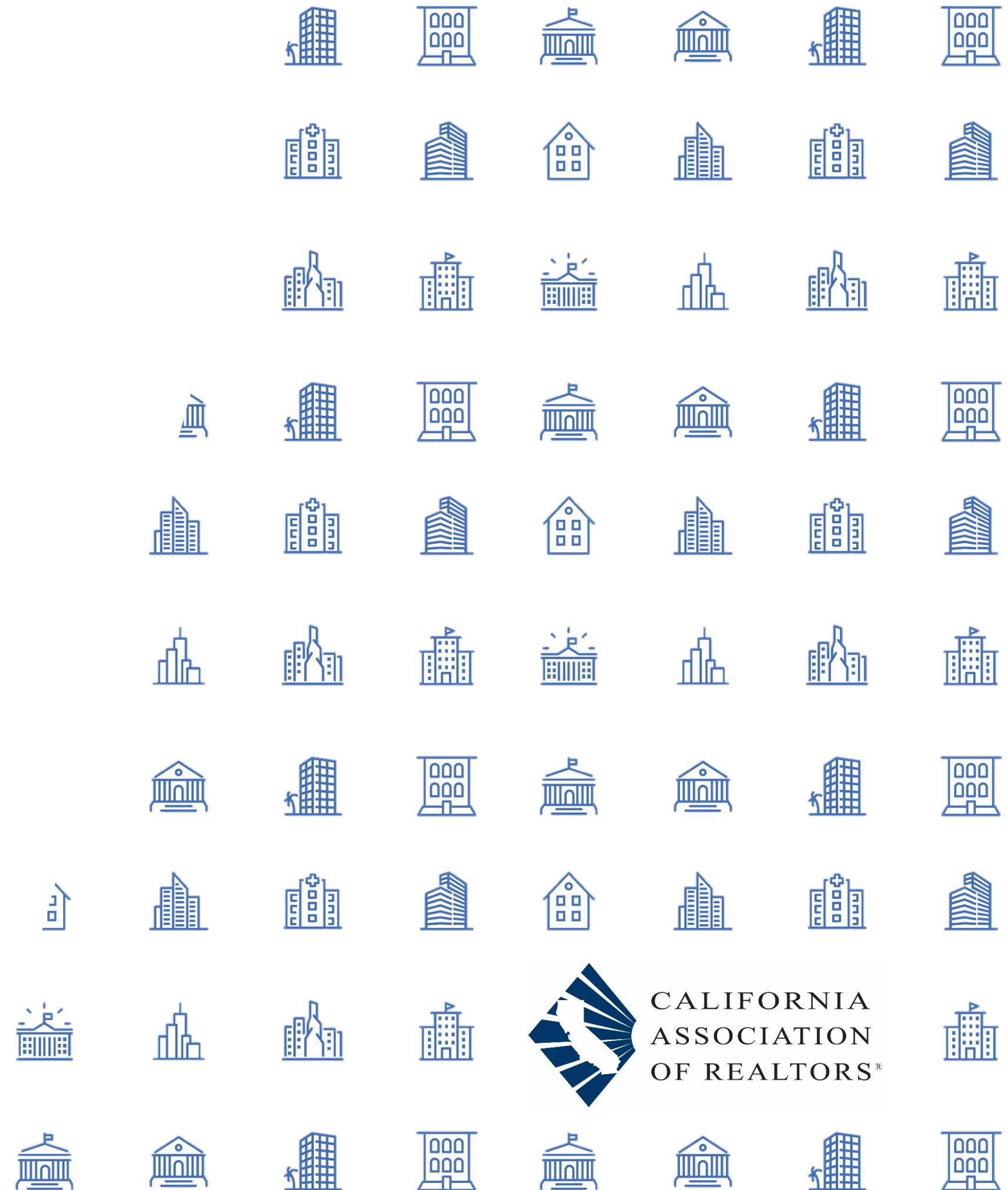


SPF Forum Presents: Change or Die

May 19, 2020

Jennifer Branchini, C.A.R. Treasurer

Joel Singer, C.A.R. CEO



CALIFORNIA
ASSOCIATION
OF REALTORS®



Jennifer Branchini
C.A.R. Treasurer



Joel Singer
C.A.R. CEO

Overview

- The impact of COVID-19
- How the pandemic changes our lives
- The opportunities that the crisis creates





The Crisis



COVID-19 has devastating effects in many ways:

- Public Health
- Economy
- Housing Market





Public Health **Crisis**

Covid-19 is a global pandemic

Confirmed Cases
4,542,195

New Cases
100,184

Reported Deaths
307,663

New Deaths
5,248

Worldwide

What are the daily totals?

100K

50K

0K

Feb 1

Mar 1

Apr 1

May 1

8K

6K

4K

2K

0K

Feb 1

Mar 1

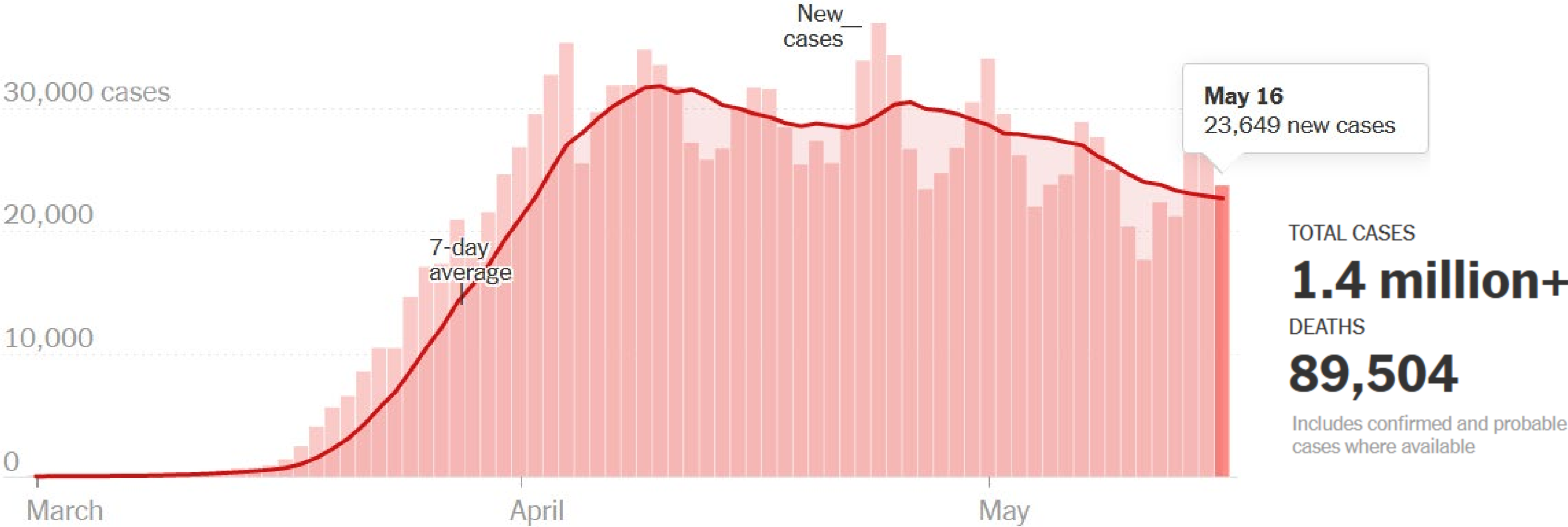
Apr 1

May 1

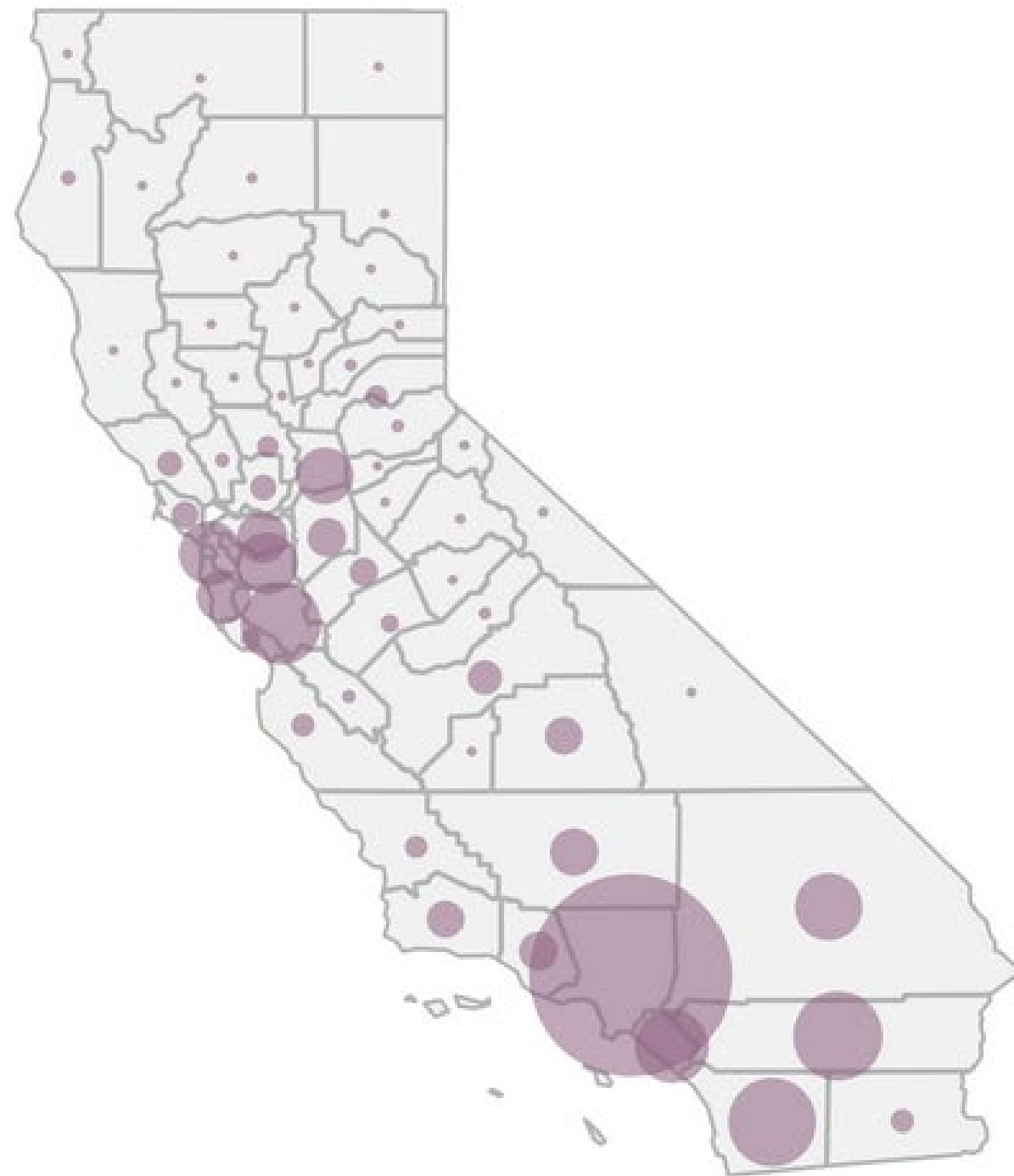
SOURCE: John Hopkins University, Tableau

Covid-19 by the numbers (as of May 16, 2020)

United States



Covid-19 by the numbers (as of May 15, 2020)



For county-level data:
data.chhs.ca.gov

CALIFORNIA COVID-19 SPREAD

76,793

Total Cases

Ages of Confirmed Cases

- 0-17: **3,064**
- 18-49: **38,611**
- 50-64: **18,908**
- 65+: **16,101**
- Unknown/Missing: **109**

