

2006 Real Estate Forecast

An Inman News Special Report



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Part 1: A look at best-case/ worst-case scenarios next year

Most people are expecting the housing market in 2006 to calm considerably from the frenzy of 2005, which saw investors and everyday homeowners buying and selling houses like day traders in the stock market.

Even if a cooling market doesn't mean a total bust will occur, it's a good idea to take a look at what's ahead and prepare for it.

This is the first part of two newsletter issues that will focus on the housing forecast for 2006. We asked economists, analysts and industry professionals to share their views on what's in store next year. And since no one can predict the real estate market for sure, we asked them to paint a few possible scenarios.

In Part 1, "[Best-case scenario for housing next year](#)," we asked experts what it would take next year to create the best market the industry could imagine. In 2005, the housing industry once again surpassed most people's original expectations. Though no one is expecting another record year in '06, what's it going to take to keep this housing industry strong?

In Part 2, "[Worst-case scenario for housing next year](#)," we took the opposite approach and asked industry experts to describe the worst possible combination of events that could happen and how we could prepare for that. Learn what the industry should watch out for on this front.

In Part 3, "[10 people to watch in 2006](#)," we unveiled our top picks for real estate influencers next year. Learn who's on the radar for headline news in '06 and who will have an impact on your business.

In Part 4, "[Realtor forecast for 2006](#)," we reveal the on-the-ground forecasts from Inman News readers. Industry pros give their take on what's to come in their markets.

Best-case scenario for housing next year

Part 1: 2006 real estate forecast

Monday, December 12, 2005

By Janis Mara
[Inman News](#)

"Moderation in all things." -- Aristotle

As John and Jane Doe Home Buyer enter the year 2006, driving their Ford Focus down Main Street, they see a moderate number of townspeople buying lunch boxes and new work clothes, signifying modest job growth. As they pass a local bank, the automated ticker display registers interest rates at 6 percent. Best of all, flyers in the window of the local real estate brokerage show house prices reflecting modest appreciation.

At least, that's the best-case scenario for 2006 predicted by experts consulted by *Inman News*. Not only that, many of them said they believed this scenario was likely.



Mark Dotzour, Texas A&M University

"A situation where the U.S. economy continues the modest job growth it has produced over the last year is the best-case scenario," said Mark Dotzour, chief economist at Texas A&M University's Real Estate Center.

"Modest job growth creates underlying demand for housing and very little threat in the way of inflation," the economist said. "That's what keeps interest rates at low levels like the ones we've enjoyed for the last five years. If we have moderate job growth resulting in low inflation and in turn a low mortgage interest rate environment, the U.S. will have another successful year."

The best thing that could happen in 2006? Continuation of low interest rates, according to Mike Sklarz, chief valuation officer for Fidelity National Financial. Also, a recovering economy, "which we seem to be in the midst of in a number of sectors," and a rebound in consumer confidence, Sklarz said.

"My guess is that prices will keep going up but at a slower rate," Sklarz said. "Some markets showed double-digit rates of appreciation this year. The more likely appreciation rate is in the single digits in 2006."

David Lereah, chief economist of the National Association of Realtors, also believes there will be "modest cooling."

"The market will be coming off of a five-year boom and experience a soft landing next year," Lereah said in a 2006 forecast released in late October.

"An uptrend in mortgage interest rates will cause some slowing of the sales pace, but we forecast 2006 to be the second-highest year on record and housing will continue to support the overall economy," Lereah said.

Lereah predicts that the national median existing-home price for all housing types, after jumping about 12.4 percent to \$208,100 for all of this year, will grow by 5.3 percent in 2006 to \$219,200.



James Barth,
Auburn
University

Historically, home prices grow 1 to 2 percentage points faster than the rate of inflation. The Consumer Price Index is likely to rise 3.4 percent this year, and then ease to an increase of 2.7 percent in 2006.

James Barth, senior fellow at the Milken Institute and finance professor at Auburn University, said, "The best we can hope for is more of what we had," evoking the image of 2005's record-breaking market.

"I don't think there's going to be a housing bust at all," Barth said. "I think there will be a soft landing."

According to Barth, "The best-case scenario would be growth in the economy without inflation worsening," though fast growth could worsen inflation and perhaps trigger further increases in interest rates and adversely affect housing.

