

Real Estate Realities

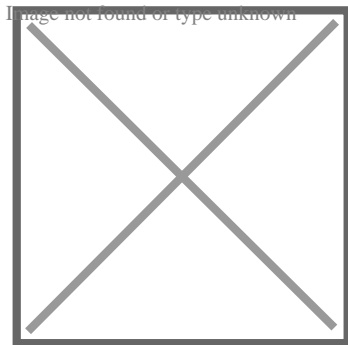
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“In my experience, in the real-estate business past success stories are generally not applicable to new situations. We must continually reinvent ourselves, responding to changing times with innovative new business models.”

–AKIRA MORI, real estate developer

In August 2017, we gave our readers [a unique opportunity to hear about the future of retail](#) from Nordstrom’s Co-President, Erik Nordstrom. This week, we are bringing another exciting opportunity to hear from Rick Davidson on the future of the residential real estate market. Rick is a 30-year real estate industry veteran who retired from his position as President and CEO of Century 21 Real Estate in April 2017.

During his time at Century 21, Rick led the largest international franchise system in real estate and drove the organization to deliver the best growth in the company’s 40-year history. Under Rick’s leadership, Century 21 earned the JD Power Award for Highest in Overall Customer Satisfaction for three consecutive years (2014–2016) across all four customer satisfaction categories; an accomplishment never seen in JD Power history. Please enjoy this unique chance to hear Rick’s thoughts on the future of the real estate industry.



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REAL ESTATE REALITIES WITH RICK DAVIDSON

Evergreen: What technologies or platforms have had the most significant impact on the residential real estate industry over the past 10 years?

Rick: It’s a great question. Every aspect of technology has had an impact on the real estate industry over the past ten years. I’ve been in this business for 30 years now and started back when email was the most significant technology. I would say that there are several technology platforms that have had a large impact on the marketplace. One would be paperless systems, including transaction management and e-signature platforms. While some real-estate

transactions require wet signatures, a lot of real estate transactions are done using electronic signatures. Transactional systems also give access to the consumer, who have increased transparency throughout the transaction process. In fact, that's probably the largest point of frustration for the consumer – that they fall into a black hole after an offer has been made and accepted. Additionally, CRM [*Editor's Note: customer relationship management*] platforms have significantly changed the business by allowing for effective and efficient marketing to the consumer. Obviously, being able to maintain a database is important for an agent. But being able to utilize that database to market to the consumer is paramount. There's a lot of platforms. The industry is inundated with platforms. One technology that has impacted the business is productivity, accountability and coaching platforms that provide transparency within brokerage teams. Everything from cold calls to listing appointments to listings under contract to listings sold is captured, and there's a gamification piece to create competition and make things fun.

Evergreen: Do you see any technologies or platforms, currently in their infancy, that could disrupt the real estate industry even further over the next 10 years?

Rick: There's so much money that's being invested in what's now called prop-tech. Fin-tech [*Editor's Note: financial technology*] was the largest investment target for venture capital, and now it's prop-tech. There are a lot of firms out there looking at the property technology sector right now. One of the platforms that's out there currently is a data mining platform that utilizes big data and has the ability to mine a particular geographic marketplace and understand everything about every owner of every property, using both public and private data-sets. It gathers information such as who home owners are, what their families look like, what their incomes are, how much equity they have in their property based on the market value of that particular property, the balance of their current mortgage, their spending habits, and much more. It's particularly valuable for agents that understand how to prospect and use data sources to find opportunity with people that are prospective sellers. There's a ton of technology out there right now that helps predict a buyer's habit in the buy cycle, but there are very few platforms out there that will help predict where the seller is in their cycle. I think that platform could really be transformative for those who understand how to use it.

Evergreen: How do current macro-economic factors impact the future of the real estate market?

Rick: The US is performing incredibly well from a macro-economic perspective. The issue is that when you look at home price rises over wage increases. Here in Utah, prices have risen 9X faster than wages over the last 25 years. People are having difficulty finding affordable housing and its beginning to have an impact on the market. When the residential real estate market declines, that is typically an indication of a broader slow-down.

Evergreen: Speaking of a slow-down, are you seeing evidence of a broad deterioration in the US property markets or just isolated pockets of weakness?

Rick: I think it's broad-based, but it won't start that way. What I mean by that is the center parts of the country are going to be less impacted at the beginning and coastal markets will be impacted first. We have a large business in the Ventura County, California market, with 500 agents and 10 offices, and we are starting to see some changes in the market. California, and particularly coastal California, is indicative of what will happen with the rest of the country over time. As reported by the National Association of Realtors, homes sales declined in July for the fourth consecutive month on a year-over-year basis.

Evergreen: What will the impact of a slowdown be on investment in real estate-related tech? Will there be a mass exodus of investment and interest in these platforms, or is prop-tech here to stay regardless of market conditions?

Rick: First of all, this is a cyclical industry and we always go through market cycles of 7-10 years. The market is going to cycle but I don't believe we will see a market like we saw in 2007, 2008 or 2009. There are far too many protections on the financing side that will prevent that from occurring. This is a \$1.5 trillion industry – that's the amount of volume of homes that were sold in 2017. So, this is a marketplace that has a lot of attention and there's a lot of money to be made in every aspect of the industry. If you look at the home as the nucleus, and then you look at all of the services that surround the home, it's a significant part of the overall economy. I have a good friend who runs a venture fund that's focused in the real estate tech space, they're raising capital, they're fully subscribed in their first fund and they're making investments in the space. I believe that regardless of what happens with the market – meaning that we will, and are starting to, move into a correction today – I don't believe that it will impact the amount of capital that's coming into the market to support the continued development of new technology.

