

REAL *Trends*

The Trusted Source

COMMENTARY

Enough Already About the Housing Market – Time for a New Look

Over the past few days, I've heard from several CEOs who attended a recent conference in New York that they'd never been to a more depressing meeting for real estate leaders. Some of this likely had to do with the participation of Yale Economist Robert Shiller with his always bright view of residential real estate and the future of housing prices and sales. Some may also have been due to the weather for New York has been unusually cold and snowy this year.

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As for housing sales and prices, there should be no doubt in anyone's mind that Shiller, as flawed as his methodologies are, is more right than wrong about housing prices. His reporting, buttressed by similar housing price models from Zillow, Cyberhomes, IAS360 and REAL Trends, all now agree that a) prices have fallen and will decline some more and b) sales will be sluggish until the overhang of foreclosures and short sales are reduced to more manageable levels.

Shiller's index may overstate the case but he's been right more than other sources have been about the relationship between home prices, incomes and rental incomes. The historical data on the relationship between home prices and these factors paint a picture that's hard to deny: home prices have to fall and have to decline more to get back into balance with normal long-term trends.

Our model of home sales that we first published in the spring 2007 indicated that there's a strong long-term correlation between home sales and the number of households. We developed the same modeling for Canada last spring and it turns out to have predicted the decline in home sales that's now taken hold there. The model was right on track until the fall when the precipitous decline in equity markets and the acknowledgement of a recession in the United States knocked housing sales down further.

Our report indicated that over time about 5 percent of all households will buy a home each year. This is for both new and existing home sales. This is the norm over 30+ years of housing sales in the United States. The low for recessionary times with high interest rates and high rates of unemployment was 3.8 percent and in the boom years of 2000-2005 the rate averaged 6.2 percent. In 2007, this model indicated that about 5.5 to 5.6 million new and existing homes would be sold. The recession in the fourth quarter knocked the level down to about 4.8 to 5.0 million new and existing home sales. And this is the level where we ended the year.

2009 will be different

While the economic news is universally negative, there are some bright spots. While unemployment has risen and will continue to do so, there are very few economists who are calling for anything higher than 8.0 to 8.5 percent for this downturn. That is compared to the recession of 1981-1982 where it hit 10.8 percent. Further, interest rates are at record lows in the mortgage and virtually every other market, a sure sign of the huge imbalance between the supply of cash and the demand for loans. It hasn't hurt that the Federal government has also turned bullish in terms of providing huge stimulus.

Rising unemployment and declining interest rates are the signs of an economy going through the process of flushing out the excesses of a boom. And that's historically what happens when an economy is in the early stages of a recovery. Some examples:

- Energy prices and prices in general have softened considerably and the purchasing power of families has increased substantially as a result. Who would have predicted \$1.60 gas again? Yes, the pain from unemployment will mute the benefits of lower prices but should unemployment peak at 8.5 percent that does mean that 91.5 percent are employed;

ANALYSIS

Restructure to Create Opportunities

Every market is different, that's why brokers who are on top of their game know that the status quo equals failure. REAL Trends spoke with three brokers around the country to find out how they're changing their businesses to meet the needs of the future market.

John Foltz, President
Realty Executives of Phoenix

REAL Trends: Are you restructuring?

Foltz: Yes. For us it's been evolutionary. The Phoenix market is in an exaggerated cycle, so we recognized that the market was very frothy in 2005 and early 2006. At that point, we began consolidating offices. It wasn't just the economy—we had already seen the trend of people working from home as gross revenue for agents declined. So, we consolidated 3 of our 20 offices.

In terms of technology, we sped up our digital transaction platform. We moved it along to better accommodate people working from home.

We also reviewed each program and decided that we were expanding or restructuring only those programs designed to help individuals increase productivity. We took some money from our branding budget and put it into supporting executives. We felt that the real pressure on a firm would come when there was pressure on individuals in terms of personal income.

We didn't necessarily institute new programs, but we did scrutinize and eliminate programs that weren't aimed at individual production. We expanded things such as in-house personal coaching and marketing assistance. In that regard, we formed an alliance with the Buffini companies to use its programs as much as possible. To date, 350 of our 1500 sales executives have been through those programs.

REAL Trends: What changes are you taking that are a significant departure from the past?

Foltz: This is not a time to pull back—it's a time to reach out. It's a significant departure for us not to spend media marketing money on brand name awareness. Most of that money has been redirected to individual sales executive assistance. Based on exit interviews, we're acutely aware that most sales executives who leave aren't dissatisfied with the company. They leave because their income is down.

REAL Trends: What are the fundamental things you've done to get through these challenging times?

Foltz: I've tripled my personal appearances in front of sales executives. I've been with them for camaraderie, motivation, to listen to them and calm their anxiety. By calming anxiety, they can begin productive, rational activities. Remove the stress and enlighten them to the fundamentals of the business and they become unfrozen. I explain the long-term cycles of the market. My favorite saying is, "If you're swimming across the English Channel and you've made it half way, now is not the time to turn around and swim back." I have three to four appearances a day.

Michael Golden, Co-Founder
@properties, Chicago

REAL Trends: Are you restructuring?

Golden: We haven't restructured. Our company was built on the fact that we expected a downturn. We built a more efficient model. Our model is that we have relatively low occupancy costs. If we have 750 agents, we have 21,000 square feet of office space. We do a lot with virtual and shared space. We have nice offices and good locations—they're just smaller.

We've taken a good hard look at costs, especially variable costs. We've gone back to vendors to renegotiate contracts on just about everything.

REAL Trends: What changes are you taking that are a significant departure from the past?

Golden: We're not looking at the past and thinking we need to stop what we've always done. We're just looking for new and different ways to market and keep at the top of our game. We're still hiring about 10 to 25 people a month. We're still growing, and we're still generating a profit. We're being very careful about what we spend, and we're taking a hard look at expenditures and trimming where we wouldn't have before.

REAL Trends: What are the fundamental things you've done to get through these challenging times?