"In my opinion, the best case would be a mild softening of sales prices and a slight increase in inventory levels," said Steve Ozonian, CEO of Global Mobility and industry veteran. "We're absolutely going to see inventories rise a little bit. We're going to see prices stabilize, but if interest rates stay at the current level, they're still historically attractive.

"As long as employment is on the upswing and interest rates stay at an affordable level, there's no reason to believe the market won't continue to flow very nicely," Ozonian opined.



Steve
Ozonian,
Global
Mobility

Joining the chorus of moderates, Christopher Cagan, director of research and analytics at First American Real Estate Solutions, said, "The best scenario would be to go back to a healthy, normal, sustainable market going up 6 percent, 8 percent (home prices), with mortgage interest rates remaining where they are or perhaps a little higher."

Predicting a 5 percent growth in house prices nationwide, Cagan said, "I wouldn't mind if California slowed down (in price appreciation). That would be good for California," referring to the state's hot – indeed, according to some, overheated – market.

"California, Florida, Las Vegas have their cycles," Cagan said, referring to the fact that all three have experienced record activity in recent years. "Any market where prices have doubled in five years can have a correction. I don't think it will be a terrible one. It will not impact the overall market dynamic."

While the demand for houses in Florida and California will remain strong, price appreciation will slow in those areas, said James Wright, president/principal broker of Century 21 All Islands in Honolulu. "California is experiencing more inventory on the market and the price point will follow."

Perhaps the most starry-eyed – or, rather, sunny-eyed – optimist of the group was Wright.

Though prices went up 30 percent in the last two years, Wright is positive that double-digit appreciation will continue in his market in 2006 – indeed, for a number of years to come.

"The baby boomers are out there, they've had a lot of good years of earnings, they've inherited wealth," Wright said. "They are buying trophy homes and will be for years. We are one of those places people dream of. They come here to buy a piece of that dream."

Worst-case scenario for housing next year

Part 2: 2006 real estate forecast

Monday, December 12, 2005

By Janis Mara
[Inman News](#)

The scene opens on a devastated landscape, with the voices of a thousand wannabe homeowners crying out in pain. Congress has enacted limitations on mortgage-interest deductions; interest rates have hit 8 percent; creative loan products have been curtailed; investors have fled to the stock market and first-time buyers can't afford a house.



Mike Sklarz,
Fidelity
National
Financial

At least, that's the worst-case scenario for 2006, according to various possibilities suggested by experts and industry observers consulted by *Inman News*.

Though different folks painted the future with different strokes, one theme was consistent: interest rates will be the most important factor affecting the industry in 2006. And, though the sign of the beast is 666 in the Bible, the bad-luck number for mortgage interest rates is 8 percent, a number of experts said.

"If the (long-term) interest rate went over 8 percent it would impact the market," said James Wright, president/principal broker of Century 21 All Islands in Honolulu.

"You tick the price up and make the monthly payment another \$300, \$400, and people who were marginal to begin with will be priced right out. The pool you'll hurt the worst will be the first-time buyers," Wright said.

A real estate analyst also evoked the 8 percent figure.

"At 6 and 7 percent we still see upward movement or, at worst, sideways-moving price projections," said Michael Sklarz, chief valuation officer for Fidelity National Financial. "But at 8 percent, some markets have prices falling."

Christopher Cagan, director of research and analytics at First American Real Estate Solutions, agreed with Sklarz. "Prices would start to decline. But I don't expect that to happen."



Chris Cagan, First American Real Estate Solutions

Indeed, not one member of the group expected interest rates to jump to 8 percent. Generally, the pundits expected rates to remain historically low in 2006, going no higher than 6 or 7 percent at most.

Exotic loan products such as interest-only loans also figured prominently in many experts' worst-case scenarios. Some were worried about whether individual homeowners could handle the loans; others focused on investors.

"People with adjustable-rate mortgages, as long as their mortgage payment doesn't go up too fast, they will probably do everything they can to hold on to their house," said Delores Conway, director of the Casden Forecast at the University of Southern California Lusk Center for Real Estate.

"But if you have a speculator who took out an interest-only loan, planning to flip the property for profit in a short time, and the prices go down, they might just walk away from it," said Conway.

