CALIFORNIA ASSOCIATION OF REALTORS®

# Strategic Plan: 2011-2013


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# I. BUDGET COMPILATION PROCESS

## A. Summary of Budget Recommendations

The Strategic Planning and Finance Committee has recommended a 2011 budget proposal with C.A.R**.** membership dues set at $184**,** reflecting the new $49 REALTOR® Action Assessment (RAA) . This is the first increase in the total since 2002. The budget for next year is predicated on a projected membership of 168,000 at year-end 2011. Of the $184 total, $115 represents funding for the continuing operations of the Association, including enhancements to a number of key programs. This total also includes three additional assessments, $49 for the new REALTOR® Action Assessment, $10 for the Political Activities Fund and $10 for the Issues Action Fund.

Expanded objectives and resources, referred to as Augmentations, can be found in the Communications, zipForm®, Membership Development, Legal and Governmental Affairs programs. Most notable are two new member benefits for 2011; free digital signatures for all members in conjunction with zipForm® as well as free document storage. A description of these programs and the background research is found in Section C on page 2 of this document, "Program Augmentation Summary". Other changes of special note for 2011 are described under Section D on page 4.

The budget proposal provides an authorized staffing level of 122.5 positions. The proposed budget for salary merit increases is 2.0 percent in operating programs and 1.0% in the Human Resources program. In the past, the budget for merit increases has ranged from 0 percent (a salary freeze) in 1994 to 3.0 percent in 2010. Salary surveys of the Conference Board and Chicago Sun Times that U.S. employers are planning for increases of up to 3.0 percent in 2011.

The 2011 membership forecast is 168,000, only slightly below the 2010 year-end projection of 169,000. The 2011 membership forecast is 20 percent below the most recent peak of 211,254 in 2006. It is anticipated that dues revenue in 2011 will be $17,826,800. In 2011, membership dues are projected to be 50 percent of the total budgeted 2011 revenue (from C.A.R. and its subsidiaries) compared to 49 percent in 2010. Section IV, Planning Environment & Research Results, beginning on page 16 provides information on recent trends in the level of Association dues and membership, and as well as background for the membership forecast.

Based on budgeted operating expenses, the Association's year-end 2011 liquid reserves will be $28.4 million representing approximately 13.3 months of operations.

Next year (2011) marks the first year for the $49 REALTOR® Action Assessment (RAA) that was approved by the C.A.R. Board of Directors in June 2010 for the 2011 dues billing cycle. The $49 will go directly into CREPAC/CREIEC, although members can, if they so desire, request that their assessment go to C.A.R.'s general fund for political purposes. The $10 allocated to the Political Activities Fund provides funding to enhance C.A.R.'s overall political and legislative effectiveness. Specific activities include developing a pro-active member education and involvement program, accelerating C.A.R.'s member mobilization efforts and optimizing C.A.R.'s political involvement through independent expenditures and other contributions.

As in past years, an additional $10 is allocated to the Issues Action Fund. This will provide adequate funding levels for IMPAC, the Association's Issues Mobilization Political Action Committee, and its local association-based accounts. It pays the administrative costs for IMPAC and the two candidate political action committees, CREPAC and CREPAC/Federal, as well as the cost for political fundraising events.

## B. Program Development and Core Budgeting

The 2011 budget is based on the concept of "Core" programs and services. Core has been defined as those essential services that only the Association offers, allowing individual REALTORS® and real estate brokerage firms to be more successful working together than they can independently. "Core" is defined as the minimum level of activity and resources necessary to ensure achievement of the Association's basic strategic objectives as well as provide the optimal level of trade-off between competing activities. Core activities reflect the Association's mission, vision and organizational objectives. There are 122.5 budgeted staff positions for 2011, which is an increase of 2 positions from 2010. It includes one hotline attorney and one political activities field representative.

Based on input from a variety of sources, including Committees, Directors, local associations, Leadership and others, and with direction from the SPF Committee, staff developed and refined core programs that would meet the Association's critical objectives. The committee fully reviewed and discussed each core program and augmentation for inclusion in the final budget for 2011.

The budget is organized into six areas to reflect the organization of the staff and program objectives: Communications, Governmental Affairs, Legal, Member Information, Operations, and Other Programs. Programs falling under the Communications, Governmental Affairs, Legal, and Member Information sections are designed to achieve the core objectives of the Association: legal and legislative advocacy and the provision of information critical to the business success of our members. They are not, for the most part, revenue-generating activities. Operations programs are those necessary to carry out the business of the Association and support the activities in other areas. Other programs include zipForm®, a program that is responsible for the distribution of the zipForm® 6 software products to C.A.R. members as a benefit of membership.

Additional business plans are operated by the Association's subsidiary, Real Estate Business Services, Inc. (REBS), and are subject to a separate budget development, review and approval process. REBS was formed in 1996 to address tax issues that impacted C.A.R. because of its success in developing non dues revenue. It also provides a vehicle for the Association to invest in new opportunities and act as an incubator for researching and developing products and technologies to meet the needs of the REALTOR® community. REBS and its subsidiaries, ZipLogix, REBT (Real Estate Business Technologies), Inc., and RERS (Real Estate Risk Services) are all part of the consolidated financial report prepared each year by C.A.R.'s outside audit firm, RBZ.

The allocations from REBS reflected below are primarily paid from accumulated reserves held by the subsidiaries and do not necessarily reflect current year earnings. Accumulated reserves from the subsidiaries are included in the audited financial statements. REBS is ultimately responsible to the C.A.R. Board of Directors for the performance of its programs. A report by the Chairman of the REBS Board, REALTOR® Robert Bailey, will be made at the October meeting. It is anticipated that C.A.R.'s Real Estate Business Subsidiary (REBS) will provide the Association with an allocation of $2,000,000 in 2011. The allocations from 1996 to 2011 are shown in the following table:

| Year | Allocation from REBS |
|---|---|
| 2011 | $2,000,000 |
| 2010 | $3,500,000 |
| 2009 | $3,500,000 |
| 2008 | $2,000,000 |
| 2007 | $1,800,000 |
| 2006 | $1,500,000 |
| 2005 | $1,000,000 |
| 2004 | $1,000,000 |

| Year | Allocation from REBS |
|---|---|
| 2003 | $1,400,000 |
| 2002 | $2,060,000 |
| 2001 | $1,983,800 |
| 2000 | $1,725,000 |
| 1999 | $1,500,000 |
| 1998 | $1,125,000 |
| 1997 | $1,000,000 |
| 1996 | $733,000 |

## C. New Program Summary

**eSignature Member Benefit --** This new program will provide all members with an unlimited number of digital signatures to be used in conjunction with the zipForm® member benefit program. This will mean significant savings for many California REALTORS® compared to what they are currently paying for digital signatures. It also extends the successful zipForm member benefit in a way that allows California REALTORS® to meet consumer expectations for a timely and seamless digital transaction. It is also consistent with the Green Initiatives, as digital signatures reduce direct costs, transaction cycle times and energy consumption. Please note that the actual cost is likely to be less than the current budgeted amount as vendor negotiations proceed. **(Cost: $694,600)**

**Electronic Document Retention Member Benefit --** This program provides online transaction-based document storage as a member benefit for California REALTORS® beginning January 1, 2011. It makes available 2 GB of electronic storage per member for five years, which translates into approximately 20 transaction records a year for five years. The Business and Professions Code Section 10148(a) states that a real estate broker shall retain for three years copies of all listings, deposit slips, canceled checks, trust records, and other documents executed by him or her or obtained by him or her in connection with any transactions for which a real estate license is required. This augmentation will enable every California REALTOR® to comply with these document retention requirements at no cost as members of the California Association of REALTORS®. **(Cost: $444,600)**

**Political Activities Fund Field Program --** This program provides funding for an array of enhanced activities related to improving and expanding the effectiveness of C.A.R.'s key contact and FPC teams. It includes significantly increased training, coordination and infield assistance. It also provides for the addition of one field staff position. The added staffing resources will increase the mobilization capacity of the legislative liaison program through heightened recruitment and engagement activities and significantly enhanced in-field presence. **(Cost: $221,700)**

**File Compliance Checker --** This program provides funds to develop a new and supplementary user interface for Forms Advisor that will validate that a completed file contains all of the federal and state forms that are both mandated and recommended for the transaction. The intent is to allow the Forms Advisor to be used as a relevant tool immediately prior to closing by an office manager or transaction coordinator in addition to being used in the course of the transaction by agents. **(Cost: $62,000)**

**Smart Phone App for Member Mobilization --** This program provides a free mobile application to California REALTORS® that will enable C.A.R. to reach them quickly as needed for member mobilization activities and will work in the iPhone/iPad, Android, and Blackberry environments. This application will employ PUSH notification so that critical information would be indicated on the home screen of the mobile device including the call to action and the specific information, customized to the individual member, with the email, phone number or other contact information. The application "dashboard" available to the state association staff will indicate whether the member read the message, took action using the mobile application and what action they took. **(Cost: $60,000)**

**Young Professionals Network (YPN) --** This program provides funds to support the efforts of C.A.R. YPN, including an annual conference. The CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) Young Professionals Network (YPN) was established to address the growing presence of young professionals in the industry and the unique needs and attributes of this group. C.A.R. YPN aims to enhance the dialogue between younger real estate professionals and C.A.R. The group will achieve this through improved communication within this demographic and between it and the other members at large. This communication effort will be manifested through education, various networking opportunities, and outreach to local chapters. **(Cost: $25,200)**

**Social Media Boot Camp --** This augmentation funds a one-day program for REALTORS® focused on understanding and utilizing social media in the real estate environment. With the constant proliferation of new technologies, apps, social networking platforms and the like, it is becoming increasingly important that REALTORS® become knowledgeable about how they can utilize social media effectively to enhance their business. The opportunities

presented by this new interactive media landscape will only increase in years to come, and REALTORS® need to understand how these changes affect them. This one day program seeks to fill that information void by offering a session-packed, boot camp- style event to introduce the most current thinking about social media, and give attendees practical knowledge about how to work within the social media space. **(Cost: $8,500)**

**Statewide Ombudsman Hotline --** This program establishes a C.A.R. Ombudsman Hotline is to assist consumers and REALTORS® by handling complaints in such a manner as to avoid an ethics complaint or lawsuit. In the process, it should provide the public a positive experience, which will, in turn, create a positive image for the REALTOR® organization. Boards and Associations of REALTORS® are charged with the responsibility of receiving and resolving ethics complaints against their members. This obligation is carried out by local, regional and, sometimes, state grievance committees and professional standards committees. Many complaints might be averted with enhanced communications and initial problem-solving capacity at the state and local level. The statewide Ombudsman Hotline, which may be adopted and utilized at the voluntary discretion of boards and associations, is designed to provide that capacity. **(Cost: $5,300)**

**AORNTouch™ --** REBS has recently released AgentNTouch™, a mobile application for agents to distribute to their clients. This program modifies Agent N Touch to create a mobile application for the local AORs to distribute information to their members. **(Surplus: $5,000)**

## D. Enhancements to 2011 Core Programs

**Additional Hotline Attorney --** The 2011 budget provides funds to hire an additional attorney for the C.A.R. Legal Hotline. It will enable a reduction in "hold" times for members waiting on the phone to speak to a Hotline Attorney from an average of 19 minutes to less than 10 minutes and reduce "call back" times for members waiting for a return call from the Hotline from an average of 14 hours to less than 10 hours. **(Cost: $89,800)**

## E. Core Programs

**COMMUNICATIONS**

*California Real Estate* Magazine -- Publish eight regular issues of the official Association magazine.

California REALTOR® Expo -- Plan and produce an annual convention and trade show, utilizing third party management services if appropriate. Develop a new pre-conference program as well as a one-day social summit to address member needs for more information about new and emerging technologies with a focus on social media.

California REALTOR® Showcase -- Provide a luncheon program in 2011 that includes an economic forecast/industry outlook presentation and up to three seminars.

C.A.R. Member Advantage -- The Member Advantage Program (MAP) rovides discounts on products and services that are related to the business needs of California REALTORS®. Negotiate with vendors to obtain the lowest possible pricing on products and services. In 2011 explore reconstituting MAP as part of a new initiative more broadly conceived of as a member loyalty program that rewards and recognizes members for interacting with C.A.R.