Gender of Confirmed Cases

- Female: **37,676**
- Male: **38,647**
- Unknown/Missing: **470**

Hospitalizations

Confirmed COVID-19
3,126/1,079
Hospitalized/in ICU

Suspected COVID-19
1,298/234
Hospitalized/in ICU

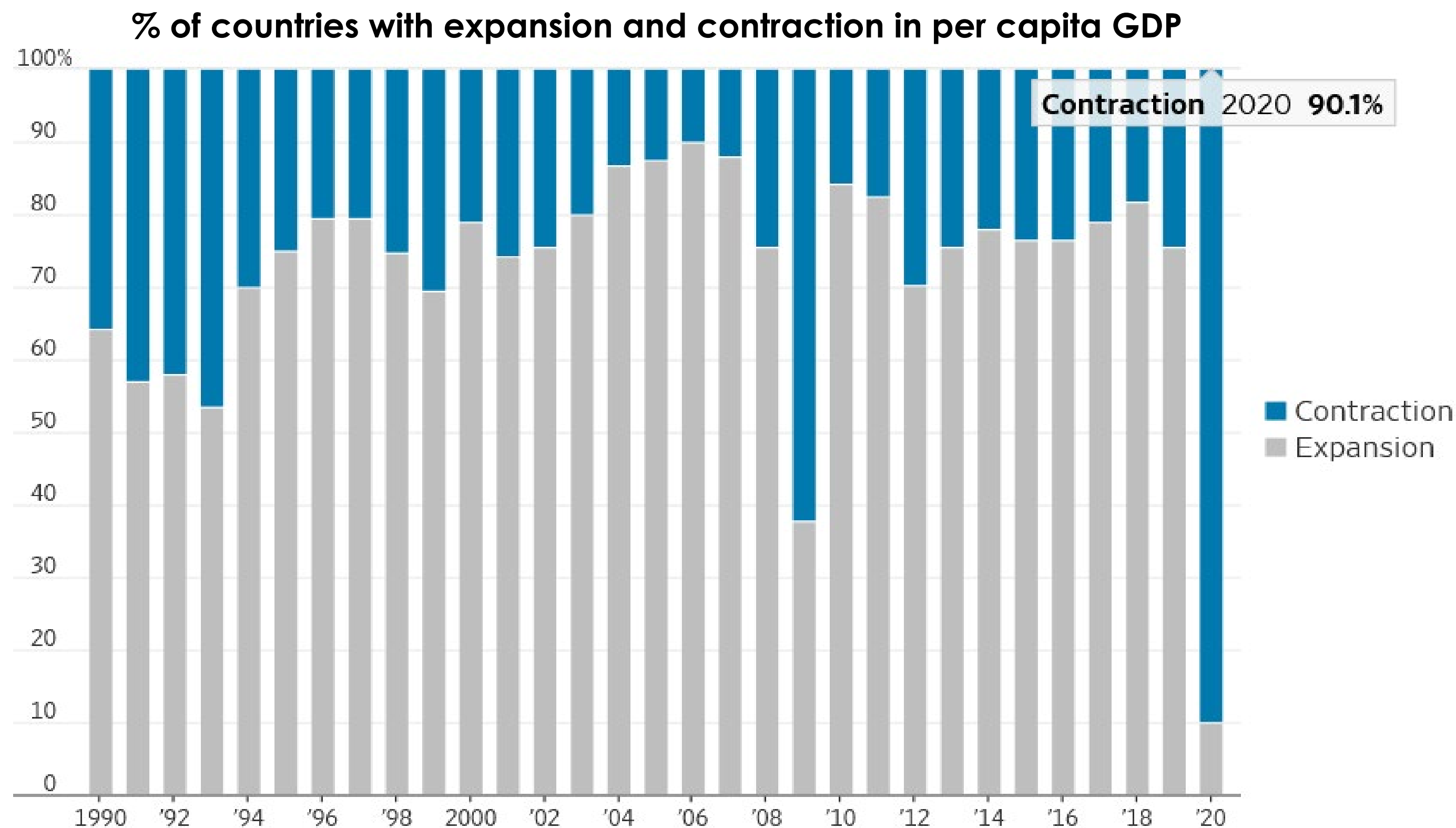
3,204

Fatalities



Economic Crisis

Global economic recession is expected



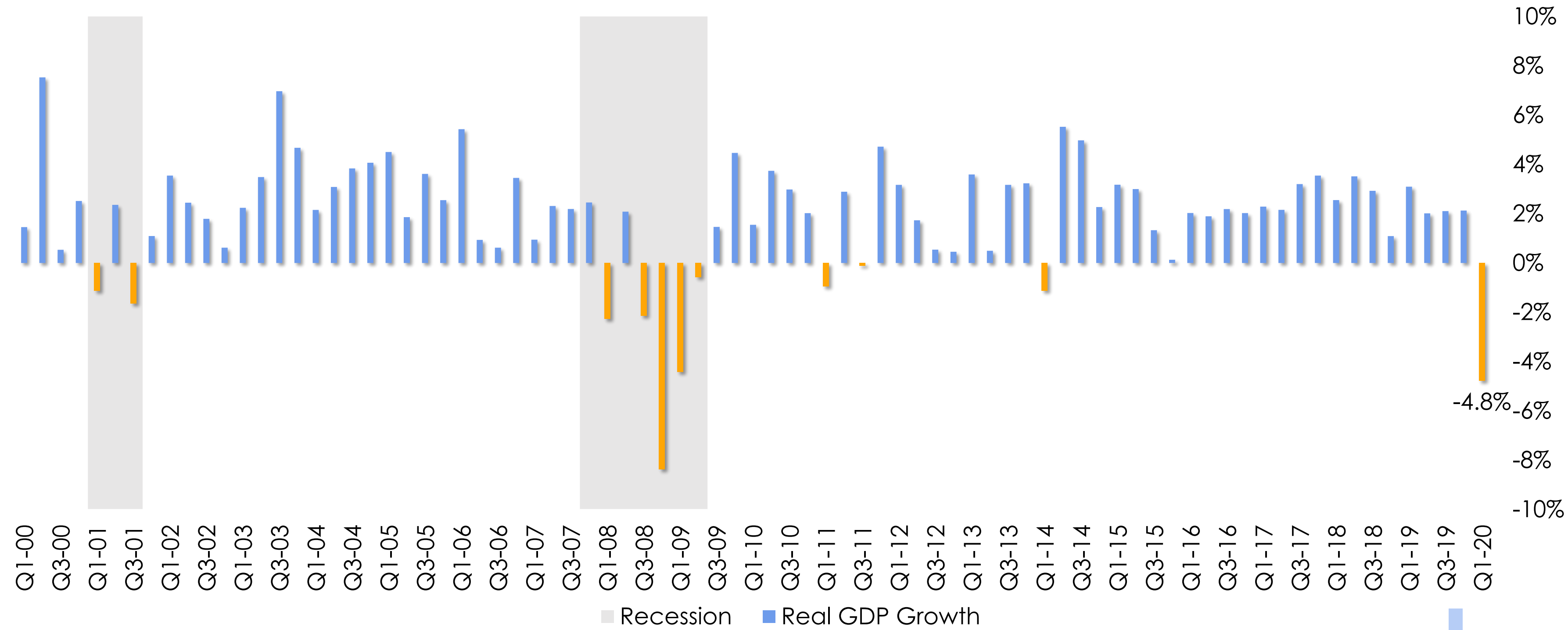
SOURCE: International Monetary Fund

Real GDP, Projected Annual % Change



U.S. had biggest drop in GDP since the Great Recession

Real GDP Growth



... and a sharper decline is to follow

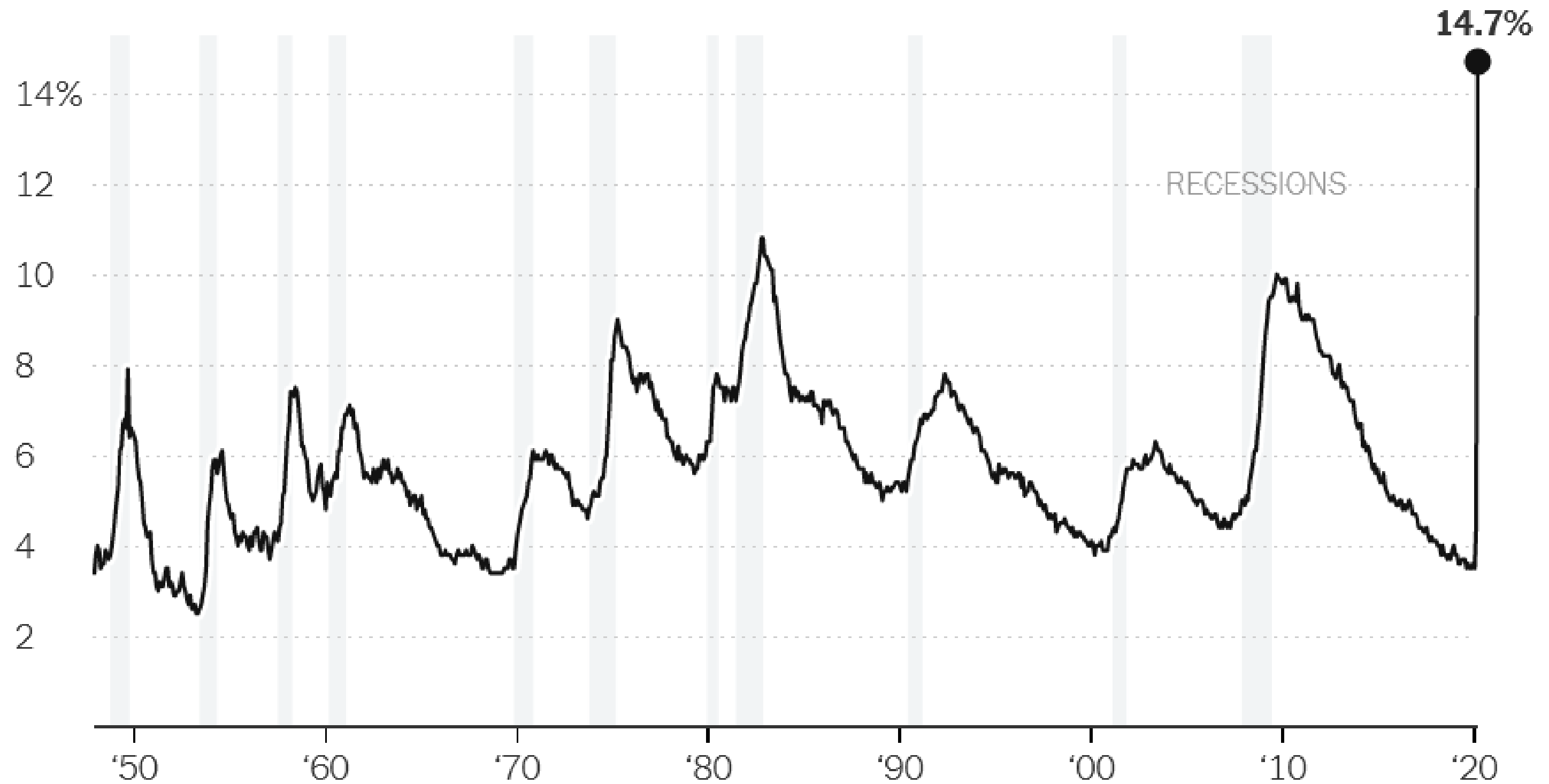
GDP forecast

| | Q120 | Q220 | Q320 | Q420 | 2020 |
|-----------------------------|--------|--------|--------|-------|--------|
| Bank of America | -7.0% | -30.0% | -1.00% | 30.0% | -10.4% |
| Congressional Budget Office | -3.5% | -39.6% | 23.5% | 10.5% | -5.6% |
| Goldman Sachs | -9.0% | -34.0% | 19.0% | NA | -6.2% |
| JP Morgan | -10.0% | -25.0% | 8.0% | 4.0% | NA |
| Morgan Stanley | -3.4% | -37.9% | 20.7% | 15.9% | -5.5% |
| UCLA | 0.4% | -30.0% | -5.0% | 4.0% | NA |
| Wells Fargo | -1.2% | -22.3% | 7.2% | 4.8% | -3.0% |

