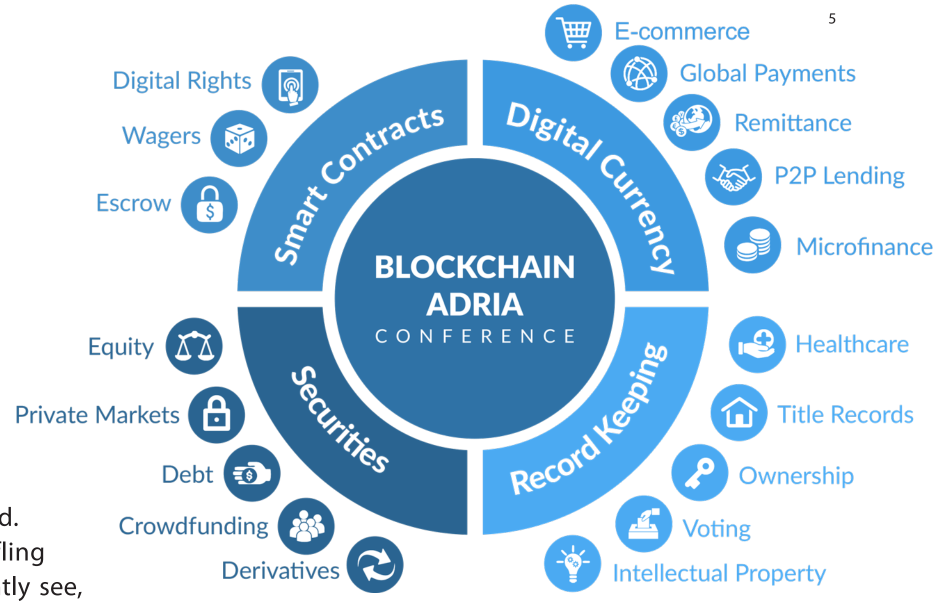
"BUYING AND SELLING HOUSES IS A COMPLICATED PROBLEM OF THE PHYSICAL UNIVERSE THAT CANNOT BE SOLVED BY ROBOTS ALONE. REAL ESTATE IS NOT E-COMMERCE; IT IS SOME COMBINATION OF HUMANS AND BOTS. AND IT IS SOLVED LOCALLY."

BRAD INMAN, "GARY KELLER AND HIS FIGHT FOR THE SOUL OF THE REAL ESTATE GALAXY", 4/29/19

[4] *Techcrunch article 2/1/2019: Alexa skills top 80,000 after a big Alexa-powered holiday season by Sarah Perez @sarahintampa*

WHY USE BLOCKCHAIN IN REAL ESTATE?

DEFINITION: *Blockchain is a distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way.*



[5]

Distributed ledgers (like blockchain) are perfectly suited to the application of recording real estate deeds and associated rights. Every detail of a piece of real estate can now be recorded, accurately, immutably, and securely in a digital format such as a blockchain which can then be easily accessed and shared. Instead of a months-long paper shuffling exercise, all the parties involved can instantly see, in real-time, if certain requirements have been met by the other party, if documentation has been verified, funds approved, and the entire process completed. The closing process can be distilled into just a week or two, saving time and money for all—while providing security and transparency.[6]

BLOCKCHAIN IN TITLE INSURANCE

The blockchain system, which First American designed, is intended to facilitate the exchange of prior title insurance policies between underwriters that contribute to the system, First American said. According to First American, the blockchain system will "increase efficiency, reduce risk and improve the title production process." First American said that each title insurance policy in the system will be coded with a unique identifier by property, which should streamline the search process and increase the accuracy of searches for prior title insurance policies. According to First American, it is common practice for title insurance underwriters to share policy information, as it both increases efficiency and reduces risk. First American claims that its new blockchain system will merge this industry practice with "emerging technology" to further increase efficiency and lower risk.[7]

First American

Nov. 2018

"First American Financial announced Wednesday that it is launching a shared blockchain system to be used in the title insurance process. And the first company to sigh on to use First American's blockchain system is Old Republic Title Insurance Group, the nation's third largest title insurance underwriter."