"There's a lot of homes and condos being built around the United States," said Mark Dotzour, chief economist at Texas A&M University's Real Estate Center. "The danger is that a large percentage of that demand is from speculators and investors. Those people can decide to start investing in Wall Street again, and demand can vaporize.

"In a town where demand from them is between 20 and 40 percent, you could end up with a massive amount of overbuilding," Dotzour said. That could leave builders in a bad position, the economist said.

"Subprime loans to individuals with impaired credit histories opened up the market to help them afford homes, but at the same time if interest rates rise and their mortgage payments go up faster than their incomes, they will encounter difficulties," said James Barth, senior fellow at the Milken Institute and finance professor at Auburn University.



Mark Dotzour, Texas A&M University

One industry veteran predicted that exotic loans would be curtailed in 2006.

"The secondary market is tired of creative financing products and is starting to price against them," said Pat Stone, vice chairman for Metrocities Mortgage, based in Southern California.

Another worst-case possibility for 2006: tampering with the mortgage-interest deduction, Wright said.

Wright was referring to the fact that the President's Advisory Panel on Federal Tax Reform presented a plan to President Bush on Nov. 1, calling for replacing the mortgage-interest deduction with a more limited 15 percent tax credit, among other things.

The proposed change isn't seen as a serious threat by many, thanks at least in part to the [spirited defense](#) mounted against it by entities including the National Association of Realtors and the National Association of Home Builders.

During the final months of 2006, as inventory grew and some parts of the country witnessed a slowdown, the question on everyone's mind was, *What about house-price appreciation? Are the days of mind-boggling price jumps over?*

"The worst case scenario for home prices would be what everyone is screaming about – the so-called bubble would pop," said Cagan. "I don't think we're in a bubble, though." Cagan predicted a healthy normal market going up about 6-8 percent.

Folks used to the double-digit price growth seen in parts of states such as Florida, California and Nevada might see the experts' home-price growth predictions as a worst-case scenario. "I would think price appreciation will be in the lower single digits in the United States in 2006," said Sklarz. Industry veteran Steve Ozonian, CEO of Global Mobility, pegged home price growth at 5 to 7 percent.

Most of the experts said the moderating of house prices was a good sign, "a correction, not a catastrophe," as Cagan put it. Even the overheated markets in Florida, California and Nevada aren't in for a rude surprise, according to the experts, just a softening.

"The market is going to slow down," said Stone. "Ten to 30 percent fewer homes will be sold. The best case is 10 percent fewer; the worst case is 30 percent fewer."

10 people to watch in 2006

Opinion: Real estate movers leading industry change

Tuesday, December 13, 2005

[Inman News](#)

The Inman News editorial team is keeping an eye on 10 people we expect to shake up the real estate industry next year. Here are our candidates for people to watch in 2006:

1. **Justin McCarthy, head of local sales, Google.** Google refers more traffic to real estate Web sites than all other search engines combined, not a surprising fact given the search site's increasing ubiquity. As head of local sales for Google, McCarthy's decisions impact real estate advertisers. McCarthy said in late July that the search-engine giant is seeing much more traditional full-service brokerages engaged in online marketing compared to last year. When Google first started offering pay-per-click advertising, "we didn't see big brokerage brands," McCarthy said. "We're seeing that now though."



Dottie Herman,
Prudential Douglas
Elliman

2. **Dottie Herman, CEO, Prudential Douglas Elliman.** Starting as a financial planner and part-time sales broker, Dorothy "Dottie" Herman today owns and directs a real estate empire that last year generated \$200 million in revenues, and \$6.5 billion in sales volume. With more than 56 offices stretching from Manhattan to Montauk, Prudential Douglas Elliman is recognized as one of the fastest-growing full-service residential real estate companies in the United States.

3. **Craig W. Conrath, counsel, U.S. Justice Department.** Conrath will serve as lead counsel for the DOJ in its civil antitrust lawsuit against the National Association of Realtors. The suit, filed in September and amended in October, claims the trade group restrains competition through its policies for online property listings display. NAR filed a motion to dismiss the case in early December and the DOJ has 60 days to respond.

4. Jack R. Bierig, Sidley Austin Brown & Wood LLP. As lead counsel for NAR in the case against the Justice Department, Bierig will defend the real estate trade group's policies, which antitrust officials claim restrain trade. NAR's inside counsel has said the association is prepared to defend its actions in court, if necessary.

