rethink
the future of real estate

SCENARIO REPORT 2012

May 11, 2012

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Rethink the Future of Real Estate

SCENARIOS ON THE FUTURE OF REAL ESTATE

Why Scenario Planning?

Planning in an uncertain time

Given the dynamic industry context we have chosen a scenario-based approach to strategic planning. Over the last 40 years, scenario planning has emerged as a leading strategic tool: a proven way to make flexible long-term plans and manage future uncertainties.

Scenario planning helps us both adapt to future changes and proactively shape the future we want. It is also a critical tool to improve our decisions in the present, because this process expands our perspective, identifies new opportunities, and can overcome our collective and individual blind spots— especially to key game-changers, which often challenge our assumptions and beliefs.

It is important to remember that scenarios are not predictions. Rather, they are alternative stories of the future; they depict how current events and trends could play out over time. Good scenarios include both the expected and unexpected, as well conventional and unconventional thinking. In order for them to be useful, scenarios must be plausible, relevant and challenging; they also need to diverge enough to cover the range of possible futures that we may have to live in.

Just the beginning

This is just the beginning of a two-year process. The first step will be to use these scenarios to dialogue and engage with many people within and outside of the industry in an important strategic conversation about the future. We will also use these scenarios to gather your strategic insights as critical inputs into NAR's future strategy, which will be formulated in 2013. These may include specific strategic options and actions for the NAR to consider, but also deeper insights about who we want to be as a trade association. In the end, we hope to develop a shared vision and actionable strategy about the future we want to create for ourselves, for the industry, and for American society as whole.

How these scenarios were developed

These scenarios are the result of a cumulative and collaborative effort. Building off of the "first generation" scenario work in 2011, the NAR Strategic Planning Committee pushed this thinking further and developed a range of plausible futures of the real estate industry. This work was facilitated by scenario-planning experts and Adaptive Edge and supported by a NAR core team led by Elizabeth Mendendall, Strategic Planning Committee Chair and Shannon King, Vice chair. Additional inputs included more than 20 expert interviews with thought leaders from inside and outside the industry and research from NAR staff.

Guide to Reading the Scenarios

"The test of good scenarios is not whether they accurately predict the future, but rather that they help organizations adapt and learn."
–Peter Schwartz, The Art of the Long View (1994)

"It's better to be imprecisely right about the future than precisely wrong."
– Kevin Kelly, founding editor of Wired Magazine.

When reading scenarios, keep in mind the following:

Industry, not NAR focus. The scenarios represent alternative future business environments. By thinking more broadly, we can improve the level of our strategic thinking and engage people within and outside the industry. Having said that, given the large role that the NAR plays in shaping the industry, in some scenarios we have broken this rule by either directly or indirectly mentioning associations.

Possibilities not probabilities. The scenarios are not designed to predict the future but rather to open our thinking to new strategic possibilities at multiple levels—for the industry, for the NAR, and for individual leaders. Resist thinking about the most probable scenario, since most game-changers start out as improbable or hard to imagine (e.g. the Arab Spring, the Internet, etc.). Instead, ask: what strategic questions does this scenario raise? What can we learn from it?

Simplifying a complex landscape. While we could have explored a large number of futures, these particular scenarios were selected because they help rehearse the most important strategic opportunities, challenges, and "what ifs?" facing the NAR and the industry as whole. These include stories we are telling ourselves about possible futures, and they include more novel or uncomfortable stories about emerging realities that we may be missing or not talking about yet.

Skim or go deeper. To make this accessible, the reader can glance at the summary section or go deeper by reading the longer narratives online (rethinkfuture.com), which include many additional details and supporting resources.

Tool for strategic thinking. Lastly, we hope these scenarios are valuable to individual agents and leaders in their own strategic planning process.

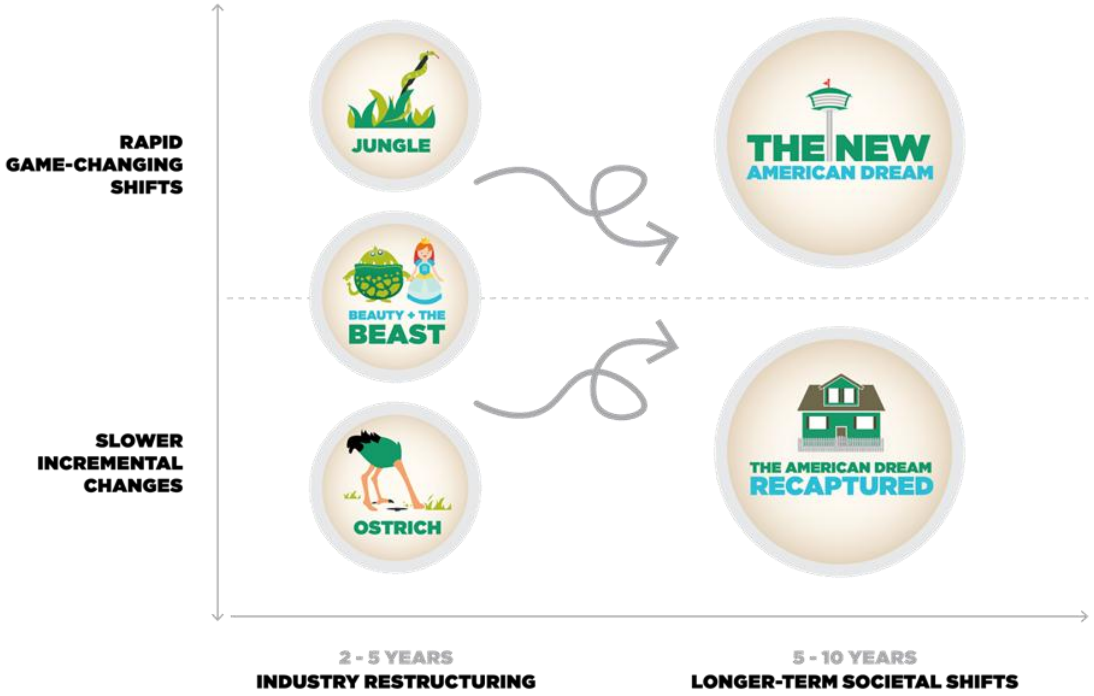
Focal Question

To anchor our exploration of the future, we have created a focal question about the future of the industry, with three different audiences or levels— from the consumer, agents, and industry players, to the NAR and associations. Each of our scenarios illuminates this question in different ways so we can anticipate a range of future possibilities.

