



How to Diversify Your Brokerage to Weather Economic Hardship



Introduction

From 9/11 to the global COVID-19 pandemic, it's no secret that the ups and downs of the U.S. economy can have a profound effect on the real estate market. Historically, during times of economic downturn, real estate brokerages across the nation can struggle to drive revenue, land transactions and keep business thriving. However, the cyclical nature of the industry means that brokerages might be able to benefit from diversification as they seek to mitigate factors beyond their control and work to secure the best results for their clients regardless of the economic climate. Namely, when consumer need in one industry dips, it may peak in an adjacent one. Diversification is one approach brokerages can adopt to help ensure stability in unavoidable times of uncertainty, work to protect their revenue and - ultimately - financially weather-proof their business.

Miami real estate broker Joan McCaughan specializes in selling several disparate neighborhoods, from the luxe Key Biscayne area to Brickell, a district hard-hit by COVID-19¹. Luckily, McCaughan's firm has roots in property management and offers not only real estate services, but mortgage, title, insurance and more². Key Biscayne caters mostly to cash buyers, whose lifestyles have largely remained the same throughout the pandemic, so the brokerage is still benefiting from

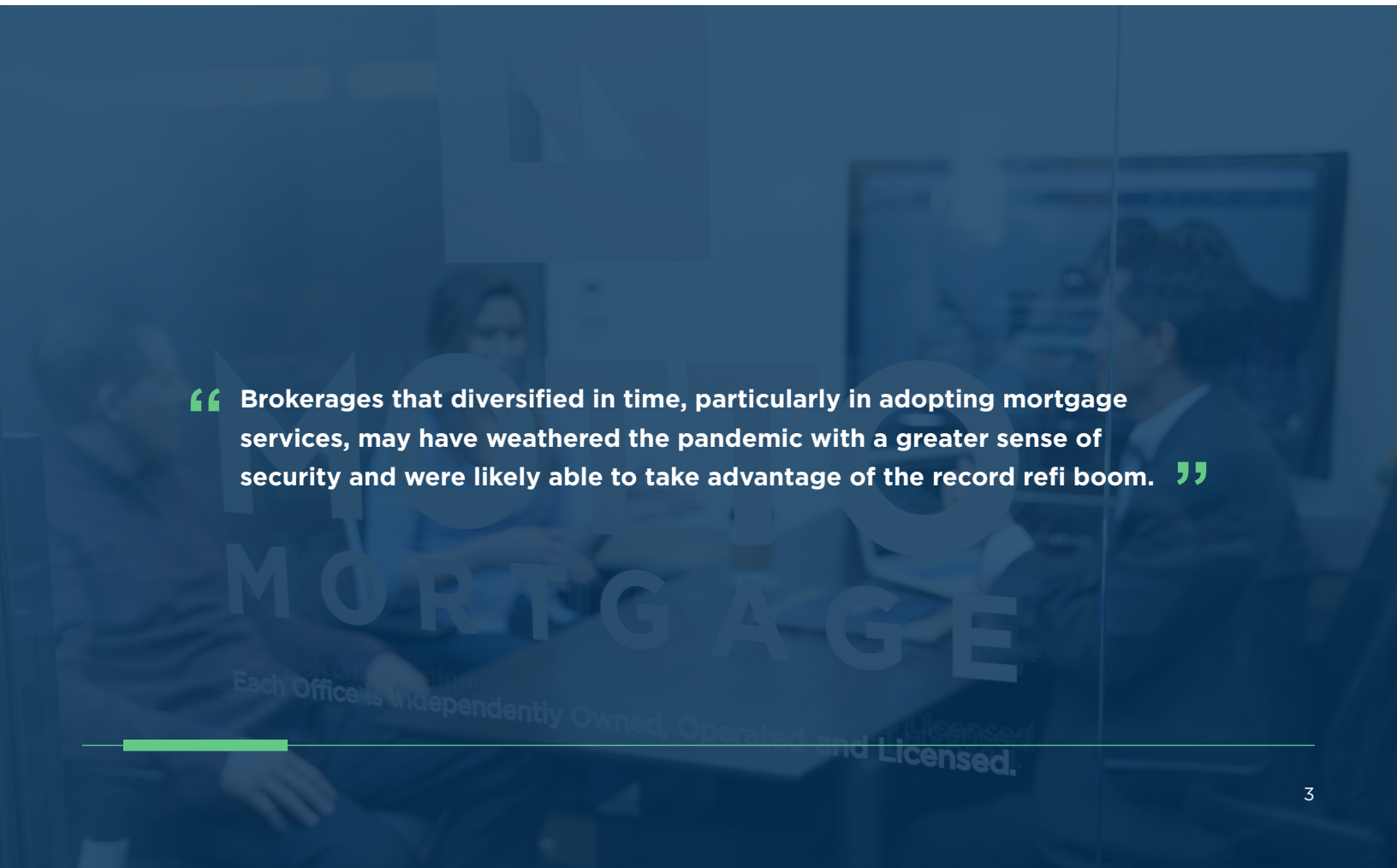
those regular sales. By offering an array of services, McCaughan can also meet the needs of vastly different clients in Brickell, who may be unable to purchase but instead may need rentals or refinances. McCaughan's business has thrived in times of uncertainty - whether a hurricane, recession, or, pandemic - thanks to a number of ancillary businesses providing additional revenue streams. Diversifying your offerings may help to bolster regular earnings, capitalize on emerging needs, and potentially offer greater stability and financial success now and in the future.