BLOCKCHAIN IN DIGITAL ESCROW

Reasi has developed the first end-to-end platform with secure and seamless escrow. This software helps brokers with the secure exchange of transaction funds, eliminating the need to send wire information via email and tightly securing all deal data within smart contracts. Brokers can easily manage transactions, and buyers and sellers are walked through the process with their own dashboard, and along the way have their identities digitally verified, banks connected, and funds transferred. Thus, brokerages are now able to serve as the escrow agent, knowing client funds are protected under the security of the blockchain.[8]

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[5] https://blockchainadria.com/
[6] https://www.propmodo.com/will-2019-be-the-year-that-the-property-industry-adopts-tokenization/
[7] https://www.housingwire.com/articles/47515-first-american-old-republic-title-bringing-blockchain-to-title-insurance
[8] https://www.inman.com/2019/05/10/reasis-digital-escrow-is-industrys-best-example-of-blockchain-use/

IS THE FUTURE OF REAL ESTATE MORE LIKE MCDONALDS, OR RUTH'S CHRIS? … THE ANSWER IS… "YES"

Some people eat to live, and others live to eat. The first is transactional, and the other is more of an emotional connection to a meal enjoyed. There is no judgement here. People will naturally prefer one over the other. It's also a case of affordability. Not everyone who wants to eat at a fancy steak-house can afford to pay the premium.

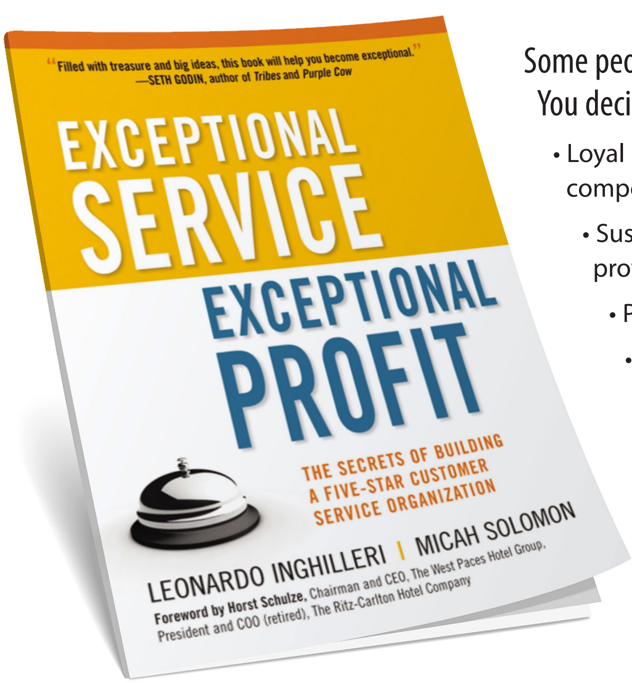
The point is… the people who eat are also the same people who buy/sell houses. So, you will find people who are buying (or selling) a cherished piece of their life, their family, their history, and their heart. At the same time, you will find people who are looking for the most practical and affordable roof to put over their head.

Just remember, maximizing revenue involves BOTH the number of transactions AS WELL AS the revenue per transaction. According to the McDonald's website in 2019:

- McDonald's lists consistently in the Top 10 Franchises in the world in Entrepreneur Magazine, and Franchise Times Magazine ranks McDonald's Number 1 among the top 200 franchises.
- McDonald's operates 30,000 restaurants world-wide with more than $22 billion in annual revenues.

Making hamburgers can be very profitable. So obviously, there are multiple ways for a Realtor® to make a nice living. We believe BOTH options will be available, but the careers look very different:

- THE MCDONALDS REALTOR® - a real estate professional who quickly and efficiently manages the paperwork, obstacles and deadlines involved in a real estate transaction. The key measures of success are: lower commissions, higher transactions per month, and little or no risk.
- THE RUTH'S CHRIS REALTOR® - a real estate professional who focuses on matching clients with the perfect meal, the way a waiter tries to recommend the best entrée.