Communications -- Provides for integrated marketing and communications strategies for C.A.R. programs, benefits, products and services to increase awareness of C.A.R. and the value of membership.

Consumer Electronic Newsletter -- Offers C.A.R. members a monthly consumer newsletter free of charge as a member benefit, and provides a similar newsletter service to out-of-state REALTORS® on a paid subscription basis. This program will expand the awareness and utilization of the consumer newsletter, aiming to increase individual subscriptions by 25 percent in 2011. Objectives include increasing the value of the product by enhancing the personalization features for subscribers, and exploring the feasibility of co-branding with local associations and

brokerage firms.

Media Relations -- Issues news releases to maintain and build on C.A.R.'s position as the leading source of information and analysis about California real estate, and coordinates association response to media inquiries.

REALTOR® Advertising -- The REALTOR® Advertising Program provides support for all efforts related to the strategic development, creation, implementation and measurement of advertising efforts designed to increase public awareness of the REALTOR® and his/her role in the transaction. In 2011 a review of the campaign will be conducted to determine future direction.

## GOVERNMENTAL AFFAIRS

CREPAC/BORPAC-CREPAC/FEDERAL-CREIEC -- Coordinates support for candidates for political office who understand and support C.A.R. policy objectives.

Governmental Relations -- Monitors and analyzes public policy issues, legislation and directives of importance to the California real estate market and sales transactions. Facilitates the dissemination of information on public policy issues and California REALTOR® policy/concerns. Develops the ability of the REALTOR® community to respond to public policy issues. Advocates the REALTOR® policy position in legislative and regulatory debates of public policy.

IMPAC -- Provides funding to proactively pursue local and state issue advocacy efforts of significance to the real estate industry, with focus on anticipating and reducing negative campaigns that are inconsistent with C.A.R. policy objectives while increasing the likelihood of positive campaigns. Pursues public opinion research and education in support of C.A.R. policy objectives including housing affordability, disclosure, broker liability, and private property rights.

Local Governmental Relations/Legislative Communications -- Monitors and analyzes local policy issues. Facilitates communications and information sharing between the state and local associations. Supports local associations for public policy development and legislative advocacy at the local governmental level. Liaison to local association government affairs directors (GADs)

Political Activities Fund: Field Program -- This program manages the activities of five field staff to assist local associations in planning local level strategies and activities. It also collaborates with local associations to recruit, train, and directly mobilize C.A.R.'s advocacy corps.

Political Activities Fund: Member Mobilization -- This program provides funding for Legislative Day and other materials integral to the Association's member mobilization program. Recruits and trains key contacts for each legislative district, coordinates REALTOR® mobilization efforts on key issues, and communicates to members regarding the Association's governmental and public policy efforts.

REALTOR® Action Fund: Fundraising -- Undertakes efforts to raise voluntary contributions for political activities from C.A.R. members. Activities focus on gaining new donors, increasing the amount contributed by existing donors and providing appropriate recognition to contributors.

## LEGAL

Corporate Legal Services -- Internal corporate counsel providing legal services to C.A.R. and its subsidiaries. Develops preventive law programs for local associations, coordinates MLS policy, fair housing, professional standards and interboard arbitration.

Legal Action -- Provides essential services to the Legal Action Fund Trustees, works with outside counsel on legal cases of importance to the Association, prepares and files amicus briefs and amicus letters.

Member Legal Services -- Legal advice is delivered principally but not exclusively through the Member Legal Services' Member Legal Hotline service, which responds to member assistance requests initiated via telephone, e-mail, fax, and letter. Members with current transactions are given priority access to attorneys along with broker/owners or office managers. These groups should be given access to an attorney immediately with other groups and more general questions responded to as resources allow. Nontransaction specific calls are given lower callback priority and efforts are being made to provide the requested legal information through alternative channels (website, Q&A, FAQ, etc.).

Pursuant to the State Bar of California's *Rules of Professional Conduct*, Member Legal Services actively recruits and maintains a legal panel referral list for use by members in the event of service requests involving conflicts of interest.

Strategic Defense – This program provides C.A.R. and its members with a team of defense specialists who deliver top quality legal services in a cost-efficient manner. A referral panel of attorneys with expertise in E&O claims and defense are referred to C.A.R. members and insurance companies to provide risk management education avoidance and defense. The overriding goal of the program is to improve the knowledge of C.A.R. members of potential claims and how to effectively defend against those claims. It also provides an early warning and defense strategy through the panel attorneys for new types of claims.

**MEMBER INFORMATION**

Federal Governmental Relations -- Monitors and analyzes federal policy issues, legislation and directives of importance to the California real estate market and sales transactions. Facilitates the dissemination of information on public policy issues and California REALTOR® policy/concerns. Coordinates policy development on federal issues with NAR. Develops the ability of the REALTOR® community to respond to federal public policy issues.

Housing Affordability Fund -- Provides for the general administration of the Housing Affordability Fund, including office-related expenses, meetings and related travel, and staff support.

Information Center -- Provides centralized information services to support Association activities, information interface with members and the public, and maintain the C.A.R. archives.

Local Association Services -- As primary liaison to local associations, it provides professional development for local association executives.

Membership Development -- Coordinates outreach efforts to local associations, real estate companies and individual real estate offices, markets C.A.R.'s tangible and intangible products and services, and communicates with new and prospective Association members. Funding for all C.A.R. outreaches to local associations and real estate firms are consolidated into this program. Provides support for the International Forum and develops programs to reach multi-cultural real estate licensees and their clients. Also provides support for C.A.R. members who practice commercial real estate and attract new commercial practitioners.

Membership Development: Commercial -- The Membership Development/Commercial program supports C.A.R. members who practice commercial real estate, attracts new commercial members and educates residential REALTORS® about the field of commercial real estate. C.A.R. endeavors to complement efforts from existing commercial organizations and not compete with or supplant them. The program leaders will seek committed support from mainstream and/or affiliate organizations (RCA, SIOR, CCIM, AIR, IREM and others).

Research and Economics -- Supports C.A.R.'s policy initiatives in the legislative, regulatory and legal arenas, and through the media. Analyzes housing sales, economic and demographic information, as well as members and real estate firms. Tracks consumer behavior and preferences in the context of the real estate transaction and the real estate industry's response to this changing dynamic.

Strategic Planning and Finance -- Coordinates the planning and budgeting process for the Association. Monitors the organization's financial status. Conducts survey research and responds to member needs through the planning process.

**OPERATIONS**

Administrative Services/Member Service Center -- Provides for the Association's telecommunications, printing, purchasing, furniture and fixtures.

Board of Directors -- Coordinates the activities of the Board of Directors, including the committee appointment process and the business meetings. Seeks ways to enhance the information content presented at the committee meetings and to reduce mailing costs through use of e-mail and Internet communications.

Building -- Provides for the operation and maintenance of the Association's headquarters facility.

C.A.R. Management -- Internal executive management functions for the effective operations of the Association and its subsidiaries.

C.A.R. Scholarship Foundation/C.A.R. Education Foundation -- Provides for the general administration of the C.A.R. Scholarship Foundation Trust and the new C.A.R. Education Foundation. Assists the Trustees in their efforts to reach out to students at a broad range of colleges and universities, and to expand the beneficiaries to include other permitted activities that benefit the real estate industry.

Customer Contact Center -- This program provides a central customer interaction center that delivers high quality service to customers calling, faxing and e-mailing the Association and its subsidiaries regarding products, services and general information.

Financial Management -- Provides for the Association's internal accounting and financial management requirements to ensure the financial viability and service standards of C.A.R. and its subsidiaries.

Human Resources -- Provides for the staffing needs of the Association, and ensures that C.A.R.'s employment policy complies with applicable laws and regulations. Communicates with employees, coordinates employee benefits, and provides staff training and development.

Information Technology -- Supports the Association's local area network hardware and software. This program also provides support for the network and server infrastructure that is the backbone for C.A.R.'s computing and telephonic systems.

Internet Development – Develops and maintains various Association and selected subsidiary websites. Supports customers and staff utilizing the websites and manages vendor relationships. Develops and supports online products, including e-mail newsletters and mass e-mail communications.

Leadership Team -- Provides support for the officers of the Association to conduct C.A.R. business including regional visits, meetings between the C.A.R. Directors meetings as needed, and planning sessions.

Membership -- Processes membership dues and records, and updates C.A.R. databases with enhanced information.

NAR Directors' Travel -- Contains resources to more fully fund the travel expenses of NAR Directors from California to the 2011 NAR meetings to be held in Washington D.C. and New Orleans.

NAR Liaison -- Coordinates the attendance of the Association's officers and key staff members at NAR meetings and monitors NAR activities, including support for the California candidate for NAR President in compliance with the NAR campaign and election process.

## OTHER PROGRAMS

ZipForm® -- This program provides the ZipForm® software product to C.A.R. members, including customer and technical support, as a benefit of membership. In addition, staff conducts ZipForm® training sessions at local associations, brokerage firms and Director's meetings throughout the year.

# II. DIRECTOR/COMMITTEE REVIEW

## A. Director Authority

1. The budget approval process vests ultimate authority with the full Board of Directors. The Directors will be asked to take action on the motions as itemized on page 38.

2. Directors may change the recommendations from the committee with substitute motions.

## B. 2010 Strategic Planning and Finance Committee Members

| | |
|---|---|
| Don Faught, 2010 Treasurer | Bay East |
| Jeff Barnett, Vice Chair | Silicon Valley |
| Bob Hart, Vice Chair | Santa Barbara |
| Jim Hamilton, Committee Liaison | Silicon Valley |
| Jeff Barnett, NAR Representative | Silicon Valley |
| LeFrancis Arnold | Ranch Southeast |
| Malcolm Bennett | Ranch Southeast |
| Cynthia Carley | Rim O' The World |
| Tom Carnahan | Southland Regional |
| Bob Kulick | Santa Clara County |
| Jim Link | Southland Regional |
| Kay Moore | Marin County |
| Andy Nazaroff | Fresno |
| Ann Pettijohn | Pacific West |
| Jeff Phillips | Simi Valley/Moorpark |
| John Pinto | Santa Clara County |
| Edwin Resuello | Santa Clara County |
| Tracey Saizan | San Francisco |
| Tricia Thomas | Bay East |
| Sue Walsh | San Mateo County |
| John Yen Wong | San Francisco |

Each C.A.R. region also had the opportunity to appoint a liaison to the committee who would be invited to attend the SPF meetings during the Business Meetings.

## C. Strategic Planning and Finance Committee Meetings

The Strategic Planning and Finance Committee met in December 2009 and in February, March, June and August of 2010. At these meetings, the Committee assessed members' needs through a review of industry trends and an environmental analysis of the climate affecting organized real estate and the brokerage industry. Throughout the year, the committee reviewed thought-provoking articles and research reports addressing various aspects of change and the real estate environment. Four books were read by the 2010 Strategic Planning and Finance Committee: Grown Up Digital, Strategy and the Fat Smoker, Switch, and What Would Google Do? In addition, the committee fulfilled its continuing obligation to review the Association's financial statements and monitor revenues and expenditures, as well as consider augmentations and variances to the approved budget.

1. **December 2009:** The committee met for its December brainstorming session as a kickoff to the 2010 planning cycle.

2. **January 2010:** The SPF committee heard reports from REBS Chairman Liz Fitzgerald, Association Executive Committee Chairman John Nesbit, and C.A.R. EVP Joel Singer. The Committee also reviewed the Association's financial statements, contract procedures, and travel policies. CALMLS Chair Mike Silvas gave an update on calREDD.

3. **March 2010:** The committee held a two-day meeting in San Jose to assess the market and industry environment. The results of the annual C.A.R. Membership Survey were presented as a springboard to improve existing programs and develop new program ideas. The committee reconvened into the six mega issue working groups that were first formed at the December 2009 brainstorming meeting. Bob Hale, CEO of the Houston AOR gave a presentation on their Client Rating Program. A panel, which focused on future trends in real estate financing, also addressed the committee.

4. **June 2010:** The committee received reports on the state of the organization, the AEs, and REBS, as well as calREDD. The 2009 audited financial statements were presented by C.A.R.'s auditor, RBZ, LLP, and approved by the committee.