5. Real estate bloggers: Alexis Palmer, operator, Curbed.com; "Anonymous," Brownstoner.com; Jake Dobkins, publisher, Gothamist.com. In a fast-changing industry, these bloggers show a new way of thinking about real estate in the media. They've opened the gates from the old days of industry insiders writing a column for the Sunday newspaper real estate section to a person-on-the-street's view of homes and living.

6. Pam Liebman, president and CEO, The Corcoran Group. Liebman oversees the day-to-day operations of one of New York City's top residential real estate empires. The company boasts more than \$8 billion in sales annually and includes more than 2,100 employees.

7. Ben Bernanke, incoming Federal Reserve Board Chairman. Bernanke will have tough shoes to fill when Alan Greenspan officially leaves the Fed Chief post in January. Most everyone expects he'll do just fine, while continuing the Fed's same stance on monetary policy and keeping the system transparent. With the real estate industry watching interest rates closely, Bernanke is definitely one to watch in 2006.

8. Matthew Haines, Ryan Slack, PropertyShark. The company tends a powerhouse real estate information Web site that now has about 100,000 registered users and boasts one of the most expansive collections of free online real estate data for the New York City area. Slack said a real estate professional once told him that research at PropertyShark.com netted him hundreds of thousands of dollars on a single real estate deal. With people's increasingly insatiable appetite for real estate information, this company's user base is sure to grow in 2006.

9. Dale Stinton, CEO, National Association of Realtors. A changing real estate market, a major civil lawsuit with the U.S. Justice Department and tax reform proposals that threaten to slash the mortgage-interest tax deduction are just a few of the big issues on Stinton's plate going into 2006. Stinton's first year overseeing the powerful trade group likely will not be a quiet one.



Dale Stinton, NAR

10. Richard Barton, CEO, Zillow. This Seattle company hasn't even opened for business yet and everyone in the real estate industry already knows who they are. Barton, his partner Lloyd Frink and their team single-handedly changed the travel industry with the creation of Expedia in the late '90s, and everyone is watching to see how their online real estate venture shapes up.

Realtor forecast for 2006

Word on the street: Mortgage interest deduction tops list of worries

Tuesday, December 13, 2005

By Janis Mara
[Inman News](#)

Inman News asked industry professionals from around the nation to give us their own market forecasts for 2006. Here's a sampling of what they had to say.



Jeni Temen
Realtor
Dickson Realty
Reno, Nev.

1. What do you expect in your market next year?

I think it's going to be good. We have a special deal in our area – Californians are moving here. The market is leveling a little bit, but not going down.

2. What are you worried about?

Nothing to be worried about yet.

3. What are you excited about?

The area is still growing unbelievably.

4. What is the worst-case scenario for next year?

Prices will continue to go up the way they have been, with double-digit increases. If that happens, ordinary people won't be able to buy a home. Incomes have not increased enough.

5. What is the best-case scenario for next year?

For things to continue the way they are, leveling off.



Rich Draheim
Realtor
USA 4% Realty
Mankato, Minn.

1. What do you expect in your market next year?

It's going to be downward. It's going to be a buyer's market. They have been overbuilding in my area. Prices were stable in 2005, but I expect a 2 percent to 3 percent drop in 2006.

2. What are you worried about?

Actually, I'm not worried.

3. What are you excited about?

Not so much excited, but confident. Interest rates will go up, but not much – they'll still remain under 7 percent. The new head of the Federal Reserve, Ben Bernanke, will keep them down.



Katie Wyatt
Realtor
Keller Williams
Wichita, Kan.

1. What do you expect in your market next year?

It's strong and getting stronger all the time. I expect steady growth in house prices in 2006. House prices are reasonable here - \$150,000 for a brand-new home.

2. What are you worried about?

The mortgage interest deduction.

3. What are you excited about?

Being a Realtor! I've only been in the profession for six months and I have sold 11 homes in the last three months.

4. What is the worst-case scenario for next year?

The mortgage interest deduction is taken away or changed.

5. What is the best-case scenario for next year?

The market continues to get stronger.



Ann Mann
Realtor
RE/MAX Elite
Brentwood, Tenn.