* Latest updates as of 04/27/2020



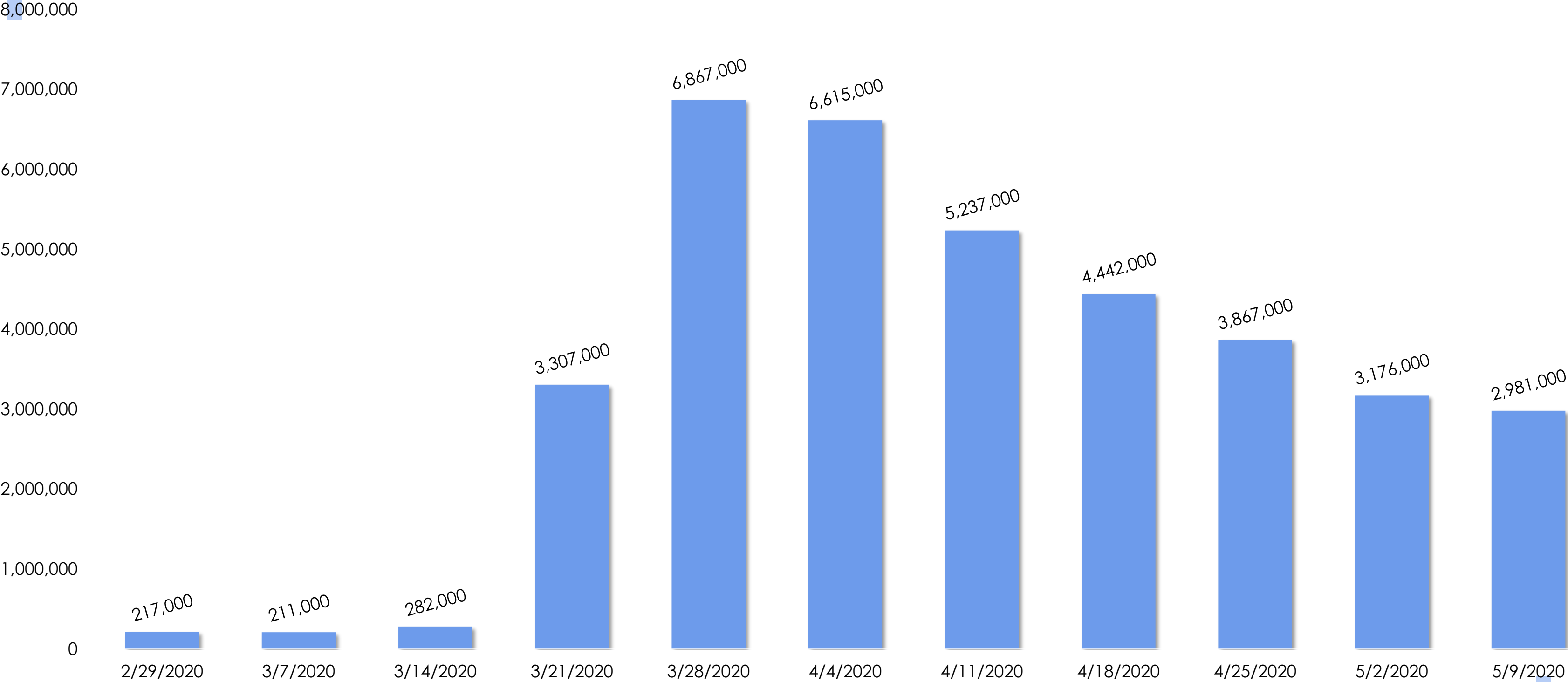
Unemployment highest since 1933



SOURCE: Dept. of Labor

Jobless claims post eight straight weeks in the millions

U.S. Initial Unemployment Insurance Claims

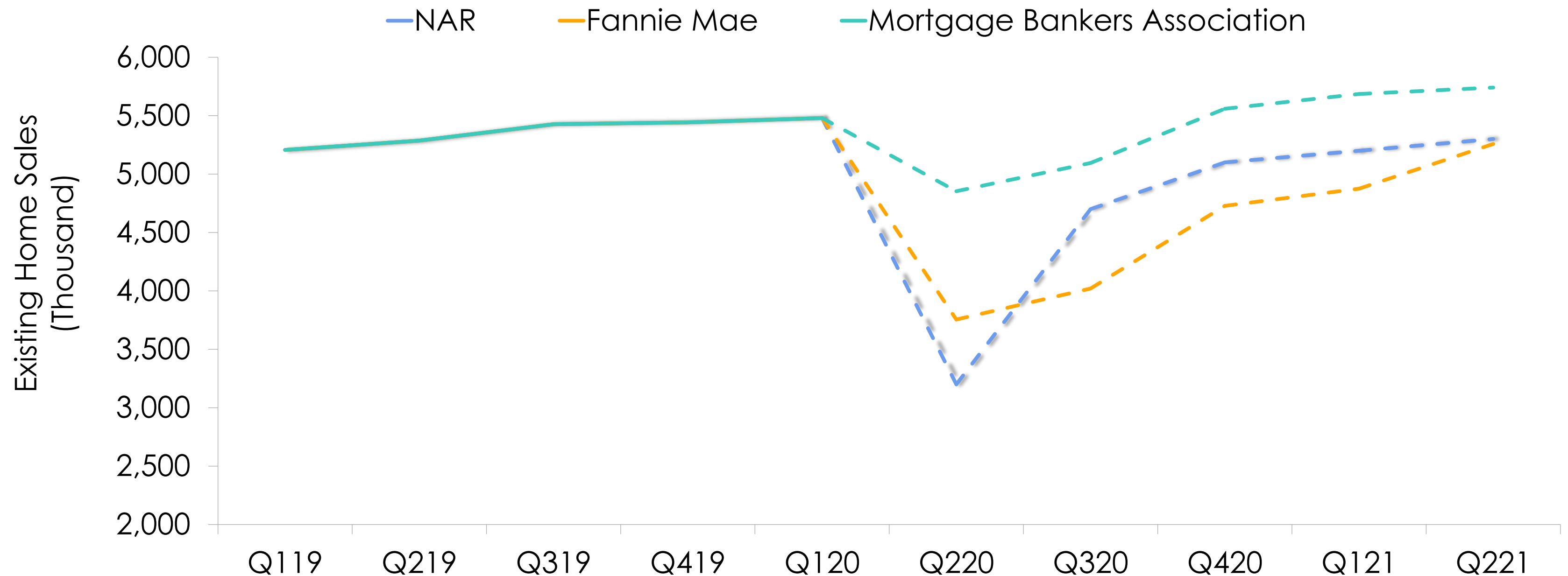


SOURCE: FRED St. Louis Fed



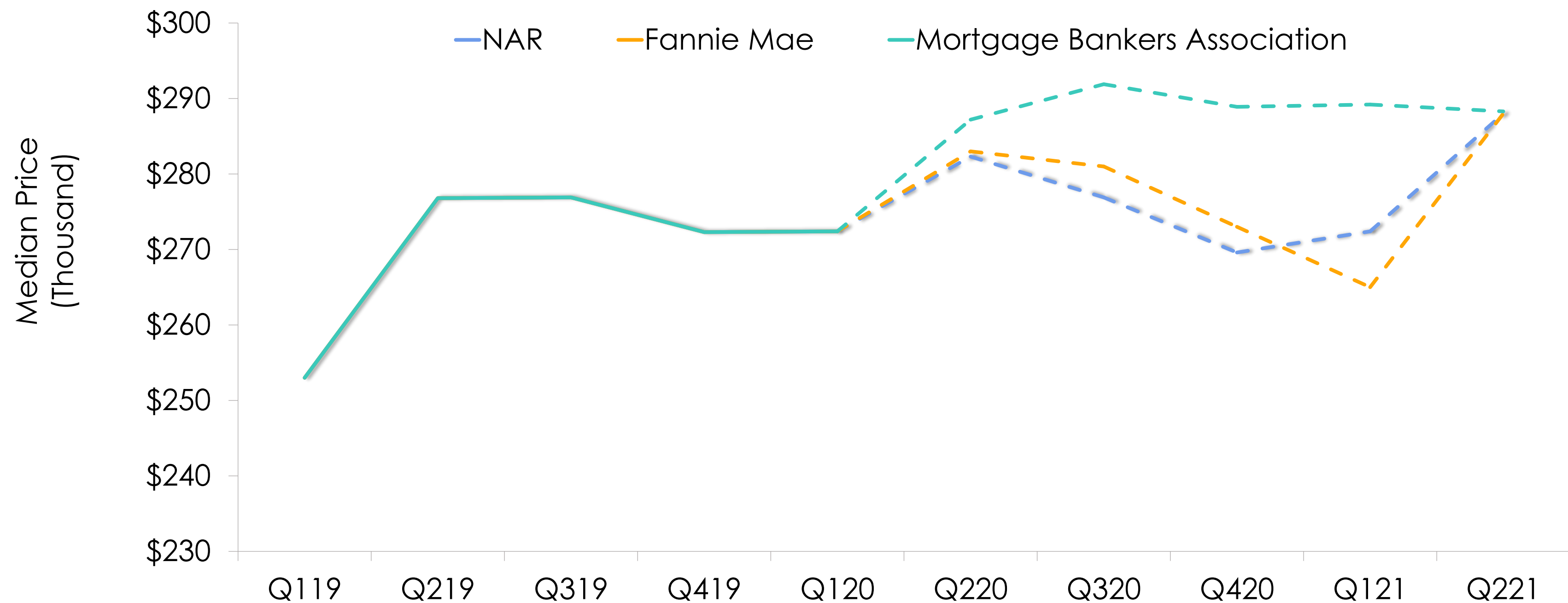
Housing Market Crisis

U.S. existing home sales expected to fall sharply in Q2 and climb back gradually



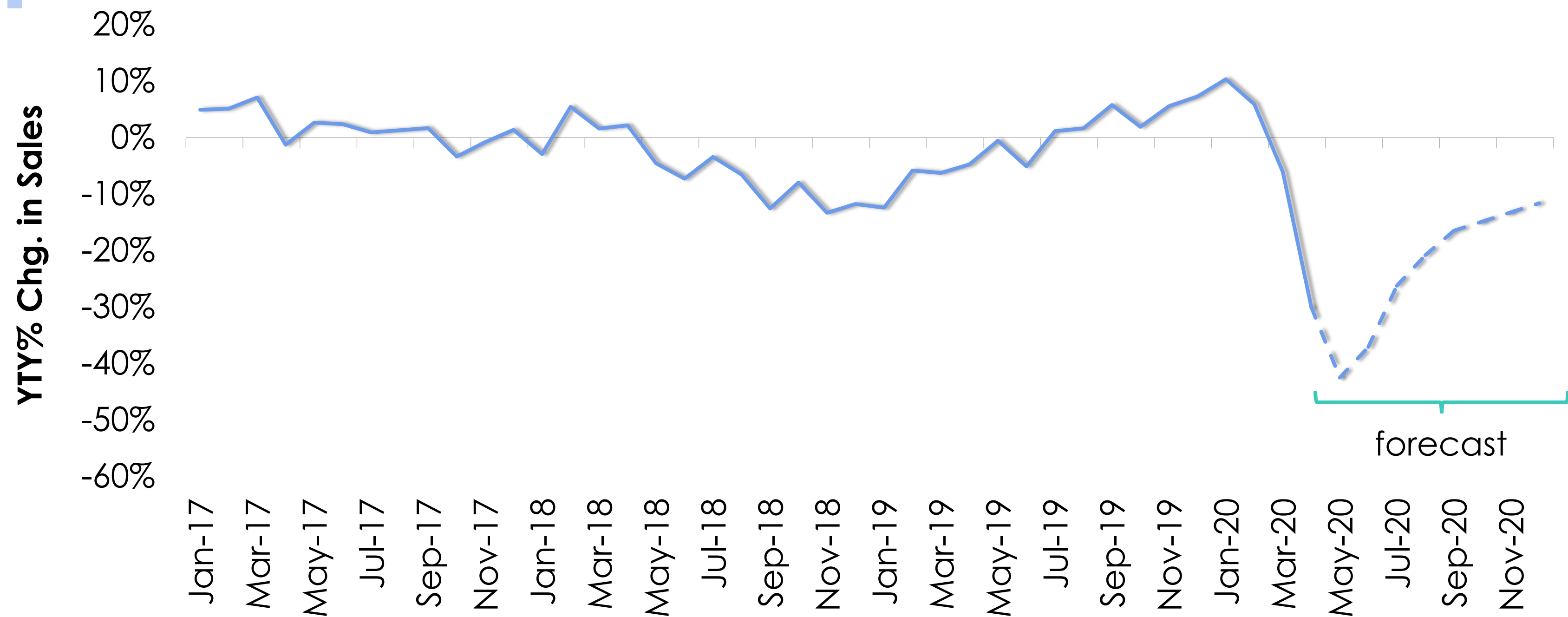
SERIES: U.S. existing home sales
SOURCE: NAR, Fannie Mae, Mortgage Bankers Association

Price growth remains soft in the near term



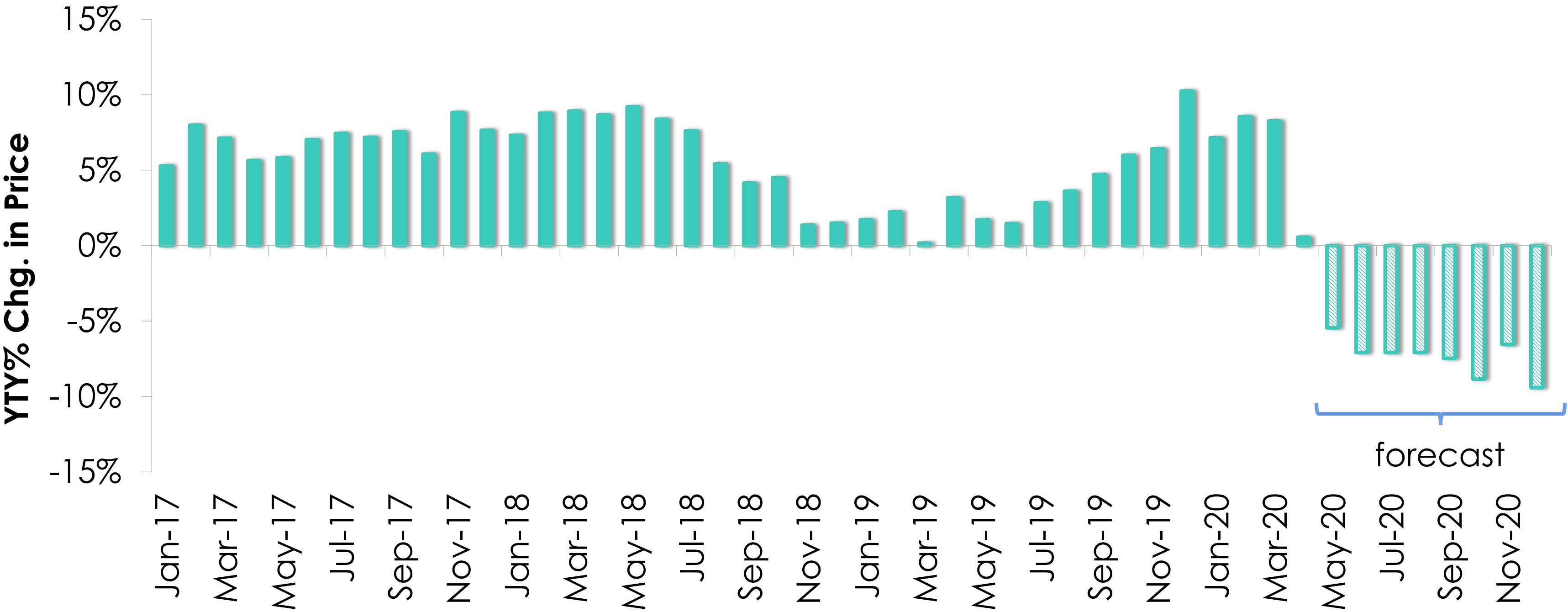
SERIES: Median Price of Existing Home Sales
SOURCE: NAR, Fannie Mae, Mortgage Bankers Association

California home sales – sharp decline in April but bigger drop expected in May



SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Home prices will likely remain soft for the rest of 2020



SERIES: Median Price of Existing Condo/Townhomes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

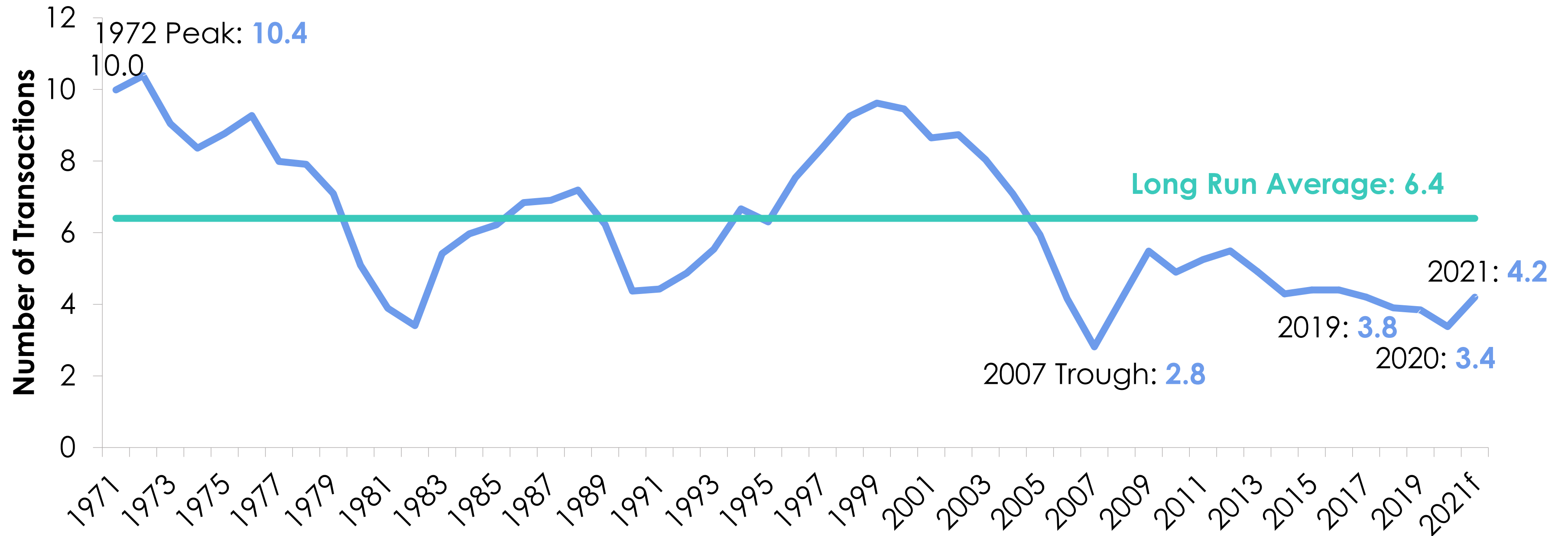
Forecasting the COVID 2020 Market – Scenarios > Single Point Forecasts

Scenario: Stay at home order lifted in mid-May, no second wave expected in the fall

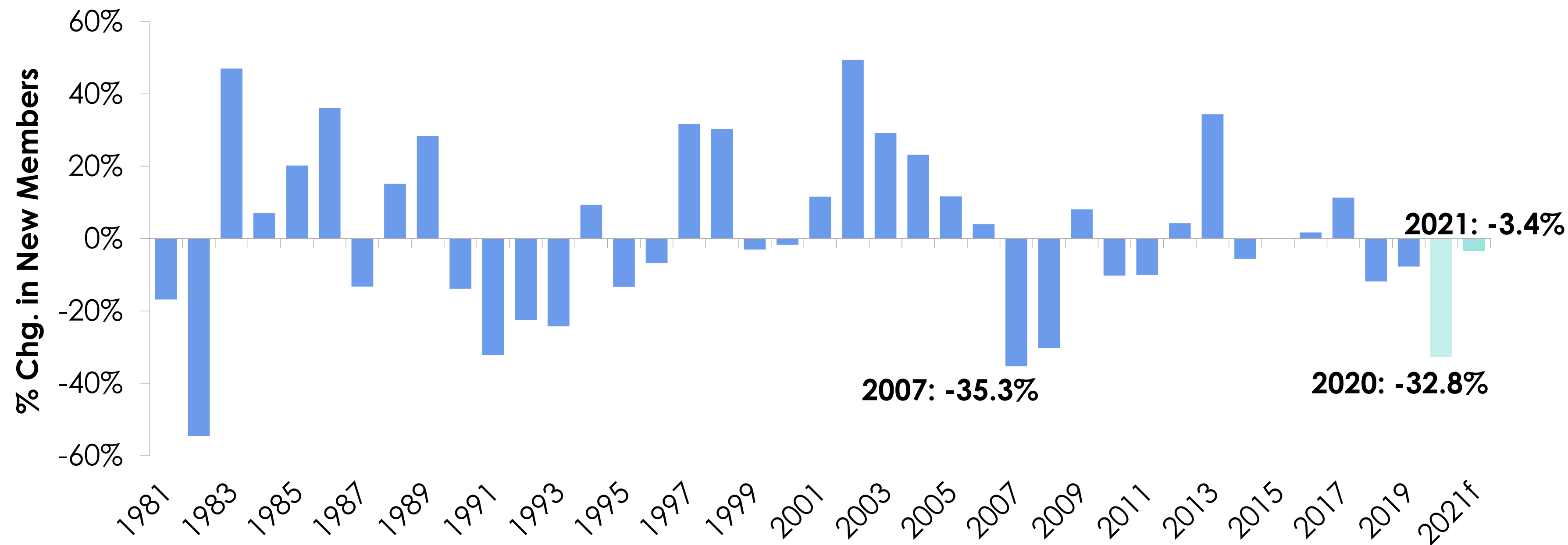
| 2020 | 30-Yr FRM | GDP | Sales | Sales Chg. % qta | Sales Chg. % yty | Median Price | Price Chg. %qta | Price Chg. % yty |
|-------|-----------|--------|---------|------------------|------------------|--------------|-----------------|------------------|
| Q1 | 3.46% | -2.3% | 396,810 | -1.2% | 3.1% | \$589,120 | -3.0% | 7.9% |
| Q2 | 2.92% | -27.5% | 258,930 | -34.7% | -34.9% | \$575,460 | -2.3% | -5.5% |
| Q3 | 2.92% | 12.2% | 320,810 | 23.9% | -21.2% | \$566,350 | -1.6% | -7.1% |
| Q4 | 3.08 | 2.4% | 348,560 | 8.6% | -13.3% | \$553,280 | -2.3% | -8.9% |
| Total | 3.10% | -2.8% | 331,280 | | -16.7% | | | -3.7% |