5. **August 2010:** The SPF committee met for two days to review the 2010 program array that had been developed by staff in response to committee, Director, and member input. Committee members engaged in extensive discussion on both the objectives and the budgets associated with the individual core programs, along with the augmentations to those programs. Following a detailed market and membership forecast presentation, the committee adopted an official membership projection of 171,000, no change in the dues level of $115.

## D. Executive Committee

The Executive Committee met on Tuesday, September 21 to review the 2011-2013 Strategic Plan and related background materials. The Committee received an overview of the state of the Association and its subsidiaries, as well as a market and membership projection for 2011. Treasurer Don Faught and Vice Chair Jeff Barnett provided the Committee with an overview of the SPF Committee meetings, presentations, deliberation and provided detailed information on the proposed augmentations and program changes. Treasurer Don Faught formally presented the motions from the Strategic Planning and Finance Committee regarding the 2011-2013 Strategic Plan and Budget recommendations, including all of the proposed augmentations that were approved as submitted by SPF.

# III. PLANNING OBJECTIVES

## A. Mission Statement

"The purpose of the California Association of REALTORS® is to serve its membership in developing and promoting programs and services that will enhance the members' freedom and ability to conduct their individual businesses successfully with integrity and competency, and through collective action to promote the preservation of real property rights."

## B. Vision Statement

"The REALTOR® organization will be the pre-eminent source of essential business services and the association of choice for real estate professionals committed to excellence."

## C. Mega Issues and Strategic Business Objectives

**Mega Issue 1** **Potential changes and redefinition of the banking and finance industries over next several years through financial reform and market forces.**

SBO .1 Ensure that the redefinition of the banking and finance industries brought about by financial reform does not adversely affect the real estate industry.

SBO .2 Monitor GSE reform and ensure the appropriate restructuring and viability of Fannie Mae and Freddie Mac.

SBO .3 Ensure availability of credit to consumers (loan products, standardized or uniform Short Sale/REO process).

SBO .4 Promote the value of "responsible homeownership".

SBO .5 Ensure the future viability of the mortgage brokerage industry.

SBO .6 Increase communication and education to REALTOR® members on finance charges and developments as they happen.

**Mega Issue 2** **Lack of distinction and relevance among consumers between REALTOR®-provided data and data from non-REALTOR® providers.**

SBO.1 Reestablish organized real estate MLS data and sites as the "go-to" sources for reliable real estate information for consumers, practitioners, the media, and other users.

SBO.2 Publicly differentiate MLS/REALTOR®-organization data from non-REALTOR® data in terms of quality, completeness, and timeliness.

SBO.3 Explore and develop strategic partnerships with non-REALTOR® data providers in an effort to drive business to REALTORS®.

SBO.4 Increase efforts of data aggregation and consolidation at state and national level.

**Mega Issue 3** **Increasing threat to REALTOR® viability and profitability as a result of consumers' decreasing confidence in the REALTOR® value proposition, and the their ability to bypass REALTORS® and use outside sources in the buying and selling of real property.**

SBO .1 Develop and implement strategies/technology products and services, that keep the REALTOR® in the center of the transaction, that maximize consumer satisfaction, and that through their implementation, maximize REALTOR® profitability.

SBO .2 Equip members to maximize profitability in a technological real estate environment.

SBO .3 Utilize legislative and regulatory vehicles to improve the business environment for REALTORS®.

SBO .4 Work to standardize the process of nontraditional real estate transactions including short sales and foreclosures.

SBO .5 Educate consumers on the complexity of the home buying process, why using a REALTOR® is critical to a successful transaction, and that REALTORS® continually advocate on their behalf on home ownership issues and private property rights.

SBO .6 Establish the REALTOR® as the primary source of reliable data required by the consumer to make knowledgeable decisions in buying, selling and owning real property.

**Mega Issue 4** **Decreasing participation in the political process to the detriment of issues and candidates important to real estate interests.**

SBO .1 Mobilize members to participate in the legislative and political process.

SBO .2 Encourage increased real estate licensee participation in appointed and voluntary public and quasi-public positions.

SBO .3 Ensure that the impact of political funds is maximized through quantitative measurement and evaluation of actual results.

SBO .4 Encourage, develop and participate with existing coalitions to respond to "quality of life" issues and the preservation of private property rights.

SBO .5 Identify and support candidates and causes that enhance REALTOR® influence at all levels of government.

**Mega Issue 5** **Increased diversity (cultural, generational, and technological) of the membership and consumers is changing the way real estate business is conducted.**

SBO .1 Increase opportunities for participation and leadership of members from diverse age and cultural backgrounds in all levels of real estate to ensure that our membership better represents the diversity of the state's population.

SBO .2 Develop and refine products and services that effectively serve the needs of increasingly diverse REALTORS®.

SBO .3 Develop programs and tools to assist REALTORS® in being trusted real estate advisors in the state's increasingly diverse environment.

SBO .4 Educate all REALTORS® to improve their understanding of the diverse nature of the California consumer (cultural, generational and technological).

SBO .5 Reinforce the REALTOR®'s role as the trusted advisor by providing products, services, and education to meet the diverse needs of the consumer.

**Mega Issue 6 Downsizing of the housing market in response to economic conditions, the impact of equity loss on current homeowners, and consumer concerns about the homeownership value proposition will drive industry resizing and restructuring.**

SBO .1 Monitor changing consumer behavior and identify potential structural changes in the homeownership landscape.

SBO .2 Educate brokers on emerging opportunities to meet the housing needs of "reset" owners.

SBO .3 Provide brokers with the necessary business tools to manage the transition to the realities of the downsized market and structural changes to the industry.

## D. Association Objectives

General and specific objectives provide additional clarification of the Mission Statement and serve as the foundation for the development of program plans. (The general objectives are delineated in bold face, and the specific objectives follow.)

**Research, develop and improve services, materials and techniques that assist members in the successful conduct of their business.**

- Disseminate information on computer information systems for use by local associations and members.
- Analyze, review and support computer based services, including electronic delivery systems, to assist local associations and members in their activities.
- Market and distribute Association developed or endorsed real estate related products and services.
- Provide and market standard forms for use by REALTORS®.

**Represent the interests of REALTORS® on legal issues, and provide a resource to the membership on legal matters.**

- Provide legal advice and counsel related to the practice of real estate.
- Provide internal legal services for C.A.R. and assist local associations on significant legal matters.
- Provide administrative and legal services to the Legal Action Fund in reactive and affirmative legal programs.
- Develop and sponsor preventive law programs for Association members, firms and local associations.
- File amicus briefs at the trial and appellate court level to support or oppose judicial decisions that impact private property rights and REALTORS®.

**Represent the interests of REALTOR® in governmental affairs.**

- Monitor the activities of the state legislature, analyzing legislative proposals for their impact on REALTORS®, and provide testimony in support of the Association's position.
- Monitor the activities of Congress, analyzing proposals introduced for their impact on California REALTORS® and coordinate with NAR to achieve legislative policies responsive to California REALTORS®.
- Monitor, assess and report on local and regional government activities and trends, and assist local associations and groups of associations in developing programs to impact local and regional government actions.
- Sponsor proposals that develop or change laws or government regulations that address issues of significance to REALTORS®.
- Maintain liaison with the Department of Real Estate and the Advisory Commission to encourage acceptable regulation of REALTORS®.
- Maintain liaison with state and federal regulatory agencies to exchange information and influence decisions pertinent to REALTORS®.

**Improve the education and professional abilities of the membership.**

- Develop, sponsor, co-sponsor and provide courses and programs to increase the professional competency of REALTORS®.
- Develop marketing strategies to effectively promote courses and programs.
- Cooperate with the Department of Real Estate and private and public educational institutions to enhance competence of REALTORS®.
- Develop a process to encourage the use of association reciprocity to provide educational programs.

**Provide services and programs to local associations.**

- Provide educational programs and activities for association executives of local associations and for volunteer leadership to increase their involvement and effectiveness.
- Provide meaningful membership recruitment and retention programs and tools for use by local associations.
- Provide guidance, training and counseling to assist associations and regions in developing Board/MLS networking structures patterned on marketing areas and to facilitate appropriate adaptations of jurisdictional boundaries.
- Develop programs to improve the efficiency and viability of the MLS.

**Foster good business ethics and practices throughout the membership.**

- Provide training, administrative and legal services for the implementation of the Association's ethics, mediation and arbitration activities.

- Develop and communicate information on real estate practices to local associations and members.
- Develop a process to encourage the use of Board reciprocity for professional standards and arbitration hearings.
- Support and promote equal opportunity in housing.

**Participate in activities that promote the availability and affordability of housing.**

- Develop legislative programs and policy guidelines on housing matters for use in local, state, and federal advocacy efforts.
- Create ongoing informational programs to produce greater public support for development in the interest of adequate housing for all Californians.
- Participate in broad-based coalition approaches to the issues of housing shortage and cost.

**Develop, maintain, interpret and disseminate comprehensive data pertaining to real estate.**

- Monitor, analyze, and disseminate qualitative and quantitative data on real estate trends by producing in-depth survey research studies, regular forecasts and monthly market analyses.
- Establish and maintain a statewide program of electronic and print media relations to publicize Association news and views.
- Collect, organize and disseminate information on industry, government and Association activities to staff and members from a centralized information center.

**Encourage involvement by the membership in support of candidates and issues.**

- Provide education, practical tools, and guidelines to heighten members' involvement in all aspects of political affairs including fundraising and candidate and issue development and support.
- Provide an efficient system for collecting voluntary contributions and develop programs to promote and expand the Association's fundraising capabilities in support of all of the political action activities.
- Provide all fiscal and administrative support, state and federally mandated reports and issue analysis for the IMPAC Trustees.
- Provide all fiscal and administrative support, state and federally mandated reports and candidate assessment for the CREPAC Trustees.
- Develop strategies for the political mobilization of Association members in support of the Association's political and legislative objectives.

**Undertake activities that assure the availability of adequate and affordable sources and methods of financing real estate.**

- Advocate legislative and regulatory policies that ensure appropriate mortgage instrument design.

- Advocate public policies that induce capital formation for real estate financing including legislation that stimulates savings.

- Identify sources of funds for real estate financing and advocate public and private sector policies and programs that expand secondary mortgage market capability.

- Advocate for effective government mortgage programs at all levels of government.

**Promote cooperation and a strong relationship among local associations of REALTORS®, the California Association of REALTORS® and the National Association of REALTORS® to ensure a viable structural framework for organized real estate.**

- Work with local associations and NAR to simplify rules and regulations to allow members to more easily interact and make a living selling real estate.

- Provide guidance to local associations on policies of the State and National Associations, and procedures for their application and enforcement to more easily interact and make a living selling real estate.

- Coordinate the appointments of California's NAR Directors and their involvement in all NAR meetings and related activities.

- Promote cooperation among local associations and support voluntary efforts toward regionalization of local association activities.

**Create a climate of favorable public opinion to improve the public perception of REALTORS®.**

- Encourage involvement of C.A.R. members in realizing their role in changing public perception of the REALTOR® by increased member community and media relations' activities.

**Provide a forum for the discussion, determination and communication of Association policy.**

- Conduct business sessions and conventions to disseminate pertinent information and obtain member input on Association policies and real estate-related issues.

- Develop and refine avenues of cooperation with other real estate organizations.

- Promote and participate in mutually beneficial activities with related industries and other organizations.

- Maintain a comprehensive member communications program that provides information on Association policy, key issues, and recommended real estate business practices.

**Provide policies, procedures, organization, resources and staff for the fulfillment of the other general objectives.**

- Provide training programs and activities for incoming state Association leadership.

- Coordinate the election and appointment of Association officers and committee members.

- Develop and maintain an accurate system for membership record processing and retention.

# IV. PLANNING ENVIRONMENT & RESEARCH RESULTS

## A. Purpose of Environmental Scan

The Environmental Scan summarizes trends in the economy, the real estate market, the real estate industry, and public policy. The information contained in this document is essential to C.A.R.'s volunteer leadership as it reviews and authorizes budgets for the coming year, and as it provides long-term direction to the trade association and to its members. Based on this analysis, the Strategic Planning and Finance (SPF) Committee makes well-informed budget and strategic planning recommendations, and adopts an official membership projection for the coming year as a part of its responsibility to establish C.A.R. dues.