Golden: Our business model is not drastically different from the traditional residential brokerage company. We have a similar cost and compensation structure. But, we focus heavily on supporting the agent. We believe in providing our agents with a high level of service. Our agents are our clients,

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TRENDS

Peltier Says Relationships Will Matter More Than Ever

Bob Peltier, recently named CEO of Edina Realty, the Minneapolis/St. Paul - based realty giant (and an affiliate of HomeServices of America) told *REAL Trends* that while a great deal of focus for realty CEO's has been on restructuring their businesses and cutting costs, the future is in understanding that the downturn has also shaken consumer confidence in housing and in the professionals that serve them.

"I think consumers are going to rely more, not less, on having a trusted relationship with real estate professionals at all levels, when making choices to buy or sell their homes," said Peltier. "While we can use consumer friendly technology to deliver more and better information to housing consumers, they are already showing signs that they will rely on real estate professionals to help them assess the market and make good choices in housing."

REAL Trends had the chance to catch up with Peltier who has just been named CEO of Edina Realty that has 63 offices and between 2500-2600 sales professionals in three states in the upper Midwest. Peltier (his brother is HomeServices CEO Ron Peltier) has been directing Edina since 2002 and has watched the markets switch from incredibly strong to enormously challenging in a relatively short time. But Peltier thinks that some things don't change all that much.

"Our sales professionals want a professional place to work. The good news is that in working with them openly, we both came to the decision that we could do that with less square footage. We had too many bricks and mortar for this market, we knew and they knew it, and we have worked together to find better solutions for sales professionals and for the company. We also worked with them to show them how our

transactional CRM platform could help them manage their business, removing or reducing the need for personal assistants. Our system which we co-developed with Fidelity, has enormous capabilities and is an example of how technology can be integrated to really help with productivity.

But in doing so we also focus on the fact that it is relationships, between the company and our people, and also between our sales professionals and consumers, that will ultimately win the day for all of us. For many years our industry was selling homes to everyone and anyone, and it unfortunately has not worked out for a lot of homeowners. It has left us with too much inventory, weakening pricing and consumers who are now shut out of the housing market. All of this has created doubt and confusion for buyers and sellers trying to make good choices.

While our Web sites and other sources of information can greatly help consumers, we believe that they will turn to real estate professionals to help them complete their assessment - help them confirm their choices. That is where our focus is now."

Peltier said that while social policy to enable everyone who wants a home should have one is good social policy the reality of the practice has damaged everyone involved in housing. He felt that a return to dependable and measurable underwriting standards that require some "skin in the game" will be good for housing in the long term.

"We must focus on earning trust one customer at a time. It may sound quaint but it's truer today than ever before."

Market Update

No one said real estate would be an easy business. But, there are some bright spots and even in the areas that suffered the most, opportunities abound. *REAL Trends* spoke to three brokers from diverse areas of the United States. Here's what they had to say:

David Jones, President/CEO
Coldwell Banker Howard Perry and Walston
Raleigh-Durham, North Carolina
13 Offices
700 Sales Associates

REAL Trends: What is the current state of your market and what do you expect in 2009?

Jones: We're playing catch up. Our market turned in July 2007—that was the first month of year-over-year sales being off, and we've been adapting and adjusting to the market since then.

We're working our way through it.

The upper price ranges are suffering the most. There's confusion about mortgage money. Many think 40 percent down is required. Consumers are scared and confused and neither serves us well. Sales in the last couple of months have been off about 40 to 45 percent but prices are holding fairly steady. Inventory levels are near all-time highs. There's quite a bit of pent up buyer demand but sellers are holding on to prices and that needs to change.

We have teams in most of our offices that are evaluating listings for realistic market pricing. The prospective listing agent takes that information back to sellers so they get feedback from a team of agents about price, not just one agent.

We've seen, through our MLS that if you get the pricing right, you'll close in half the time that it would take if you're wrong on your pricing. Another trend we're seeing is that title companies are seeing a number of title issues to get properties closed.

REAL Trends: Where are the opportunities?

Jones: We're seeing that the lower price ranges—under \$350,000—are moving really well. We're also seeing quite a bit of FHA loan action.

REAL Trends: What percentage of your business is with foreclosures/short sales/REO properties?

Jones: It's not that prevalent for us. I'd say it's less than 10 to 15 percent of our business. Certainly it comes up in discussion and agents are looking for resources on how to handle them. We've also focused on REO properties because not everyone wants to deal with those. We want to develop relationships with banks and lenders to market those properties. After all, the strong survive!

Scott Tobias, Broker/Owner
Prudential Bakersfield, Realtors
Bakersfield, Calif.
2 Offices
42 Agents

REAL Trends: What is the current state of your market and what do you expect in 2009?

Tobias: Our market has been continually up in sales, but prices are going down. This year in November we were up 120 percent in sales and the listing inventory is going down. In California, the filings of foreclosures are down about 65 percent but that's temporary and expected to go up in 2009.

Our price point has reached \$100 a foot; which is equal to what it was in October 2004. That's 36 percent down from the previous year.

REAL Trends: Where are the opportunities?

Tobias: I see opportunities in working with investors and buyers. There's a lot of buyer activity out there so I encourage agents to work on buyers, even if they're working short sales. Lenders are getting a little better and agents are getting more experienced as people get used to doing them.

There are still some opportunities to get into the REO game. In addition, investors are looking for any deal. We're moving REO stuff very quickly because it's priced to sell and there are always buyers for that. Even though the inventory is going down, it will go up again.

You can't build a home for \$100 a square foot, so prices are bound to go up. Once this inventory gets depleted, prices will go up. People have to buy new homes and that will drive prices up again. 2009 will be the year we get rid of a lot of inventory and start with a more normal market.

REAL Trends: What percentage of your business is with foreclosures/short sales/REO properties?

Tobias: It's interesting — 84 percent of sales in November 2008 (based on closings) are considered distressed. Our business is about 75 percent short sales and foreclosures.

Mark Wolfe, President/CEO
RE/MAX DFW Associates
Dallas/Fort Worth, Texas
6 Offices
290 Associates

REAL Trends: What is the current state of your market and what do you expect in 2009?

Wolfe: Through October 2008, our MLS was down 17 percent. It dropped considerably in November 2008—as much as 33 percent. Our company is down 8.5 percent for 2008 but we were down 25 percent in November 2008.