The Scenario Framework

Our five scenarios were organized using a framework, structured in two broad dimensions.

1. **Horizontal dimension.** This segments the scenarios into two time horizons each with different emphases, specifically:
    - 5-year scenarios focus on the real estate industry landscape (Left side). Each of these scenarios examines the interplay between technology, shifting consumer demands and behavior, innovation, capital markets, policy, and demographic patterns. We have focused on the real estate industry because it is already restructuring in ways that are both within and outside the NAR's control. Creating the best strategic response to these future realities—starting now—will be critical for the NAR's long-term success.
    - 10-year scenarios focus on deeper societal and economic changes (right-side). These play out long-term shifts as they pertain to home ownership, and therefore the potential role for agents and the NAR in the future.
2. **Vertical dimension.** This focuses on the nature and pace of change, in two ways:
    - Incremental & slower changes (bottom level). The scenarios rehearse the possibility that changes may happen slower than expected within the real estate industry, the NAR, and society as a whole. These are future worlds where changes still do occur because many of them are already underway, but they happen more incrementally, i.e. current trends continued with fewer surprises.
    - Rapid, game-changing shifts (upper level). These scenarios rehearse the possibilities of more rapid game-changers. While all of these are based on current trends, debates, and have compelling evidence to support them, these scenarios are intentionally designed to challenge our conventional wisdom.



Five-Year Scenario 1: “Ostrich”

- *Slower, incremental changes especially at the association level*
- *Driven by institutional inertia, political gridlock, industry fragmentation, and slower pace of housing market recovery*

“Never mistake a clear view for a short distance.”
– Cowboy saying

With lots of hype around technology and empowered consumers, it looked like big changes were ahead for the industry in 2012. And while there were changes, these were much slower than expected over the next five years— especially at the association level—disappointing some and causing a quiet sigh of relief from others.

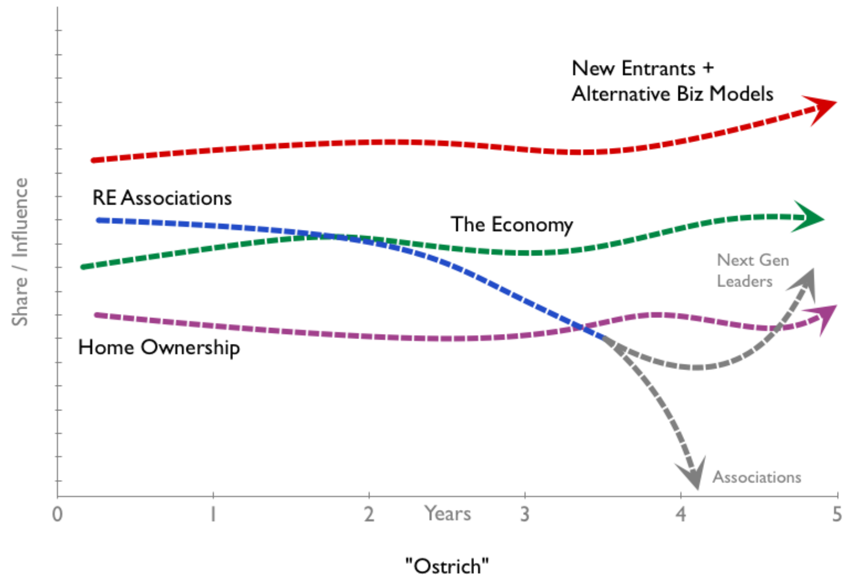
Political Gridlock, Preserving the Status Quo

Why did this happen? In part, a more tepid and uneven housing market recovery contributed to this business environment. Consumers were cautious, many still unable to enter the market, debt-laden and recovering from the Great Recession, and the lending environment remained anemic. Also, after the 2012 election, Washington, DC became even more polarized, which created institutional gridlock for another four years. By default, this preserved status quo interests, including those of the real estate industry, which on the surface was good news.

Associations, however, were just as much to blame for this climate of incrementalism. Many leaders were unable or unwilling to change because of organizational inertia, perceived entitlements, outdated ideas about the future of the business, and a mindset of complacency. Indeed, some willful wishful thinking was going on: that the worst was over; that soon things would go back to “business as usual;” and that the job of the association was to defend the business model at all costs by keeping key technology players and others at bay.

Head in the sand

In fact, this approach proved to be counter-productive, and based on mistaken assumptions, at two levels. Firstly, the industry was already restructuring — whether people wanted to accept this or not. Players like Zillow were determined to cross over from being pure information providers to being part of the transaction. The fact that these technology companies were struggling to stabilize their business models was just a deceptive pause in a game already in flux. It was clearly only a matter of time. In addition, consumer expectations had already shifted for good. Many, especially younger consumers, wanted a different kind of relationship with their agent and were actively looking for cost-saving alternatives. Banks owning foreclosed homes were also putting greater pressure on commissions and threatening to go direct to consumers.



Ostrich

By 2015, big changes did start happening. While already declining, the downward trend in association membership suddenly accelerated like the swirling vortex of a whirlpool. Members started leaving in large numbers—especially younger and new members. Not only were they questioning their future prospects in the industry because of declining commissions and a "stuck" business model, but they were frustrated by a slow-moving organization, risk-adverse strategies, and priorities at odds with their values and aspirations. Advocacy spending, in particular, was a sore point of contention, especially when housing policy needed little defending given the frozen political context - a perceived waste of resources. At the same time, some high profile brokerage firms left the association as well. They, too, felt the associations were out of step with the times and felt their survival depended on exploring more innovative strategic directions. Yet another trigger for this was a lobbying scandal, a backlash against the Super-PAC era, which ignited public outrage for a full year and implicated large advocacy groups. Guilty by association, the sterling reputations of trade organizations like the NAR were tarnished overnight, catching many leaders by surprise because this kind of criticism didn't happen after the subprime crisis. Memories, however, were long, and many folks didn't forget that it was agents who encouraged them to buy houses they couldn't afford.