## B. Environmental Scan

### National Economy and Housing Market

- The Great Recession may have ended mid- 2009, but the US economy continues to struggle with an anemic recovery Except for a five percent growth spurt in the 4th quarter of 2009, the recovery has been marked by lackluster growth and has done little to create jobs. Three percent growth in GDP is the long run average growth rate for the economy, but larger growth rates are needed to create jobs, bring down the unemployment rate, and restore consumer confidence.

- Corporate America has returned to profitability, in part by slashing jobs and investing in labor-saving technology that will continue to reduce its need for workers as the economy expands. Local and state governments have likewise cut their ranks as they strive to balance their budgets. As households cope with stubbornly high unemployment, severely eroded net worth, and less accessible credit than before the downturn, consumer spending has barely eked out gains over the past year, well below the levels that are required to drive the economy forward and create jobs.

- The $800 billion American Recovery and Reinvestment Act stimulus bill was intended to shore up the economy with a collection of tax benefits, expenditures, and increases in entitlements. But this amount is equivalent to just over five percent of the $15 trillion in annual US economic activity and has been spread over a three year period from 2009 to 2012. As such, it has done little to prime the economic pump, and many economists in academic and other circles contend that another government stimulus may be needed. As of this writing, the Obama Administration has proposed an extension of the Bush tax cuts except for families making over $250K, an accelerated investment write off plan and a transportation program totaling just under $200 billion. But with the mid-term elections in November, the Congress seems to be more inclined to hold the line on deficit spending than to pass another stimulus package.

- If Congress is slow to act, can the Federal Reserve Bank do anything to spur growth in the meantime? Interest rates remain at historic lows so conventional monetary policy such as rate cuts are not options at this point. It may engage in 'balance sheet' actions known as quantitative easing to provide additional liquidity to the economy and bring long term rates down, but low interest rates can only do so much to promote hiring and spending.

| U.S. Economic Outlook | | | | | |
|---|---|---|---|---|---|
| | Actual | | | Forecast | |
| | 2007 | 2008 | 2009 | 2010f | 2011f |
| US GDP Growth | 1.9% | 0.0% | -2.6% | 2.9% | 2.6% |
| Nonfarm Job Growth | 1.1% | -0.4% | -4.3% | -0.3% | 1.5% |
| Unemployment Rate | 4.6% | 5.8% | 9.3% | 9.7% | 9.6% |
| CPI Inflation Rate | 2.8% | 3.8% | -0.3% | 1.4% | 1.6% |
| Real Disposable Income Growth | 2.2% | 0.5% | 0.9% | 1.3% | 1.6% |

- Assuming no new stimulus bill in 2011, the economy will muddle along with a growth rate just below the long run three percent average. The unemployment rate will remain high through 2011. Even if the economy added 200,000 jobs a month, it would take over three years to provide jobs for the 7.5 million or so individuals who remain out of work. On the other hand, with so much slack in the economy, the threat of inflation will remain low through 2011.

- Nationally, sales of existing single family homes have generally been flat over the last 3 years, except for gains in late 2009 and May 2010, when sales picked up in anticipation of expiring tax credits. According to the August forecast from the National Association of REALTORS®, the national housing market will show a 0.5 percent decline in sales for 2010 and an 8.3 percent increase in 2010. The median price will increase by 0.1 percent in 2010 and by 1.5 percent in 2010. Whether the price outlook is achieved depends largely on supply. The national market continues to have an elevated supply of homes, and the number of distressed properties is expected to remain high in 2011- 2013.

**California Economy and Housing Market**

- The performance of the California economy has been closely tied to US and global economic conditions. As the national and state economies have slowed, the state unemployment rate has increased to double-digit percentages, and remains one of the highest in the nation. As of June, 2010, there were 1.3 million fewer nonfarm jobs compared to peak employment in mid-2007.

| California Economic Outlook | | | | | |
|---|---|---|---|---|---|
| | Actual | | | Forecast | |
| | 2007 | 2008 | 2009 | 2010F | 2011f |
| **Nonfarm Job Growth** | 0.8% | -1.3% | -6.0% | -1.3% | 1.5% |
| **Unemployment Rate** | 5.4% | 7.2% | 11.4% | 12.3% | 11.9% |
| **Population Growth** | 1.1% | 1.2% | 1.1% | 1.0% | 1.0% |
| **Real Disposable Income Growth** | 1.5% | 0.1% | -2.2% | 0.9% | 2.6% |

- Virtually all areas of the state face the worst economic and job climate in decades, but the hardest hit parts of the state are also contending with the fall-out from a steady stream of distressed properties. These include the Riverside and San Bernardino Counties in Southern California, several counties in the Central Valley, and Solano County in the Bay Area.

- The unemployment rate in California will peak in 2010 at 12.3 percent and remain elevated next year. The job market outlook for the state will be somewhat no better than the nation's over the next two years, but many sectors of the economy will register some growth in 2010 and 2011. These include health care, education, trade, public utilities, durable goods manufacturing, and even construction.

- As tough as things have been in California, it has been no better elsewhere in the country. As such, the state's outmigration in this cycle has paled in comparison to the 1990s when the state lost hundreds of thousands of jobs and residents to other states. Instead, California's population will grow by one percent this year and next, owing mainly to the state's internal natural rate of increase. This translates into gains of about 400,000 per year, a substantial number by any measure and an important driver behind future housing demand.

- The state unemployment rate, which has approached 12 percent in recent months, will remain elevated through the rest of this year and the first half of 2011. The unemployment rate should edge down in the second half of 2011 as the economy gains momentum. Nonfarm jobs in 2009 experienced the largest annual decline seen in decades (6. percent) with a smaller decline of 1.3 percent in 2010. In 2011 the state will finally see a return to positive job

growth. Job and unemployment numbers typically lag other indicators, so improvements in economic activity, personal income, and other indicators will precede job gains as the economy turns around.

| California Housing Forecast | | | | | |
|---|---|---|---|---|---|
| | Actual | | | Forecast | |
| | 2007 | 2008 | 2009 | 2010f | 2011f |
| SFH Resales (000s) | 477.5 | 346.9 | 546.5 | 510.0 | 515.0 |
| % Change | -23.6% | -27.4% | 57.5% | -6.7% | 1.0% |
| Median Price ($000s) | $560.3 | $346.4 | $275.0 | $305.0 | $310.0 |
| % Change | 0.7% | -38.2% | -20.6% | 10.9% | 1.6% |
| 30-Yr FRM | 6.3% | 6.0% | 5.1% | 4.8% | 5.7% |
| 1-Yr ARM | 5.6% | 5.2% | 4.7% | 4.1% | 4.6% |

- The California housing market led the national market for most of the past three years, not just in terms of sales of distressed properties but also in terms of price gains and housing supply. Recall that sales fell more steeply in California compared to the nation in 2006-2007, but then improved more quickly and returned to pre-peak sales levels by late-2008. Similarly, home prices fell more sharply in California, but have risen more rapidly since hitting bottom in early 2009. The supply of homes also adjusted more quickly in California, remaining well below national inventory levels for over a year and contributing to price gains since early 2009.

- Sales in 2009 and the first half of 2010 were driven in part by housing tax credits. The federal tax credits seemed to have helped US sales more than California sales, but both the national and state markets have slowed markedly in recent months after the tax credits expired at the end of April.

- Low inventory levels for detached existing single family homes in the state (5.8 months in July 2010 compared to 11.9 months for the US) have driven the statewide median price up 28 percent from the February 2009 trough of $245,230 to $314,850 in July 2010. In turn, lean inventories are largely due to the slow pace with which distressed properties move through the foreclosure and short sale processes. It seems unlikely that this pace will accelerate over the next 18 months, so the supply of homes should remain below the long run average of 7 months, resulting in prices that are stable or marginally increasing.

- With prices well off peak levels and mortgage rates at historic lows, affordability remains high. First-time buyer affordability stood at 64 percent in the second quarter of this year, slightly below the record high of 69 percent from the first quarter of 2009. Accordingly, first-time buyers account for a significant share of activity this year and will figure prominently in the market next year.

- Looking ahead to the next 18 months, annual sales are expected to decrease 6.7 percent from 546,500 homes in 2009 to 510,000 homes in 2010, with 2011 bringing a 1.0 percent gain to 515,000 homes. Compared with any period other than the middle of the last decade when sales exceeded 600,000 homes, sales in the low- to mid-500,000 range would be seen as very good, but the decline from 2009 when the market was in transition will lead to greater uncertainty in the industry.

- As for the median price, the market forecast is based on a path for the median that follows the typical seasonal pattern, peaking in the second quarter of each year and declining over the subsequent three quarters. With inventory levels remaining lean through the rest of 2010, the California median price is projected to rise 10.9 percent from $275,000 in 2009 to $305,000 in 2010. However, with uncertainty about the strength of the economic recovery, there is little to draw more would-be buyers off the fence. Given this concern about the presence of demand relative to supply in 2011, the median price next year is expected to rise just 1.6 percent to $310,000.

- Based upon these anticipated changes in sales and the median price, market volume will increase 3.5 percent in 2010 -- the first gain in 5 years – and will increase 2.6 percent in 2011.

- Finally, mortgage rates may edge up but remain at historically favorable low levels. While low rates contribute to high levels of housing affordability, uncertainty about the economy and problems with household balance sheets may prevent would-be buyers and sellers from acting on the low rates. In addition, underwriting criteria remains tight and will continue to be so through 2011, proving to be a significant hurdle for many eager buyers. Investors are far more likely to prevail in an environment where "cash is king" more than ever before and they have had a growing presence in the California housing market during the last few years.

- Both the economy and the housing market face a great deal of uncertainty over the forecast period. The economy faces the prospect of a long, slow recovery and a stubbornly high unemployment rate. The household sector is poorer than a few years ago because of lower asset values, restricted access to credit, and a cloudy outlook for jobs, and so will be less inclined to spend than in past recoveries.

- In the housing market, a slow pace of recovery may temper demand for homes, while underwater homeowners will not be in a position to become trade-up buyers. Similarly, discretionary sellers will return to the market only gradually, resulting in a supply pipeline with a significant number of distressed properties.

- Real estate finance is much improved compared to the last couple of years, but it continues to be the tail that wags the dog. The future role of government real estate finance in general and the GSEs in particular will likely be determined next year, and the issue of high-cost loan limits will reappear in 2011.

- Despite concerns about another wave of foreclosures, the number of distressed properties hitting the market in the next year is expected to remain steady, as lenders strategically manage their bottom lines and resist fully staffing up to manage the potential flow of distressed properties. ..

**Membership Trends & Projection**

- Throughout the present down cycle, C.A.R. membership has tracked at the high end of the forecast range, both because of better than expected member retention and because of higher than anticipated new membership counts, which has likely been driven by weakness in the California labor market.

| C.A.R. Membership Counts (thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Status** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010f** | **2011f** |
| Renewals | 142.6 | 162.8 | 176.7 | 162.0 | 149.5 | 149.0 | 148.0 |
| New | 51.4 | 48.4 | 31.3 | 21.8 | 23.6 | 20.0 | 20.0 |
| **Total** | **193.9** | **211.3** | **208.0** | **183.8** | **173.1** | **169.0** | **168.0** |
| | | | | | | | |
| **C.A.R. Membership Percentage Changes** | | | | | | | |
| **Status** | **04-05** | **05-06** | **06-07** | **07-08** | **08-09** | **09-10** | **10-11** |
| Renewals | 19.3% | 14.2% | 8.5% | -8.3% | -7.7% | -0.4% | -0.7% |
| New | 23.1% | -5.8% | -35.3% | -30.2% | 8.1% | -15.3% | 0.0% |
| **Total** | 20.3% | 8.9% | -1.5% | -11.6% | -5.8% | -2.4% | -0.6% |
| | | | | | | | |
| | **04-05** | **05-06** | **06-07** | **07-08** | **08-09** | **09-10** | **10-11** |
| **Retention Rate** | 88% | 84% | 84% | 78% | 81% | 86% | 88% |

- As of August 31, 2010, membership stood at 161,866, with 147,451 renewing members and 14,414 new members. **Membership in 2010 will decrease 2.4 percent from the 2009 figure of 173,139 to 169,000 members.** Renewals should amount to approximately 149,000, with 20,000 new members for the year. Membership will exceed the projection of 162,000 upon which the 2010 C.A.R. budget was based.