Evergreen: What is your reaction to what the Redfin CEO said recently on the national real estate market slowing down?

Rick: I would agree with Glenn. We are beginning to see the signs of a slow-down. What's going to happen is a slow-down in demand because of affordability, new construction products coming to the marketplace which will increase inventory, sellers trying to catch the peak and bringing new inventory to the market, and a number of buyers sitting on the sidelines waiting for a price correction – just like sellers who have been waiting on the sidelines to catch the peak. A price correction will happen because of a higher level of supply and lower level of demand.

Evergreen: How concerned are you about the fact that the average down payment for first time buyers is about 7%?

Rick: The first-time home buyer is a critical component of the overall continuum of the housing market. If first-time home buyers aren't in the marketplace, then move-up buyers aren't in the marketplace. Move-up buyers are typically selling their home to a first-time home buyer and then looking at the next highest priced home. Anything the market can do to assist first-time home buyers and get them into a home, while being responsible about that in terms of the underwriting, is highly beneficial to the market.

Evergreen: Where do you see the most opportunity in the real estate market right now?

Rick: For sellers, this is the opportune time to get into the marketplace. There are a number of sellers that have been sitting on the fence. Part of the reason they've been on the fence is because of a lack of inventory. What's happening now is that people are sensing a peak in prices. *I was just looking at prices here in Utah and it's amazing how many houses are going through price reductions. [Editor's Note: emphasis added]* I think a lot of would-be sellers are going to be entering the market out of fear they've missed the peak. As a result, sellers will come to the market, and at the same time more product will come to the market, which will mean more inventory. Buyers on the other side will see more opportunity as prices correct. While I don't believe we'll see a buyers' market for at least another year – maybe into 2020 – I do believe we will see the market shift from a sellers' market to a buyers' market.

Evergreen: How about in the multi-family home market? Do you see any opportunity there?

Rick: It's interesting to watch because multi-family has outperformed over the past 20 years. And multi-family performs whether we're in a good housing market or a declining housing market. As an example, today many would-be home-buyers are still renting because there isn't enough product and they're getting squeezed out based on the affordability of the marketplace. That has made for incredible rental increases and low vacancies in the multi-family space. In a bad market, it also creates opportunity. During the recent recession, there were a lot of people from a financing standpoint who would have loved to be in a property but couldn't get financing. As a result, rental markets did incredibly well. If you look at the inflation of rental rates across the US today, they've significantly outpaced almost every other sector of the market.

Evergreen: How does quick, easy access to information via applications and the internet shift the balance of power between brokers and buyers and renters?

Rick: This is an industry that was very agent-centric for a long time. As a result of all of this data available to the consumer, it has shifted the way this industry functions. The real estate industry is no longer agent-centric, it's consumer-centric. Information is available to the consumer at the click of a mouse. Where the real estate agent has to show relevance is by taking all this data and information that's available to the consumer and delivering market intelligence that goes beyond public data and information. Agents have to be really good at what they do and show they provide value to a buyer in a complicated marketplace.

Evergreen: Thank you, Rick! Those were great insights on future of the residential real estate market.

OUR CURRENT LIKES AND DISLIKES

No changes this week.

LIKE

- Large-cap growth (during a correction)
- Some international developed markets
- Cash
- Publicly-traded pipeline partnerships (MLPs) yielding 6%-12% (buy carefully after the recent rally; long-term, however, future returns look highly attractive)
- Gold-mining stocks
- Gold
- Select blue chip oil stocks
- Mexican stocks
- Investment-grade floating rate corporate bonds
- One- to two-year Treasury notes
- Canadian dollar-denominated short-term bonds
- Select European banks
- Short-term investment grade corporate bonds (1-2 year maturities)
- Emerging market bonds in local currency (start a dollar-cost-averaging process and be prepared to buy more on further weakness)

NEUTRAL

- Most cyclical resource-based stocks
- Mid-cap growth
- Emerging stock markets; however, a number of Asian developing markets appear undervalued
- Solar Yield Cos
- Large-cap value
- Canadian REITs
- Intermediate-term investment-grade corporate bonds, yielding approximately 4%
- Intermediate municipal bonds with strong credit ratings
- US-based Real Estate Investment Trusts (REITs)
- Long-term Treasury bonds
- Long-term investment grade corporate bonds
- Intermediate-term Treasury bonds
- Long-term municipal bonds
- Short euro ETF

DISLIKE

- Small-cap value
- Mid-cap value
- Small-cap growth
- Lower-rated junk bonds
- Floating-rate bank debt (junk)
- US industrial machinery stocks (such as one that runs like a certain forest animal, and another famous for its yellow-colored equipment)
- Preferred stocks
- BB-rated corporate bonds (i.e., high-quality, high yield; in addition to rising rates, credit spreads look to be widening) * **
- Short yen ETF
- Dim sum bond ETFs; individual issues, such as blue-chip multi-nationals, are attractive if your broker/custodian is able to buy them

* *Credit spreads are the difference between non-government bond interest rates and treasury yields.*

** *Due to recent weakness, certain BB issues look attractive.*

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