1. What do you expect in your market next year?

Prices were up in Nashville about 10 percent in 2005. I expect this to continue in 2006. Nashville is growing; the population is exploding.

2. What are you worried about?

I'm not really worried about anything, though I'm concerned about the mortgage interest deduction.

3. What are you excited about?

This year, 2005, was my best year ever, and I've been a Realtor for 15 years. Investment groups from California are buying houses from me sight unseen because the prices are so reasonable compared to California.

4. What is the worst-case scenario for next year?

If interest rates went up, that would not be good.

5. What is the best-case scenario for next year?

For things to stay the same, perhaps even more growth.

Paul Shahan
Executive officer
Northwest Mississippi Association of Realtors
Nesbit, Miss.

1. What do you expect in your market next year?

There was a tremendous amount of residential development going on in our area before Hurricane Katrina hit. A lot of people are moving out of Memphis, Tenn., to our area. It was the fastest-growing market in Mississippi before the hurricane. It's the typical pattern of people leaving large cities and looking for affordable housing.

We expect the market to be hot well into next year.

2. What are you worried about?

No worries.

3. What are you excited about?

The Northwest Mississippi Association of Realtors is growing at the rate of one member a day. We're up to 170 members now.

4. What is the worst-case scenario for next year?

I'm not sure there is one. We are very protected against declining house prices because of all the people moving to our area, and now with new evacuees needing homes, that will insulate us even more.

5. What is the best-case scenario for next year?

We'll continue at our current growth rate.

Greg Mathers
West County manager, business development
Alliance Title
Richmond, Calif.

1. What do you expect in your market next year?

It will be a buyer's market. It has already switched to a buyer's market. But the market is not bad.

2. What are you worried about?

The interest rate skyrockets, the market slows and we don't close deals.

3. What are you excited about?

I just opened up a new title office.

4. What is the worst-case scenario for next year?

The bubble will burst. Greenspan still has a couple more opportunities to gouge us and raise interest rates.

5. What is the best-case scenario for next year?

The market will continue as it has been. I would like to see the prices not continue to go up because that devalues the buyer's dollar. It's killing us, crushing our market now.

Part 2: Gearing up for housing market shift

The prevailing forecast among industry economists has been a gradually slowing housing market in 2006, and some brokerage company executives have said this is a good time to focus on growth and technology.

Online lead systems, back-office management platforms, Web-based transaction systems and interactive mapping systems are a few things some real estate brokerages are eyeing for next year.

In this forecast newsletter edition, we look at what brokerage company executives are expecting in the year to come and also give our own predictions. This is the last of our two-part newsletter on the 2006 real estate forecast.

In Part 1, "[What's on the real estate tech horizon next year?](#)" brokerage company executives talk about the hot real estate technology trends next year. Many pointed to lead management and transaction management systems as being at the top of the menu for a lot of brokers.

In Part 2, "[Opportunity grows in slowing real estate market,](#)" we spoke with executives from a few major real estate brokerage companies about what they are expecting in the market next year. Many of them pointed to a shifting market as the prime time for larger companies to get larger, while many smaller and mid-size companies may decide to sell.

In Part 3, "[What will happen in 2006,](#)" we reveal Inman News' real estate predictions for the coming year. We give our two cents on what will happen with former Homestore executives scheduled to begin trial, as well as happenings with online real estate and mortgage interest rates.

What's on the real estate tech horizon next year?

Mapping, lead management are key focus areas, executives say

Monday, December 19, 2005

By Glenn Roberts Jr.
[Inman News](#)

Consumer-centric multimedia technology will be a hot commodity for the real estate industry in 2006, say several brokerage company executives, and industry participants also have their sights set on improved lead management systems.

Improving the consumer experience through technology enhancements will be a continuing focus at [GMAC Real Estate](#) in the year ahead, said Lane Barnett, CEO for the company's Real Estate Franchise business unit. "What we're really trying to do is create an online experience similar to an offline experience," he said, and the company is looking at ways to improve lead management and transaction management that will benefit consumers.



Lane Barnett,
GMAC Real Estate

"We've proven that we can generate leads to our Web sites. The real challenge this industry has right now is what to do with those leads," Barnett said, and it will likely take a mix of training and technology to improve the management of those leads.