Crash and Rebirth?

Though an association-centric scenario, this was nonetheless an important future to rehearse given the important role and impact associations have within the real estate industry. In hindsight, many people argued that this outcome could have been avoided with bolder leadership and more future-facing strategies versus a business-as-usual approach. But maybe not. Like many things in life, sometimes things have to get a worse before they can get better. In the end, there was a silver lining. All those frustrated agents, young and old, leaving the association started to create innovative solutions on their own, triggering a great deal of entrepreneurial activity that would benefit the industry's renewal as a whole down the road. The lost opportunity, of course, was that much of this was happening outside, not inside, the boundaries of traditional organized real estate.

Overview of "Ostrich"

Industry Elements	Macro Elements
Value proposition & Biz Model • Remains in a "mixed muddle" state • Focus on home ownership but constrained by market conditions and lag effect of crisis • Industry innovation slowed due to economic & policy context	Geopolitics & Globalization • Instability continues: Sovereign debt crisis drags on, Euro in question
Real Estate Market Structure • Existing players still dominate • New entrants still a threat, but struggling to stabilize business models • Industry fragmentation accelerates	US Economy & Social-Economic Trends • Slower US/Global economic recovery than expected • Gap between "haves" and "have nots" remains the same.
Agents Role & Compensation Model • Remains agent-centric, though model increasingly being challenged by consumers and new players • Commissions squeezed further from many sides • Agent-consumer incentives perceived to be misaligned • Less trusted & valued by younger gen	Consumer Values, Outlook & Behaviors • Consumers cautious, many unable to play b/c of debt and poor access to capital • Mostly passive but frustrated by status quo—especially the younger gen • Consumption patterns on hold or dampened
Approx. Number of Agents and. REALTORS® • Agents – Increase significantly by end of scenario • REALTORS® - Drops significantly by end of scenario • Real Estate Professionals – relatively constant – even slight increase by end of scenario	Housing Market Size • Flat or incremental increases in home ownership • Highly variable across geographies
Data Trends/MLS • MLS(s) increasingly no longer a competitive advantage • Data available but consumer barriers still exist • Open/big data disappoints in the short term; more complicated, legislative setbacks (privacy issues) •	US Regulatory & Political Context • Political polarization preserves the status quo • Tax preferences for home ownership remain by default
Brokers, Franchises and Businesses • Some brokers leave associations to follow different strategies • Slow attrition/consolidation of many brokers • Franchises hunker down; some try to innovate • Service companies frustrated, looking outside of industry for opportunities	Capital & Mortgage Lending Markets • Capital markets anemic • Mortgage bank bailouts don't work; too little, too late • Lag effect of Great Recession still playing itself out (10 year recovery forecast)
Impact of Immigration & Diversity on Real Estate • Immigrant market slower to develop, greater domestic tensions and barriers to entry • Industry leaders still not embracing diversity in practice • Niche remains for culturally-relevant housing	Energy/Environment • Incremental changes, slower adoption of energy alternatives

Commercial Real Estate

- Sluggish, uneven recovery of sector
- Conservative investment climate with more than half of loans under water
- Industrial buildings, distribution centers, apartments and multi-family doing well
- Office space, hotels and lodging struggle
- Commercial Realtors® looking for foreign investors, refinancing of properties, mitigation strategies
- Lack of transportation options drives interest in existing housing stock

Trends in Home Size, Built Environment, & Land Values

- Average single family home size holding constant, except for multi-generational housing niche

Five-Year Scenario 2: “Beauty & the Beast”

- *Big shifts in real estate value proposition, led by select industry players*
- *Collaborative effort driven by big data opportunity, external threats, and need for more future-facing consumer-centric models*

“Change is disturbing when done to us, exhilarating when done by us.”
–Rosabeth Moss Kanter, Harvard Business School

Most people didn’t think it was possible. Getting key players to collaboratively re-shape the real estate industry was just too difficult. Too many barriers were in the way, from divergent interests to legal, institutional, and political issues. And, as many argued, this had been tried before with unclear or unsuccessful results.

This time, however, was different. Defying conventional wisdom, this was a future where the real estate industry was successful in a path-breaking effort that redefined the industry’s value proposition. So what happened and why?

The Big Data Opportunity

First off, a shared sense of urgency emerged amongst a small group of diverse leaders who started meeting regularly to proactively rethink a business model under serious attack from many directions. Like a wrecking ball, digital technology had already disrupted every other industry in its path—from newspapers, music, video stores, to travel agents—and was well underway towards doing the same to real estate. As the research showed[1], , it was usually the new players who succeeded in the end, not the incumbents, despite their initial dominance and power - the recent demise of Kodak being the latest example. Taking these lessons to heart, this group concluded they had to do something fast and significant. “Not us, not on our watch” was the rallying cry. And no half measures would suffice.

So, as a result of these dialogues, a “win-win” opportunity was identified: the creation of a new big data entity, which would be the key to reinventing the business model. Signaling a bold shift in approach, this entity included non-industry players— even “frenemies” like Zillow. The benefits of this platform were many for participants, consumers, and regulators alike, namely:

- A universal clearinghouse addressed issues and inefficiencies around information syndication.
- The convergence of databases across industries created powerful analytics, providing a source of differentiation and revenue streams for participants, e.g. the ability to monetize high value information for partners, like Home Depot and Target.

