

The Changing Landscape of Real Estate Advertising



NAA Classified Conference
October 2005

Jeff Palmer
Senior Vice President of Marketing, NRT

Introduction – What's NRT?

- NRT is a member of the Cendant Family
- Cendant Real Estate Brands Include:
 - NRT
 - Coldwell Banker Associates
 - Century 21
 - ERA
 - Sotheby's

1

The Changing Landscape of Real Estate Advertising

Under the NRT Umbrella

- Coldwell Banker Residential Brokerage
- Sotheby's International Realty
- The Corcoran Group
- The Condo Store
- Sunshine Group
- Citi Habitats
- ERA
- Other brands and growing



RESIDENTIAL BROKERAGE



THE CONDO STORE

*corcoran*group
real estate



The Sunshine Group, Ltd.



How's Business?

- Business has been good for Real Estate firms for several years but there is anxiety about the short term future
 - Listings are down 22% nationally
 - There appears to be some softening in the high-end
 - Interest Rates are rising
- Margins enjoyed in the past are harder to sustain
 - Expansion of limited service/discount brokerages threatens existing models

3

The Changing Landscape of Real Estate Advertising



How's Business?

- Ad budgets are tightening, definitely not growing
- Everything is being scrutinized and performance is a must
- Must start managing ad spending like an investment rather than an expense
 - What response can we expect for the investment we're making?
 - What performance deliverable can the advertiser expect from the media we buy beyond running our ads and cashing our checks?

4



NRT

- NRT is growing rapidly and is now national in scale. We operate 28 regional companies across the US
- Over the last six years NRT has acquired roughly 300 real estate companies
- NRT is primarily concentrated in the top 35 metropolitan areas
- We continue to acquire more companies on a weekly basis

5

The Changing Landscape of Real Estate Advertising



NRT

- We are the nation's largest real estate brokerage company- over 55,000 agents/12,000 offices
- 2004 NRT had sales of \$204 billion & gross commissionable income of \$5.2 billion
- In most markets we are the market leader
- We control the lion's share of listings
- We spend more nationally on newspaper advertising than any other real estate firm
 - Approximately \$90 million in newspaper advertising alone
- As a general rule we are your largest real estate client
 - if not you, then your parent company's

6



NRT-NSA Partnership

- In the fall of 2003 we retained Newspaper Services of America as our agent for:
 - Market Analysis
 - Contract/Rate Negotiations
 - Strategic Planning
 - Best Practices
- Their broader assignment:
Help us to understand and appreciate the relative value of our print program

7

The Changing Landscape of Real Estate Advertising

NRT – Newspaper Partnership

- We rely upon newspapers to provide information related to:
 - Our spending
 - Contract fulfillment
 - Ad placement/positions
 - Billing
 - History
- The medium we invest the most in is not in a good position to assist us with even the basic information essentials

8

What Does History Reveal?

- Analysis of our newspaper rate history indicates that on average our rates have risen more sharply than many other newspaper categories
- This is at a time when:
 - Coldwell Banker's spending and support of newspapers has increased substantially, steadily
 - The medium we invest in most is unable to capitalize on the population growth within their respective markets
 - The Internet looms large as a viable alternative

9

The Changing Landscape of Real Estate Advertising

Circulation – Credibility Damaged

- Newspaper scandals in editorial and circulation
 - Raised questions beyond the few newspapers involved
 - Advertisers now asking, “What am I really buying?”

10

Circulation - A Leaky Bucket

- Deutsche Bank Article
 - Underlying trends are worse for newspapers than the headlines
 - Higher priced circulation is declining much faster than overall circulation and the decline is accelerating
 - Other Paid and heavily discounted circulation is exploding and accounting for greater percentages of total circulation
 - Often forced on advertisers
 - Generally not valued by advertisers
 - May help readership but it doesn't help paid circulation

11

The Changing Landscape of Real Estate Advertising

Macro Trends in Circulation

- Beyond the top line circulation figure
 - declines are steeper in categories with greater value
 - Full paid home delivery
 - Full paid single copy sales
- Total circulation number does not tell the full story
- Lower quality circulation is being used to stem the losses
- Wide fluctuations in "Other Paid Circulation" appear problematic

Source: Prudential Equity Group Research Report, March 2005

12

ROI and What Really Works

- Difficult to measure ROI when sale of inventory is not primary purpose of advertising spending
 1. Appease sellers
 2. Retain/capture agents
 3. Generate listings
 4. Present presence/image
 5. Sell houses
- Our own surveys of what media works consistently points to the sign in the yard as the most effective call generator

13

The Changing Landscape of Real Estate Advertising

Newspaper Research

- Should provide insight into customer behavior, present/future
- Should help us to understand the best way to use the medium to reach targets/niches
- Present an unbiased perspective
- Much more is needed
 - How many of your subscribers purchase the paper to receive real estate information?
 - How many consumers go to the newspaper when in a home buying mode?
 - What value do your ancillary products have?