Member productivity hit the bottom in 2020 and remain low in 2021

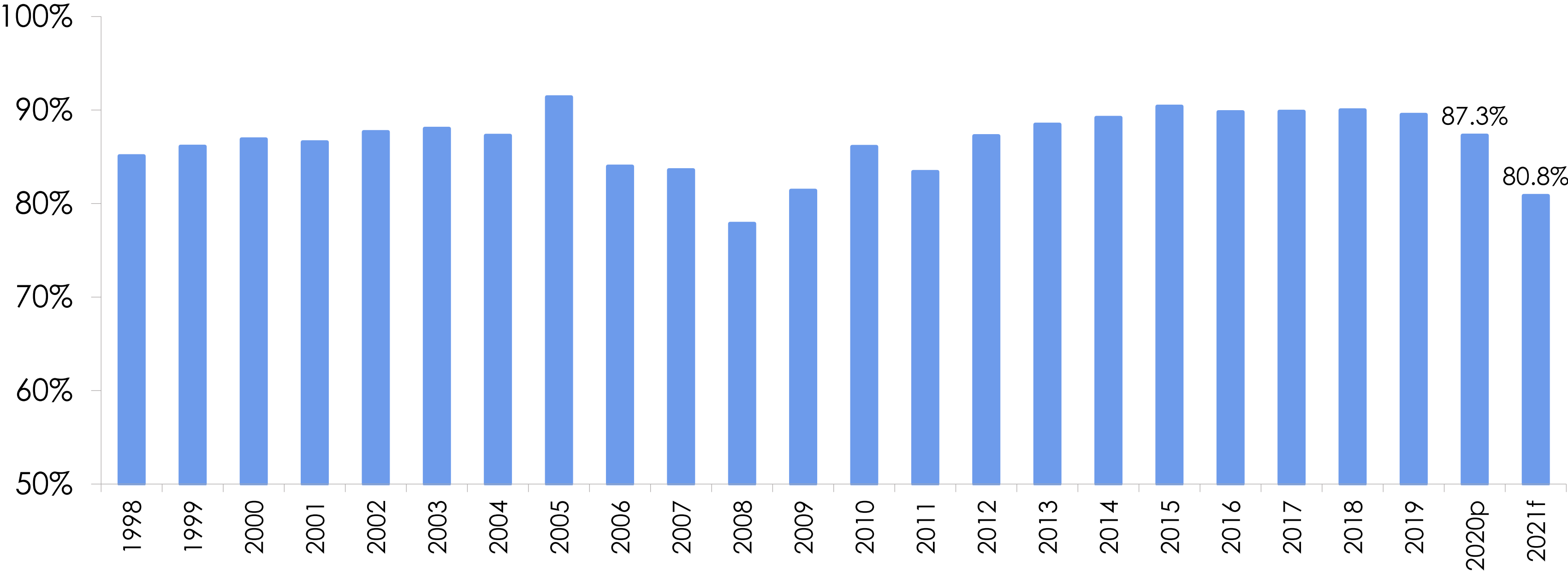


New members: biggest drop since 2007



Retention rate **expected to dip in coming years**

■ Retention Rate



Membership is expected to decline in 2020 and 2021

| | 2017 | 2018 | 2019 | 2020p | 2021f |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Total ('000) | 200.5 | 205.5 | 207.0 | 196.2 | 173.6 |
| Renewals ('000) | 171.5 | 179.9 | 183.6 | 180.5 | 158.4 |
| New ('000) | 28.5 | 25.1 | 23.2 | 15.6 | 15.0 |
| NMSP ('000) | 0.5 | 0.4 | 0.2 | 0.2 | 0.2 |

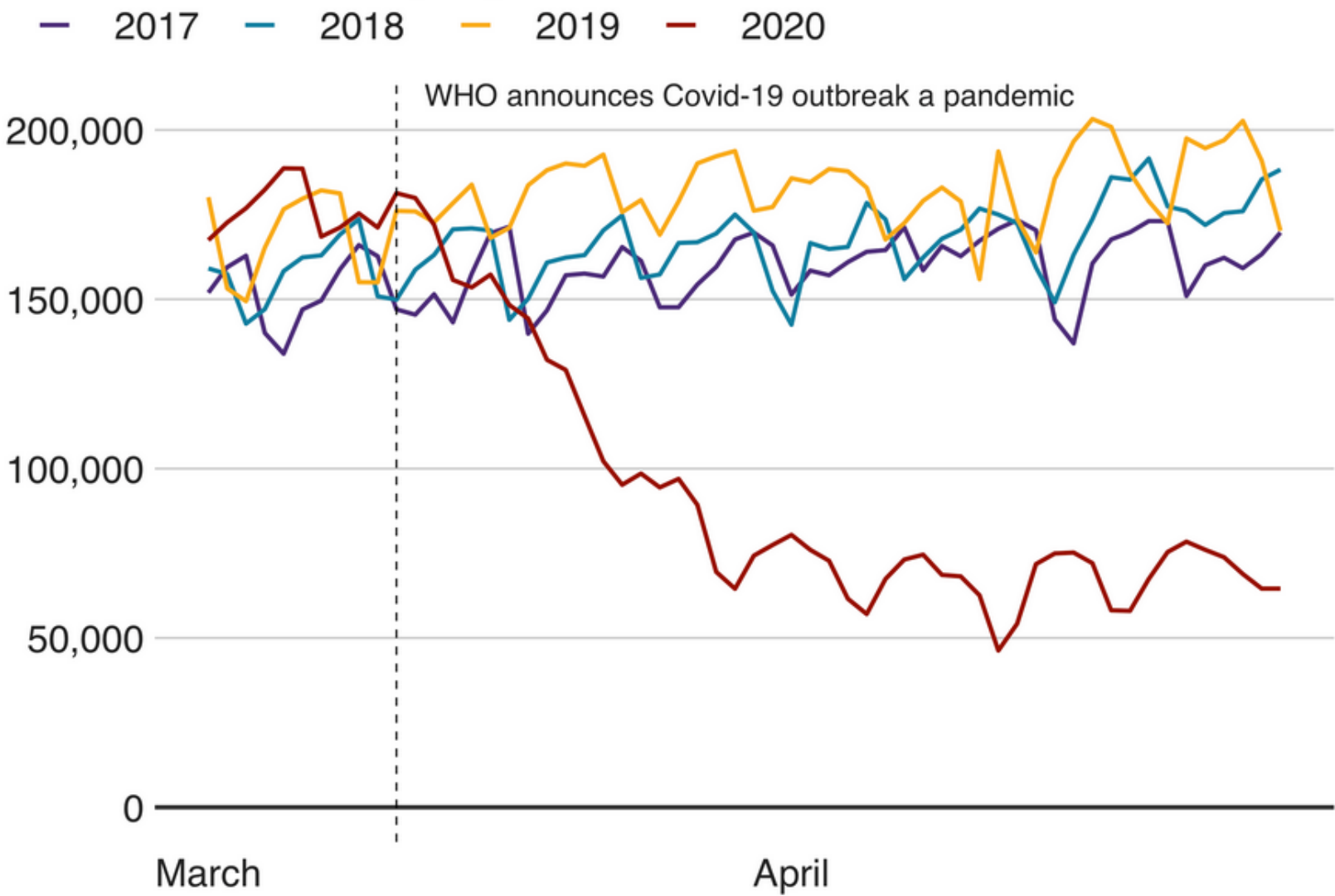


The Changes

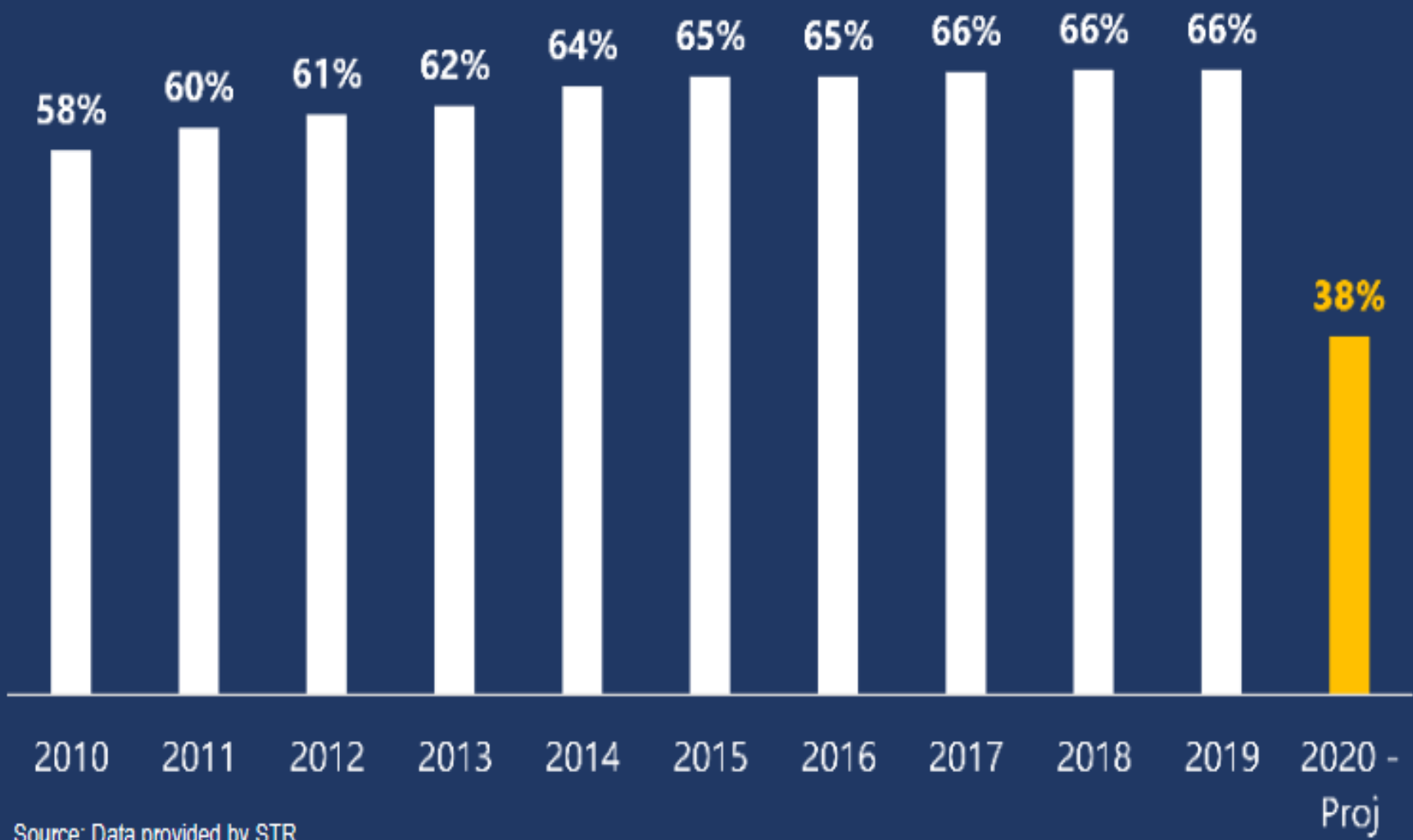


Change: travelling

Number of total daily flights



HOTEL OCCUPANCY RATES
2010 - 2020



Change: entertainment

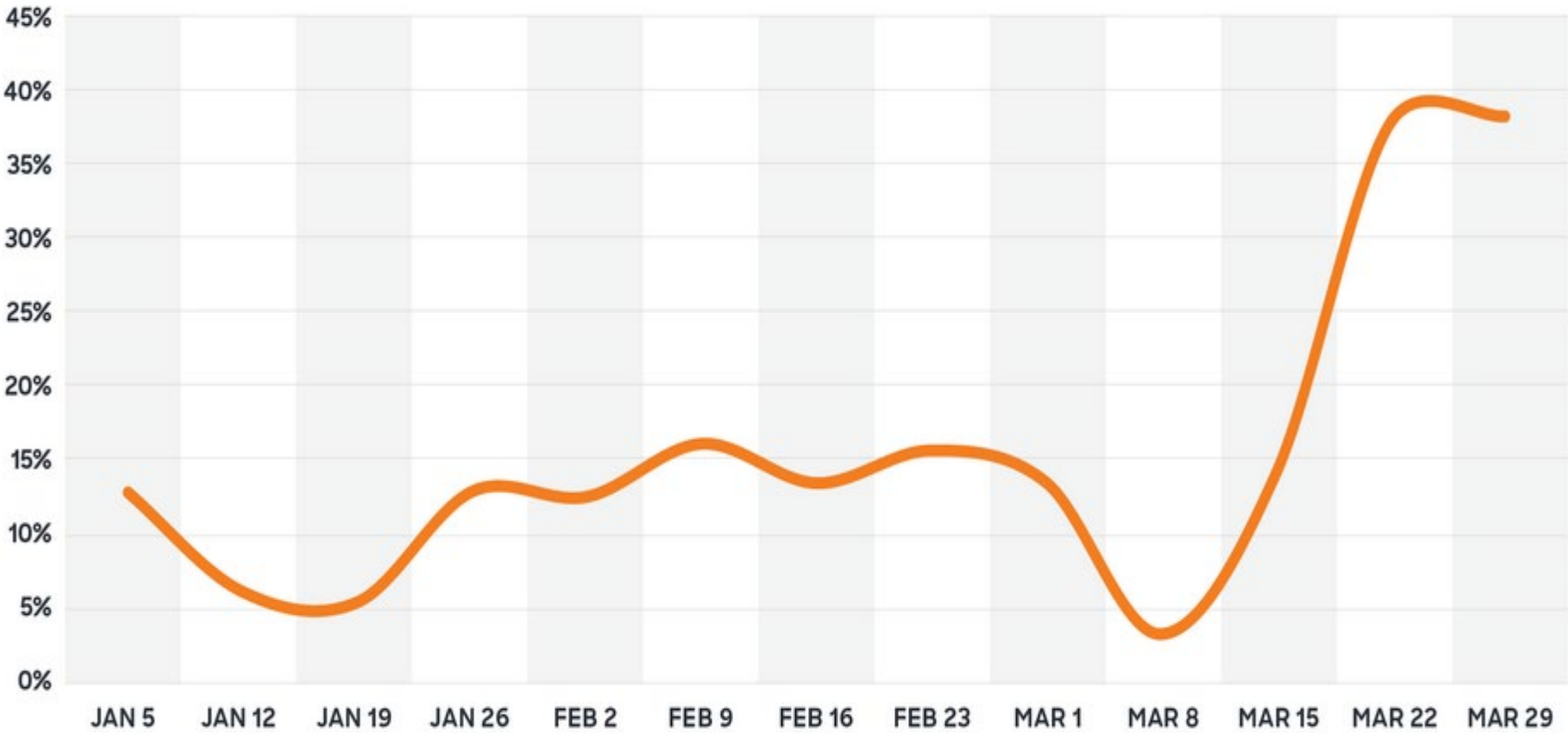
North American box office gross (yty% chg.)