Robust Web-based transaction management systems, he said, are also vital to the company's strategy in offering a full range of real estate-related services to consumers, adding that this seamless offering of numerous services will likely become especially important as the market softens.

The appropriate gauge for new technology investments, Barnett said, is whether consumers will directly benefit. "Some technology that is brought to the table we think can be a distraction. Where it's not serving the customer we get a little skeptical."

Technology can be a double-edged sword if it detracts from an agent's relationship with a consumer, and agents should not lose touch with consumers when they adopt new tools, said Brent Bonine, executive director of sales and marketing for [Buffini & Co.](#), a coaching company for real estate professionals.

"If the technology will help you improve your relationship with the client, then it should be considered. We have found that many agents today are looking for technology to do the work for them. The Internet and PDAs won't build relationships with clients. People still do business with people that they know and trust. The only way to establish that trust is to spend time with the clients they serve," Bonine said.

Officials at Ohio-based [Real Living](#) said this week that lead generation and management will be an important part of the company's strategy in 2006, adding that the company is building "new interactive consumer programs" that will work in collaboration with tech tools available to the company's agents. "It is part of our concept that allows our agents to work smarter, not harder," officials said, and the company's technology effort is intended to enable a more seamless consumer experience.

Bob Moles, chairman of [Intero Real Estate Services](#), a brokerage company based in Cupertino, Calif., said the "most enlightened brokerage firms" are shifting money toward online lead-

generation opportunities while curbing their spend on print-based ads. Lead generation and management systems will be a hot tech item for the real estate industry in 2006, he said. Intero has built a tech-savvy culture, he said, and the company has sought to keep the company on the cutting edge with streamlined access to MLS data and mapping tools, for instance, he said.

Real estate transaction management systems will continue to evolve in 2006 but are in "a problematic stage," he said. "Right now there is no universal software in transaction management that I've seen that is answering all of the agents' needs."

Also, Moles said, there remains room for improvement in the existing MLS system, which can be cumbersome for agents to navigate when there are many competing MLSs in the same market area. "There are still about 800 MLSs (across the country). I don't think we need 800. I don't know if we need 50 or we need 100 -- logic would dictate there are more efficient ways to do that." He said he expects a "march toward consolidation" to continue among MLSs.



J. Lennox Scott,
John L. Scott Real
Estate

Multimedia technology -- namely mapping and video -- is revolutionizing real estate listings, said J. Lennox Scott, chairman and CEO for [John L. Scott Real Estate](#), a brokerage company based in Washington state. "The future of real estate technology is all video communication. With the recent advancement in handheld devices, cell phones, PDAs and iPods, it's apparent that this is the direction technology is headed," he said.

"Our focus ... will continue to be on interactive mapping. This highly effective tool is the latest advancement in online real estate technology. It provides consumers with an enhanced experience when searching for a home and has almost endless possibilities for real estate companies."

Mapping technologies for real estate consumers will also be a key priority in 2006 for [HouseValues](#), a company that offers lead generation and management tools and services for real estate professionals. HouseValues this year launched [HomePages](#), a mapping-intensive home-search site for consumers that doubles as a marketing and lead-generation site for real estate agents. Real estate-related mapping technologies should continue to evolve and combine new sets of data, said Matt Heinz, senior director of marketing for HouseValues.

Consumers, he said, are "demanding personalization, demanding relevance, demanding local information," adding that the company has sought to keep consumers "in control of the process," while simplifying the steps it takes to find information they are looking for.

Over the next few years, there will certainly be a thrust to put interactive mapping technology in the hands of consumers, literally, using wireless technology and portable devices, Heinz also said. "That level of mobility for consumers and agents as well will be very powerful."

[A la mode](#), a real estate technology company, also believes there will be a push toward more multimedia content for property listings in 2006, said Rusty Lindquist, the company's vice president of agent products. Agents using a la mode products can already upload video and audio podcasts to their Web sites for consumers and other agents to download, for example, he said, and these sorts of technologies can give agents a leg up in a slowing market, even over agents with more experience.

"Multimedia is one aspect that I really think will gain momentum. Another one is the movement toward a digital transaction. I think there will begin to be a tipping point (in 2006) where we see parts of the transaction," even if the fully paperless transaction is still a rarity, Lindquist said.