- **Under the most likely forecast scenario, membership is expected to decrease by 0.6 percent in 2011 to 168,000 with 148,000 renewing members and 20,000 new members.** The retention rate of existing members will rise to 88 percent. It is conceivable that membership in 2011 will be flat or slightly higher than the yearend 2010 membership count.

- The gross number of sides per member peaked in 1999 at 11.1 and has averaged 7.4 sides since 1971. Member productivity fell throughout the first half of the decade as membership grew at a faster rate than the pace of home sales. Productivity fell to a historic low of 3.3 sides per member in 2007. **Productivity rose to 6.3 in 2009, and is expected to be approximately 6.0 sides in 2010 and 2011.** In past cycles, productivity levels below 6 sides have coincided with decreases in membership.

**C.A.R. Membership, Sales and Productivity**

| Year | Membership | Sales | Productivity | | Year | Membership | Sales | Productivity |
|---|---|---|---|---|---|---|---|---|
| 1971 | 58,749 | 293,361 | 10.0 | | 1992 | 125,149 | 342,972 | 5.5 |
| 1972 | 66,657 | 346,046 | 10.4 | | 1993 | 112,306 | 350,209 | 6.2 |
| 1973 | 72,853 | 329,461 | 9.0 | | 1994 | 105,139 | 388,490 | 7.4 |
| 1974 | 78,074 | 326,389 | 8.4 | | 1995 | 97,574 | 342,535 | 7.0 |
| 1975 | 84,323 | 369,678 | 8.8 | | 1996 | 91,527 | 406,385 | 8.9 |
| 1976 | 98,087 | 454,688 | 9.3 | | 1997 | 90,500 | 446,469 | 9.9 |
| 1977 | 116,705 | 466,187 | 8.0 | | 1998 | 93,500 | 505,411 | 10.8 |
| 1978 | 124,414 | 491,974 | 7.9 | | 1999 | 96,500 | 537,826 | 11.1 |
| 1979 | 134,671 | 477,526 | 7.1 | | 2000 | 98,693 | 535,470 | 10.9 |
| 1980 | 148,346 | 377,664 | 5.1 | | 2001 | 103,883 | 503,990 | 9.7 |
| 1981 | 139,449 | 271,244 | 3.9 | | 2002 | 117,153 | 572,550 | 9.8 |
| 1982 | 111,238 | 189,345 | 3.4 | | 2003 | 136,977 | 601,770 | 8.8 |
| 1983 | 102,655 | 278,007 | 5.4 | | 2004 | 161,245 | 624,740 | 7.7 |
| 1984 | 103,570 | 309,020 | 6.0 | | 2005 | 193,932 | 624,957 | 6.4 |
| 1985 | 105,570 | 328,274 | 6.2 | | 2006 | 211,254 | 477,460 | 4.5 |
| 1986 | 115,212 | 393,983 | 6.8 | | 2007 | 207,999 | 346,940 | 3.3 |
| 1987 | 119,795 | 413,545 | 6.9 | | 2008 | 183,835 | 439,830 | 4.8 |
| 1988 | 126,497 | 454,814 | 7.2 | | 2009 | 173,139 | 546,540 | 6.3 |
| 1989 | 139,902 | 435,521 | 6.2 | | 2010f | 169,000 | 510,000 | 6.0 |
| 1990 | 146,025 | 364,456 | 5.0 | | 2011f | 168,000 | 515,000 | 6.1 |
| 1991 | 135,605 | 342,739 | 5.1 | | | | | |

**Consumers and the Market Transaction**

- Consumers will be impacted by the boom (2004-2005) and bust (2006-2008) of the most recent housing cycle in several key areas. Loss of equity and dramatically lower expectations for home price gains will curtail unbridled enthusiasm in home purchases and renovation. Tightened underwriting criteria for mortgage loans will also temper the demand for housing in all price ranges. At the same time, the potential pool of willing first time buyers and investors will expand in response to low mortgage rates and greater affordability. In California, a constrained supply of foreclosed property will frustrate many potential buyers.

- **The market through 2012 will see a continued presence of first-time buyers who are able to take advantage of the significant improvement in housing affordability and the availability of low-down payment loans through the FHA and VA programs. To a lesser extent, Baby Boomers, the largest adult-age population group, will also be a force in the market as they downsize and provide financial assistance to their children buying their first homes.**

- Baby Boomers are living longer and the loss in stock market and home equity wealth in 2008-2009 ensures that many of them will be working longer as well. Second-home sales, purchases of luxury household items and upgrades to their existing homes have all been negatively affected by the downturn. These activities will continue to be constrained over the planning horizon by economic uncertainty and loss of confidence.

- California will continue as a primary destination point for international migration. Housing preferences will likely differ among these households, including the desire to move infrequently, comfort level with higher density living and a growing need for bilingual agents to serve their needs.

- The Internet continues to democratize the transaction by making more information available to consumers than ever before. **Eighty-seven percent of home buyers in 2010 used the Internet as a significant part of the home buying process**, **while ninety-two percent of sellers heavily utilized the Internet in their transaction. In other words, the Internet-enabled homebuyer/seller is the mainstream client for REALTORS®.**

- Information technology continues to undergo profound shifts, as end-users of information dictate and create models of communication, dialogue and delivery. W we are well into the era of consumer-originated media, in some respects similar to the desktop publishing revolution of the 1990s. Barriers to entry have been substantially lowered for those who wish to engage in online communication. Today, consumers create personal web sites, develop personal communities via Facebook, post their opinions to the world via blogs, twitter incessantly, edit the information of others via wikis, post video on You Tube and engage in a variety of online content aggregation and dispersion using rss feeds, podcasts, video clips and more.

- The explosion of web sites, web tools that allow for easy content creation and dissemination, and web dialogue (via e-mail, instant messaging, chat, discussion boards, blogs, etc.) have contributed to an exponential increase in communication clutter. Effects of this on user habits already are beginning to be noticed: though Spam filters are increasingly utilized to weed out unsavory and unwanted e-mails, users are themselves opting not to read e-mails or e-newsletters. Managing unwanted emails is a growing irritant.

- The Internet has changed the communication landscape in terms of the flow of information and data. Consumers are comfortable conducting research via the web prior to making purchases, whether of homes, cars or books. A wealth of information is available to delineate between vastly differing price points and product features. Entities providing easy-to-understand and timely information will be more valued by consumers. In turn, these entities will be well-positioned to monetize their online channels based on click throughs and page views.

- **Consumers increasingly use the Internet to gather information about the home transaction process, property values, finding an agent, and real estate finance options. While consumers generally look to REALTORS® for interpretation of that information and for guidance through the home transaction, non-REALTOR® competitors (for example, Zillow, Trulia, Google, and Yahoo) have gained significant market share and benefit from being perceived as unbiased third-party sources of information.**

- Current and future generations of home buyers and home sellers will receive and evaluate information in online formats, and will expect to interact with their agents in the same way. Still, a significant portion of the current population for the next 10 years comprises of Baby Boomers, who while Internet-proficient, did not incorporate the Internet during their formative years.

- **Given the heterogeneity of home attributes and the complexity of the transaction, there will continue to be a significant role for real estate professionals.** While traditional buyers rely on the REALTOR® to lead them through the process, Internet buyers characterize themselves as working as a team with their REALTOR® in the process. Regardless of the kind of buyer, REALTORS® should view themselves more as a professional who guides their clients through the home transaction, over and above their role as an information source.

- Increasing availability of information will reduce transactions costs, both implicit and explicit, and increase efficiency of both the process and the market. At the same time, real estate consumers will demand more in the area of customer service. They will also continue to demonstrate a preference for one-stop shopping in the home market transaction.

**Brokerage Industry Trends**

- **The role of the REALTOR® in the home sale transaction will evolve as technological change and pressure for increased efficiency mount.** The Internet, e-commerce, interactive TV mobile apps, etc., allow potential home buyers to gather relevant information and preview properties without a REALTOR®.

- The industry will adjust as the mortgage brokerage licenses are transitioned to a newly formed department that is not under the DRE.

- Despite the demise of the Home Valuation Code of Conduct (HVCC), the lack of adequate regulation of appraisal management companies will be problematic as long as the HVCC is continued under FNMA and Freddie mandates. Appraisals will be less accurate and more costly as the utilization of out of area appraisers continues.

- The pressure to retain real estate related income will see the REALTOR® more involved in the loan modifications, loan origination process and other activities associated with the home purchase process. New and old entrants will challenge REALTORS® for this business and control of the consumer. Many consumers perceive one-stop shopping as a value-added service.

- **The consumer will dictate the future of the industry.** Over the long term, increasing use of the Internet via PC, smart phones, and iPads by both consumers and businesses will speed up the rate of transactions, increase the demand for more information (because more information can be processed at a reasonable cost in terms of time and money), give impetus to new business models, exert pressure on commissions, and raise industry standards for the accuracy, availability, sophistication and analysis of information. Consumers will have more property information prior to contacting a real estate professional, raising expectations on the professional to deliver more and sophisticated knowledge and service. Over the short term horizon, market conditions will serve to maintain or even enhance existing commission levels as challenging market conditions for sellers highlight the critical importance of the skills the REALTOR® brings to the transaction.

- **Offices with the greatest potential of success will efficiently and effectively utilize technology to: reduce fixed costs underlying office size, provide information to their agents and their clients, help educate their agents and clients, and increase the cost effectiveness and quality of their marketing.**

- Success in the marketplace will demand utilization of new technologies and computerized information sources. Technological innovation such as Smart Phones and mobile apps will allow agents to spend most of their time in their highest value-added activities. A growing number of real estate companies will support and encourage the "virtual office" concept as a way to reduce overhead and increase productivity, and this trend will be accelerated

by the current cyclical downturn as cost cutting becomes critical for survival. The push to increase productivity will expand the utilization of MLS data for management and acquisition purposes. Over time, more readily available information will squeeze out the less productive and the more costly firms at all levels of the transaction (agents, escrow, title, lenders, insurance, etc.).

- As affiliated industries and the emergence of new business models (online and otherwise) strive to own a piece of the transaction, an increasing number of transactions involving referral fees will adversely impact agent income. Other service providers such as negotiators and other marketing enhancements (staging, etc.) needed to sell listings in a distressed market will erode commissions.

- Alternative business models such as those that reduce ongoing overhead will emerge with more home offices, remote services and other structure, both legal and physical, which minimize costs in fluctuating markets. More brokers will look for structures, such as limited referral offices, to keep salespersons under their licenses to obtain referral business without them providing the usual real estate licensee services.

- There will be increased focus on recruiting new agents, firm profitability, maximizing the company dollar and retention of productive/profitable agents with a resultant decline in the number of offices. Top producers will behave like "free agents", many operating a business within a business. As firms are forced to reduce the services they are able to provide to their agents and/or raise fees, an increasing number of agents will choose to leave traditional companies and either go it alone or transition to smaller, niche companies.

- There will be more consumer pressure for licensees to give services above and beyond the current standards. Licensees will be more involved in actively recommending specific services of others. Regulation of title companies will further restrict marketing by title companies and possible direct marketing by title companies to consumers, as well as reducing the amount of information title companies provide through real estate professionals at little or no cost.

- **Structural changes in the brokerage industry will continue.** These include an increase in the number of small firms serving niche markets, the disappearance of many mid-sized firms, an increase in the independent mega brokers' market share, as well as a decline in the number of networks. Consolidation in the industry continues to have a major impact on the industry.

**Trends in the World of Technology in Real Estate**

- REALTORS® will accelerate adoption of mobile devices that consolidate cellular, e-mail, social networking, electronic signature and instant messaging communications. . Current smart devices will be replaced with more capable intelligent devices, some with larger form factors, as seen in the evolution of the iPhone and iPad. As vendors continue to deliver applications that exploit handheld wireless “always on” devices, penetration of these devices to real estate practitioners and to the consumer market they serve will grow exponentially. The predicted fusion between handheld smart devices, mobile computing (laptop and tablet) and special purpose devices (e.g. e-book readers, music players) as a single-device alternative to specialized devices has begun and we should see more entrants and alternatives in the coming year.

- Cellular networks will continue to be enhanced providing faster cell-based wireless Internet connections. As cell-based wireless bandwidth improves, the movement toward “always on” mobile Internet connections for tablet, netbooks and laptop computers will continue to grow. This growth is also being enhanced by the availability of shared, cellular hot spot devices and software applications that mitigate the need for multiple service subscriptions for multiple devices.