[1] “Innovator’s Dilemma” by Clayton Christensen

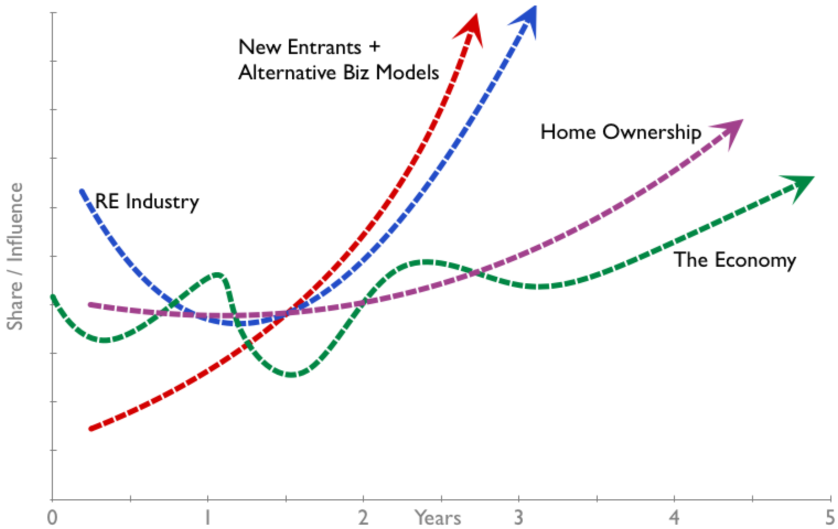
- Regulators, while skeptical at first, saw this new entity performing an effective industry stewardship role, providing greater certainty, stability, and accountability. The argument that a future subprime crisis could have been prevented by this kind of data sharing was persuasive.
- Much like how Apple's iTunes created a new market, this new model provided a consumer-friendly platform and triggered a wave of innovation, product and service offerings that were hard to imagine at the time.

Of course, this collaborative process wasn't easy—far from it. Not only was this a risky undertaking with no guarantees at first, industry participants had to give up some autonomy. Compromises and hard choices had to be made, and some egos had to take a back seat in service of the bigger prize at hand. Key to the success of this endeavor, however, was the diversity of this group from the start, including a multi-generational mix of players.

Lifestyle brands are king

In the end, these changes and other key drivers (see table below) significantly reshaped the industry. In particular, it created a highly segmented market with an explosion of niches around geographies, communities, ethnic groups, lifestyles and ages. At the high end, a small pool of highly competitive "super agents" emerged, delivering high value life style services. Many worked across geographies, and some represented leading brands from Versace and Disney to celebrities. In addition, franchises became packagers of brands like Martha Stewart Living, hip-hop pioneer Jay Z, foreign groups like the Shia Mian Network (家)[2], and Arab developers like Nakheel. The middle of the market, however, was collateral damage and virtually hollowed out with a value proposition that was neither fish nor fowl. The low end was a free-for-all after MLS services were taken over by Zillow, Trulia, and Facebook. While margins were low, by 2017 65% of all agents were servicing this market tier, though consumers saw a clear differentiation between these agents and the top performers.

How agents were compensated varied. However, there was a notable shift towards an incentives-driven approach. A flat fee was becoming more common, with a bonus for meeting certain agreed-upon criteria. For consumers who preferred the à la carte approach, a menu of pricing was also a standard feature. At the higher end, agents were getting compensated for many different products, depending on the lifestyle



"Beauty + The Beast"

[2] The word "home" in Mandarin Chinese

bundles they were selling—with commissions on everything from appliances, to trade referrals, to financing. Agents soon represented multiple organizations, and were just as likely to be found at their Lowes annual sales event in Hawaii as they were in their brokerage.

Double-edged world

By the end of 2017, the world was looking bright for the industry. Thanks to some forward-thinking leadership and risk-taking, the industry as a whole had achieved a huge feat: successfully innovating and adapting to a changing market place, attracting new talent, and creating profitable new business models. With a robust economy, an accelerating housing market, and a favorable policy environment, all of the concerns about whether consumers would put home ownership on the backburner were long forgotten. With a cohort larger than the Boomers— about 80 million—the next-gen consumers were leading this boom, and immigrants were also a key market. Ironically, the American Dream was most alive with the new immigrant consumers - the promise of owning a home a key reason why they chose to come to America in the first place.

Despite this positive outlook, some dark clouds still loomed on the horizon, since many of the deeper problems within the American economy and society were still there. They had just been papered over as the economic times improved and political priorities shifted. For instance, economic inequalities were growing even further, and the job market was reinforcing these divides. Though the need for highly skilled “knowledge workers” was greater than ever, it was still hard to fill these jobs, given a scarcity of trained talent in the US. Manufacturing did recover, with successful “in-shoring,” but wages were still flat. In fact, more and more people—from the unskilled to the college educated—found themselves in service sector jobs, with lower pay and lower security. The hard reality was that the American economy had changed, perhaps irreversibly, as a result of the competitive pressures of globalization. Lastly, all of the creative financial innovation in the early 2000s, from mortgage-backed securities to complex derivatives, seemed to have returned stronger than ever. With memories short and returns high, analysts were speculating that Subprime 2.0 was imminent, especially now that foreign banks were allowed into the game. So which way would the future turn? While many people had put the hard times in the back of their memories, and assumed the good times would keep on rolling, nothing of the sort was assured given this rapidly changing world.

Overview of "Beauty & the Beast"

Industry Elements	Macro Elements
Value proposition • Industry drives new value proposition (lifestyle service bundling or à la carte) • Focus on home ownership accelerates • Partnerships become core competencies • Neutral big data entity created with diverse industry players to: 1) create source of differentiation; 2) improve biz model and reduce liabilities; 3) accelerate industry innovation	Geopolitics & Globalization • Stabilizing: EU crisis averted • "Multi-polar" balance between US and BRICS
Real Estate Market Structure • Similar players with some new faces (e.g. technology companies, retailers, etc.) • Industry is consolidating • Partnerships and joint-ventures are critical	US Economy & Social-Economic Trends • Global and national economic growth picks up • Gap between "haves" and "have nots" increases
Agents Role & Compensation Model • Still agent-centric, but market highly segmented, focused on niches (geographies, ethnic groups, lifestyles, ages) and brands (e.g. Versace, Disney, Lowes) • Technology savvy realtors essential • *High end*: Small top performer pool (10-20%) working from local to global levels • *Middle:* disappears, squeezed on all sides • *Lower end:* low margins, highly fragmented (no REALTOR® designations) • Compensation incentives-based: Flat fee + bonus for performance	Consumer Values, Outlook & Behaviors • Consumers working *in partnership with* service providers • Consumers demanding lifestyle services approach, driving industry partnerships • Many niches, highly diverse, brand conscious • Relationships central, but technology is essential enabler • Consumers syndicate personal information, reducing liability and enabling predictive modeling/profiling • Previous consumption patterns increase: about more stuff and experiences
Approx. Number of Agents and. REALTORS® • Agents - decline • Realtors – significant decline • Real Estate Professionals – significant decline	Housing Market Size • Increasing in size • Highly segmented across income group and geography
Data Trends/MLS • MLS taken over by dominant tech players: Zillow, Trulia and Facebook, plus completely new organizations. • Big data key differentiator, driving new value proposition • But human judgment from agent still important to manage complexity and information overload	US Regulatory & Political Context • Favorable to home ownership; pro-business • RESPA challenged (finally) • Personal data monetized with new privacy laws, triggering new models (e.g. consumer syndication) • Trend towards nationalization of laws and contracts *driven by industry leaders* (10-yr process) • Tax preferences for home ownership maintained
Brokers, Franchises and Businesses • Orgs that don't participate in new industry ecosystem are marginalized or don't survive • Brokers who succeed: focus on niches, optimize cost structures, and collaborate • Existing and new franchises thrive—esp. ones associated with lifestyle brands	Capital & Mortgage Lending Markets • Capital markets rebound • Dodd Frank repealed • Financial innovation/ mortgage securities back in high gear driven by high returns and short memories. "Subprime 2.0" looks possible by 2015
Impact of Immigration & Diversity on RE	Energy/Environment