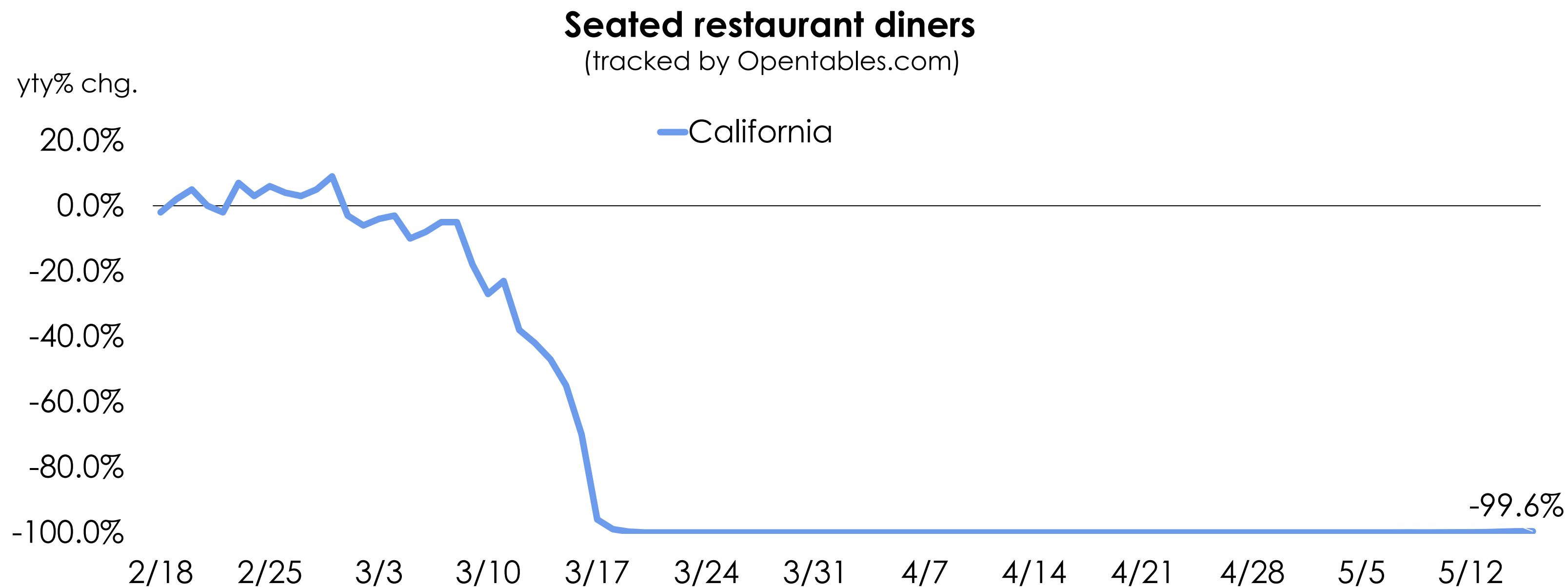
Video on Demand

Weekly Performance:
Average Transactions per Subscriber Household
Percent Change Year-over-Year

ALL CONTENT TYPES - FOD, SVOD, TOD, EST

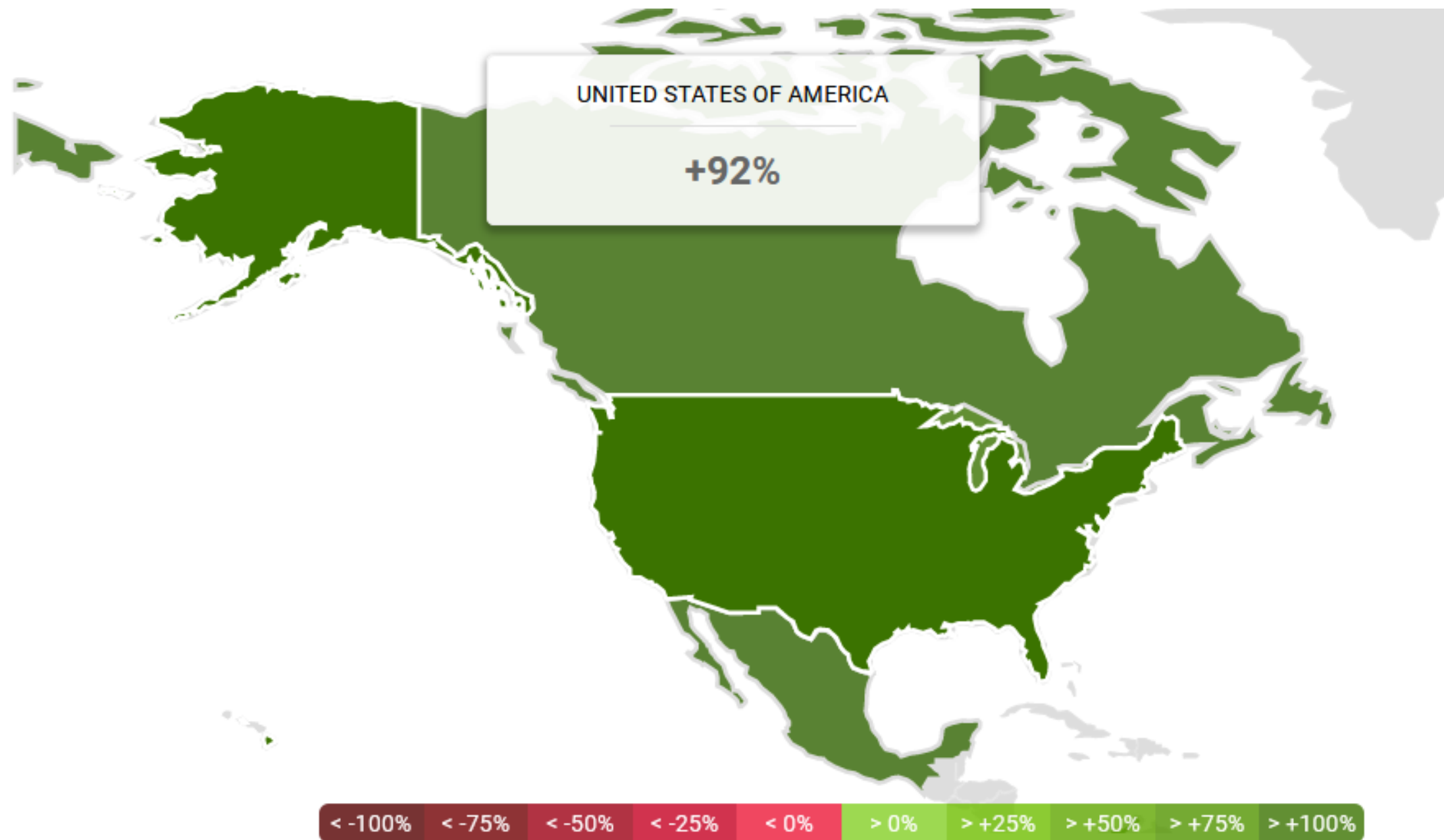


Change: dining



Change: retail

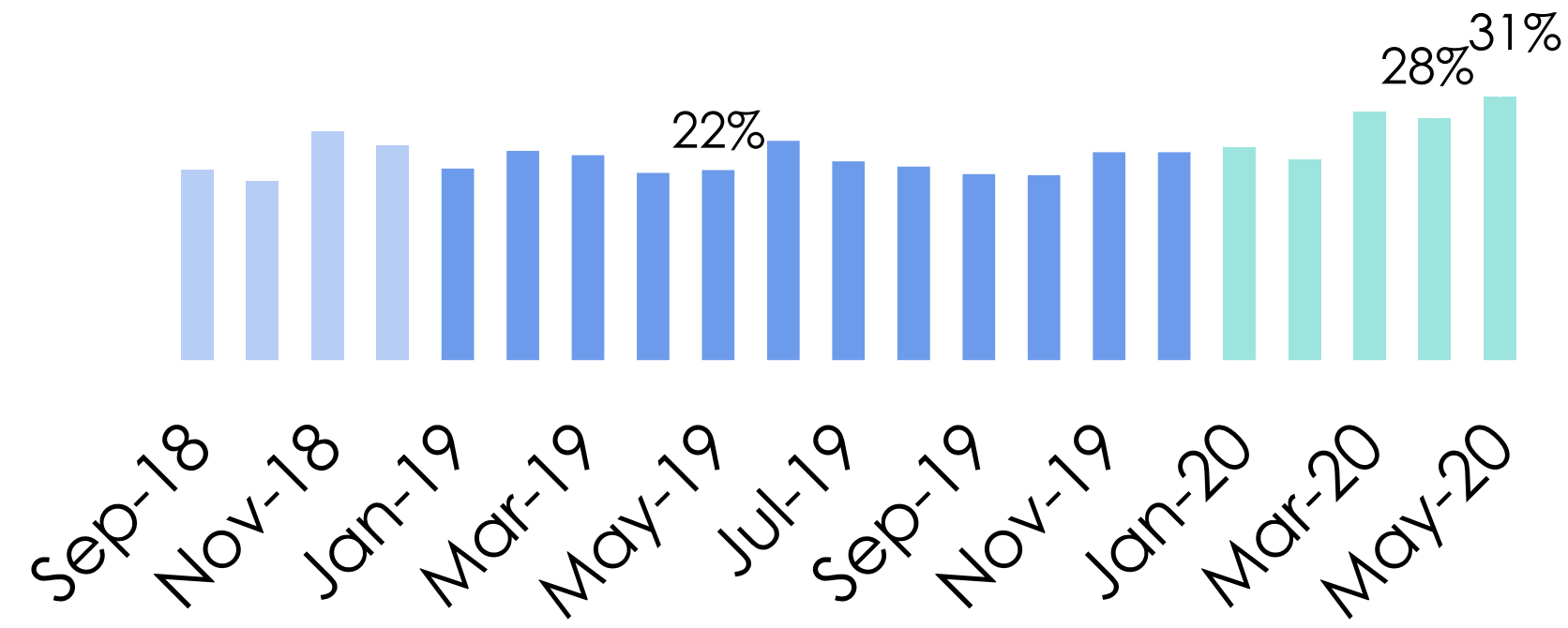
Year-Over-Year Growth Rate of Retail Online Transactions
(May 11, 2020 – May 17, 2020)



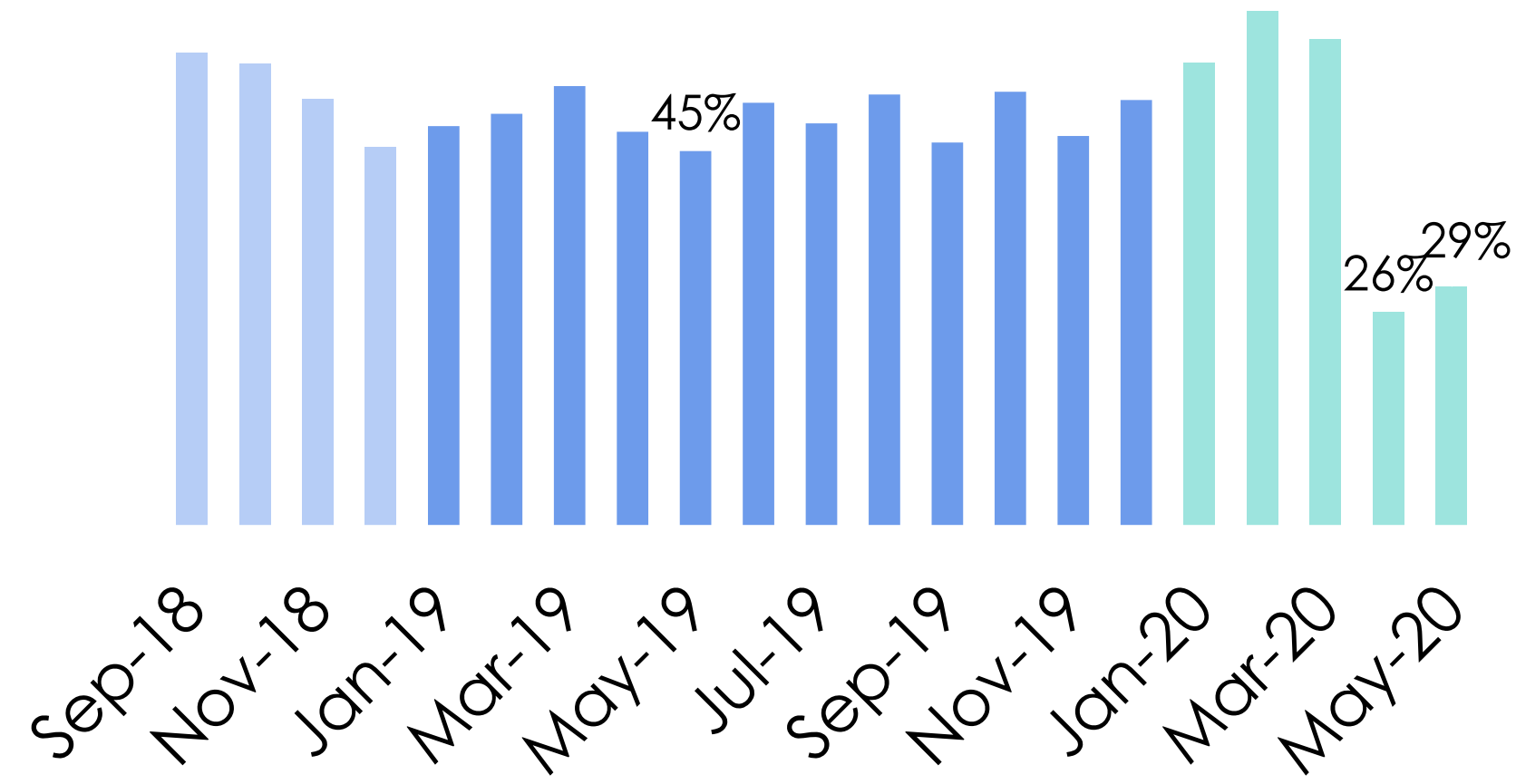
- There's been a 129% year-over-year growth in U.S. & Canadian e-commerce orders as of April 21 and an impressive 146% growth in all online retail orders.
- In Latin America alone, 13 million Visa cardholders made e-commerce transactions for the first time ever during the March quarter
- Online grocery sales to grow 40% in 2020

Change: real estate

Do you think it's a good time to **buy** a home in California?