The north Texas area was doing better than the national market (based on MLS stats) but in October 2008, it hit us as well. We're catching up with the rest of the national market. I believe it's short term, and we'll revive quickly.

REAL Trends: Where are the opportunities?

Wolfe: I definitely see opportunities with first-time homebuyers. The variety of programs out there is phenomenal. Our mortgage company has gone from 9 percent FHA/VA loans to close to 40 percent now.

The part of the market that's been unmoved by the national economy is the ethnic portion of the market. We still see a lot of business with Asian, Arabic, Indian and Hispanic buyers. They are continuing to buy homes. The Dallas/Fort Worth area will have a net increase of 140,000 population this year and only 70 percent of that will be Caucasian and it's been that way for the last five years.

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Our prices overall, according to MLS statistics, are down 2 to 3 percent. But, some of the suburban areas have seen an increase in prices—up 4 percent over a year ago. I think that in mid-2009 we'll have a pretty good recovery for our market due to pent-up demand.

REAL Trends: What percentage of your business is with foreclosures/short sales/REO properties?

Wolfe: For our market, the Northern Dallas suburbs, working with foreclosures and shorts sales is nonexistent. I have three offices where 10 percent of the business is with foreclosures. Everyone does some percentage of short sales, and we've offered a number of short sale classes to agents. Many sellers are selling homes before they go into foreclosure and they sell quickly that way.

Home Sales Show Strong Improvement in December

December 2008 housing sales show surprising strength compared to November results with every region reporting increased sales compared to the year ago period. Prices continue to be under pressure however as the national average price declines 14.4 percent from a year ago.

Home sales decreased only 3.6 percent in December 2008 over December 2007 compared to a decrease of 20.5 percent from November 2008 to November 2007 indicating that the "slippery bottom" described in previous reports is alive and well. While one month of improvement does not signal the end of the housing recession, it does indicate that despite the gloomy economic environment housing shows signs of stabilizing.

Several regions showed significant improvement over November results. The West region reported that transactions were up 33.1 percent from December 2007 to December 2008 compared to a rise of only 9.4 percent from November 2007 to November 2008. The Midwest reported that sales were down only 8.7 percent in December versus 25.7 percent in November, the South reported transactions down 12.5 percent versus down 30.4 percent on the same basis and the Northeast was down 18.8 percent versus 27.4 percent.

Prices for sales nationally were off 14.4 percent from December 2007 to December 2008; the best region for prices was the Northeast where prices have fallen only 8.7 percent from the same month a year ago while the West had the largest

average decline with the average price down 28.9 percent from December 2007; Both the South and Midwest regions reported price declines similar to that seen in earlier months.

"December 2008 results show that despite the downbeat news from the economy, housing is showing signs of stability relative the rest of the economy. Lower priced housing and record low interest rates are creating significantly better affordability in almost all markets and the leveling off of the decrease in prices across the country indicates that the worst may well be behind at this time," said Steve Murray, editor of *Real Trends*. "Due to substantial weakening of written business in many markets, particularly in the Northeast, in the fourth quarter may depress sales in the first quarter, other markets in the West continue to show signs of continued increases in housing sales. The decline of the average price of sold homes shows that entry level priced homes are turning over the best while activity at the high end of markets remains somewhat weaker.

Murray points out that consumers and investors continue to buy up significant numbers of lower priced foreclosures according to brokerage firms and sales professionals. "Any strong housing turnaround will start with recovery with entry level buyers. The recovery in closings in California, Arizona, Nevada and Colorado is due to sales of lower priced homes and is a signal that Americans continue to see housing as a good investment at the right price."

REAL Trends November/December Housing Market Report

	December 2008 Closed Sales	December 2008 Avg. Price	November 2008 Closed Sales	November 2008 Avg. Price
National	-3.6%	-14.4%	-20.5%	-11.4%
Regional Report				
Northeast	-18.8%	-8.7%	-27.4%	-7.0%
South	-12.5%	-11.0%	-30.4%	-11.4%
Midwest	-8.7%	-11.9%	-25.7%	-8.6%
West	+33.1	-28.9%	+9.4	-25.6%

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and we want to provide great tools to help them grow business. We're always looking at new ways to differentiate ourselves. We continue to focus heavily on our growth. Our market share is up 25 percent over last year. Revenue may be down but market share is growing. For us, we're just trying to create value for our people. We're being more creative about how we spend money.

Pat Lashinsky, CEO/President
ZipRealty, Emeryville, Calif.

REAL Trends: Are you restructuring?

Lashinsky: We restructured in October 2007. We made cost adjustments and positioned for new market conditions. The consumers going into this market are going into a different situation than what they've had in the past. We are focusing on more training and tools to deal with those changing market conditions.

We increased the amount of training around REOs, short sales and foreclosures. We added tools on our Web site that are important to consumers such as an estimated value tool that allows consumers to figure out the value of their home and compare that with others. It allows buyers to calculate a reasonable offer as well.

We're continuing to make our team more focused on building relationships. We're giving them tools to become more efficient.

If you sold the same number of homes this year as last year, then you've made less money. So, if we can help them become more efficient, they can sell more and make more.

We're also working on improving the quality of the leads we buy and how we allocate them to agents. Our model is different and we haven't been cutting back on offline advertising. We've cut back on overhead and cost. Our offices are not storefront; they're management offices designed to help agents be more efficient.

REAL Trends: What changes are you taking that are a significant departure from the past?

Lashinsky: The most important thing is that although we're a buyer-centric model, we've encouraged agents to go after the seller side of the business as well.

REAL Trends: What are the fundamental things you've done to get through these challenging times?

Lashinsky: We're keeping a tight eye on all expenses, and watch the way we spend money. We're working to keep agents more efficient. Those who can do that will win. We're exploring what tools and resources we can offer to help agents be more effective in handling REO properties, short sales and foreclosures. We've increased the amount of training to agents.

Products and Services Morph with the Market

It's not enough to do what you always did in this market. That's why smart businesses make tweaks to products and services to meet the changing needs of their customers. Here's how three service providers updated their businesses to survive in today's changing landscape.

Dan Gooder Richard, President
Gooder Group, Fairfax, Virginia

REAL Trends: How is the market affecting your business?