Some people would make the following arguments… You decide if they are compelling to your situation or not:

- Loyal customers don't worry about your fees and are largely immune to your competitors' enticements.
- Sustain customer loyalty by delivering outstanding products on time, providing excellent service, and quickly resolving any problems.
- Put your money into quality, service, training, and problem solving.
- To establish customer loyalty, learn everything you can about your clients.
- Track information about your customers' likes and dislikes.
- Provide anticipatory service by solving problems before they happen.
- When problems do erupt, apologize first and ask questions later.
- The benefits of exceptional service far outweigh the costs.

THE CHALLENGE OF HOMEOWNERSHIP IN CALIFORNIA

An investigation into generational housing trends by the Stanford Center on Longevity showed that homeownership in America is not as common as it once was — especially for today's young people. The U.S. homeownership rate fell to 63 percent in 2016 – the lowest rate in half a century. Younger people today are much less likely to own a house than their parents at their age.

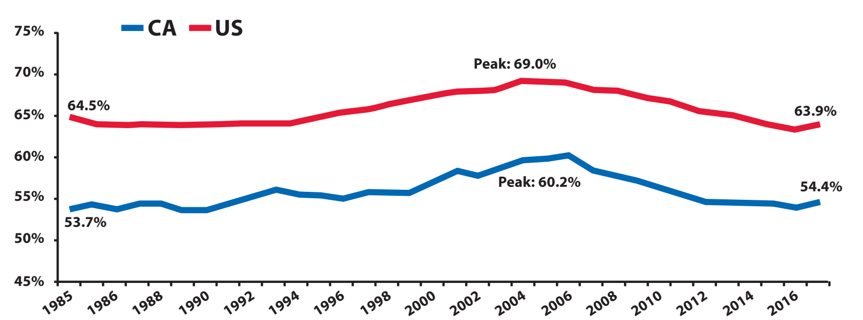
A 2017 report from California's Department of Housing and Community Development shows that California has the second lowest homeownership rate among the 50 States. This report provides in depth research into California's far reaching housing challenges:

- Production averaged less than 80,000 new homes annually over the last 10 years, and ongoing production continues to fall far below the projected need of 180,000 additional homes annually.
- Lack of supply and rising costs are compounding growing inequality for younger Californians.
- One-third of renters pay more than 50% of income toward rent.
- Homeownership rates are at their lowest in California since the 1940s.
- California accounts for a disproportionate 22% of the nation's homeless population.
- Continued sprawl will decrease affordability and quality of life while increasing combined housing and transportation costs on families.

Although housing prices have increased steadily, the median household income in California has not kept up for homeowners or renters. The median monthly housing costs of homeowners with mortgages in California is 47 percent higher than the national average. California renters pay 40 percent more than the national mean, yet the state's median household income is only 18 percent higher than the nation's average.

CA'S HOMEOWNERSHIP< U.S.

