



Mike Ferry's 2019 Market Report:

A Normal Versus Abnormal Real Estate Market

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I'm telling our clients in December of 2018 and during the first quarter of 2019 not to be afraid of the declining market ... not to be overly concerned with the fact that sales have declined and for goodness sakes ... not to panic. Unfortunately, I can hear the stress in a lot of Broker's and Agent's voices. The purpose of this report is to relieve some of that stress and to help each of our prospects and clients to understand that we are headed into what I would call "a normal market" versus the somewhat "abnormal market" we've been experiencing for many years.

I looked in Webster's Dictionary for the word "normal" and here is what the dictionary said ... "usual or ordinary, not strange." Then I looked in the dictionary for the word "abnormal" and Webster said abnormal is "different from what is normal or average, unusual in a way that generally causes problems." The abnormal market that we have experienced has made a lot of Brokers ... Agents ... affiliates ... Buyers and Sellers a lot of money. Much of this money has been made simply because we have been involved in a usually fast-paced rising market. At the same time, a lot of Brokers and Agents actually believed that they were the cause of the market when their income was the result of the market.

My belief is we are now returning to a normal market and finally leaving what a lot of us understand to be a very unusual or abnormal market ... it has actually been somewhat abnormal for the last four or five years.

For those of you that have been in Real Estate for any length of time, you understand that our business is very cyclical. By cyclical, I mean ... we have extended periods of time where the market is either improving or recovering ... the market goes up ... the market goes down ... a normal business cycle. We have periods of time where the market is very flat and periods of time where the market

goes through an adjustment period. If you were to study the last 50 years of the Real Estate market, these cycles generally run in five to six year increments. The most important thing we have to look at, as we enter either an adjusted period or a flat period of time, is that Real Estate is now and always has been, one of the best investments that your clients and you, yourself, can ever be involved in. It is always the best long-term investment.

If I look at my 50+ year career, I look at the fact that my own parents bought a very nice home in Orange County, California in 1956 ... for \$6,500 ... four bedrooms, three baths ... small living room with a dining room and kitchen. What type of Real Estate can you buy today for \$6,500?

In the early 1970's I was selling Real Estate in Orange County, California and the homes were from \$28,000 to \$32,000. Those same homes today sell from \$750,000 to a million. During that period of time, the Real Estate market has gone up and down several times ... however, the end result is, Real Estate always goes up. Yes, you can find exceptions to this someplace in North America ... although we are not looking for exceptions.

Why do I tell you this ... the market is cyclical ... between 1970 and the beginning of 2019, we've gone through multiple five to six year cycles ... prices go up ... prices go down, but those people that choose to stay in Real Estate always win long-term.

Let's take a review of the last 10 or 12 years as an example:

Both in January and July of 2006, I described for our clients what I called "the perfect storm." We had a series of Real Estate oriented events take place simultaneously. We were ending an upward-trending cycle that had lasted several years and a lot of people had made a lot of money investing in Real Estate. Investors saw the end of the cycle and started pouring their investment properties in the market to cash out. New home construction was at a very high level along with high prices and the builders saw the end of the cycle and started cutting prices to get their homes sold. Financing on new homes and residential resales the previous five to six years was soon deemed a disaster waiting to happen ... and it did. Financing on properties was out of control with unqualified Buyers being able to buy for the first time with almost no money down and one to two percent interest rates. With all this being said, the lenders started to suddenly repossess properties in high volume and with the Adjustable Rate Mortgages suddenly going up in multiples, there was a simultaneous huge downfall in the Real Estate industry.

By mid-2007 to the end of 2008, prices dropped anywhere from 30-60% ... and sales dropped 30-60% over the next several years. Bank repossessions skyrocketed to an all-time high ... lenders of all types were being put out of business ... the government reacted through rescue finance packages and obviously then, new regulations were put into effect regarding home financing. WITH ALL THIS BEING SAID ... depending on what reports you are reading, there were still some place between 3.7 and 4 million residential sales taking place in the U.S. The Brokers and Agents that mastered sales skills ... were the best prepared for this market and those with the highest skills and knowledge of how to go out and create business in this very difficult time ... succeeded at a high level. The Agents that were trained and coached effectively and who worked on skills and strengthening their mindset watched a major portion of the industry collapse while they did business.

In late 2011 and early 2012, the recovery started. Prices started to comeback ... the number of sales started to increase ... the lenders that were left standing, were lending money once again and the Sellers became very greedy with unheard of appreciation between 2012 and early 2018. The Sellers that were able to keep their homes during this downward cycle were simply getting back the equity that they had lost.