Richard: Our sales are down slightly (revenue down 4 percent in 2008) and we're working harder to get sales. There's a segment of our customer base that has left the business. Interestingly enough this seems to be a positive development. Folks who shouldn't have been in the business or were part-time have dropped out and the remaining group is a much more stable, sophisticated, long-term customer for us.

Those who are still in real estate have re-margined their practices and focused on two things: core strengths and new

marketing opportunities (short sales, foreclosures, investors, property management as a pipeline to listings, etc.)

Curiously we're seeing much more back-to-basics cultivating of past clients and sphere. Typically this is reflected in direct mail newsletters because they have more shelf life than e-mail.

On the other hand, sales of our automated drip e-mail and online marketing systems have weathered the cutbacks with less than 8 percent reduction in sales. E-mail is not free, but it is cheap and it's a powerful tool for today's top agents with staying power. Now those customer databases are proving to be effective and economical.

We're seeing many sales associates who are changing companies so we're finding ourselves making imprint and database changes. We're working harder but more focused.

REAL Trends: How have your services changed compared to a couple years ago?

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Richard: In a nutshell, we're offering more automated products. We've introduced an upgraded newsletter so we can mail them for agents. In February 2009 we'll upgrade our newsletter so that agents can customize it themselves. They can sell sponsor ads and recoup some of their costs. This makes it a low cost or no cost option on the print side.

On the electronic side, we've seen a major up tick in those subscribing to our automated drip e-mail system. While it's not free, it's cheap compared to direct mail. We added a new module for e-mail recruiting for managers and one for agents to stay in touch with other agents to cultivate referrals.

REAL Trends: What does the future look like for your company/industry? What are some trends?

Richard: I'm very excited. The future is looking like there will be fewer agents and they'll be more sustainable in their own businesses and more sophisticated in their marketing. They'll value good marketing.

Another aspect is the market steadily has some new shifts to it. In 1985, relocation was so hot that we launched a newsletter. In the early 90s, we did direct response reports. In the late 90s, it was postcards. Now, it's electronic. Right now there's an interest in short sales, REO properties and working with investors. We're noticing more partnerships between real estate and mortgage.

The market is constantly shifting and there's always an opportunity around the next corner. 2009 might be a penny-pinching market but there's opportunity in that.

Lorne Wallace, President
Lone Wolf Real Estate Technologies
Cambridge, Ontario, Canada

REAL Trends: How is the market affecting your business?

Wallace: The market contraction that's occurred actually works in our favor as it makes broker/owners focus more on their bottom line and the efficiency of their operations. When times are good, it can be a tough sell trying to convince someone that they can do better. But with today's market, our message of front and back office integration, tightened infrastructure and cost efficiencies finds a much more receptive audience.

REAL Trends: How have your services changed compared to a couple years ago?

Wallace: We've rolled out more products that continue the integration of brokerage operations into one seamless unit. Gone are the days where employees could carve out

their own territory inside a company and protect their turf. Information has to be available to all constituents—owners, managers, agents, the public, franchisors, boards/associations—on a timely basis.

We've worked on delivering products that eliminate the duplicate entry, territorial issues and inefficiency in operating a real estate brokerage. This isn't really a change from a couple of years ago, rather a continuation in the process that we have been developing for years.

REAL Trends: What does the future look like for your company/industry? What are some trends?

Wallace: I think the future for our company is bright. We've taken advantage of the current market conditions to acquire some competitors and expand our market base to over 5,200 real estate offices. This provides us with an excellent base to roll out new products like Agent Wolf and continue our goal of integrating the industry into a nexus of single points of entry for the myriad sources of data that exist.

We recently started our first installation of Wolf Tracks into a real estate board and soon will begin eliminating the paper production of monthly board bills and dues. The single most important trend for the real estate brokerage industry has to be the improved efficiency of their operations.

Jim Zellmer, Co-Founder
Virtual Properties, Inc., Madison, Wisconsin

REAL Trends: How is the market affecting your business?

Zellmer: Changing markets include both challenges to the status quo and emerging business opportunities. Some firms are building upon their extensive agent, staff and consumer Internet services, while many are just getting started and still others are operating in the same manner. More than ever, many firms are trying to improve their "Broker Value Equation" with consumers, agents and staff.

Tactical changes include the elimination of print advertising and experimentation with new business models. Strategic transformations include the implementation of a single entry platform from leads to closings, an intensive search for new talent and a redefinition of agent services.

Certainly, I no longer have to explain why a strong Internet presence makes more sense than spending millions on newspaper advertising. Several brokers have recognized the extraordinary costs of using or creating many different, unrelated software tools. Better to focus on implementation, training and your "Broker Value Equation" rather than deciding which database or software language to use.

W. Edward Deming's words are always useful: "It is not necessary to change. Survival is not mandatory."

REAL Trends: How have your services changed compared to a couple years ago?

Zellmer: Deming, again, "Create constancy of purpose to the continuous improvement of products and service, focusing on long range needs rather than only short term profitability, with the aim to become competitive, to stay in business, and to provide jobs."

One of the biggest challenges any technology company faces is product design and definition. Architecting for 1, 100, 10,000 or 1 million users drives different price points, implementation and support costs. Many of our clients require 40 to 70 percent annual system volume growth (think about that over 5 or 10 years). Supporting that rate of change, annually, without commensurate revenue growth requires a special, ongoing effort.

Relevant, useful and productive software takes many years to build. It requires strong and motivated paying clients. Finally, a consistent technical vision is mandatory. We created the first single entry Internet platform in the mid 1990's. This Internet-only strategy, from the start, provides us with a very flexible, high volume system that continues to support many new consumer, broker and agent applications. I would also add that firms are increasingly interested in brand and service personalization. This means that an approach that might work in Tucson is unlikely to fly in Memphis. They also prefer not to advertise their vendors.

In summary, we continue to support customer growth and add new features, such as GPS HomeFinder. The Main Street

Internet platform, now in its second decade, is engineered for the needs of our clients today and tomorrow.

REAL Trends: What does the future look like for your company/industry? What are some trends?