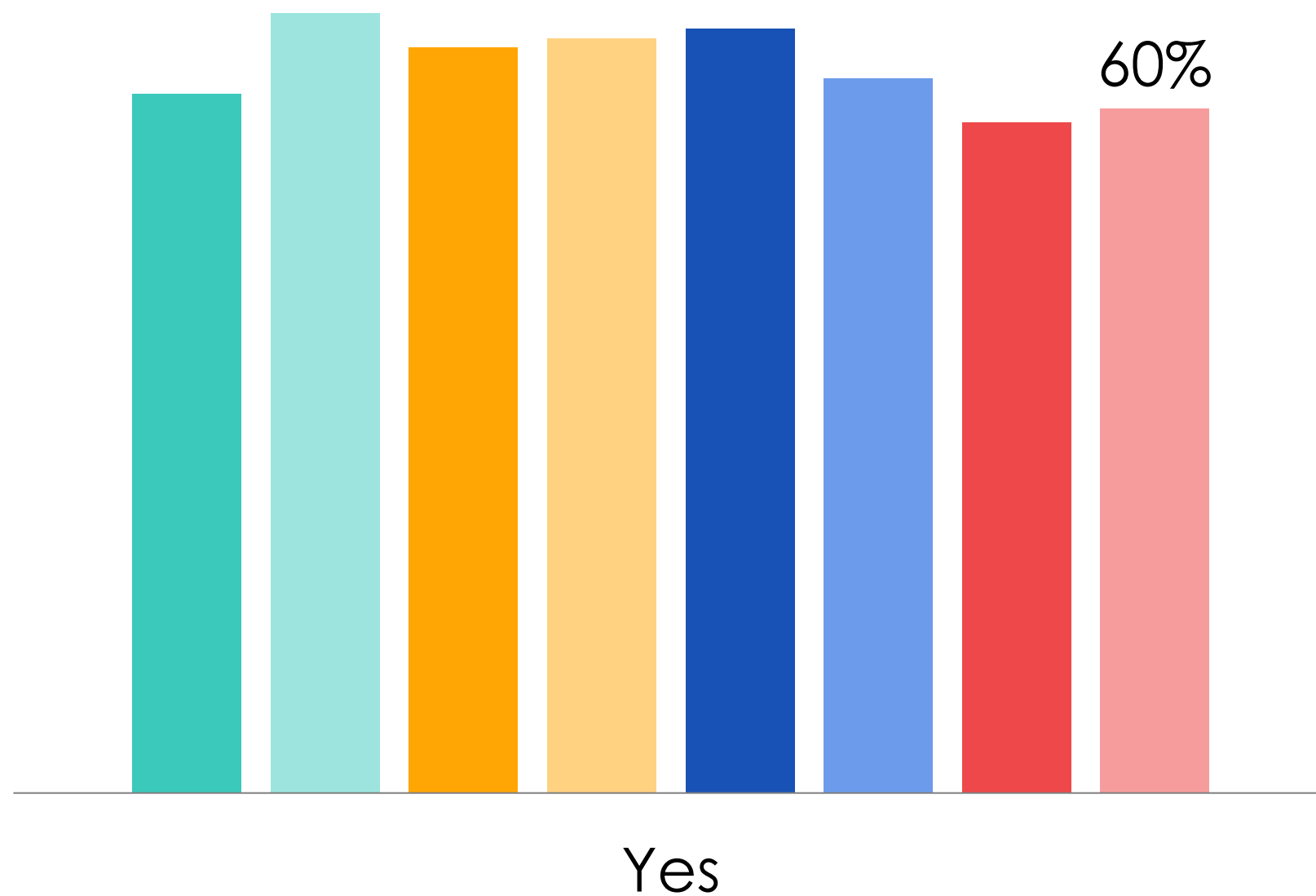
Do you think it's a good time to **sell** a home in California?



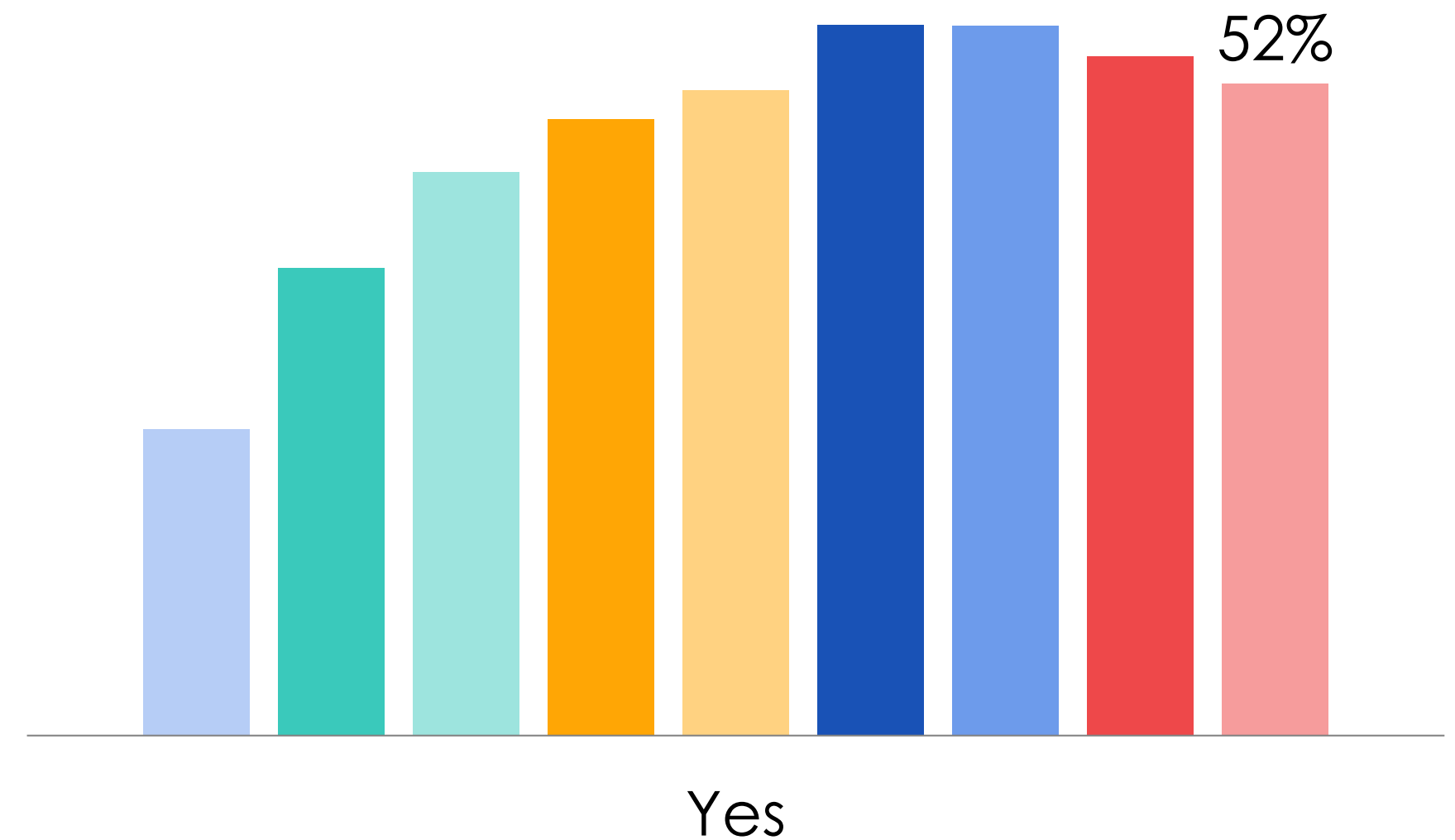
Change: real estate

Fewer open houses, more virtual tours

March 14-16 March 20-23 March 27-30 April 3-6 April 10-13 April 17-20 April 24-27 May 1-4 May 8-11



Q: Have you had any open houses canceled due to Coronavirus?



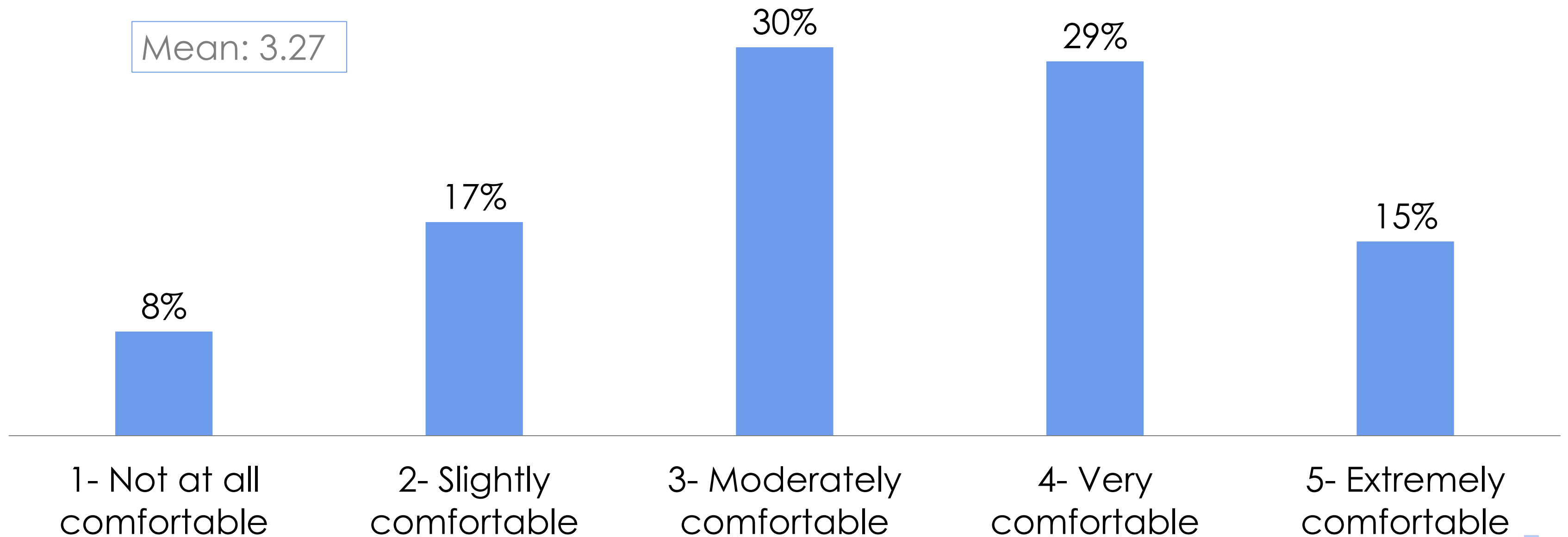
Q: Have you been doing more virtual home tours due to Coronavirus?



Change: Brokers' Perspective

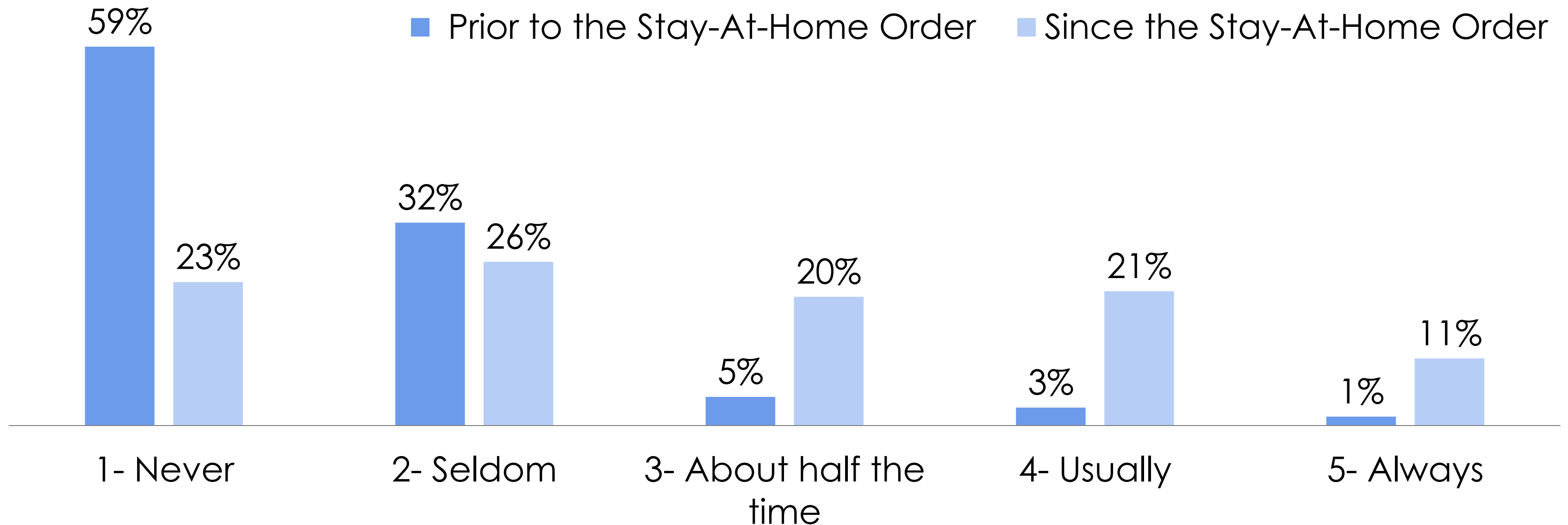
Nearly half are either very or extremely comfortable with virtual transactions

Q: How comfortable are your agents with doing virtual transactions (virtual showings, e-signing, etc)? (n=722)



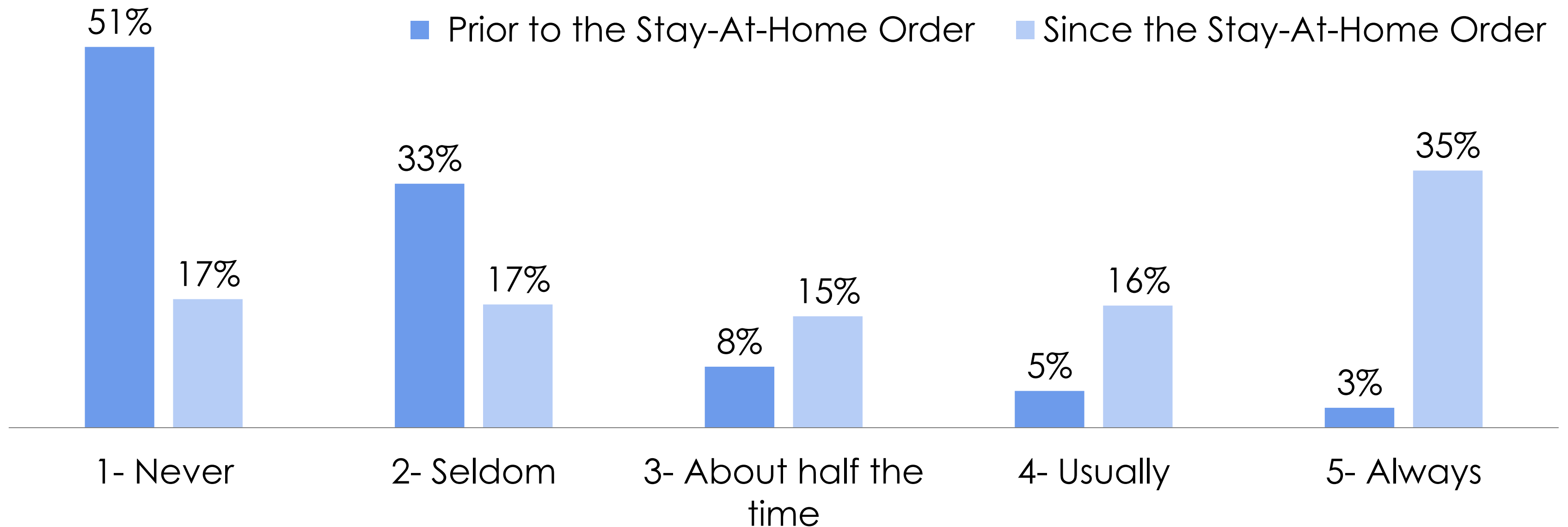
Video conferencing with clients has become more common