Because the launch and adoption of new technologies is sometimes more piecemeal than universal, Lindquist said he also expects to see new technologies emerge that offer a more comprehensive solution to technology-enabled real estate systems. "I think brokers are going to drive this movement of standardization and consolidation," he said.

Lindquist said he expects agent Web sites to increasingly become digital docking points for all activity related to real estate transactions. "I think the agent's Web site will really begin to be a hub of agent business, and it hasn't been. A listing will be much more than a listing. It will be a rich, multimedia engaging experience," he said. Homeowners will be able to interact with agents and check the status of their real estate transactions through the agent's site, for example, he said.

Opportunity grows in slowing real estate market

Big brokerages may benefit as smaller companies sink or sell

Monday, December 19, 2005

By Glenn Roberts Jr.

[Inman News](#)



Bob Moles, Intero Real Estate Services

Big real estate companies may look to get bigger in 2006, while powerful demographic trends should buoy the real estate market despite softening, say executives at some major real estate brokerage companies.

"I think we're going to have a good real estate market -- on the heels of a great real estate market," said Bob Moles, chairman of [Intero Real Estate Services](#), a brokerage company based in Cupertino, Calif. Rising interest rates will affect the real estate market, he said, though baby boomers, immigration, women-run households and the second-home market should continue to drive the strength of real estate in the coming year.

Demographic trends in California and the Western United States "will bode extremely well for real estate," he said. Even so, it will be hard to match the market's booming performance of the past several years, he said. "It's tough to always have a better year than the last year. We will anticipate a slight softening, primarily related to higher interest rates."

The prevailing forecast among industry economists, too, has been a gradually slowing market in 2006 that is still strong by historical standards, with the caveat that some local real estate markets may be particularly over-heated and are due for a more substantial correction.

[GMAC Real Estate](#), a national real estate brokerage company with 22,000 sales associates in 1,300 franchised and company-owned offices in the United States and Canada, sees opportunity for expansion as the softening market drives out some competitors.

"There's going to be a lot of companies that go out of business in the next year or two or three," said Lane Barnett, CEO for the company's Real Estate Franchise Business Unit. During a

booming market, there are fewer opportunities to grow franchises, Barnett said, so a slowing market can be a good thing for franchise expansion.

Mid-size companies may find themselves at a particular loss as the market shifts, he said. "For a large franchise company like us, that's an opportunity." The company and its offices will continue to look for acquisitions and other expansion in 2006, he said. "It has started already. We're concluding a record year for growth," with a "very strong pipeline in 2006."

Barnett said Florida has been a particularly fast-growing market for GMAC Real Estate, and the company's presence in that state grew from 35 offices in 2002 to more than 100 offices this year.



Lane Barnett,
GMAC Real Estate

Like Moles, Barnett said he is very encouraged by demographic trends and he expects that the second-home market will continue to be robust in 2006. He said he expects second-home sales to continue to thrive in parts of Florida, South Carolina, and Arizona. "I think those markets are going to be very, very strong for a lot of time. There is lots of opportunity." Wealthy baby boomers are driving this trend, he said, as they look to buy homes in popular retirement areas or return to their hometowns from other parts of the country.

The overall housing market and economy should continue to be strong in 2006, Barnett said, even as interest rates continue to creep up. But some overheated markets will certainly cool, he said. "We fully expect there is going to be regional softness. Markets that have had the wind behind their backs (will) normalize. We think that's healthy, really." Markets in Arizona, Nevada, California and Boston, which have been bolstered by "tremendous run-ups in price," may be particularly susceptible to this slowing, he said.

As this softening occurs, it's important for real estate companies to diversify their service offerings and to concentrate on training and customer service, he said, adding that there may be an unsustainably high number of real estate agents who flooded the industry during the prolonged boom.

[Real Living](#), an Ohio-based company with about 5,000 sales associates and 110 offices, is forecasting "huge growth" in its real estate network for the coming year. "It will be a great time for companies to partner with a larger firm," Real Living officials said in a statement.

J. Lennox Scott, chairman and CEO at [John L. Scott Real Estate](#), a 130-office brokerage company based in Washington state, said the national real estate market will likely slow slightly in 2006, but will still be strong by historical standards.