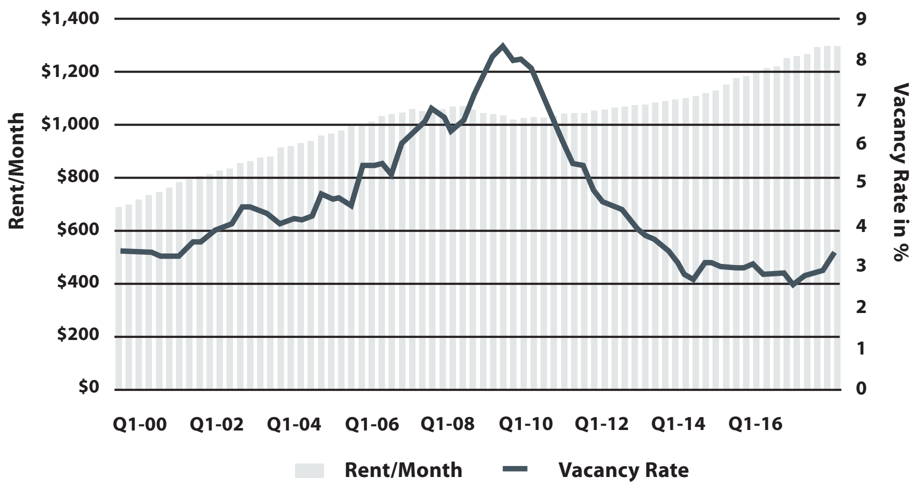
California Vs. U.S. - 9.5% gap in 2017



SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau
CALIFORNIA ASSOCIATION OF REALTORS®

California is now number one in the nation for poverty rates. When the U.S. Census Bureau counts in cost of living, a larger percentage of our residents are living in poverty than in any other state in the union. And so there are a lot of working families — 1.7 million families — that are low income, paying more than half their income in housing costs. ***(Ben Metcalf, director of the California Department of Housing and Community Development) January 17, 2019***

INLAND EMPIRE RENTAL & VACANCY RATES



UC Riverside School of Business Center for Economic Forecasting and Development, 2018

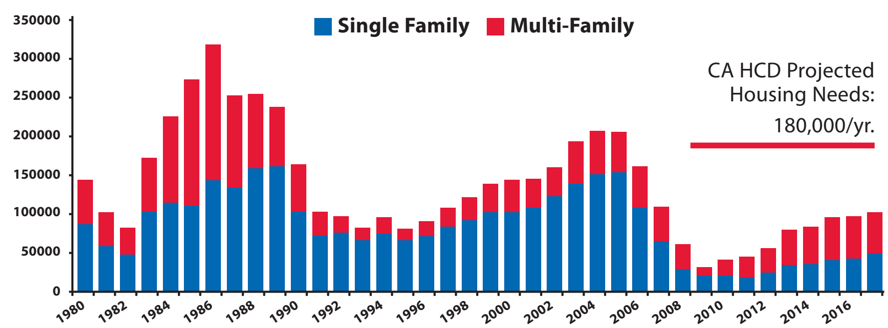
Since the trough of the recession in 2009 through last year, an average of 73,000 new housing permits were issued each year in California. This is down from an average of 135,000 permits issued annually between 1991 and 2007. If these trends continue, we could see a housing backlog of 3.4 million units by 2025.[9]

Next10.org also reported in 2017 the following:[10]

- California has the highest home prices of any state. In 2016, the median California home price was $266,750 greater than the median home price in the U.S. as a whole.
- Post-recession housing construction has been slow. From 2008 to 2017, an average of 73,000 new housing permits were issued per year – far lower than the average of 135,000 permits issued annually between 1991 and 2007.California has the nation's second-lowest rate of homeownership and worst rate of rental housing over-crowdedness in the country.
- For homeowners in California, the share of income spent on housing was 21.9 percent in 2016, down from 22.5 percent in 2014. California homeowners spend more on housing than homeowners in any other state except New Jersey.
- For renters, housing costs have decreased from 33.6 percent of income in 2014 to 32.8 percent of income in 2016. California ranks 48th of 50 states for this metric.

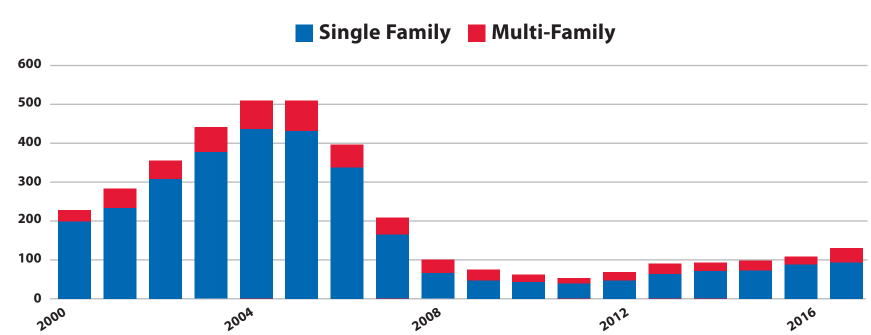
"MISSING" 77,000 NEW UNITS ANNUALLY

2016: 98,881 (47,889 sf, 50,992 mf
2017f: 102,712 (51,720 sf, 50,992 mf)



