SOUTH CAROLINA REALTORS®

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South Carolina REALTORS®

BROKER BULLETIN

7th Edition • Summer, 2018

A Message from South Carolina REALTORS® President

SCR's annual conference is coming to Myrtle Beach this fall at the Myrtle Beach Marriott Resort and Spa at Grande Dunes. We've secured renowned speaker Jared James as our keynote, and speakers Doug Devitre, Deb Sofield, Rhett Damon, and Denise Ryan for sessions covering topics like ...

- **Millennial Recruiting**
- **How to Create Predictable Transactions**
- **Body Language**
- **Smart Homes, Voice-Assistants, Chat-bots ... Oh My**
- **Soft Landings & Transactions**
- **Your Leads Don't Suck: How to Convert Like a Boss**
- **Dealing with Change Without Going up in Flames**

We'll also have an awards ceremony celebrating the cream of the South Carolina real estate crop, a panel of top producers to inspire and motivate your agents, multiple networking sessions so that you can get to know your colleagues, and plenty of fun events in between.

Speaking of fun, for only $50 per person or $200 per 4-person team, you can support your industry and attend the RPAC Mini Golf Tournament! Your investment includes a round of mini golf, pizza, beer and wine, awards, online silent auction, and a keepsake RPAC t-shirt!

This conference has something for everyone -- brokers bring your agents. And with SCR's affordable Broker Package Pricing, you can bring your entire office. Attendees will also enjoy 20% off of spa services so you can relax after our busy agenda. But space is limited and prices are set to go up soon, so register now at **www.ownthefuture.org**.

Laura Derrick,

Laura Derrick

2018 South Carolina
REALTORS® President

20%

Enjoy 20% off of Spa Services
at the Myrtle Beach Marriott Resort & Spa.
Just by being an attendee of Own the Future

IMPORTANT DATES:

Monthly (Wed & Fri)
Sumter Habitat for Humanity
Veteran's Build
habitatsumter.org

September 20-22
SCR Annual Conference
Myrtle Beach, SC
ownthefuture.org

October 17
Broker Summit
Riverbanks Zoo
Ndoki Lodge
Columbia, SC
screaltors.org/brokersummit

October 31-November 5
NAR Annual Conference
Boston, MA

November 22-24
Thanksgiving
SCR Office Closed

Legislative Update

Session breaks, but we're still working for you

By SCR Director of Government Affairs, Lindsay Jackson

On May 10, 2018, the South Carolina Legislature adjourned Sine Die, marking the end of the second regular session of the 122nd General Assembly. However, the work of the General Assembly did not stop there.

Per the Sine Die resolution both bodies returned to Columbia at the end of June to continue their work on the state budget, state tax conformity, and V.C. Summer related legislation.

The 2018 session brought about many challenges as most of the time spent conducting business was consumed with debate regarding the state's energy future as it relates to the failure of the V.C. Summer Nuclear Project.

SCR made a responsive effort to ensure SCR's priorities were not lost in the energy turmoil. Even with the uncertain political climate, 2018 was one of the SCR's best legislative sessions ever! SCR, with the help of key supporters in both the House and Senate, ensured that our priority issues remained at the forefront of lawmakers' agendas.

I am extremely pleased to announce that the General Assembly recognized and took action on ALL of SCR's top 2018 REALTOR® legislative priorities this session including:

H.4683 (Act #173 of 2018)- Beachfront Management Reform Act
H.3886 (Act # 245 of 2018)- Homeowners Association Reform
S.1101 (Act #156 of 2018)- Prohibition of Eminent Domain for Petroleum Pipeline Companies

I am confident that the legislation enacted this session will benefit our membership, the real estate industry, and the consumers of South Carolina for years to come!

For more information regarding SCR priorities/legislation passed in the 2018 session, please stay tuned for the SCR Post Session Report and the SCR Legislative Scorecard which will be published as the General Assembly completes their work .

Legal Update

Do you use SCR Form 314? Here's why you should ...

By Byron King, SCR General Counsel

Did you know that in 2017 LLR began requiring form SCR314 when dealing with an offer rejection. The Offer Rejection Form states, "If an offer is rejected without counter, an offer rejection form, promulgated by the commission, signed by the licensee affirming presentation of the offer must be provided to the offeror by the licensee, whether the agent of the buyer, the seller, or if acting as a transaction broker."

As best practice and to protect your client's best interest, always respond in a timely manner to all buyer's offers with any of the following:

1. **A written acceptance of offer**
2. **A written counter-offer**
3. **Offer rejection form, SCR314**

No matter what your response, never fail to respond! If you negotiate, offer, counter-offer and accept via written SCR standard forms you will have nothing to worry about, as you will be following SC license law and the NAR Code of Ethics (e.g. Article 1, Article 9). Form SCR314 also helps solve other problems when going through a transaction. It solves the problem of buyer reps and buyers not believing their offer was submitted to the sellers, and it solves the problem of listing reps wanting to document that the seller did not accept the buyer's offer nor counter-offer.