- Social Networking (Facebook, MySpace, Twitter, YouTube, blogs, etc.) will provide a dominant communication channel for REALTOR® - client communications resulting from congestion in the familiar email channel and changing social demographics as the "grown up digital" generation enters the residential real estate market. These applications have started to add location awareness and this trend is expected to continue. The trend will transform Social Networking to Social Computing over time. Reputation Management becomes an increasingly more important issue.

- Apple adoption is accelerating in with the Macintosh and iPad. Android phones have begun to outsell iPhones in 2010. C.A.R. measures Mac usage of our current products and services at approximately 6 percent (up from 2 percent last year). Traditional PC users continue to look at Apple hardware more seriously with its integration with the Intel platform. Windows software will run better on Apple's hardware, but not vice versa (if at all). Meanwhile, usable $250 entry laptops are and are now a reality and business travelers will begin leaving their laptops at home in favor of taking other devices on business trips.

- Platform-independent applications running as a Software-As-A-Service (SAAS) solution will become the norm for Real Estate applications. The calREDD, WINForms/ZipForms and RELAY applications are all now operating system and browser independent. This independence is being extended to mobile, smart devices (e.g. iPhone, Blackberry, etc.) in late 2010. Market demand will continue to fuel the development of this technology.

**Trends in Organized Real Estate**

Membership

- REALTOR® organizations are challenged to provide valuable business and political services. Multiple Listing Services will continue to consolidate and there will be more uniform offerings of the data which will cause local associations to compete on services and price on a larger scale. Without regional or statewide consolidation, multi-layered data sharing will maintain redundant cost and technical inefficiencies. Nevertheless, the possibility of a statewide MLS emerging over the next three years is remote.

- **Productivity gains, although small, will continue over the planning horizon as membership declines lag the trend in sales and dollar volume remains depressed. Fallout from the business will accelerate as the market slows and downward pressure on commissions reduces the pool of active real estate licensees. This will present financial challenges to associations that rely heavily on membership-based revenue streams unless other adjustments are made from non-dues revenue sources including MLS revenue.**

- The participation of new licensee sub-groups, financial services conglomerates, online firms and nonresidential specialists in organized real estate will be sought through alternative membership categories, such as corporate or section membership.

- Demographic changes in California are working themselves through to the state's licensee population. Unless these new multi-ethnic licensees see REALTOR® organizations as welcoming and relevant, a large proportion of them will stay away from organized real estate. REALTOR® organizations will face a diminishing share of the total licensee population from these demographic changes, as evidenced by the continued upward trend in the number of ML-only members. Successful models to attract and retain a culturally and ethnically diverse licensee population are embraced by organized real estate at all levels.

- Electronic commerce in the real estate transaction may create more subsets of the real estate professional or redefine transaction coordinators as these functions become more automated. Just as the increased use of assistants put downward pressure on the pool of dues paying members, introduction of new technologies will create more opportunities to offload the professional agent and his or her support services.

Organization/Structure

- **The successful trade association of the future will be defined by its ability to meet the needs of its members, not by overall size.** Organized real estate will increasingly be viewed as a "product" and will have to sell the value of membership to retain members. Continued affiliation with MLS services will likely be a key component in assisting in the one-member contact point for real estate related services including recruiting opportunities for membership. Competition from new entities specializing in emerging market segments including ethnic licensees and the on-line real estate space will develop. Opportunities to partner with these new entities will present themselves.

- Board of choice and the expanding geographic service areas of MLS systems will continue to create competitive pressures to reduce the number of associations in the state, potentially creating a more efficient, inclusive and lower cost organization. This pressure will be less severe during prosperous market periods and more severe in a contracting market.

- **Relationships between regional MLSs and their Association owners and joint ventures will continue to be a source of tension if the regional MLSs act in a manner not consistent with the missions of their parent organizations and real estate brokers they serve. Regional MLSs that have redirected all MLS revenue to the regional entity without regard to their owners' needs will likely come under fire and be restructured. Regional MLSs that continue to provide valuable services that local Associations do not want to provide or cannot provide as effectively will survive due to the value they add to the services to the membership. Alternatively, if regional MLSs disintermediate local associations from all MLS contact, local associations will either be dependent on voluntary funding for some association services like local government relations or have to restructure their marketing and funding structures to provide relevant services.**

- Increased pressure will arise on MLS issues and broker satisfaction, including the tension between NAR mandates and broker/market needs. This also goes to the issues of privacy, ownership, security, redistribution of data, effective FSBO use of MLS (by no-service brokers) etc.

- To capitalize on the unique position C.A.R. holds as a neutral provider of information and authoritative voice on real estate, the Association should embark on a strategy to engage in a direct dialogue with consumers on a variety of fronts, with the aim of raising the image and perceived value of its members to various publics, and providing consumers with information that aids in the home buying and selling process.

- Commercial overlay associations will continue to experience questionable viability, while at the same time residential agents remain interested in the opportunities a career in commercial real estate might offer.

- Association executive professional development and increased professionalism of their staff will be essential for delivery of effective membership services. C.A.R. ties to the consolidated entities grow as the benefits of operating as a collaborative organization are recognized.

Products and Services

- The MLS structure will be in transition to a few connected regional entities. Although Associations are still the predominant owner of MLSs, depending on choices made, these may operate "independently" of local associations or jointly by associations and broker collaborations. As NAR rolls out its public data base of a property based information system, REALTORS® will have increasing access to rich sources of data. To the extent that this is also made public, or a subset of it is made public, it may increase the need for REALTORS® to differentiate on analysis of information, marketing and other professional support as contrasted with mere information transmission.

- Various property sites that may be open to the public may arise unless MLS technology is advanced to be competitive with other more current technologies and business tools. However, due to accuracy and safety concerns, the MLS will continue to be the trusted source of timely and accurate data for properties on the market. T**he MLS environment will increasingly fluctuate with the possibility of adversely affecting broker/agent productivity, customer service and client satisfaction.**

- **Public sites that rate REALTORS® and/or provide information on market share by agent will emerge over the planning horizon.**

- Discussions about historical data, its storage, retrieval and triggers on disclosures may impact broker liability and put pressure on increasing duties to produce historical information about properties

- **If larger scale MLS aggregation or consolidation occurs, there will be debate about rules governing the use of data and security of data. This will include evolving standards about detailed property information, off market and sold information that may be made available to the public. To the extent that the issue is governed by the Department of Justice settlement on Virtual Office Websites, this will remain static for some time.** The local MLS or a replacement regional entity will become valuable as a policeman and validator of accurate and timely data as the business rules of reproducing aggregate databases of listings evolve.

- Business rules about use of data will continue to evolve as technology improves the various methods of transmitting and manipulating listing and other data. Business rules about reproducing, repurposing the data after manipulation and reselling it, or reselling software tools that allow manipulation will become increasingly important to the brokers, MLSs and software providers. Technological forces as well as difficulty of enforcing controlled distribution of data may result in different models for both the real estate professionals and MLSs.

**Legal Developments**

- Fraud and scams will continue to be a problem in relation to distressed properties, short sales and REOs. Illegal activity surrounding distressed sales will increase as non licensees and other scam artists continue to be involved in the transactions in ways that may violate the law and undermine the integrity of legitimate transactions.

- **Increasing revenue pressures on local governments will increase aggressive use of the business license tax and other methods of creating revenue using agents.** More aggressive local governments will try to use the independent contractor status as a basis for expanding the scope and cost of business license taxes to real estate firms.

- **The transaction will be fully on its way to complete electronic processing of the paper work.** This could actually increase the amount of information in a file and will put increasing pressures on the real estate professional to make sure the information is explained and understood by the principal. The ability to "click through" key paragraphs may make this more challenging for anxious buyers and sellers. Electronic signatures and security protocols will make e-transactions the norm but will frequently collide with security and privacy issues.

- The confidence in the security of the cyber issues by having a secure system in which consumers and professionals alike have high confidence will impact whether the full transaction will migrate quickly to the fully electronic. Key to this will be the safeguard to control fraud, particularly rampant in low income or high equity areas, and any accompanying press. Privacy issues and increasing technical barriers to prevent computer mischief will become obstacles to the actual security making the recognition of a credible system imperative. Initiatives by title companies to aggregate and update more public records may make electronic processing more of a reality in a secure fashion that may be accepted by local counties as they watch resources diminish. This will be particularly attractive if local counties can realize savings and/or income by implementing such changes and increase protections against fraud.

- The definition of an agent's role in the transaction as it relates to searching for available databases will be key in defining the scope of an agent's duty. The ease of access to historical records may put pressure on firms to retrieve such records beyond what is the current standard. This must be juxtaposed with available electronic information, the relevant market practice and the opinion of "experts" as to duties to advise and discover such information or at least advise of its availability. These questions will be in flux as there are property identification/history of repairs, MLS histories, title histories, natural hazard and governmental planning issues and other databases more easily made available directly to the public. The risk management approach of whether to become the navigator/advisor through the thicket of information or resort to the disclaimer/ push it to the consumer approach will not only help define the role of the professional in the transaction but the value of the services to the consumer. Whether the industry will migrate toward a more detailed definition of the scope of their services through contracts is yet unknown, dependent on industry and consumer acceptance of the practice.

- New models that appropriately allocate the risk of a transaction to the interested party will play a role in the dynamics of ordering and the fee structure of future optional investigational reports.

- RESPA and similar state laws will be key in determining what kind of relationships evolve as efficiencies become evident in vertical and horizontal integration of support services to a transaction.

- Private property rights will be litigated under a variety of theories as pressures to stop growth continue. There could include constitutional takings, creative regulations, environmental protections and the initiative process. Affordable housing concerns and obligations of local governments will become part of this land use litigation area. Increased pressure on property taxes might result due to municipalities or other local units failing to fund the interest on bonds that have the ability to assess properties in case interest payments are short.

- Professional standards continue to be an issue within the industry. Continued frustrations with business practices in a distressed property and a highly competitive market will continue to be concerns of the industry both from a consumer protection vantage and from a peer-to-peer perspective. Disputes over commissions will rise. Negotiator fees will become increasingly under dispute. Consolidation of MLS rules and fine structures as the separate statewide MLS rolls out may increase uniform and more effective enforcement of MLS rules. Fine/citation policies for ethics infractions may increase enforcement.

- **Increased focus on ownership of the MLS and listing data including consumer information will be examined as the various interested parties: brokers, salespersons, AORs, MLSs and third part vendors sort through the various issues of who controls the data, who gives permission for its use, who makes the decisions and how it is protected as a practical matter. As the statewide MLS consolidates data, better controls on the data and appropriate licensing will occur as will policing of unauthorized use of data.**

- **The RPR and its rival will bring into question ownership, revenue models and the role of REALTORS® v. non REALTOR® licensees and their respective rights under the expanding availability of data.**

- Continued pressures to expand broker liability will be brought through the legal system to attempt to expand liability beyond the parties of the transaction. Parties using litigation as a threat may create more disclosures and therefore pressure to buy services and tests not normally requested or required by consuming buyers or sellers. Fall out of the loan modification and foreclosure and short sale processes will increase as lenders become aggressive about loans for which there is still recourse or homeowners still lose their homes after a loan modification.

**Government Affairs Developments**

- The REALTOR® as the initial contact point in the transaction will continue to be an important issue at the state and federal levels as others work to capture that position.

- Congress passed, and the President has signed, the Wall Street Reform Bill which will require federal regulators to issue new regulations on nearly every aspect of the mortgage process. This includes disclosure, loan terms, underwriting requirements, subprime loans, and others.

- Relatively liberal states like California will continue to try and increase homeowner protections against foreclosure. To the extent that they are successful, these efforts may inspire even tighter underwriting by lenders and more difficulty in obtaining financing.

- **Promoting the "value" of governmental affairs/public policy/political affairs to our members will continue to be necessary**.

- Private Transfer Taxes will continue to be a mechanism used by builders to finance environmental and other needs and legislation will be advanced on both sides of the issue. Fannie Mae, Freddie Mac and the FHA are considering regulations that would prohibit them from buying, guaranteeing, and/or insuring any mortgage that has a PTT.

- Existing term limits and a new redistricting commission, coupled with the redistricting required by the 2010 census may combine with a new "top two" primary measure and anti-incumbent sentiment to create increased uncertainty, and opportunity, in upcoming elections and require REALTORS® to be more active political players in the electoral and legislative environment.