"Continued job growth, improved consumer confidence, and population growth will help to counter higher rates, resulting in a successful market overall," Scott said, even as interest rates are forecast to rise to 6.6 percent in 2006. "In the Seattle area, the mortgage service cost-to-income ratio is in balance, which also indicates that our local market will continue to be strong."

There is no "real estate bubble" in store for the industry in 2006, said Brent Bonine, executive director of sales and marketing for [Buffini & Co.](#), a coaching company for real estate professionals. "However, we do see a 'real estate agent bubble.' The increase in licensed agents has outpaced the number of units sold for the past few years," he said.

A rapid pace in real estate sales and price-appreciation that has sustained agents during the real estate boom, Bonine said, but that equation is changing. "As the pace of deals slows and prices settle to normal, agents with low production will be squeezed out of the market," he said.

There is a graying population of real estate agents who are looking to reduce their workload or retire, and Bonine said he expects a stream of experienced and low-producing agents to leave the business as the market settles down. In this fallout is an opportunity, he added.

"Real estate agents who can articulate their value to their clients and who serve their clients will see an increase in market share as the consumer begins to demand more from their agents," he said, and perhaps real estate commission rates will reverse the slide of the past several years. "Commission pressures will ease as consumers recognize the difference between a professional who is equipped to serve them and an inexperienced agent who cannot move their property."

What will happen in 2006

Perspective: Inman News real estate predictions

Monday, December 19, 2005

[Inman News](#)

Each year, the *Inman News* team puts together a list of predictions for the coming year in real estate. Here are 10 things we think will happen in 2006:

1. Google's new Base service, which enables people to upload content to the Web – similar to a self-serve classifieds listings service – will be a big hit and completely rearrange the online listings and lead generation landscape for real estate, marketing and media companies.
2. A cooler housing market will shake tens of thousands of real estate agents out of the business. Many of those agents will move onto the next big thing: operating a retail business on eBay. Others will become full-time bloggers, using Google AdSense skills they picked up in the real estate business to make money from their daily musings.
3. The U.S. Justice Department's case against the National Association of Realtors will reach a stalemate, pending another industry-wide lawsuit over the copyright of property listings data.
4. A few major real estate brokerage companies will pull their property listings from the traditional multiple listing service and create their own private MLS, fully equipped to capture and manage online consumer inquiries.
5. A handful of major traditional brokerage companies will open alternative, discount channels in addition to their full-service options to diversify their business and capture the whole gamut of consumers in a changing market.



6. Former Homestore executives Stuart Wolff and Peter Tafeen will settle criminal and civil lawsuits accusing them of misleading investors and causing Homestore's financial nosedive about five years ago. The two will come out of the scandal virtually unscathed.

7. *Inman News* Publisher Bradley Inman will launch another company, this time focusing on cyber-dating within the real estate community. He will also launch a documentary film series, "Life and Times of Real Estate Rogues."

8. Interest rates will steadily climb, but remain low enough that a wave of homeowners with aging adjustable-rate mortgages will refinance into long-term fixed-rate mortgages, creating another boom for the mortgage and title industries.

9. Wal-Mart will open an online home-ordering business, much like Sears' catalog homes of the early 1900s.

10. A large existing online company will enter real estate by creating a consumer-direct portal where people can research all things real estate, read the latest headlines, browse available homes, download legal forms and chat with peers.

Inman Stories Videos: 2006 Housing Outlook

In, "[Bill Malkasian: 2006 Housing Outlook](#)," we caught up with Bill Malkasian, president of the Wisconsin Realtors Association, to get his take on what's happening in his Midwest markets and what's in store for housing next year.

In, "[Bill Yeager: 2006 Housing Outlook](#)," we spoke with Bill Yeager, regional vice president of RealEstate.com's California region, to see what he's hearing about next year's markets and what brokers and agents can do to capture more online business in '06.

In, "[Bill Powers: 2006 Housing Outlook](#)," we caught up with Bill Powers, CEO of Realty Executives International, to get his take on what's happening in his company's markets and what's to come. Powers lends some advice for agents looking to keep their business strong during a slow market.

In, "[Andrew Taylor: 2006 Housing Outlook](#)," the general manager of RealEstate.com's broker network lends some insight about online consumer behavior and things agents can do to make sure they're using the Web to the fullest potential for their business.