• Immigrant market grows, given large global middle class from BRIC countries and wealthy foreign buyers • American Dream promise continues to attract immigrants • But tensions given influx of wealthy, distorting prices in some markets	• Energy prices moderated by domestic production (e.g. gas shale deposits) • Environment lower priority
Commercial Real Estate • Healthier market drives return • Globalization increases investment in US AND creates competition for investment • Commercial investors returning to speculative bets again • Breakthroughs in big data collection enables predictive modeling and targeted investing	Trends in Home Size, Built Environment, & Land Values • Average single family home size is increasing and/or multiple homes increasing • Strong gains in land values in more favorable markets

Five-Year Scenario 3: "Jungle"

- *Rapid, game-changing shifts to industry and business environment*
- *Driven by new entrants, new politics, shifting values, and external forces like rising energy prices*

"It's not the strongest of species that survives, nor the most intelligent, but the ones most responsive to change."
–Charles Darwin

This is a volatile yet innovative world full of game-changers and power-shifts, new risks and opportunities, new winners and losers. For real estate, a tectonic shift reshapes the industry landscape, suddenly and decisively, as new players entered the market with new models for housing and home ownership, value propositions better attuned to consumer needs during this time of uncertainty. A previously unthinkable world just a few years ago, how did this happen?

Innovative outsiders

To begin with, the seismic forces were already building pressure for a while. The Great Recession had opened up fissures in the ground for new players to enter, exploiting the weaknesses of sectors most damaged by the crisis. So it was only a matter of time before outsiders started eyeing the real estate industry, a $9 billion industry in 2012 with significant growth potential[3]. A surprising mix of players entered this rapidly evolving new industry ecosystem that transcended the conventional boundaries of real estate to include a more integrated set of lifestyle services. Some of these companies included:

Definition | dis-rup-tive innovation

Innovations that create new markets by applying a different set of values and competencies, which ultimately (and unexpectedly) overtake an existing market.

Classic examples include: CDs, digital cameras, PCs, the Internet, model T Fords. Disruptive innovations start out as inferior, fringe offerings used by early adopters and "non-customers", and then rapidly migrate into the mainstream market. Common attributes include offerings that are: *faster, cheaper, easier, do-it-yourself* (vs. relying on specialized expertise), and increasingly more *environmentally friendly.* Source: Clayton Christensen, "The Innovator's Dilemma" (1997)

- Google, Amazon (after acquiring Zillow), Salesforce.com (for their CRM[4] prowess), Core Logic, and other big data players.
- Intuit, like it did to the personal tax industry, created TurboRealtor® which accelerated the DIY consumer niche— in effect disintermediating the lower end of the business.

[3] Source: http://www.marketsize.com/blog/index.php/category/real-estate-industries/
[4] CRM=Customer Relationship Management software

- Retailers like Home depot, Costco, and Target were leveraging their products and knowledge in innovative ways
- Financial services, mortgage brokers, hotels and hospitals were also partners in this new ecosystem

A great example of the innovation was eHarmony's new offering. Given that consumers already trusted them with their most important life decision—finding a mate—they parlayed this emotional connection into finding new couples their shared dream home, something their data profiling and algorithms could easily achieve. Since many eHarmony couples were initially geographically separate, the company also had a tidy business in relocation and lifestyle services.

Not all were successful of course; the trial and error rate was high. But the ones that came out ahead were nimble and skillful in deploying their assets and competences—i.e. big data capabilities, consumer access and knowledge, infrastructure, speed to market, and most importantly, deep pockets.

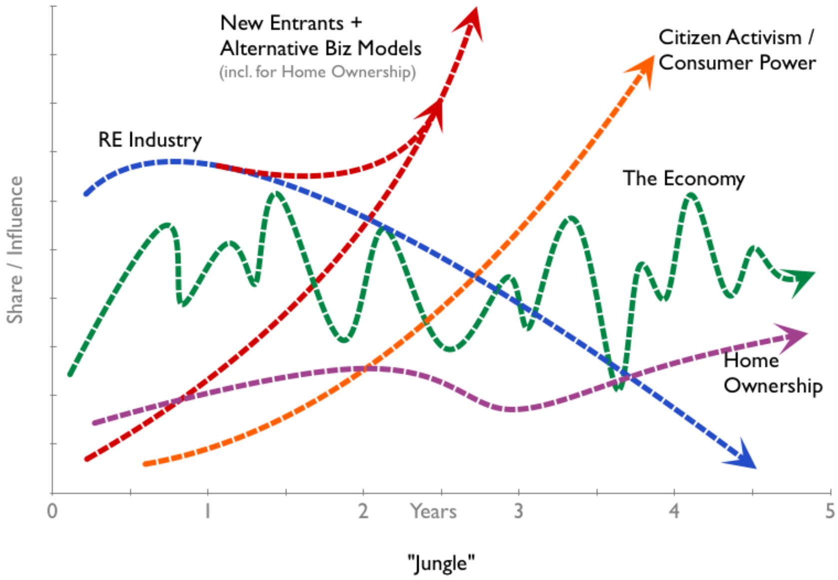
It's about access, more than ownership

A more surprising market innovation was a new hybrid "leasership" model, a cross between renting and owning. Not only was this less risky for many consumers, still reeling from the Great Recession, it also appealed to the values and life stages of Boomers and Millennials alike, especially when packaged as part of a turnkey "lifestyle solution," i.e. customized bundles of services from credit, consumer products, to access to particular communities of choice. This allowed a large range of "non-consumers" access to housing far sooner than they would have been able to afford, with the option of migrating up to home ownership if they wanted to.