LLR does not allow pre-printed seller signature lines on SCR314. However, LLR does allow the seller to sign in the blank space at the lower portion of the form. The seller signatures verify that the buyer's offer was seen and rejected by the seller and protects the listing brokerage from the seller changing their mind.
In multiple offers, the seller might use the Solicitation of New Offer Form (SCR312) in conjunction with the mandatory SCR314 to set up the highest and best deadline with each buyer. Then, the seller should use SCR314 for all offers that are not ultimately accepted. Sellers decide on how to handle multiple offers.

Best practice when involved in a multiple offer situation as a buyers representative, is to submit your highest and best offer and avoid escalator clauses that require complex lawyer drafting and may cause contractual enforcement issues.

Competing with New Business Models

New business models will keep you on your toes, but complaining won't get you anywhere.

By Steve Murray, REAL Trends President

The onslaught of new venture-backed realty firms entering the industry is somewhat breathtaking. Along with Redfin, Compass and eXp, we have Open Door, Offer Pad, Knock.com, Purple Bricks and others not so well known. Zillow, Realtor.com, Homes.com and myriad other real estate tech firms have also had an impact. What is less known is that there are at least four private equity firms—that we are aware of—carefully examining investment options in brokerage and real estate tech.

It's not that there are so many new entries that is causing angina among incumbent realty firms. It's that they compete by offering lower costs to consumers, higher costs to recruit and retain agents or both. In fact, it's not just one that keeps us on our toes; it's the totality of them all. Many of them raise enormous amounts of capital with which to enter markets and compete with incumbents. Their backers don't seem to require any earnings potential for the foreseeable future with these new companies. Zillow and Redfin have been out over ten years, and neither has produced annual earnings—yet. Indeed, this is a new form of competition for the residential realty industry.

However, is it all that different than what brokerage firms faced in the past? Merrill Lynch and Sears entered the business from 1977 to 1982 buying brokerage firms. Their size and scale scared everyone back then. At just the same time, RE/MAX gained strength and raised the cost of recruiting and retaining agents. Don't forget this was also when savings and loans started buying brokerage firms and entering the business.

Brokers detested all of them. They saved their particular dislike for RE/MAX because the cost of keeping top producers soared while the others played by the incumbent's rules. At the time, brokers felt they wouldn't know how to compete should gross margins fall below 30 percent. Many of those brokers today are healthy and growing.

Later in the early to mid-2000s, after an initial wave of real estate tech firms entered the market, there was fear that opening up the MLS to public access would wreck the industry. Keller Williams gained share and again raised the cost to brokerage firms for recruiting and retention of agents. Brokers shifted their dislike from RE/MAX to Keller Williams and Zillow. Brokers felt like there was little hope that they could remain viable when gross margins fell below 20 percent (see a pattern here?). Traditional brokerage firms continue to find ways to compete and to stay profitable.

What can we learn from history?
First, don't waste any time complaining about today's villains. It won't make a difference. Redfin, Compass, Zillow and others are likely here to stay. Years ago, incumbent independent brokerage firms complained about RE/MAX and franchised brokers in general. It didn't stop them, and it didn't change anything on the ground. Later, incumbents (now including RE/MAX firms) complained about Keller Williams and Zillow. It didn't stop them, and it didn't change anything. Currently, incumbents (now including Keller Williams) are complaining about eXp, Redfin and Compass. It won't help.

Brokerage firms are remarkably resilient and adaptive. With average gross margins now at 18 percent and falling nationally, the business will be tougher, both regarding how to grow and how to maintain margins—but not impossible. When once it was thought that there was no way to make money with gross margins under 30 percent, then 20 percent, now lower than 18 percent for most brokerage firms, we find that there are numerous companies still making 4 to 6 percent pretax on their gross revenues.

Where is it headed?
Many years ago, we commented that the residential brokerage might well evolve as other retailing industries had—a few large-market-share participants, with low costs and low margins along with a few more niche players who specialize in specific segments of the market, generally with smaller market shares, but with higher margins. The key is not to get caught between these two models.

The value proposition guides decisions for all consumers. Its parts are price, convenience and trust. If you're not focusing your conversation with your agents and critical employees on convenience and trust, then the discussion will be about the price (agent splits for instance).

We do believe one key point. If the choice of the brokerage firm is always and only about money, then every brokerage today of any size would be out of business. Quite a few agents and teams value more than just their commission plan. The key is in finding the right blend that gets you the right type of agent and builds the kind of company that you most want. It may be different than where you started.

Commission rate pressure
In addition to the downward pressure on gross margins at the brokerage level, we have been watching national average commission rates decline steadily since 2011 when the market indeed began to recover. As we published in our book, Game Changers in 2014, there is a remarkable correlation between the average number of listings available in the market and the number of Realtors® serving the market. It turns out that over the last six years or so, the average number of listings per Realtor at any given time has dropped by nearly 50 percent—from 2.9 to 1.4. While that happened, the national average commission declined from 5.4 percent to 5.08 percent. (For analysis on this, go to page 7.) There is no end in sight for tight inventory conditions. Realtor membership is climbing. We expect that the downward trend in national average commission rate will likely continue.