Nick Solis, a broker-owner in the California Bay Area, had built up a large real estate brokerage just before the Great Recession³. In the massive downturn, he lost 99.5% of revenue and went broke trying to keep the doors open. In the years since, Solis built One80 Realty, providing both real estate and mortgage lending services, diverse and complementary offerings that helped better position him for success through the COVID-19 pandemic. In times of uncertainty, the real estate market may die down but refinances can jump, as we saw during the refi boom that was precipitated by the dramatic fall of interest rates during the pandemic. Now, in addition to any regular real estate transactions currently underway, Solis believes he can leverage his past real estate client pipeline to

balance a variety of market conditions, thanks to refinance and home loan opportunities. Offering an array of products and services allows the brokerage to tap into and benefit from an existing client pool's new needs, not only surviving but thriving in this most recent economic downturn.

On a larger scale, many would-be sellers across the nation are hesitant to list their property due to economic uncertainty. With demand high and supply low, real estate brokerage owners were – and may continue to be faced with – a unique challenge during the pandemic era. Namely, if they are unable to maintain sales volume, it's imperative to find new sources of revenue to try and help shield their overall business from loss. While inventory has recently begun to slowly climb, real estate brokerages could remain in a vulnerable position as long as the fragile state of the U.S. economy persists.

Brokerages that diversified in time, particularly in adopting mortgage services, may have weathered the pandemic with a greater sense of security and were likely able to take advantage of the record refi boom⁴. In a period of uncertainty characteristic of the mercurial real estate industry, these businesses tapped into a thriving, closely-related field to stay afloat when others couldn't. If history is any indication, economic downturns can happen swiftly and unexpectedly. Diversifying could protect your revenue, ensure some stability, and help financially weather-proof your business in time for the inevitable next shift in the market.



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Why Many Financial Experts Tout Diversification

When it comes to financial management, whether personal or business-related, the practice of diversification is important to reduce overall risk. It might be helpful for a stock portfolio, for example, to be made up of investments that cover a range of industries, rather than relying on a single holding to carry the weight of the portfolio. This strategy may help to diffuse risk since it's unlikely that every sector in the portfolio will do poorly or have record gains at the same time. Turbulent times like the COVID-19 pandemic have shown that while some industries experience record losses, others can fare much better.

The idea that holding diverse assets can be beneficial is similar for businesses. In the case of a real estate brokerage, that diversification could be achieved through different revenue streams, which may be accomplished by offering supplemental services that complement the core real estate business.

Brokerages that only focus on real estate might be overly exposed to risk during a recession, when there may be fewer buyers and/or sellers. By offering an ancillary business like title, insurance or the advantageous refinance opportunities in mortgage loan services, brokerages will have more options during times of economic instability. Diversifying may add balance and help to make the business more resilient during unexpected market changes.

The Role of a Real Estate Brokerage for Today's Consumer

Many consumers love the convenience of a one-stop-shop experience, but the value proposition has evolved over time. It's no longer just about buying all the products you need under one roof – it's also about being able to receive all requested services from one trusted source. Businesses today have the unique opportunity to provide a simplified and superior end-to-end experience.

Take local banks, for example. In addition to routine banking services, customers can also access separate but related offerings such as money market accounts, certificates of deposit, branded credit cards, and trust and notary services.⁵ Real estate brokerages can function similarly, as the one-stop-shop for all residential property services. Real estate agents, loan officers and insurance agents alike could work in exceptionally close proximity, seeking to help consumers navigate a complex process from beginning to end. Such an arrangement helps to eliminate the hurdles that arise from working with multiple providers and could ultimately reduce time to close and increase consumer satisfaction.

By offering complementary services, the one-stop brokerage can help to streamline the real estate journey and reduce friction points. In today's connected world, consumers across industries are seeking a simplified experience and they're even willing to pay more

for it. PwC's customer experience survey found that 43% of consumers would pay more for greater convenience. For an overall better experience, they would be willing to pay up to 16% more⁶. The brokerages that understand how important this approach can be to customers and adapt accordingly may become the preferred providers. Offering a premium experience can mean better returns, even in a lower sales environment.