Zellmer: Internet productivity tools for consumers, agents and staff have largely been an afterthought for many firms (relative to their spending on other items such as newspaper and magazine advertising). That is now changing. We founded Virtual Properties in 1995 based on several principles:

Brokers will increasingly be the nexus of information for agents, staff and consumers, brokers will differentiate themselves based on information quality, depth, ease of use, pervasiveness and timeliness, and a firm's real time information systems for consumers, agents, staff and managers will be worth more than their bricks and mortar over time.

Firms will need to consider how their Internet technology decisions affect their "Broker Value Equation." One example, how does the use of generic MLS, aggregator or franchise tools support your lead generation, business growth, recruiting and retention strategy? Which approach builds business value for you?

Finally, some real estate firms have, perhaps unintentionally become software development shops. Those brokers must determine if these investments are relevant, not to mention competitive, in light of consumer, agent and staff expectations and financial reality. Those funds might be better spent on training and implementation, using a proven, growing system.

Foreclosure activity increases 81 percent in 2008 according to RealtyTrac

Nearly 3.2 Million Foreclosure Filings on More Than 2.3 Million Properties Reported

RealtyTrac (www.realtytrac.com), recently released its 2008 U.S. Foreclosure Market Report™, which shows a total of 3,157,806 foreclosure filings – default notices, auction sale notices and bank repossessions – were reported on 2,330,483 U.S. properties during the year, an 81 percent increase in total properties from 2007 and a 225 percent increase in total properties from 2006. The report also shows that 1.84 percent of all U.S. housing units (one in 54) received at least one foreclosure filing during the year, up from 1.03 percent in 2007.

Foreclosure filings were reported on 303,410 U.S. properties

in December, up 17 percent from the previous month and up nearly 41 percent from December 2007. Despite the spike in December, foreclosure activity for the fourth quarter was down nearly 4 percent from the previous quarter but still up nearly 40 percent from the fourth quarter of 2007.

"State legislation that slowed down the onset of new foreclosure activity clearly had an effect on fourth quarter numbers overall, but that effect appears to have worn off by December," said James J. Saccacio, chief executive officer of RealtyTrac. "The big jump in December foreclosure activity was somewhat surprising given the moratoria enacted by both Freddie Mac and Fannie Mae, along with programs from some of the major lenders and loan servicers aimed at delaying foreclosure actions against distressed homeowners.

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“Clearly the foreclosure prevention programs implemented to-date have not had any real success in slowing down this foreclosure tsunami. And the recent California law, much like its predecessors in Massachusetts and Maryland, appears to have done little more than delay the inevitable foreclosure proceedings for thousands of homeowners.”

Nevada, Florida, Arizona post top state foreclosure rates in 2008

More than 7 percent of Nevada housing units (one in 14) received at least one foreclosure notice in 2008, giving it the nation’s highest state foreclosure rate for the year. A total of 77,693 Nevada properties received a foreclosure filing during

the year, an increase of nearly 126 percent from 2007 and an increase of nearly 530 percent from 2006.

Florida registered the nation’s second highest state foreclosure rate in 2008, with 4.52 percent of its housing units (one in 22) receiving at least one foreclosure filing during the year, and Arizona registered the nation’s third highest state foreclosure rate, with 4.49 percent of its housing units (one in 22) receiving at least one foreclosure filing during the year.

Other states with Top 10 foreclosure rates for 2008 were California, Colorado, Michigan, Ohio, Georgia, Illinois and New Jersey.

The Last Word: When is Enough Enough?

by Mike Staver, The Staver Group

It was about a week before Christmas and I was looking around my living room. Since I had agreed to have the family (about 20ish) over to my house Christmas Day, the tree was surrounded by presents—a lot of presents. Not a few but A LOT of presents. I thought then and there about this month’s comments: When is enough enough?

It occurred to me that this question is not just about material things but all things emotional, psychological, physical and spiritual. January brings with it all manner of resolutions; generally about less. Less weight, less debt, less smoking, etc.

I want to suggest that ‘09 be the year of less. While the economy continues to struggle it forces us to consider a different lifestyle. We are (or will soon have to be) learning to live with less. The interesting thing is ALL of us will learn to.

So the bigger question is, how can we make it a habit? Not just less “stuff” but less wasted time, less complaining, fewer

excuses, less wasted money or food or energy. I think you get the idea.

Here are the steps I suggest:

1. Look around your life and do a thorough inventory of all that you have, both materially and non-materially.
2. Determine the ‘have to’ haves and the ‘nice to’ haves.
3. Eliminate a measurable percentage of those things that you really don’t need. Sure it will hurt a little, but try it. Eliminate a cup of coffee or an obligatory phone call to someone that sucks the life out of you. Start small then let it grow.
4. Notice how much easier it is to live with less.
5. Finally, find someone (or someone’s) with even less and share something with them. You will feel better and lighter.

Here’s to a 2009 of less!!

How Close Are You to Chaos?

*by David Cocks, CRB, FRI, President,
CompensationMaster*

Most companies believe they have systemized most of their business, but that may not actually be the case. For example, if 80% of your expense is commissions and you don’t have that systemized, how good are your systems?

The current economic slowdown has been called the worst since the Great Depression. It’s deeper, wider and longer than anything ever seen, and no amount of personal wealth is going to be enough to protect a company that isn’t on a solid financial foundation.

As this reality sets in, we are seeing companies have three basic

reactions. We call them lose-lose, win-lose, and win-win.

Some focus on cutting costs – cutting back on the services they provide to their sales force. This is a tactical approach providing a short-term gain that can cause long-term damage by hampering their sales force’s ability to sell and generate revenue (in effect, derailing their own business). Simply put, there is not enough wiggle room left in this economy to rely on just cost reduction to stay profitable. This is a lose-lose scenario.

Others restructure to save money but in doing so favor the needs of one group – typically management – over the needs of another group, usually the sales force. This is a win-lose scenario because the needs of one side are neglected.

Finally, there are companies that are using this market slowdown as an opportunity to look closely at their business model and reinvent themselves. They revisit the value proposition they offer to the sales force – finding out what the sales force really wants and needs – and then restructure the company to provide that value while ensuring that the company remains financially secure. This becomes a win-win strategy.

Some companies are changing their business model to become more virtual – they are cutting back on bricks and mortar because their sales force doesn't need it. They do need high quality office space to meet with customers, but floating desk space in well-located storefronts meets their needs more effectively. These companies take advantage of technology to become more efficient and provide even better service to customers. Their business model becomes more high-tech, high-touch.