With early examples like Zipcar, this "sharing economy" trend increased within these communities with a lot more collaborative consumption. While part of this is motivated by values like sustainability, or life stage needs like assisted living, sheer pragmatism prevailed more often— from saving money, managing risk, and preventing the kind of personal debt crises we saw in the early 2000s. Consumers were waking up to the advantages of pooling resources. Why not share housing or share living spaces, so that one can access their dream neighborhood or place without waiting for the right job or income level, and enjoy all the 'good life' amenities, from gyms to childcare? Far from the stereotypical 1960s commune image or the condo/gated community, we see a different kind of living model being invented.

In the end, the leasership model and lifestyle community trend did solve (in part) a problem in major urban centers by mopping up some of the excess housing inventory in many different markets—from Oakland CA to Detroit to Florida— which pleased banks and HUD, offered many opportunities for property developers to market new concepts, and provided retailers like Amazon and Costco a great consumer base to target. This, in turn, stabilized the overall market and jump-started a new growth spurt. Along with this, we also saw experiments in financing, like peer-to-peer lending, crowd-financing and collective ownership structures.

To be clear, people were still buying single-family homes. This aspiration wasn't going away, especially with certain customer segments, including wealthy foreigners and new immigrants. But with these alternatives emerging (including a large renters market), the overall size of the conventional home ownership market was decreasing. While this



looked like bad news to some industry stalwarts, as we just learned, this also presented many opportunities in disguise.

Deer in the headlights

Meanwhile, many existing industry organizations were blindsided by the scale and speed of these changes, or were simply out-resourced by the new entrants. Of the industry leaders who did see these changes coming, they discounted these new fangled innovations as a passing fad. Indeed, by 2015, we see many brokerage houses imploding, and industry associations shuttering up their offices. Once mighty franchises were going under, and Realogy.com was acquired by an Emirati conglomerate. The few franchises that survived partnered early on with new entrants and technology firms, or became highly specialized.

For agents, their world was turned upside down as well, with a very different role. No longer agent-centric, the new business models require an organization-centric or team approach. While many chose to leave the industry, caustically calling this a “mass extinction event”, in reality there were many opportunities for agents if they were willing to do things differently and sacrifice a little autonomy. Younger agents had no problem doing this, and in fact preferred this kind of structure to learn and grow their skills. A large number of agents joined these new firms, becoming employees or part time associates. In addition, unlike the old commission days, they were earning their living through multiple revenue streams—from salaries, incentive schemes, to subscriptions.

Swarm Advocacy

All of this was occurring within a dynamic national and global backdrop. BRICS were rising in prominence, the US trying to reframe its role in the world, and public debt crises continued to disrupt old world institutions from the EU to the UN. US politics, in particular, experienced a sea change around 2016. Tired of polarized politics, there was a social media “citizen advocacy” movement, consisting mostly of young-gen voters, less driven by ideology and more by pragmatic idealism. In the short term, this puts an end to the Super Pac era and significantly curtails lobbying. In the longer term, this movement launches the “Gov 2.0” agenda—a process that opens up government, simplifies laws, finds new efficiencies using technology, and rewrites the social contract with the “citizen consumer.” With increasing energy prices and shifting consumer values, the policy priorities also shifted towards creating sustainable cities, transportation, and rethinking the suburbs/exurbs. By the end of this scenario, we start seeing early signs of new settlement patterns and a built environment favoring greater density and energy-efficient living— a paradigm shift from the current approach to housing.

Much like Dickens' Victorian world, this was the best of times and the worst of times. Depending on one's perspective, it was a thrilling time full of opportunity and freedom to change the rules of the game. While for others this was a disorienting if not devastating world to adjust to. In particular, the old guard within the real estate industry were the main causalities. However, much like after a forest fire, many new seeds were germinating. Not all would survive. But enough would to create a very different world in the decade to come.

Overview of "Jungle"