Winning More Business from Current Clients and Increasing Market Share

Consumers often select services based on their benefits. Consider how Google Drive, Google Docs and Gmail complement each other and allow users to collaborate on projects and easily share updates. These integrated services keep consumers on Google's platform and help grow the search giant's market share.

Similarly, the complementary services offered by a one-stop brokerage may be able to attract consumers who are seeking a more convenient homebuying experience. Once clients, they may be more likely to use the brokerage's other ancillary services. It's the reason people like referrals: they trust the source and it makes the process easier.

In 2019, The National Association of Realtors reported that 66% of sellers and 41% of buyers found their agent through a referral from a friend, neighbor or relative. What's more, 90% of buyers would use their agent again or recommend them to others⁷. With such a high satisfaction rate, it's conceivable that these same consumers would be highly receptive to using other services provided by the brokerage, such as title, mortgage and insurance. This could be especially true if the brokerage makes the experience seamless, stress-free and faster than the alternative.

The advantages of working with a one-stop brokerage can help divert market share from competitors who are still operating a less convenient, siloed real estate model.



Ways to Diversify Your Brokerage's Revenue Streams

While there are many diversification opportunities to consider, when adding an entirely new ancillary service to your overall business, it might help to start with the most complementary offering for your current customers. For real estate brokerages, mortgage services can check that box.

Mortgage Services

New home purchase mortgages play an essential role in the homebuying process and can make for a natural addition to real estate services. Additionally, at times when buyer demand is lower, refinancing services may counterbalance the effects on your business. In adopting mortgage services, brokerages may be able to collect a larger piece of existing purchasing transactions while simultaneously attracting new clients with vastly different motivators, should the market eventually shift to favor refinances. This could be an excellent example of revenue diversification and protection, as mortgage services can provide dynamic value to separate consumer cohorts as the economy ebbs and flows.

In the age of COVID-19, we saw a sizable boom in the refi market. U.S. homeowners with a mortgage experienced a 6.5% year-over-year equity increase—a total of nearly \$590 billion—between the first quarter of 2019 and the first quarter of 2020⁸. Record-low interest rates led to a surge in borrowers tapping into their home equity.⁹

Real estate and mortgage brokerage services may be closely related enough to benefit current and potential clients, but diverse enough to help financially weather-proof your brokerage. To potentially help ensure greater stability during inevitable times of uncertainty, help protect overall revenue and explore diversification, the move for real estate brokerages to add on mortgage services can prove to be the superior choice.

Title Services

A clear title is a necessity in real estate, but it can also be one of the more confusing parts of a transaction. By offering in-house title services, brokerages may be able to reduce the likelihood of a delayed closing or an error in the purchasing process.

Home Insurance

As approximately 85% of buyers take out a homeowners insurance policy¹⁰, providing insurance is another adoptable piece of the greater homebuying process. By adding insurance services, a brokerage business may be able to derive additional revenue from each transaction while providing consistently high service to improve client satisfaction and create a potential customer for life – especially since insurance policies must typically be renewed each year.

Property Management

Property management tends to have an inverse relationship to the business of a typical real estate brokerage. For example, when the market is stronger, more people are typically buying instead of renting. When there's a downturn, buyers are typically investors, who may rent those homes out¹¹. If you can also offer property management services, you may make yourself a commodity during those times.

Home Staging

When a brokerage or agent offers home staging, not only does it provide diversification in the business model, but it could also be a valuable marketing tool. Providing staging services takes the streamlined one-stop-shop concept and applies it to sellers. You're potentially adding value to your client's overall experience and differentiating yourself from competitors.



How The Motto Mortgage Brand is Transforming Real Estate Brokerages

Starting a new mortgage brokerage is no easy feat; however, the Motto® Mortgage Franchise model allows for an office to be set up in just a few months. With the expert guidance and tools provided by Motto Mortgage, this quick-to-market, simplified franchise model may make the addition of ancillary mortgage services an ideal first step for those building a one-stop brokerage.

From compliance, training, and support, to technology and brand marketing, Motto Mortgage allows you to create a mortgage brokerage more seamlessly. And, by potentially capturing a mortgage transaction that would otherwise go out the door, you help to maximize the value of every customer while diversifying your business.

Diversification is one of the concepts we're advised to build our personal investments around as it can help to shield us from losses and creates balance. It stands to reason that it is equally imperative to apply the same principle in a real estate brokerage business model. The introduction of new, complementary services can help real estate brokerages transform into one-stop-shops, not only helping to financially weather-proof their business, but ultimately benefiting consumers. It may also help increase the brokerage's market share as it attracts more clients who seek a convenient, end-to-end homebuying experience.

Motto Mortgage is leading this transition by helping real estate brokerages incorporate mortgage services into their business. Its franchise solution offers a faster and more reliable path toward becoming a one-stop brokerage. With a satisfied base of customers and diversified revenue streams, brokerages can feel more confident that they are secure no matter what global, national or local event rocks the housing market.

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