Whether changes are minimal or holistic, these companies have in common the willingness and the courage to change the very foundations of their business to reinvent themselves and survive.

Aligning Systems with the Business Model

Once you have revisited your business model, systemization is the key to reaching your goals.

Systemization is defined as the act of organizing something according to a system or rationale. The keyword here is rationale or, in this case, rationalization. We often believe we just have to reorganize our business during tough times like this but rationalization goes well beyond reorganization. It requires both strategy and structural changes to the business model to be effective.

When your systems closely support your business model, you're able to attract and retain the right people, and they will work hard to reach the incentives in your plan. When your systems are not supporting your business model, you could be spending money you don't need to, which puts your profitability at risk. And when compensation (which can account for as much as 80% of your expenses) is not effectively systematized, your sales force is not properly motivated and your profitability is at even greater risk.

We have worked with many companies doing acquisitions over the years and almost without fail, the company being acquired lacked effective business systems. Without systemization of the compensation structure a company is basically afloat and not setting its own course for building long-term survivability and wealth.

Now, ask yourself, how effective are your compensation systems in terms of meeting the expectations in your business model? The CHAOS chart (below) is a tool that can help you track

disparities in how well your systems are supporting your business model by showing you what your sales force members should be making and what they were actually paid.

To design this chart, figure out your intended payout at each GCI level and create a line by connecting the dots to show this level across the chart. Then, check your records to see what each sales force member was actually paid last year and place those dots in red ink on the chart. If the dots are close to the line, your company is in good shape: Your systems are working and people are being paid according to your business model. If your dots are not lining up and in fact are spread across the chart, you're not paying people according to your plan (your systems are not working) and you are headed for trouble.

If your company has acquired or will be acquiring other firms, see how their results line up on the CHAOS chart. It should be helpful in recognizing which systems and parts of the business plan failed as you interview management and sales force members.

Strategize Away From Danger

There will be losers and winners during this period of economic upheaval. Only those companies willing to challenge their business model and adapt their systems for this market will prosper in the long run.

You can be one of those companies that remains with the old way of doing business and hope there will be enough of your wealth left after the market improves to stay in business OR you can leap forward and experience incredible growth now – if you take advantage of the opportunities that are open to you.

As business owners, we need to realize the economic forces driving change in our industry will continue for some time – longer than you can wait and hope for a turnaround that favors your old ways of doing business.

We hope you will be proactive in this market and continually re-evaluate your business model and systemization to make sure the two are in sync and your company can survive and thrive in any economy.

David Cocks, CRB, FRI, is the president of Compensation-Master, a consulting firm that assists performance-based businesses with developing and introducing commission structures that better motivate the sales force while putting the company on more secure financial footing. David is the co-author of "Compensation Planning: The Key to Profitability" and regularly gives seminars on "Mastering the Art of Sales Force Compensation" and "How to Pay Your Top Producers Without Losing Your Shirt."

(Commentary continued from page 2)

- California home sales are up significantly from a year ago and in most of those markets better than the results for any year in the past three. While prices are down nearly as much as units are up, volume for the first time appeared to be as well in December over last December;
- The decline in closed sales for most regions of the country has bottomed out over the past six months. Except in a few states that didn't suffer in the early stages of the downturn (Texas, North Carolina, New York and Tennessee are some examples) most every other state is either about even with last year at this time or only slightly below;
- Price declines have been relatively stable over the past six months – again for states and regions that were hit the hardest and the earliest. For those markets (like those mentioned above) that were hit later the declines in sales and prices are still reaching for their lows;
- It appears that the carnage in equity and credit markets has leveled off as well for the time being. Equity markets had actually recovered some 20 percent from November to January before the recent pull back. The Fed's TARP program and other liquidity measures have at least staunched the crisis in credit markets and low interest rates are one result.

Based on all this we now believe that housing sales at the worst will be down another 4-6 percent in 2009. That is worst case on a national basis. There are already markets that are above their low points and others will join them this year. Any surprises will be on the upside of this level not the downside.

The high end will be very sluggish as those who saw their portfolios decline last year become far more cautious about purchasing homes. The impact of the outrageous fraud of Madoff (and some others yet to be uncovered) are absorbed and the profits of privately owned small businesses suffer from the economic downturn (like real estate CEO's) will all cause some diminution of sales in the high end.

Therefore unit sales flat to down a bit with surprises on the upside. Volumes down somewhat as the mix of business shifts from the high end to the low end of the housing market.

And from an editorial that has appeared every year in the *The Wall Street Journal* the day before Thanksgiving reminds us:

"We can all remind ourselves that the richness of this country was not born in the resources of the earth, though they be plentiful, but in the men and women that took its measure. For that reminder is everywhere – in the cities, towns, farms, roads, factories, homes, hospitals, schools that spread everywhere over the wilderness (that was once there)."

What matters

There are truly only a few basics that do matter. When I've seen the results from brokerage firms and sales professionals who are profitable still, I note that these leaders are focused on very few things:

Setting your costs to this level of business and not spending one moment of time mourning yesterday or last year or a return to 2005. A good place to start would be to pull out 1997-1998 P & L statements and use those as a baseline for 2009;

For brokerage firms a refocus on revenue producing activities such as recruiting and coaching/mentoring sales professionals to increase sales. We know of a CEO of a firm with over 1500 sales professionals who visited every single office and a great majority of all those sales professionals in the last quarter of 2008 developing business plans and tactics to increase production;

For sales professionals, quoting from two sales professionals, one in the southeast and one in the far west, "floor duty, open houses, sphere of influence marketing, return calls and e-mails, expireds and FSBO's" – one sales professional went from no sales to 90 closings in one year focused only on the basics.

If I hadn't visited with individual brokers and sales professionals who are succeeding in doing this I might not have thought it possible that such basics work – but they do.

Comment on NAR economist

Recently the former economist of the National Association of REALTORS® admitted that he was fudging the housing numbers when he was employed there several years ago. It was no surprise to us or to the heads of most of the largest national and regional brokerage firms that this was the case. From 2005 to today, many have wondered how NAR developed their data on housing sales when virtually all others indicated that sales and prices were in fact much worse than what NAR was reporting.