- The use of Independent Expenditures (IEs) and coalition efforts associated with IEs will become more commonplace, and the dominant factor in contested races.

- The need to elect business-friendly “moderates” will promote the development of coalitions for that purpose, REALTORS® will increasingly find their opponents to be other business interest groups (e.g. builders, bankers, insurers), in addition to traditional rivalries with trial lawyers, poverty advocates and "consumer" groups.

- There will be pressure for license reciprocity, particularly in commercial and relocation activities.

- The attention to mortgage lending increases the likelihood that mortgage loan activity will be moved out of the DRE into a Department of Financial Services or Corporations.

- There will be greater regulatory focus on “cooperative arrangements” between members and affiliated industry service providers and growing pressure to develop legitimate models for such cooperation. There will also be greater scrutiny of such relationships to guard against consumer abuse.

- Some in organized real estate will seek to “raise the bar” on entry level licensees and to promote meaningful continuing education. These efforts will require legislation or administrative action.

- The e-commerce environment is moving quickly, creating transactional as well as licensing challenges, and opportunities for C.A.R. to replace affiliates as providers of required services. C.A.R.'s provision of e-signatures will lead to increased demand for electronic notarization and delivery of documents.

- Online real estate business models will raise questions of how far such services can go without state licensing and or administrative oversight.

- The REALTOR® Action Assessment will position C.A.R. to be an even more aggressive participant in the both the political and independent expenditure “marketplaces.” The RAA which requires "all members to carry the load" addresses the "free rider" situation.

- Voluntary fundraising including the high donor programs will be more challenging in light of the RAA and the economy.

- There will be ongoing interest in, and attention paid to, the ability to have and obtain contribution information at all levels of government.

- A concerted coalition effort will continue to be necessary to achieve success on major housing policy issues. Unfortunately, builders and local governments will increasingly see single family housing and re-sale housing as competitors rather than partners in their budget and policy agendas.

- Risk Management will be a growing concern for membership as the unsustainable values of the 2004-2006 market peak have given to significant price declines. Losses in value due to alleged licensee misconduct or "predatory selling" will become more of a focus for policy makers as well as trial lawyers. Actual damages have been difficult if not impossible to prove in a prior market where home prices have been steadily increasing. This dynamic changes as home values decline.

- Local elected officials will become increasingly more important to the state level agenda as they become the successors to sitting legislators in a term limit environment. Recruitment of appropriate candidates and building of constructive relationships at the local level will be increasingly important as term limits increases the turnover of officeholders and staffs, making it more difficult to maintain an on-going dialogue in Sacramento. Consequently, C.A.R.'s profile as a source for legislative and political information will increase.

- Targeted Grassroots mobilization will become increasingly more relevant and consistently utilized to successfully implement C.A.R. policy objectives. "Branding" or brand loyalty of C.A.R. grassroots efforts will become increasingly difficult to protect as other interest groups (e.g. Property I.D.; Title Assn.) increase efforts to utilize their relationships with REALTOR®s and "hijack" them for non-REALTOR® campaigns. Newer mobilization strategies, such as the use of social networking, will increasingly play a larger role in our mobilization efforts.

- "Open" MLS efforts may be advocated, but may be less of a threat than emergence of on-line competitors that undercut the exclusivity or value of the MLS, necessitating defensive political activity or appropriate regulation.

- Local building/growth and housing affordability will continue to clash with environmental concerns, antigrowth measures, and local control. Housing development will be challenged as a source of water and air pollution. Specialized regional government entities like the Bay Delta Commission, Coastal Commission or the South Coast Air Quality Management District will increasingly encroach on local government functions.

- The recent U.S. Supreme Court case of *Kelo v. New London Connecticut* will continue to precipitate legislative proposals threatening state redevelopment law and potentially adversely impacting the availability and affordability of housing.

- Increased levels of campaign finance "reform" emerge at the local, state and federal levels. This includes adjusting to the recent Supreme Court ruling allowing corporations to spend freely on political ads leading up to elections.

- The federal government will be forced to address the tax provisions expiring in 2011, as well as a ballooning deficit of over a trillion dollars. Government at all levels will be forced to find areas to cut spending and/or raise revenue.

- The federal financial reform bill suggests that federal rules will be less pre-emptive of state laws, possibly offering more opportunity for changes such as predatory lending laws.

Outlook for State and Local Government Finance

- As the state budget situation continues to worsen local governments will be forced to take over more and more programs previously funded by the state resulting in severe local shortfalls. This will lead to necessitating aggressive revenue raising efforts that may adversely affect real estate.

- Voters in local Proposition 218 elections have approved many assessments, taxes and fees. Voters will continue to support these levies as locals become more fiscally “strapped”, especially if local governments present reasonable and necessary proposals.

- In addition to pressure occasioned by a tight state budget, many local governments will continue to feel the pinch of Proposition's 13, 62 and 218 and the state shift in property tax revenue from the early 1990's. These localities will look for methods of raising revenue that offer the "path of least resistance", some of which will directly impact the real estate profession, such as business license taxes.

- With so much pressure coming from constrained revenues at the state and local levels, REALTORS® and the real estate market become more visible to local government officials looking for easy ways to raise revenue. Consequently, proposals for business license taxes, inspection fees and other revenue raising measures levied on REALTORS® and homeowners will appear with greater frequency, and perhaps attempts to use point of sale retrofit issues as a revenue generator may be tried by locals as well.

- As “green issues” continue to dominate discussions, dormant antagonisms against real estate and growth will revive. Old controversies, such as growth control, real estate signs restrictions, and design standards will become more prominent.

- REALTORS® will continue to need training and education about foreclosure/default avoidance and short sale programs to take back to their communities. REALTORS® can expect increased attempts to blame sales agents and the industry for defaults by owners that bought during the “up” market.

Rental Housing/Urban Revitalization

- Housing finance strategies for low-income rental housing will be "floated" in local governments and the nonprofit development sector.

- Efforts to establish a permanent source of funding for state housing programs will increase because previously approved voter bonds have been, or soon will be exhausted, and voters are not likely to approve more bonds in the current fiscal/political environment. These efforts will likely manifest themselves in the form of legislation attempting to impose transfer fees on housing.

- Rent control will continue to be enforced by local governments. Due to population increases and shortages in rental housing stock, there will be increasing pressure to propose more regulation, and to apply existing regulation to new construction and single family homes.

- The rental-housing sector will face a continuing challenge concerning habitability issues. Drug and criminal history related evictions will continue to be an issue confronting government, landlords, property managers and tenants.

- Pressure to provide additional disclosure of material facts or characterize additional information as “material” may escalate.

- Government will continue to demonstrate an interest in mandating building and zoning code compliance of existing housing stock especially regarding resource conservation. These mandates will increasingly be imposed at time of sale.

**Real Estate Financing Trends**

The Supply of Capital for Mortgage Loans

- The Administration and Congress will wrestle over the future of Fannie Mae and Freddie Mac. While many ideas have come forward about what to do with these two entities, none have gained enough support from key decision makers to begin to craft and move as legislation. This issue is expected to pick up greater momentum early in 2011.

- The emergence of appraisal management companies and their practices will continue to aggravate market conditions associated with values and precipitate regulations directed at common sense solutions (e.g., using local appraisers) for that sector of the real estate business.

- REALTORS® will continue to play a role in the financing transaction as a result of the proliferation of affiliate business relationships between REALTORS® and lenders, but the REALTOR® will have less involvement with the loan itself.

- Homebuyers, lenders, and Wall Street will continue to struggle to modify, refinance and work out troubled loans over the 3-5 year planning horizon.. The absence of a politically palatable "quick fix" or "magic bullet" to the overhang of troubled loans and surge in the number of underwater homeowners means that the recovery will be slow and lengthy.

- The supply of financing available for conforming loans will be adequate to meet the demand for residential mortgage loans even with tighter underwriting guidelines because of the presence of Fannie Mae, Freddie Mac and FHA.

- It is unclear if the jumbo market will see any improvement in 2011. Private investors looking for safe investments may view not only GSE and FHA mortgage backed securities as more secure investments, but the Treasury may begin to sell off their portfolio of $1.25 trillion in agency MBS. This may force jumbo lenders to continue to portfolio their loans limiting the amount of capital they may commit to them.

- Conventional loan qualification standards will continue to be stringent as lenders look to originate a book of business that is both financially sound and satisfies lending target requirements. Qualification standards for conventional loan products will continue to be dictated by the requirements of the federally sponsored secondary market organizations. In addition, the new "skin in the game" requirement for lenders will push many to originate "qualified mortgages" that are exempt from this provision. Regulations have yet to be issued defining a "qualified mortgage" but stringent underwriting standards are to be expected.

- Technology will continue to streamline the mortgage underwriting process and integrate it into the total home buying transaction. A new generation of risk assessment tools will be developed that will go beyond the current credit scoring models available.

- The market is pulling back from the alt-A and subprime mortgage products and relying more heavily on fixed rate loans or conventional ARMs. While alternative mortgage products for buyers who have less than ideal credit profiles will continue to be available, tighter underwriting standards will limit the pool of buyers who may qualify for these products. This may also open the door for new real estate finance products to meet the needs of homebuyers who do not qualify for conventional lending. This may include new business models such as "equity sharing."

- Increasingly lenders will price mortgages separately based on the risk profile unique to each loan application. This trend raises concerns about "data redlining" by lenders and insurers.

- The secondary market for commercial mortgages is expected to continue to struggle. Congress will look to implement alternative secondary market ideas in this arena, including a covered-bond market similar to that of the European mortgage market.

Financing for Affordable Housing

- Continuing problems associated with sub-prime lending, adjustable rate loans and other non-traditional loan products will precipitate more conservative lending approaches and the use of more traditional loan products. The vacuum left by the elimination of these products will likely lead to the introduction of new real estate finance models to meet the needs of homebuyers with less than perfect credit.

- FHA, which now insures over thirty percent of the mortgages originated, has stepped in to become the primary finance vehicle for affordable housing. This does however present a risk to the solvency of FHA, and thus to the federal government and taxpayers who back the FHA.

Government Housing Finance Policies

- **Given the continued lack of capital in the private/non-GSE, FHA, VA, and RHS mortgage market, C.A.R. will continue to work to make permanent the current temporary higher loan limits passed by Congress.**

- General obligation bond measures related to development will continue to face voter resistance.

- Strong veteran lobbying efforts will limit efforts to change or scale back the VA home loan program/entitlement. The state Cal-Vet program will, however, continue to be subject to criticism as unnecessary and inefficient.

- Environmental issues will continue to play a large role in real estate financing as lenders and government agencies (FNMA, FHLMC, FHA, etc) increase requirements related to disclosure, inspection, containment and abatement. Environmental contaminants (lead paint, radon, etc.) will have a higher profile and are the subject of increased governmental regulation. "Green house gas emissions", "carbon footprint", Property Assessed Clean Energy Program (PACE), and reduction requirements occasioned by AB 32 may precipitate point of sale efforts on the existing housing stock by environmental groups and builders. The federal government has begun and will continue to address these issues at the federal level, possibly with preemption, as Democrats attempt to take advantage of their control over both the Legislative and Executive branches.

- Increased concerns with the potential for losses due to earthquakes fire and floods may lead lenders to include disaster insurance as part of their underwriting requirements in both the single and multifamily markets but the market's ability to mandate a broad requirement will be tempered by the market availability of affordable disaster insurance coverage.

## C. Supplemental Information

### Supplement #1 - 2010 Membership Survey

In 2010, the California Association of REALTORS® conducted its annual Membership Survey. The Membership Survey's main objective is to measure member satisfaction in key functions of the organization and to determine the overall importance of the Association's programs. In addition, the survey is also intended to:

- Assess awareness of member benefits and specific products and services offered by the organization.
- Determine the likelihood of renewing membership in organized real estate.
- Assess member awareness and gauge importance of key issues and challenges in their real estate business.

Awareness of Membership

Awareness of C.A.R. as an organization and membership in C.A.R. was near universal at 98 percent and 97 percent respectively. Unaided member awareness of belonging to C.A.R. decreased one percent in the last year from 99 percent. Awareness and recognition of NAR lags that of C.A.R. and was virtually unchanged from recent years at 84 percent. The Women's Council of REALTORS® (WCR) has gained prominence as a real estate organization with 20 percent of members indicating awareness of its presence, up from 11 percent in 2003 when it was first mentioned.