Series: California New Housing Permits
Source: Construction Industry Research Board

TOTAL BUILDING PERMITS IN THE INLAND EMPIRE



UC Riverside School of Business Center for Economic Forecasting and Development, 2018

[9] *Research conducted in 2018 by the San Francisco-based Next 10 and the Los Angeles-based Beacon Economics.*
[10] *http://www.next10.org/ F. Noel Perry, Colleen Kredell, Marcia E. Perry, Stephanie Leonard*

HOW DO REALTORS® PREPARE FOR THE FUTURE?

In a $1.8 trillion market, there is room for plenty of winners. But the biggest winners will be consumers looking to buy or sell their homes more cheaply and efficiently.

RECOMMENDATION #1: Be a Smarter Sales-Marketer

A "Sales-Marketer" is someone who seamlessly blends both sales skills with marketing techniques. Gone are the days of the "ABC – always be closing" approach to sales and using cold call "spray and pray" techniques to find new prospects.

The reason for this change is because consumer habits have evolved, and the old sales techniques are less effective. Now, much of the initial stages of the home purchase process is happening online:

- 92% of buyers start with an information search,
- 53% of buyers find that going online and researching is superior to interacting with a salesperson,
- 75% of buyers depend on social networks to learn about choosing the right vendor,
- 90% of buyers won't take a cold call.[11]

So, how do you get to be a smarter Sales-Marketer? By the following:

- **GIVE THE CONSUMER WHAT THEY WANT** - We need to ensure that we're delivering better, faster, value-add services to consumers and doing everything we can to make the process easier for them.
- **MAKE YOURSELF INDESPENSABLE** - Finding and reading information about homes for sale is easier now that it has ever been, but understanding, interpreting, and applying that information is where Realtors® have true value.
- **HIGHLIGHT THE HUMAN TOUCHES, THAT CAN'T BE REPLACED BY TECHNOLOGY** - Building trust and offering an exceptional level of service are the leading traits of the best real estate agents.

[11] *"Why sales and marketing alignment is critical to organizational success", by Steven MacDonald, https://www.superoffice.com/blog/sales-marketing-alignment/*

RECOMMENDATION #2: Know what kind of Realtor® you are

Are you more of a generalist or a specialist?

- A generalist prefers to have the sole responsibility to find and qualify the lead, close the deal and deliver the best customer support. In other words, they love doing it all.
- A specialist works best as part of a team that handles each major step in the process. Think of an assembly line. Each person working the line has a specific task they are responsible for in contributing to the finished product.

What is your predominant style and what are your personal strengths?

- CLOSING SALESPERSON
  - o **Style:** Strong Personality and Highly Confident
  - o **Strengths:** Builds enthusiasm, handles rejection
- CONSULTIVE SALESPERSON
  - o **Style:** Strong Expertise and Highly Competent
  - o **Strengths:** Professional credibility, systematized and organized
- RELATIONSHIP SALESPERSON
  - o **Style:** Strong Dependability and Loyalty to the Customer
  - o **Strengths:** Patient, persistent, reliable, trustworthy

RECOMMENDATION #3: Define your Ideal Customer

The greater clarity you have with regard to your ideal customer, the more focused and effective your "smarketing" efforts will be. Some steps you might take are:

- **Define the ideal customer.** What is his or her age, education, occupation or business? What is his or her income or financial situation? What is his or her situation today in life or work?
- **Define the specific benefits your ideal customer is seeking.** Of all the benefits you offer, which are the most important to your ideal customer? What are the most pressing needs that you can help solve?
- **Define your ideal customer's habits.** How does your ideal customer typically buy/sell home? How does your customer go about making a home buying/selling decision?