Two thoughts. First, it would behoove NAR to correct whatever methods they're using when they develop housing data to more accurately reflect today's market and to change their position from industry cheerleader to a source that the members and the public can count on. Second, shame on this former economist for now asking everyone to grant him any credibility in his new ventures and his prognostications for the future; what in heavens name would cause anyone to believe what he says now?

And thanks a lot for throwing a good man, your successor, under the bus in an attempt to absolve yourself.

Setting Your Finish Line Work Style

by Jeremy Conaway, Contributing Editor

We have arrived. It is 2009 and we can begin the countdown to the sustaining market that lies ahead. But between here and there lies one more round of down market strategies. How brokers use the next several months will have everything to do with how they will perform in the recovery and sustaining markets that lie ahead. This is the time for brokers to rise to the occasion, to become heroes in their own firms, to save the day with dynamic leadership and vision. It is not the time to be in the dumps, dragging along, isolated or invisible.

This week I worked with three different brokerage clients and in each case the behavior in the office was the same. Agents were sitting around talking about who hadn't renewed their MLS subscriptions, how bad business was and any number of other negative tales, recitals and stories. Had there been a tape of organ music it would have been a funeral.

This then leads us to the broker's first task. Take control of your space and your firm environment now. Prohibit and forbid negativity. Issue an immediate edict that anyone caught on company property being negative is out, now! Direct your staff to refrain from participating in any negative discussions and teach them how to practice and stimulate positive behavior. For the next year pretend that negative behaviors are really antitrust behaviors and stop them in their tracks.

Nothing positive, creative, innovative or profitable has ever been achieved in a "downer" environment. The first step to being creative and innovative is to provide a creative and innovative space for the process to occur. If you are reading this article and rolling your eyes that any idiot could possibly believe that you have the power to create a positive, creative and innovative environment in your offices then we have identified the first problem; a lack of leadership from the top.

The power of positive thinking is not just some Zen-induced euphoric state. It is a proven concept with huge benefits. Not convinced? Take a moment to Google the term and do some reading. Do not allow your office to be used as an unemployment office. Do whatever is necessary to create an energy center, a passion post and a launch pad. This is part of your agent value proposition.

Once you have your physical space under control move to the people factor. It doesn't matter whether you have three or 300 agents. At this point in time they desperately need your leadership, your energy and your example. Go back and read Childcare 1A. "Idle hands are the devil's workshop" (I hate clichés but these are difficult times and call for stern measures).

Get your management and agent team together and get them moving in a positive direction. Like sailing, sometimes it is necessary to build momentum by moving in a direction that is different than where you ultimately want to go. Create a project that will allow you to demonstrate your positive attitude and

leadership. Pull your agents together and have them go back over the past two years list of closed customers and find out how those customers are doing. Put your team together and complete a community project that helps folks that are worse off than you. Go clean up a local park. Initiate a database management camp and get everyone off to a positive start for 2009.

Do something to create a team dynamic and a positive force within your company. Don't just sit there waiting for the water to rise. You are missing one of the great opportunities of the century to demonstrate why agents need to be part of a company team, why agents need a broker in their life.

While you are engaged in these activities, carefully monitor who is rejecting your efforts to create a more cohesive company team. These are probably the folks that need to be removed from your team and kicked off your bus. If they reject your leadership during the down times they will certainly reject it during the good times and you don't need to go through that again.

Start working on your profitability program. The best time to paint the bottom of the boat is when it is out of the water. Remember the sequence:

The Objective: Profitability through premium commissions for premium services

The Message: Your Company's customer value proposition (Create it now)

The Driver: Your company customer experience (Create it now)

The Quality: Your Company's standards of practice (Create them now)

The compliance: Your company's system to monitor service delivery to ensure that each client receives the full benefit of your value proposition and the best experience possible. This includes the processes through which you allow the client to input your system. (Create it now)

You have time to get this process under development before the market returns when there will be no time. Design, develop, implement and train for profitability. Determine now which of your agents should be on the recovery team and which agents you should send across the street to torment your competitors.

Go back and review your down market prospecting techniques. There is a huge pent-up demand within the consumer sector. Review the August Yahoo! report and make sure you are incorporating its recommendations relative to how to work with the 42 million "future prospects" that are currently darting around the Internet dramatically demonstrating their interests in real estate. Keep in mind that as with every human movement there will be early adopters in the recovery market. Identify them.

(Commentary continued on page 14)

(Commentary continued from page 13)

Continue your cost-cutting strategies but begin to morph these activities into a longer-term plan that articulates your economic and business configuration strategies for the recovery and sustaining markets.

Set up statistical waypoints and a system to carefully monitor your market for statistical signs that an anticipated market recovery is on the way. Remember, when the recovery market's guns go off you want to be the first across the line. Establish a series of statistical way marks with corresponding actions that your Company will take when consumer behaviors reach certain benchmarks. If you are fortunate to work in a market that has an effective consumer facing Web site access its traffic and activity statistics. Keep in mind that real estate consumers are like caribou. Before they start the spring migration they will

provide you with many clues relative to their intentions. Track the birth rate.

Pretend for a moment that you are going to spot the recovery before anyone else and that you will have a sixty-day warning period. What action steps would you take to ensure that your firm is ready, willing and able to take full advantage of this incredible opportunity before anyone else? What will you do to make sure that your firm doesn't automatically return to where it was in 2004? Most firms won't take any steps in advance and thus will miss the first 90 days of the new game. It's like taking a ten car jump in a drag race.

This is it. This is the countdown. This is not a drill. This is the beginning of a whole new chapter in your book. Make it happen.

The Emotional Dividends of Homeownership

*by Jim Weichert
President of Weichert, Realtors*

Real estate has always been a great conversation piece. But lately, it seems almost impossible to chat with someone without the topic coming up. Don't believe me? At your next party, see how long it takes for someone to start talking about the market.

With most of the discussion these days seemingly centered on mortgages, home sales and prices, it seems one fundamental real estate principle has gotten lost in the shuffle. Regardless of market conditions, the path to the "American Dream" will always involve homeownership. That's because it's a dream based on more than just investment potential and economic gains. It also involves sharing your life with a significant other or having a place to raise your family. It includes finding a time and place to relax and enjoy life's special moments when you're not working hard to get ahead.