Q: To what extent were you using Zoom, Webex, Google, or other video conferencing options to connect with **clients**: (n=702)



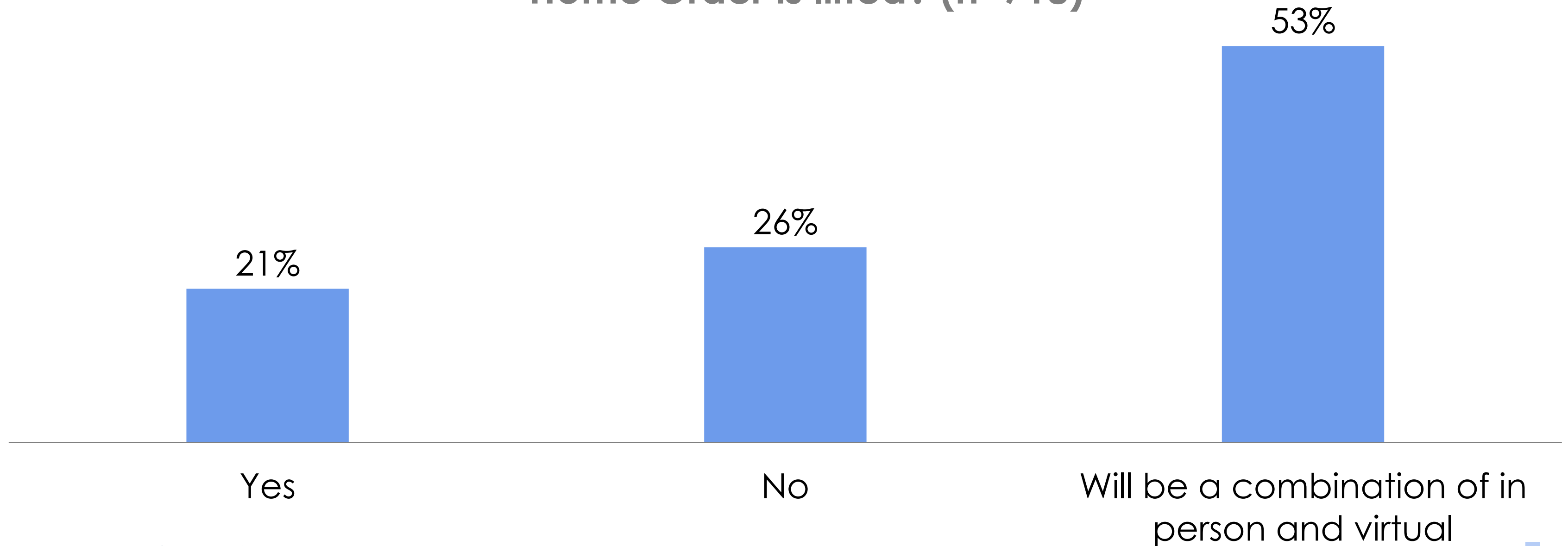
Video conferencing with colleagues has increased drastically since the Stay-At-Home Order

Q: To what extent were you using Zoom, Webex, Google, or other video conferencing options to connect with **agents** in office type meetings: (n=700)



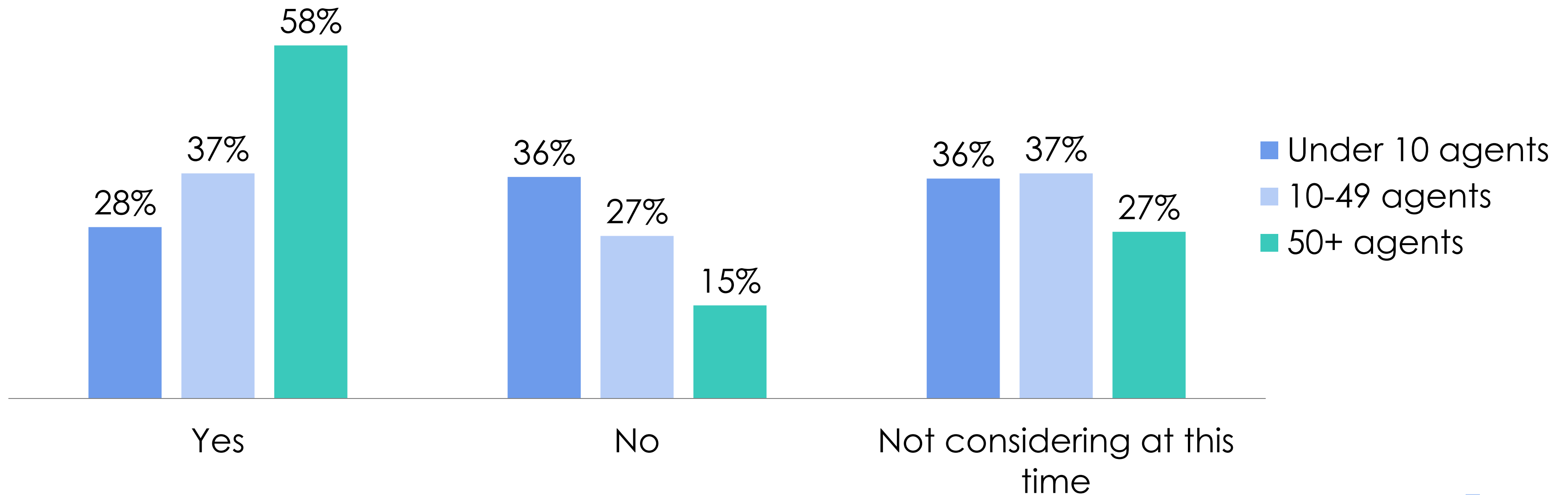
$\frac{3}{4}$ of brokers will incorporate some sort of virtual meetings going forward

Q: Will you continue virtual video meetings via Zoom, Webex, Google, or other video conferencing as a replacement for in-person meetings after the Stay-At-Home Order is lifted? (n=718)



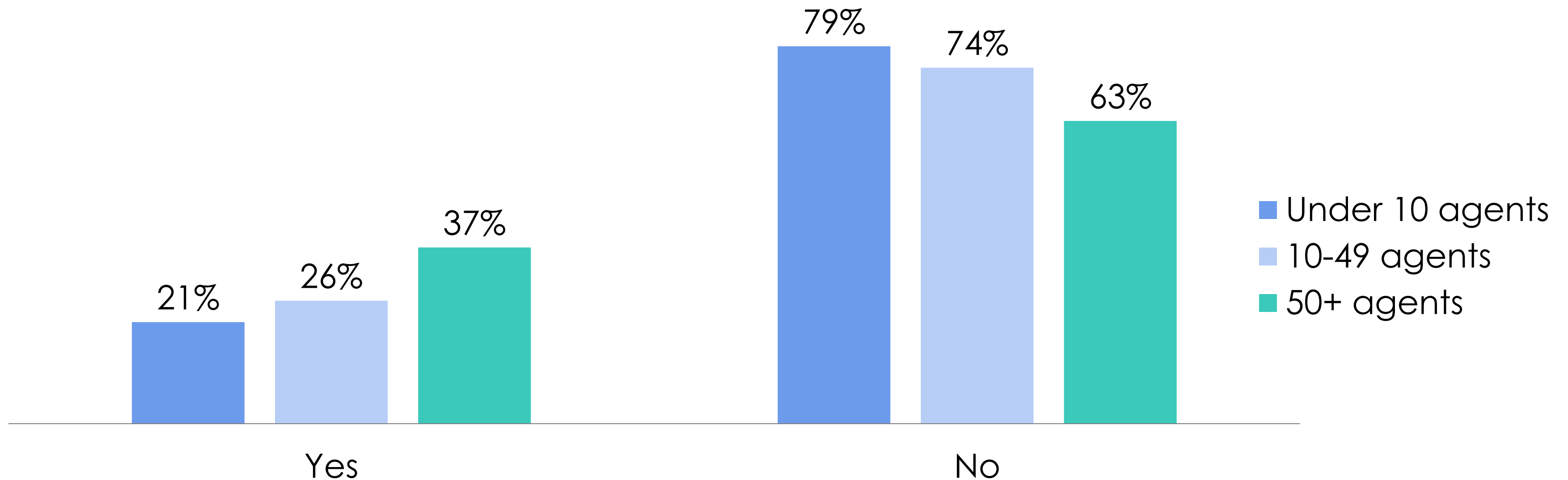
Over half of brokerages over 50 are considering consolidating

Q: Are you seriously considering office consolidations more so than in the past because of what you have learned from working at home and virtual meetings?
(n=651)



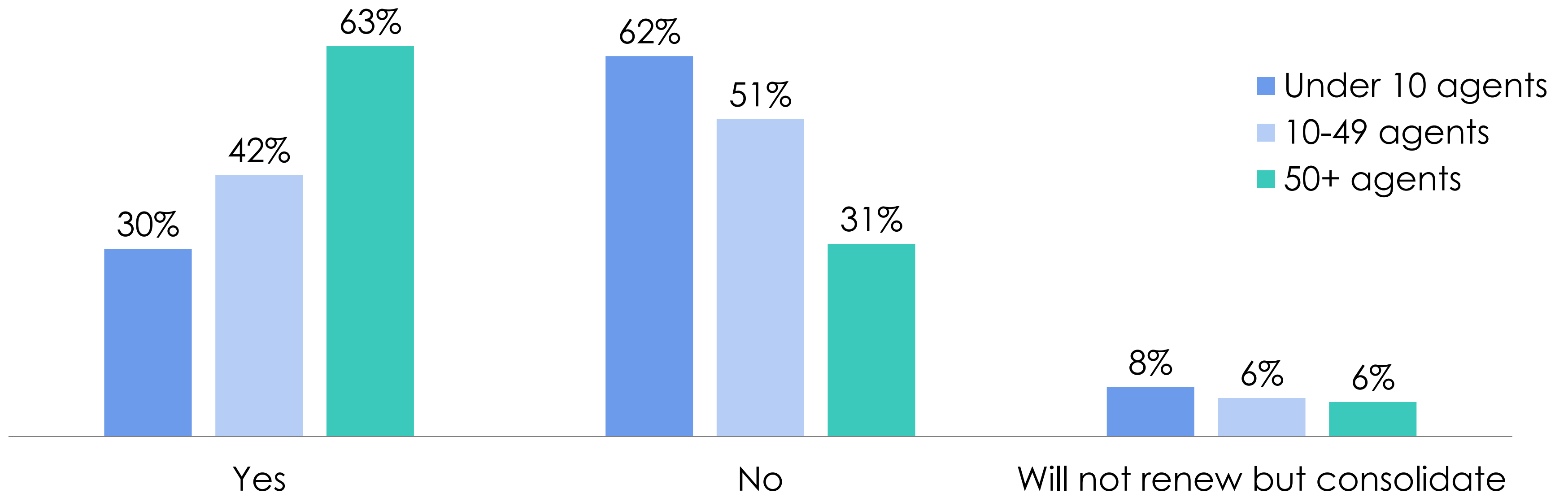
Over 1/3 of those with 50+ agents considering back-office consolidations

Q: Are you making, or considering, back-office consolidations with peer companies for things such as HR, accounting, relocation services, etc.? (n=655)



Nearly 2/3 of those with 50+ agents will consider reducing their footprint

Q: When your office lease(s) come up for renewal, will you consider reducing your footprint? (n=644)



Biggest change to industry

Q: What is the biggest change you foresee for the real estate industry when business resumes? (n=578)

"I think we will lose about a third of the currently licensed agents when it comes time to renew their license and/or pay Association dues. I expect that some will take the lessons about working virtually and continue to apply them. I am hopeful that we will be able to continue to enforce getting a pre-approval before allowing showings since it's what we should have been doing all along."

"The possible simplification of the home buying/selling process."

"Tenants afraid to plan longer term and will wait and see what happens."

"Be prepared to be patient with people and affiliates as they gear back up to a normal pace."

"Much more virtual marketing of listings including 3d tours and floor plans, decline in open houses, decline in real office space / lot more work from home."

"There will probably be more virtual interaction with both buyers and sellers."

"Smaller footprints for offices and more automation. I am guessing as a broker that probably means agents will move around more and look for better splits and automation."



Mandates & Opportunities

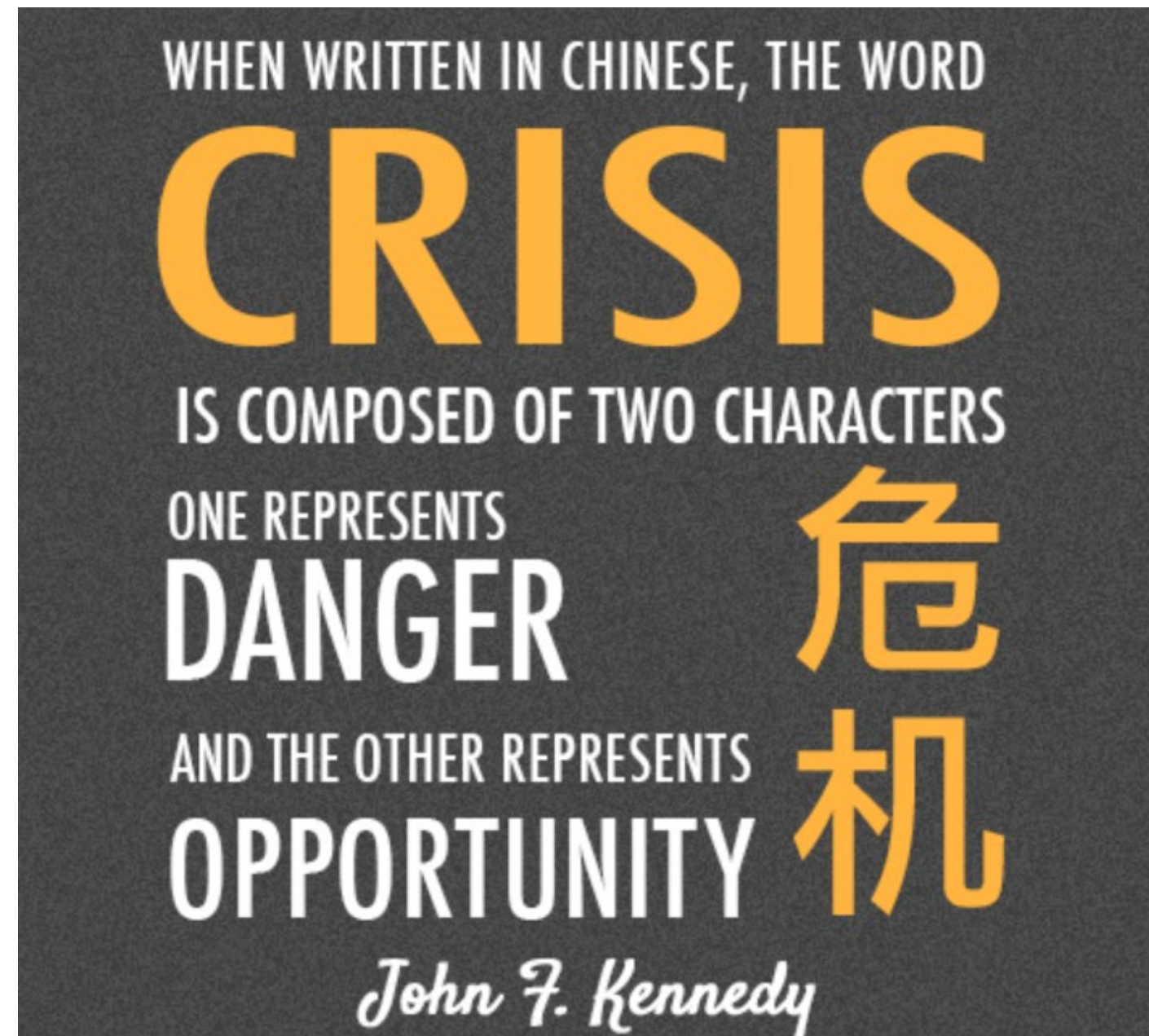




“Never let a good
crisis go to waste.”