YOUR IDEAL CUSTOMER IS SOMEONE WHO GETS THEIR EXACT NEEDS MET BY WHAT YOU'RE GOOD AT OFFERING.

RECOMMENDATION #4: Recognize how few of the transaction elements you actually control

It's a little depressing, but the truth is… Realtors® don't control much at all during the real estate transaction. Real estate industry commentator Rob Hahn wrote, "I've pointed this out time and again when talking about iBuyers, but real estate agents and brokers often forget just how annoying and painful and uncertain it is to buy or sell a home in America today. And that pain has nothing to do with the real estate agent. You could have the most wonderful, most professional, most knowledgeable REALTOR on the planet, but that doesn't change the mortgage process, doesn't change staging a home, doesn't change having to update the home, keeping it clean, enduring showings, etc. etc. and so on and so forth. Your amazing REALTOR can't make the bank approve the loan for the buyer, while you wait and wait hoping and praying that the buyer gets the Clear to Close, because boy it would suck to have to relist the home for sale and go through that whole process all over again." *(The Case for iBuyer Becoming the Default, November 13, 2018, Rob Hahn)*

For example:

COMPONENTS OF A REAL ESTATE TRANSACTION	DOES A REALTOR® HAVE CONTROL OF THIS?
Product	NO… someone else controls the availability, quality, quantity and type of homes for sale.
Price	NO… the marketplace determines what people are willing to pay.
Financing	NO… interest rates, required buyer qualifications, and available funding sources are part of the macro-economic environment.
Buyers	NO… the number, financial qualifications and preferences of buyers is constantly changing.
Time Horizon	NO… the overall timing of when people want to buy/sell is somewhat seasonal, and on a case-by-case basis it is very unpredictable.
Promotion/ Marketing Strategy	PARTIALLY… most people want to take advantage of as many sales and marketing channels as possible.
Negotiation/Sales Strategy	PARTIALLY… you can make recommendations and give specific advice, but no one has to accept them.
Quality/Availability of Your Services	YES… this is the thing you have to MOST control over. Emphasize it.
Your Reputation	YES… how you perform, and how you are perceived is largely under you control, but sometimes you may be blamed unfairly for all the other things that are out of your control.

RECOMMENDATION #5: Maximize your Customer Lifetime Value (CLV)

How much is a customer worth to you? Predict this number and you know how much it is worth to spend on your customers to keep them around. Customer Lifetime Value, or CLV is one of the most important metrics a Realtor® has for making good "smarketing" decisions.

CLV = (Average Transaction Value) x (Number of Repeat Sales) x (Average Customer Retention Time)

Increase any of these factors and your CLV goes up. By focusing on your customer retention strategy, you yield sustainable benefits to your CLV. This is because when you develop effective strategies for boosting customer loyalty, you promote long-lasting relationships. And your customers will stick with your brand because they want to. They will willingly become a voice for your brand. This translates to greater long-term profits without having to take a sales-heavy approach to every transaction. Here's a few ways to boost your CLV: [12]

- Improve your communications based on well-researched customer segmentation
- Go above and beyond
- Seek out opportunities for value-driven cross-selling and up-selling
- Stay relevant with your online presence
- Up your level of customer service

RECOMMENDATION #6: Leverage your CRM for "lead nurturing" to raise your CLV

What is lead nurturing? It is maintaining contact with leads that are not ready to buy now but could be ready in the future (prevents dropped leads). It includes:

- Activities and workflows that engage leads
- Encourages or enhances education/interest
- Provides multiple touch-points to the lead
- Creates self-qualifying opportunities

Real estate agents can reduce the cost of advertising significantly by nurturing and converting a higher percentage of cold and warm leads. Most of all, by nurturing leads, you can generate more word-of-mouth referrals. And word of mouth referrals offers the highest likelihood of conversion.