Yet, somehow during the recent real estate boom we lost sight of the personal, social and emotional benefits that accompany homeownership and got caught up solely in the monetary gains buying and selling houses offered instead. Don't get me wrong. I think it is great that people can amass personal wealth through real estate investments. And over the long-haul, real estate continues to be a sound financial decision. But it is short-sighted to look at one's own personal residence as only an investment.

Purchasing a home is always a worthwhile choice when you factor in the many positive life benefits that go with it. Much of our nation's culture is centered on the home. Therefore, it's no coincidence that many of life's milestones involve a home purchase. A new couple buys a condo to begin their life together. A single mom purchases a starter home to have a little more room to raise her family. Retirees buy that vacation property they always wanted to enjoy their golden years.

Owning a home offers so much more than just investment potential. A home gives a sense of self-worth and accomplishment. A home provides shelter. A home offers stability and security. A home offers a nurturing environment for children to grow. A home serves as a place to gather with family and friends. A home provides a feeling of belonging within the community. A home creates memories.

Homeownership isn't just a good thing for the individual either. Putting people in houses creates a stronger community as well. According to findings published by the National Association of REALTORS, communities with higher home-ownership had better educational performance, lower crime rates, more household participation in civic affairs and better household health.

Still, while financial advantages shouldn't be the first and only thing we consider when we think about owning a home, it would be foolish to discount these benefits altogether. The opportunity to take advantage of tax deductions for mortgage interest and property taxes or the ability to benefit from the capital gains exclusion on the sale of a home up to \$500,000 are just two examples of how owning a home provides real financial rewards.

Yet, the true benefit these financial dividends offer isn't a bigger number on your bank statement. It's the improved quality of life the additional money can provide. Whether that means having more to spend on necessities like food, utilities or healthcare or being fortunate enough to afford a new car, a vacation or a college education for your kids.

How many of us would evaluate our mutual funds, stocks and other investments on their ability to provide personal, social and emotional rewards? Then why judge the value of homeownership solely on investment potential? Remember, in addition to being a smart long-term financial decision, owning a home also pays big emotional dividends.

NEWS

Mergers, Acquisitions and Affiliations

Gloria Nilson GMAC Real Estate, one of New Jersey's largest and best-known real estate firms with 16 offices and more than 700 sales associates, has been purchased by SCS Realty Investment Group LLC, a firm led by 40-year real estate veteran Dick Schlott. As part of the agreement, Gloria Nilson GMAC Real Estate will continue to operate under that name and will become a franchisee of GMAC Real Estate, owned by Brookfield Residential Property Services. The Schlott-led Gloria Nilson GMAC Real Estate firm will now be one of the largest GMAC Real Estate franchise in the Northeast.

HomeServices of America, Inc., a Berkshire Hathaway affiliate, announced the acquisition of Raleigh-based York Simpson Underwood, a North Carolina residential real estate brokerage firm. York Simpson Underwood has 250 agents throughout six offices in Raleigh, Cary, Chapel Hill and Pinehurst/Southern Pines, North Carolina. The company's volume of closings for 2007 was more than \$717 million. HomeServices will merge York Simpson Underwood with its existing residential real estate firm, Prudential Carolinas Realty. The new, Raleigh-based organization will be called Prudential York Simpson Underwood Realty.

San Francisco-based Wells Fargo & Company closed out 2008 by finalizing its acquisition of the Charlotte-based Wachovia

Corporation in a move analysts say effectively doubles the size of the banking giant. The combined company now has 11,000 stores in 39 states.

CENTURY 21 Judge Fite Company recently merged with Reward Partners, Inc. Real Estate Brokerage located in Colleyville, Tex. Reward Partners, Inc. and its owners, Kevin and Taylor Ward, will merge all operations under the CENTURY 21 Judge Fite Company.

Coldwell Banker Residential Brokerage in Greater Los Angeles announced the acquisition of the assets of Innovative Realtors Inc., a boutique residential real estate brokerage firm based in Marina del Rey, Calif. With this acquisition, Coldwell Banker Residential Brokerage will gain 42 full-time agents, as well as the senior leadership of Steve and Renee Aguilar, who have more than 23 years of combined industry experience and will continue with the company in a sales capacity.

Liz Anderson Fitzgerald has been appointed to the position of vice president for Broker Services for Alterra Real Estate announced CEO and Founder Gary Thomas. Prior to assuming her new position with Alterra Real Estate, Fitzgerald served as vice president, Western Region for Christie's Great Estates. In her new position, Fitzgerald's responsibilities will focus on promoting and growing the Alterra brand.

EDITOR'S NOTE

Kendall, Conaway and Staver to be featured at 2009 REAL Trends Gathering of Eagles, May 6-8, 2009, Four Seasons Resort & Club Dallas at Las Colinas

The 2009 REAL Trends Gathering of Eagles Conference will be different than any we have done before. In our first twenty years, we had several general sessions and many individual breakout sessions. Based on reactions from last year's conference we are moving to have more and longer general sessions to allow guests to dig deeper in the material that is being presented and be able to share the common experience with others.

This year, the focus will be on new brokerage models that have already proven to work well in these kinds of markets. CEO's from these firms will present on their firms and how the functions of a brokerage can work better, faster, less

expensively and more efficiently. Along those same lines we will have leaders of businesses that supply services, technology and tools to brokerage firms describe how they are redesigning their offerings to fit the changed realities of the industry.

Third, we will have three of the most powerful presenters with us for the first time ever all at the same conference. Larry Kendall, a founder of The Group, Inc. and Ninja Selling, Jeremy Conaway of RECON Intelligence Services and a pioneer in new brokerage models and Mike Staver of The Staver Group, a speaker who touches one's soul with a message of hope and transformation will all be with us.

In short, the 2009 REAL Trends Gathering of Eagles will have answers as to how to get there, who is there to help, and how to keep yourself going in these hugely interesting times.

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For your convenience, a registration brochure is enclosed with this newsletter. For additional information please contact REAL Trends at 303.741.1000 or visit our Web site at www.realtrends.com.