Industry Elements	Macro Elements
Value proposition • New entrants-lead innovation • Multiple value propositions emerge rapidly • Early alternatives for home ownership emerge (renting to new hybrid "leasership" market) • DIY market grows with tech apps/tools (e.g. TurboRealtor®)	**Geopolitics & Globalization** • Accelerating geo-political changes, positive for some (BRICs, new leaders) but less clear for US power
Real Estate Market Structure • New entrants disrupt market (retail, technology, banks, etc.) • Existing players unable to respond/adapt fast enough • FISBOs 20% of market depending on geography	**Economy & Social-Economic Trends** • Volatile markets with BRIC countries and commodity-rich areas prospering • Wealth distribution gaps less due to policy changes, but global super-rich category grows
Agents Role & Compensation Model • Shift to organizational and team-centric models • Many agents employees of new entrant firms, or leave the profession, or become lower-end players • Multiple revenue streams (salaries, cross-commissions, subscriptions) • Trend: $ rewarded for "nudging" consumer behavior • (e.g. good financial planning) by companies and gov	**Consumer Values, Outlook & Behaviors** • "Citizen consumers" leading changes • High expectations for low cost/ high value solutions • DIY technology empowers consumers with "apps"/ tools (e.g. Turbo Realtor®) • Younger gen values shifting towards transparency, simplicity, sustainability, community, security, "collaborative consumption", post-materialism
Approx. # of Agents viz. REALTORS® • Agents – More, many part-time • REALTORS® - Fewer, full-time, dedicated professional • Real Estate Professionals – decline, overall	**Housing Market Size** • Decrease in single family home ownership • Increase in new hybrid markets ("leasership"), which absorbed non-consumers and excess inventory, stabilizing overall market
Data/ Information Trends / MLS • MLS replaced by other technology platforms (Zillow, Trulia, Facebook) • Data more open in practice and by law • Open data driving innovation, empowering "citizen consumers" • Local information automated, user-generated, peer-to-peer tech (e.g. YELP.com) • "Rent, lease, buy" amalgamated into one database; Craigslist a key player	**US Regulatory & Political Context** • Citizen advocacy" movement driven by young gen, curtails lobbying and Super Pacs • Start of Gov 2.0 revolution (10 yr process). Focus on transparency, simplification, tech for cost reduction • Trend towards nationalization of laws and contracts driven by new politics not industry (10 yr process) • Personal data laws diluted; not as important a social value • IC status challenged for more gov tax revenues • Tax preferences for home ownership eroded
Brokers, Franchises and Businesses • Rapid consolidation of many brokers; some join new entrants, others leave industry or retire • Franchises hunker down; some try to innovate • Service companies thrive	**Capital & Mortgage Lending Markets** • Capital markets volatile; nimble and sophisticated players find opportunities • Foreign lenders fill vacuum in US • Lending rules simplified with strong consumer protections (though not proscriptive) • Alternative models emerge (e.g. collective ownership, micro lending)
Impact of Immigration & Diversity on RE • Industry embraces diversity; new leadership reflecting new demographics of nation	**Energy/Environment** • High energy prices; $200 per barrel by 2017 accelerating shift to alternative energy

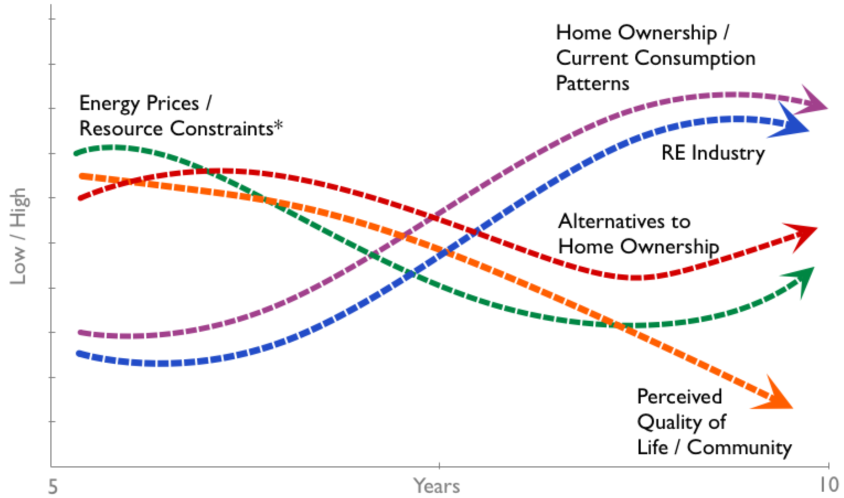
• Immigrant-friendly offerings mainstream (e.g. multi-family) • Public policies diffuse immigration tensions	• US domestic supplies (gas shale) not enough to mitigate price increases • Policy & political choices favoring post-carbon transition (e.g. carbon taxes)
Commercial Real Estate • Partnering to innovate/create access to diverse housing models • Investors see opportunities in housing, looking to diversify revenues • Select groups are exploring high-density and new leasership models • Options for reclaiming suburbs, building new town centers • New mass transportation projects, starting in 2015, coming online	**Trends in Home Size, Built Environment, & Land Values** • Average home size for single family homes is shrinking • And/Or the average per person square footage is shrinking, while space for collaborative housing increases • Land values in Suburbs and Exurbs fail to keep pace with increases in urban areas • Increasing urban density, rethinking of suburbs, and mass transportation projects back on agenda

Ten-Year Scenario 1: "American Dream Recaptured"

- *Home ownership still central to American society*
- *Driven by current consumption and production patterns continued, younger gen and immigrants entering the market, a sustainable US economy, and manageable energy prices*
- *Real estate industry and role of agents redefined, but more evolutionary shifts—a combination of Jungle and Beauty & the Beast*

After a period of uncertainty, this is a future where the American dream is recaptured and renewed with a 21st century twist— with home ownership still an essential tenant to this national narrative. While many national and geo-political challenges remain, America gets its groove back within this ten-year period. The country's ability to innovate, and its role as the R&D center of the world, continued to provide a sustainable comparative advantage over other nations. Even though China was trying to catch up, pouring billions into pure research, still missing was the cultural and institutional ability to consistently transfer these ideas into economic opportunities, an unparalleled capacity made famous by "creative clusters" like Silicon Valley which continued to churn out game-changing companies like Apple, Google and Facebook. And since these knowledge-intensive industries created high levels of wealth and productivity, this promise of prosperity continued to attract immigrants and talent from around the world to the US.

Meanwhile, consumer values turned out not to be changing as fundamentally as "Jungle" suggested. As the younger generation grew up, they too followed a similar consumption pattern as Boomers. Owning a home and being able to acquire the material things in life was equally important. Immigrants were also a key driver in recapturing this American Dream, since many had left countries and cultures where this was not possible. In addition, the global wealthy continued to find the US an attractive market for investment and personal property, stimulating many niche segments around the country.



*due to US natural gas production

"American Dream Recaptured"
Longer-term societal shifts (2017-2022)

Though elements of "Jungle" make it into this future—especially some of the innovative business models—this scenario builds mostly off the "Beauty & the Beast" story. In fact, many real estate industry leaders taking credit for making home ownership a central feature of American aspirations again. So this is a world where being in the real estate business is a good prospect, something to be proud of, and even pass down to the next generation as a viable way to make a living.

Having said that, the life of an agent is not the job of their parents. Like in “Beauty & the Beast”, the agent was performing a much broader set of activities using technology tools and analytics, and they developed specific areas of expertise in a highly segmented market place. Agents were often working in partner teams to deliver customized lifestyle solutions to their clients, and some were very mobile depending on their niche with relationships from Dubai to Denver.