So, how do you nurture your leads? In a traditional lead nurturing scenario, the agent or broker needs to provide a steady stream of useful information the consumer finds appealing and relevant. The information should be helpful or insightful, and more importantly, carry the right branding information such as your name or your company's name.

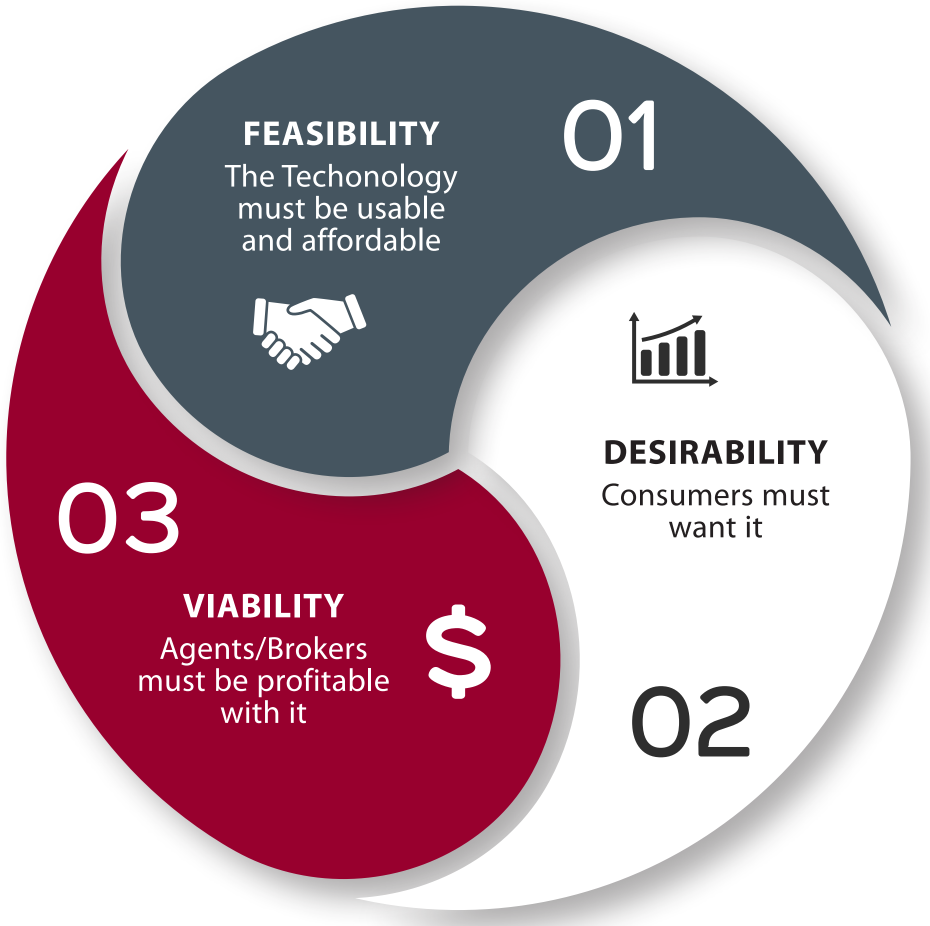
[12] *6 Powerful Methods to Maximize Customer Lifetime Value (CLTV) by Michael Brenner, https://marketinginsidergroup.com/content-marketing/6-powerful-methods-maximize-customer-lifetime-value-cltv/*

BETTER NURTURING = BETTER QUALIFYING = BETTER CLOSING

"WE ARE CALLED TO BE ARCHITECTS OF THE FUTURE, NOT ITS VICTIMS."

R. BUCKMINSTER FULLER

SUCCESSFUL REALTOR® SOLUTIONS MUST HAVE 3 THINGS:



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As a service to the more than 4 million residents of the Inland Empire, the Inland Valleys Association of Realtors® is proud to distribute this report. The core purpose of IVAR is to help its members become more professional and profitable, while promoting and protecting real property rights.

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