By the end of the first quarter of 2018, the market began to slow down again ... the end of another five-year, upward-trending cycle was coming to an end. Unfortunately, too many Brokers and Agents thought the upward trending cycle would never end and got used to a Seller's price appreciation/get rich quick Real Estate market and didn't pay very close attention to what was going on.

So, then we hit the fourth quarter of 2018 and we were all set, once again, for the "mini perfect storm." In the last two or three months of each year, we have a normal Real Estate fourth quarter slow down. At the same time, we were closing out the ending of a five to six year upward trending cycle. There had been unrest in the financial markets and we've seen interest rates climb through the second half of 2018. We were moving from a strong Seller's market to a "normal" Buyer's market. With prices being as high as they had become, Buyers were not able to afford homes like they had in the past. Prices had skyrocketed and many Brokers and Agents had made more money in 2016, 2017, 2018 that they forgot how to work. The market carried them instead of spending their time developing the skills and mindset required in a changing market.

“So now we are sitting at the beginning of an adjustment period and we are seeing a market returning to normal.” There are 12 factors in play as you are reading this report that would describe a normal market. You have to study these in your marketplace ... understand them thoroughly and be able to explain them to Buyers and Sellers as you proceed over the next 12 to 18 months.

1. NORMAL ... Listing inventories are growing again and coming back to normal, meaning Buyers have choices. When Buyers have choices, prices often go flat or decline.
2. NORMAL ... As stated above ... we are moving quickly from a Seller’s market to a Buyer’s market, which will make Sellers unhappy and Buyers very happy.
3. NORMAL ... Agents that work the Expired market will see Expired listings once again and as an Agent, you can expect anger and frustration on the Expireds’ listings part as they are looking backwards at higher prices that we had the year before.
4. NORMAL ... Listings will be on the market for extended periods of time versus a few days or a few weeks when we had multiple offers. Over the last several years, unskilled Agents could take a listing, it would sell quickly and the Agent thought they had sales talent.
5. NORMAL ... For Sale by Owners are not selling quickly and more than ever, need good Agent’s advice once again.
6. NORMAL ... Sellers are lowering prices and skilled Agents are helping them make those decisions on a regular basis.
7. NORMAL ... Agents who are lacking strong skills and discipline are seeing low production and are leaving the business ... finally!
8. NORMAL ... Agents who work with Buyers have the luxury of more homes to show and the frenzy of having to buy has disappeared.
9. NORMAL ... Interest rates and financing have become a factor for both home Buyers and Sellers.

10. NORMAL ... Agents that know how to work ... understand the basics of selling ... will see their income increasing, while the total number of sales is decreasing.
11. NORMAL ... There's less profit appreciation in homeownership, which expands the number of transactions as more people will be qualified to buy.
12. NORMAL ... The skilled Agents will start having fun again ... making substantial amounts of money in 2019 because the unskilled Agents will be more uncompetitive now than they have been in the past.

I have had numerous conversations with Brokers and Agents during the fourth quarter of 2018 and what I keep hearing them say to me is ... "The market is falling apart. WHAT'S THE SOLUTION, MIKE?" I have stated repeatedly that the solution is getting the Agents to understand the above 12 points. In addition, we have to get the Agents to do the following five days a week, every week in 2019 so they can succeed at a high level. Also ... "our coaching staff and the Brokers have to monitor what the Agents are doing daily ... continue non-stop strong sales training ... hold them accountable to their schedule and the goals that they have set ... confront them when they are off track ... and when in doubt, teach them The Mike Ferry Sales System. Why? ***Because it works!***"

THE SOLUTION ...

1. Every Agent must aggressively work their database and re-establish the relationship with those that they have not been in touch with.
2. Each Agent must get involved in strong, direct prospecting versus passive prospecting, including their time and energy spent in social media.
3. Aggressively following up on your leads and working hard to get appointments set now.
4. Stronger prequalifying of every Buyer and Seller before you make a presentation or you put them in your car to show them property.

5. Being 100% honest with Sellers regarding pricing because of the Agent's knowledge of market stats.
6. Having a direct response to each objection that a Buyer or Seller gives the Agent and being aggressive in asking them to sign a contract.
7. Spending 30 to 60 minutes a day in both roleplay and practice and skill development.

Yes, we will see a more challenging/normal market in 2019 and it is going to be just fine for those that have strong sales skills ... a strong mindset ... strong discipline ... and a strong work ethic. It's going to be challenging and difficult for most because they lack each of these four.

Make the decision as to which group you want to belong to in 2019 ... "The haves or the have nots." All of us at The Mike Ferry Organization are committed to helping you become one of the strongest Agents in your market and the most productive and profitable. If you need assistance, in making 2019 a great year for yourself, contact me at Mike.Ferry@mikeferry.com

Don't be a victim of the market!



Mike Ferry