Yet underneath this positive vision of the future, there are some distinctive cracks. Far from a throw back to a more nostalgic time (if that time ever existed), economic inequalities increase and the quality of community life suffers. Despite all this focus on the consumption of “stuff”, people are not much happier, and in fact report they are less so. In addition, with the discovery of domestic natural gas in huge shale deposits, the US effectively defers the need to address key long-term challenges regarding energy and the environment, while the rest of the world is forced to innovate more sustainable ways of living. Seen through a 20-year time horizon, then, it’s very possible that the tables will be turned on the US, with the country being at a comparable disadvantage to other nations like China, which had rapidly transitioned itself to a post-carbon economy during this earlier period.

Ten-Year Scenario 2: “The NEW American Dream”

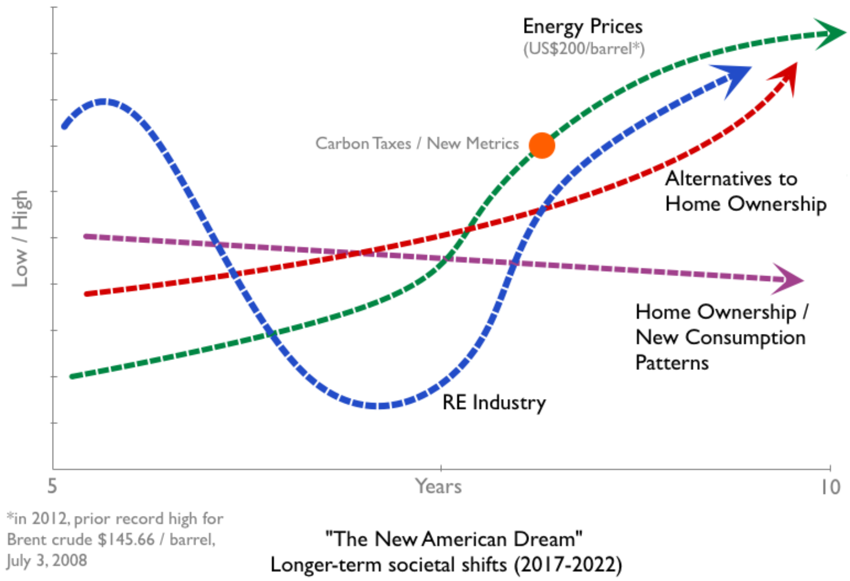
- *Alongside traditional home ownership, the preference of access to housing over ownership becoming mainstream; multiple models and concepts of “home” emerge*
- *Driven by major shifts in social values, consumers’ financial constraints, policy choices (carbon tax), impact of high energy prices and resource scarcities on housing and the built environment*
- *Real estate industry and role of agents significantly redefined to include broader social functions as “community connectors” and experts in sustainable/ energy efficient lifestyle options*

Of all the scenarios, this future is the most challenging to our current imaginations and assumptions about the American Dream—and thus what it might mean to be a real estate agent in the 21st century. Indeed, looking back, it was very hard to see a world where home ownership wasn’t one of the most important aspirations within the American experience. But what if the American Dream got redefined? What would that look like?

Building off the events in “Jungle”, we see the contours of this emerging. What started out as a trend slowly became a mainstream reality. There was the shift in consumption patterns that valued access over ownership… whether it was a home, material goods, or an experience. A proliferation of new business models, social and political innovations—from new policies to economic incentives— made this possible as well.

In contrast to “American Dream Recaptured”, in this scenario younger gen values and leadership do impact the social, political and economic landscape in a lasting way. The Gov 2.0 Agenda, though not perfect and quite destabilizing over the decade, dislocating tens of thousands of public sector workers, eventually did create a more adaptive and sustainable system of government more suitable for the 21st century and a more globally interconnected world.

Resource scarcities also hit the US market far faster and harder in this future, and a series of new policies — most notably a carbon tax— stimulated a transition to a more energy efficient “post carbon” economy. As a result, the built environment and human settlement patterns did fundamentally change within this time frame. This included new forms of community, greater levels of urban density, and suburbs transformed into self-contained villages linked by new transportation networks. Rural communities were also being preserved for the future, both for food production and tourism and leisure activities. The advent of the “energy Internet”, a distributed model for power, also created a different of pattern of growth. Manufacturing was being reinvented thanks to 3D fabrication technology, becoming more localized and nearer points of consumption. Companies like IBM and Cisco were major leaders in creating these “regenerative” cities and communities of the future, the goal being for each place to provide a net return to their “ecological footprint.”



At the same time, it was obvious by now that the planet had a finite amount of resources. In 2012, the US alone was consuming about three planets worth of resources, and if the rest of the world continued along that same path, the long-term future wasn't going to be a good one. Already we were seeing more "resource wars" over both food supplies and precious minerals like "rare earths" needed for information technology. So core assumptions around economic growth were being challenged and rethought. Using the Nobel-prize winning work around ecological economics, countries and companies were implementing a new set of growth metrics called the Triple Bottom Line. By triple bottom line, these metrics included not just economic returns but also environmental and social returns. Pioneered in large companies, the goal was to find a suitable replacement for old measures like GDP and GNP. This would prove to be a game-changer, since these measures included key environmental inputs into prices (what economists call "internalizing the externalities") this in turn influenced consumer and market behavior, incenting the right kind of innovation and growth.

Of course, people were still buying homes. But there were fewer single-family homes and many more concepts of homes and housing to choose from—all of which were available for an agent to market and sell. As we saw in "Jungle", even though this isn't an agent-centric future, there are many opportunities for the real estate professional and the real estate industry. For one, agents become experts in sustainable lifestyles, from helping consumers decide on the best "home" option to advice on the latest energy efficient home technologies and systems. Some agents even broadened their role, championing and facilitating the creation of these sustainable new communities, working in concert with developers and municipalities. In fact, being a "community connector" fit naturally with the innate skills and attributes of an agent, since this is often the role they played in the past, especially in the early homesteading days except this time it was a different kind of pioneering endeavor. So instead of the worst-case scenario—which many assumed in the early years— this is just a different future, with different possibilities worth anticipating and perhaps even considering as part of a new vision for the real estate industry.