– Winston Churchill

Crisis will create new opportunities/threats and speed up needed changes internally



“Most crises create longer-term opportunities as well as threats because they produce rapid, sustained shifts in organizations’ external and internal environments. Leaders who recognize this, and then act rapidly and effectively to capitalize on the potential changes, can position their organizations to emerge from the crisis stronger than their competitors.”

- Michael Watkins, Professor/Cofounder at IMD Business School/Genesis

Opportunities/Benefits of past crises

- **Social Security** – The decade of the 1930s found America facing the worst economic crisis in its modern history. Millions were unemployed, banks and businesses failed, and the majority of the elderly in America lived in dependency. The Social Security Act was enacted in 1935 and signed by President Franklin D. Roosevelt to provide federal assistance for the elderly.
- **Fannie Mae** - During the Great Depression, as borrowers defaulted on mortgages en masse and banks found themselves strapped for cash, President Franklin D. Roosevelt and Congress created Fannie Mae in 1938 in order to buy mortgages from lenders, freeing up capital that could go to other borrowers, and paved the way for banks to loan money to low- and middle-income buyers who otherwise might not have been considered creditworthy.
- **South Korea MERS Outbreak** – South Korea wasn't properly prepared for severe acute respiratory syndrome five years ago, but Seoul used that failing to prepare, and they were able to fight the COVID-19 pandemic more successfully than the U.S.

Opportunities/Benefits of past crises

- **Homeownership for first-time buyers after the Great Recession** – The California median price dropped more than 50 percent between 2007 and 2009, causing many to lose their homes. At the same time, many first-time buyers took advantage of the low price level and the first-time buyer tax credit, pushing the share of first-time buyer sales to the highest level in 14 years

Top of Mind

FIGURE 2

As the pandemic peaks, health concerns still overpower financial concerns, but concerns over job loss are mounting

Percent of consumers concerned about health, employment, and finances

| | Health | | Employment | Financial | |
|----------------|----------------------------------|-----------------------------------|--------------------------|--|-----------------------------|
| | Concern for physical well-being* | Concern for health of my family** | Concern over losing job† | Concern about making upcoming payments†† | Delaying large purchases††† |
| United States | 52% | 64% | 35% | 24% | 42% |
| Canada | 54% | 69% | 36% | 26% | 51% |
| United Kingdom | 51% | 71% | 38% | 28% | 46% |
| Germany | 49% | 65% | 33% | 34% | 46% |
| France | 49% | 76% | 28% | 29% | 58% |
| Italy | 56% | 69% | 47% | 43% | 52% |
| Spain | 71% | 80% | 62% | 49% | 50% |
| Netherlands | 31% | 52% | 29% | 17% | 32% |
| China | 87% | 89% | 36% | 38% | 59% |
| India | 73% | 79% | 54% | 50% | 66% |
| Japan | 55% | 70% | 34% | 18% | 31% |
| South Korea | 44% | 59% | 51% | 23% | 26% |
| Australia | 47% | 62% | 44% | 28% | 46% |
| Average | 55% | 70% | 42% | 31% | 47% |

Note: The top two countries within each area (column) are highlighted in blue, and the bottom two countries highlighted in green.

*Percentage of agree/strongly agree responses to the statement “I’m concerned about my physical well-being.”

**Percentage of agree/strongly agree responses to the statement “I’m concerned about the health of my family and others in my immediate circle.”

†Percentage of somewhat concerned/very concerned responses to the statement “To what extent are you concerned about losing your job?” among those currently employed.

††Percentage of agree/strongly agree responses to the statement “I’m delaying large purchases that I otherwise would have made.”

†††Percentage of agree/strongly agree responses to the statement “I’m concerned I will not be able to make upcoming payments.”

Source: Deloitte analysis.

Going virtual improves meeting efficiency and effectiveness



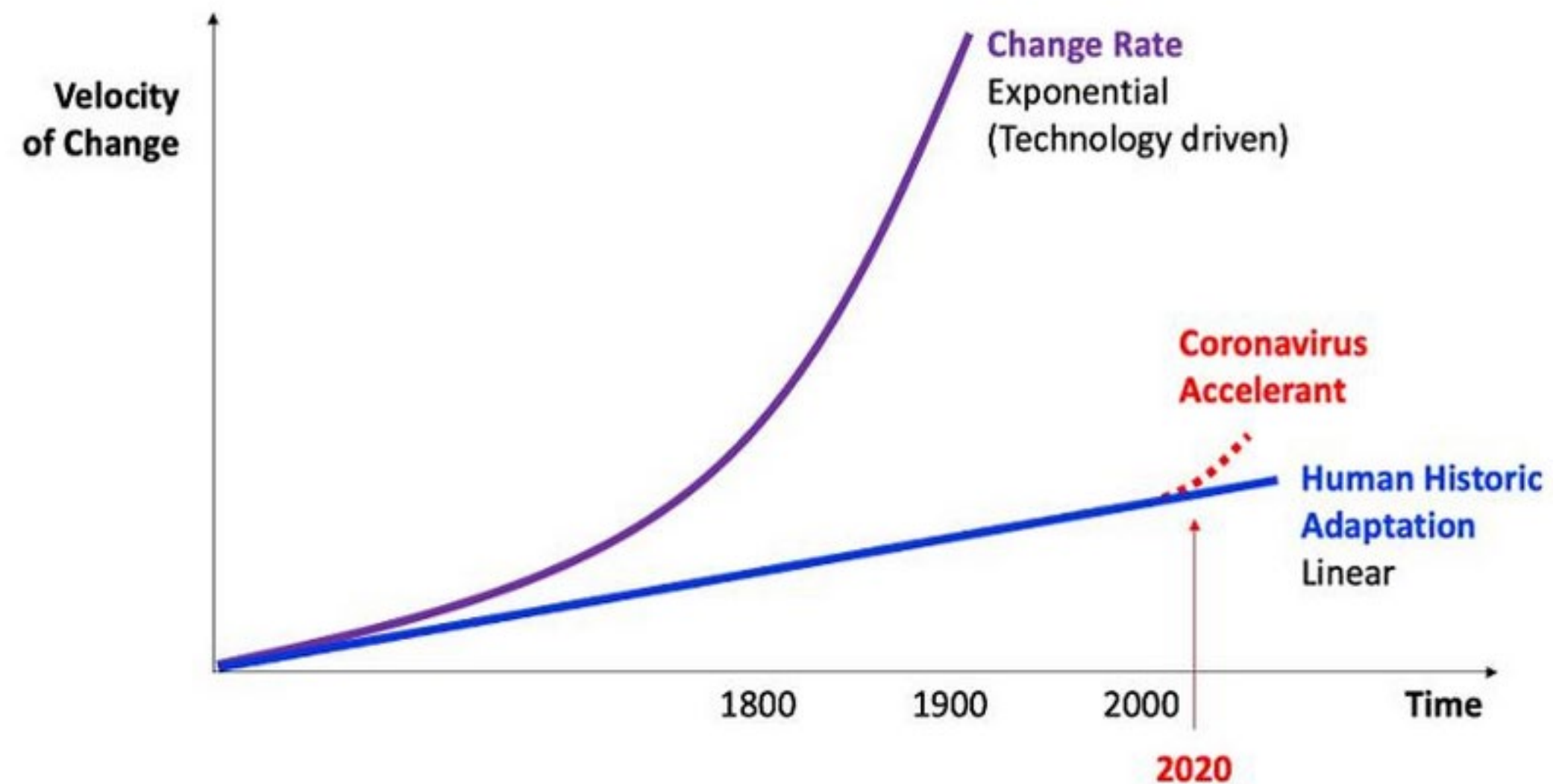
Benefits of video conferencing

- More engaging than audio conferencing
- Reduce travel time and costs
- Improves attendance
- Provides more structure to the meeting
- Helps employee retention

Accelerate digital transformation

Fast tracking the process to survive

- Companies have been forced to quickly scale to meet the demands of a decentralized workforce.
- Tech adoption curves that have taken months or years have been sped up to days or weeks
- What being resisted for a decade is now core to survival and innovation. The digital mindset will persist after the pandemic.



Winners and Losers in the RE Space

- Residential
- High Tech Industrial
- Commercial Office
- Small Retail



Retail and office spaces could also be used as residential real estate

COVID-19 impact

- According to a UBS report, the U.S. retail industry appears to stand to lose 11% to 17% of its total store count by 2025.
- In the next five years, 100,000 retail stores will close nationwide, and the number of closed stores could rise as high as 150,000.
- Global Workplace Analytics predicts that 30% of people will work from home multiple days per week within a couple of years. Office space demand may decline as remote working becomes a new normal.

Opportunity

- Vacant retail and office space could be converted into residential units, which would help to alleviate the shortage supply in the housing market.

Turning malls into homes



Recycling mall spaces?

- A survey found that malls are at the top of the list of places to avoid if the outbreak worsens.
- RetailNext reports that 97% of the 450 brick-and-mortar retail executives it surveyed have closed some or all of their doors.
- Restaurants and movie theaters were the first casualties of social-distancing public health protocols
- JC Penny, J. Crew, Neiman Marcus filed for bankruptcy

SOURCE: Business Insiders, Forbes,

Home and homeownership **become even more valuable**



Home is more than just a roof and a shelter

- Remote working means spending more time at home
- A home is not just a place to live but also a place to work
- Those who work from home may also need a bigger house if more space is dedicated as the office

What “shelter” means in the new normal

- Urban area residence needs self sufficient design elements like sunrooms or spaces for urban farming to accommodate for a lack of outdoor space.
- Global footprint continues to retract, sourcing materials from non-domestic locations is no longer easily accessible
- Open floor plan can be a detriment for functional privacy, as home is now an office



Remote working changes the “where” for homebuying



- Three quarters of those who work from home because of the coronavirus say they want to continue.
- Two-thirds say they would consider moving if given that flexibility.
- Remote working promotes homebuying in secondary cities, more remote locations with larger home.
- Half of those who are able to work from home say they would be open to a commute that was up to 45 minutes or longer.

**Organizational Changes:
Does the Current Association
Model Still Work?**

The next evolution of association business model

Traditional vs. Digital



- 57 percent of association leaders said they are expanding investment in online education
- 52 percent are looking into virtual conferences
- 62 percent plan on shifting content to a digital platform.
- Digital relationship with members is not new, but COVID-19 accelerated the trend

The next evolution of association business model

Member Engagement: How We Engage?

- a broader approach to beyond the static framework
- combine face-to-face meetings with virtual
- provide members a more holistic experience that includes local, state, national, and online activities
- Increase the frequency of contact and policy formulation



The next evolution of association business model

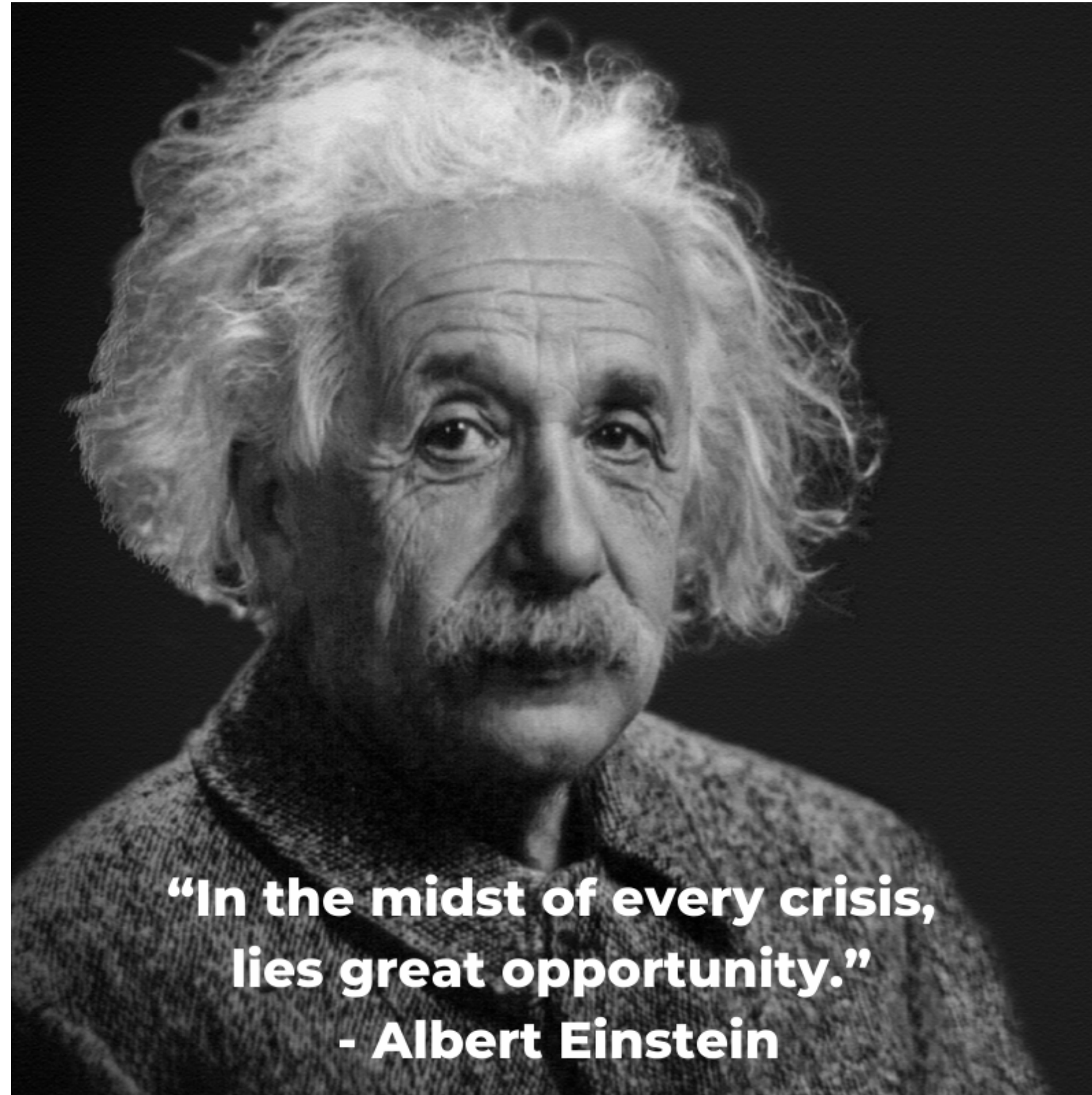
Member Engagement: Who Engages?

- virtual meetings allow participation by different industry segments:
 - larger brokers
 - top producing agents
 - emerging players

more inclusion = better long-term decision-making



We have the capacity and the capability to do things differently and more successfully. The crisis has created an opportunity to experiment with new strategies and get rid of things that have not provided value for many years.





There is light at the end of the coronavirus tunnel, but life will be different.

「Thank You」