Awareness of Benefits

Members recalled an average of 9.2 different member benefits on an unaided basis, a nearly 75 percent increase from 2009, when only 5.3 benefits were recalled. We have come a long way in increasing awareness of our products and services from the year C.A.R. began to track this, when recall averaged 2 products/services recognized by members. Benefits in the Communications area dominated mentions in 2010 with nearly all (99 percent) members stating a benefit from that area. Legal benefits were the second most frequently mentioned member benefits (mentioned by 93 percent). Lobbying/Government Affairs and Research were mentioned by about nine out of 10 members (90 percent and 89 percent, respectively).

The three services mentioned most often were:

- Legal Services (85 percent)
- Helping you stay current on trends in real estate (82 percent)
- *California Real Estate* (CRE) Magazine (79 percent)

Since the survey began in 1995, Legal Services has been in the top three. For the third time, CRE Magazine is in the top three benefits mentioned, increasing from 60 percent in 2008 to 79 percent in 2010.

Members were also asked what benefits would make C.A.R. membership essential for all licensees. The top answers focus on coping with the current market environment:

- More projections on where the market is going and why (43 percent)
- Forecasts on residential real estate sales (41 percent)
- Tips for handling seller expectations (22 percent)

Greatest Challenges Facing REALTORS®

Challenges reported by members have shifted slightly from slower real estate market, reduced number of transactions and staying in the business to difficulty qualifying buyers for mortgages and dealing with distressed sales. More than one out of three (34 percent) respondents mentioned 'more difficult to get buyers qualified for a mortgage' as the biggest challenge facing REALTORS® this year.

Member Contact

Most REALTORS® contacted C.A.R. via e-mail, telephone, or other, yearly (28 percent) or more than once a year, but less than monthly, (36 percent). Members who contacted C.A.R. rated the service they received from staff a mean value of 8.3 out of a possible 10, slightly higher than 8.2 in 2009, showing some improvement in this area.

Members were also asked to rate the amount of email communication from C.A.R. in order to gauge the amount of email communications sent out. Members rated the amount of email communication at 8.3 on a 10 point scale where 10 is "way too much information," a rating scale where a mid-point rating is key. According to this result, members still believe they are receiving too much email communications from C.A.R. in 2010.

Member Outreaches and Presentations

More than Eight in ten REALTORS® (82 percent) claim they saw a presentation by a C.A.R. representative, the same as a year earlier. C.A.R. staff reached 44,219 members with the organization's Outreach Program in 2010, up slightly from 43,311 members in 2009.

Member Satisfaction

Members were asked to rate C.A.R. on a series of membership attributes. Ratings were based on a 10-point scale. C.A.R. received mean ratings of 8 or higher on the following items:

*Rating of Membership Overall*

- Value of your membership compared to what you pay (8.7)
- Overall satisfaction (8.7)

*Ratings of Individual Member Benefits/Services*

- Legal services (8.7)
- Real estate market analysis and statistics (8.5)
- Annual REALTOR® Expo (8.4)
- CRE Magazine (8.3)
- Political action and government affairs (8.4)

These results were similar to those of 2009, and remained key areas of strength for C.A.R. in its efforts to meet member needs.

- Real estate market analysis has remained important and consistently highly rated since 2008.
- The attribute "value of your membership compared to what you pay" has ranged between 8.7 and 8.9 consistently since 2002.
- The rating of online newsletters and e-mail updates continued to decline from 8.8 in 2003 to 4.2 in 2010.
- Satisfaction in political action and government affairs has been on the rise since 2002 and was rated 8.4 this year, with a range of 8.1 to 8.4 over the past seven years.

Renewing Membership in Organized Real Estate

The percentage of members who believed C.A.R. helps them sell real estate has remained at the statistically same high level (nearly nine out of 10 or 87 percent) since 2001. This measure has consistently proven to be the number one determinant of member satisfaction and shows a propensity to renew their membership.

Nine in ten (90 percent) members said they would be very likely to renew their C.A.R. membership in 2010, marginally higher than the 88 percent from a year ago and well off the peak of 94 percent at the height of the market. Eighty-one percent of REALTORS® said they would be very likely to renew their membership in their Local Real Estate Association, up slightly from 78 percent in 2009. However, the proportion of members who said they were very likely to renew their NAR membership decreased for the sixth year in a row to 43 percent.

**Supplement #2 – 2010 Survey of California Home Buyers**

This report is the 12th annual CALIFORNIA ASSOCIATION of REALTORS® (C.A.R.) buyer survey that details changes in buyers' behaviors in the housing market, driven in part by the health of financial market, by the increased use of the Internet in the real estate business, and changes in consumer psychology.

Snapshot of the Survey of California Home Buyers

- **Distressed sales made up more than half of sales in California.** According to results from the survey, 43 percent of all buyers bought a home through a regular market sale, 41 percent bought an REO/bank-owned property, and 16 percent bought a short-sale property.
- **Home buyers, in general, were optimistic about the future direction of home prices in their neighborhood.** While nearly one in four believed prices would go up over the next year, over half believed prices would go up in the next 5 years, and 76 percent thought prices would go up in 10 years.
- **Home buyers continued to experience considerable difficulty in obtaining financing for the homes they bought.** On a scale of "1" to "10", with "1" being "very easy" to obtain financing and "10" being "very difficult", home buyers reported a high average level of difficulty in obtaining finance of 8.5, increasing from 8.1 in 2009.
- **When asked why they were satisfied with their agent, home buyers continued to cite "always quick to respond" (74 percent) and "negotiated good deal on their behalf" (69 percent) as the top two reasons.**
- **Home buyers needed the most help with price negotiation (44 percent), determining prices for comparable homes (24 percent), finding the right home to purchase (22 percent), and negotiating the purchase of distressed property with banks (10 percent).**
- **Home buyers offered some suggestions to agents on how to improve their services.** Home buyers would like their agents to demonstrate how they can negotiate aggressively on their clients' behalf (56 percent); improve the speed of communications (31 percent); provide references for lenders who will recommend the best product (29 percent); provide references for lenders who will perform (27 percent); and have expertise on how to deal with banks on REOs, short sales, and other distressed properties (22 percent).
  **Housing affordability was cited by buyers in one fashion or another as a market condition that motivated them to purchase a house.** Forty-two percent of home buyers said price decreases motivated them to buy.

Housing Opportunity for First-Time Buyers

First-time buyers took advantage of the improvement in affordability over the past year, as evidenced by the increase in their share of all home buyers. The share of first-time buyers grew from 19 percent in 2008 to 46 percent in 2010 because market conditions were very favorable to home buyers who are buying for the first time. These conditions include a steep decline in home prices, low interest rates, and the $8,000 Federal Homebuyer Tax Credit (H.R. 1). More than half (59 percent) of buyers stated that the tax credit was an influencing factor in their purchase decision.

Home Buyers Taking Time with the Home-Buying Process

Home buyers devoted more time from start to finish during the home buying process. On average, they spent 8.6 weeks considering buying a home in 2010, 6.8 weeks investigating homes and neighborhoods before contacting an agent, and 10.5 weeks searching for a home with their agent. Home buyers on average visited 15.7 homes in 2010, compared to 15.5 homes in 2009. In the past, home buyers spent more time with their agent partly because they visited more homes. The increase in the number of homes visited in 2010, however, was not significantly different from the past couple of years. The additional time spent with an agent could be attributed in part to the increase in the complexity in viewing distressed properties.

Home Shopping Via the Internet

As more real estate information and property listings have become accessible online, many home buyers preferred the dynamic online experience that the Internet offers over the static experience that print advertisements can provide. In fact, only eight percent of all home buyers looked at newspaper/magazine ads to search for a home, while 87 percent of home buyers used the Internet as a significant part of the home buying and selection process. Some of the activities a typical home buyer would conduct online include previewing homes to narrow their search for properties (74 percent), finding a specific real estate agent (70 percent) or a specific real estate firm (51 percent), identifying homes they wanted their agents to show them (63 percent), and obtaining information on home financing and down payment (45 percent).

Market Conditions Affecting Buyer Satisfaction Level

As the Internet continues to empower consumers overall, they have also "raised the bar" in what they expect from both the home buying process and REALTORS® in terms of expertise and service. On a scale of 1 to 5, where 5 is most satisfied and 1 is least satisfied, the satisfaction level for the overall process of finding a home grew slightly from 3.s in 2009 to 3.3 in 2010. The satisfaction level has been dropping f since 2005 when it peaked at 4.5, but it appears to be stabilizing. Buyers are more difficult to satisfy partly because they understand that the housing market dynamics have shifted from prior years when conditions were more favorable to sellers. They expect more from their agent as they realize that they have more power over the home buying process than before.

**Supplement #3 – 2010 Survey of California Home Sellers**

Distress continued to resonate among California homeowners who sold their home in 2010. According to results from the 2010 Survey of California Home Sellers, inability to afford the mortgage, employment uncertainty, and loss of household income played significant roles in sellers' decisions to sell their homes.

- Nearly three-quarters of all sellers in California sold as a result of financial difficulties. Job and income uncertainty led 35 percent of sellers to sell. Twelve percent of sellers reported they needed to sell their home as a result of their mortgage payment increasing.

- The current mortgage loan environment played a prominent role in homeowners' being concerned about their ability to sell: tighter lending standards and higher down payments contributed to the worries. Buyers' ability to secure a loan continued to be among the top three concerns among sellers this year. For 79 percent of respondents, this was among the most worrisome components of the home selling process.

- Virtually all sellers reported having adjustable rate mortgages (2/28, 3/27, five-year fixed, or negative amortization). This is further evidence of the unsustainable market activity of peak years.

- Forty-two percent of sellers interviewed more than five real estate agents before selecting the one they worked with, which is down from 54 percent last year.

- Nearly one out of three (28 percent) sellers moved out of California in 2010, compared to 34 percent in 2009.

- The number of first time home sellers continued increasing to 47 percent of all sellers, compared with 44 percent in 2009, and 33 percent in 2008.

- The largest age cohort of sellers ranged between 35 and 44 years (40 percent), with a slight increase from 38 percent in 2009. The average age of sellers was 39 (the median was 37), with ages ranging from 24 to 62.

- Sellers under the age of 40 made up of 64 percent of the seller population, continuing to outpace baby boomers who consisted of only 18 percent of sellers in 2010

# V. 2011 CAPITAL BUDGET

The proposed capital budget for 2011 totals $850,000. This includes $486,000 for new accounting software, $94,000 to upgrade Microsoft Windows and Microsoft Office. In addition, $230,000 for new carpet at C.A.R.'s headquarters in Los Angeles, $13,800 for furniture/computer, $25,000 for contingency, and $1,200 for two air conditioning units in the computer server room.

# VI. RECOMMENDATIONS FROM SPF AND EXECUTIVE COMMITTEES

## 1. ACTION ITEM

OPERATING BUDGET
To approve a 2011-2013 strategic plan and 2011 budget with the following criteria:

A. C.A.R. Operating Revenue: $25,069,100
C.A.R. Operating Cost: $26,240,700
Net Deficit (Before Investment Income)*: $1,171,600

* Due to the variability of Investment returns, no projection has been included for this item. However, projected Investment Income for 2010 is $1.1 million, an average return of 3 percent. In 2011, the portion of the reserves subject to investment returns will be increased by both this year's addition to reserves and actual returns.

B. Political Activities Fund Revenue: $1,550,000.

C. Issues Action Fund Revenue: $1,550,000.
Issues Action Fund Transfer to IMPAC: $862,900

D. REALTOR® Action Assessment: $7,596,000

E. 122.5 budgeted C.A.R. staff positions.

F. Membership dues, including $115 for operating programs, $10 for the Political Activities Fund, $10 for the Issues Action Fund, and $49 for the REALTOR® Action Assessment are set at a total of $184 per member (predicated on 2011 year end membership of 168,000).

G. New member fee be set as $30 per new member.

H. A 2011 Capital Budget (funded with Association reserves) totaling $850,000.

## 2. ACTION ITEM

To approve for members in areas not serviced by local associations an additional $30 in membership dues. This amount would be in excess of the dues approved for members coming through the local associations.