14

Online

- According to Borrell Associates online advertising spending will eclipse newspaper classified spending by 2009
- Anticipated 2005 online real estate advertising spending expected to exceed \$1.8 billion, 55% higher than the previous year
- \$3 Billion by 2009, totaling more than 34% of all real estate advertising spending

Source: Borrell Associates

15

The Changing Landscape of Real Estate Advertising

The Internet – A Viable Option

- Newspapers' classified ad business has eroded noticeably and could ultimately cost newspapers about 9% of total ad revenues by 2007 – if trends that afflicted help-wanted spreads to automotive and real estate
- Proliferation of online sites has substantially complicated newspapers' hold on the format
- Online is capturing all the growth

Source: Ad Age, April 2005

16

Competitors or Partners?

- 1/3 of the total on-line audience goes to Real Estate web sites*
- Our tracking metrics show unique visitors to our properties come from:
 1. Search engines
 2. Our local company web sites
 3. Realtor.com via MSN, Google etc.

Distant are local newspaper web sites

- Newspapers are competing with real estate companies for share of market and hope to hedge losses in print product via their web site*

*Source: The Media Audit

17

The Changing Landscape of Real Estate Advertising

Web Pulling Ad Buyers

- Brand marketers have finally recognized they cannot ignore the shift in media consumption patterns
- Online ad revenue surged 33% to \$9.6 billion in the United States last year and is expected to grow as much this year
- People spend 34% of their media consumption time on the Internet
- We are seeing a disproportionate shift of ad spending to the Internet because marketers are playing catch up

Source: Los Angeles Times, May 18, 2005

18

Web Pulling Ad Buyers - continued

- Growing advertiser resistance to tradition of hiking rates year after year even as media loses audience
 - No other business works where quality (circulation) goes down and pricing goes up and up
- The Internet provides a precise measurement of people's engagement
- "I think at the end of the day the marketers will open up the pocketbooks and write big fat checks, but they do so with decreasing glee and with follow-up memos to the staff saying, 'Find us a better way next year.'

Source: Los Angeles Times, May 18, 2005

19

The Changing Landscape of Real Estate Advertising

Our Web Strategy

- 2004 – Invest to improve our sites across the country and create a common consumer experience
- 2005 – Expand reach into the national market via our relationship with Realtor.com, Goggle, Overture, MSN, AOL and others
- 2006 – Continue to grow our local market web sites
 - Build on the value of our web realltionships
- Newspaper web sites???

20

Our Web Strategy – For Now

- We do not want listings or our other content repurposed on newspaper web sites without our permission
- We do not look favorably on other realtors or MLS's repurposing our listings for use on newspaper web sites
- We frown on forced buys of any type
- Newspaper web sites are in our value added column

21

The Changing Landscape of Real Estate Advertising

Newspaper Websites

- "The local newspaper needs to be seen as the marketplace for real estate in your community."*
- Analogy:
How would Home Depot respond if newspapers stated objective for their website was to become the place for home improvement supplies?

Source: NAA Classified Advertising
Benchmarking Study 2004

22

Advertiser Hot Buttons

- Annual rate increases – aggressive, unjustified and out of step with consumer needs
- High rate indexes
- Declining circulation, especially in growth markets
- Unfriendly or lack of zoning options – more restrictions, surcharges and penalties than ever before
- Forced distribution or buys
- Contract language is becoming more punitive and one-sided

23

The Changing Landscape of Real Estate Advertising

Advertiser Hot Buttons

- Newcomers to the contract process include:
 - Rate Committees, Financial Ad Managers, Even CFO's
 - Low priority given to advertiser issues
 - High priority given to newspaper issues
 - Have never sold ads or interacted with customers
 - Not relationship driven

24

Where Are We Headed

- Mergers/acquisitions will increase
- Markets may grow by square footage but effective customer spending base may actually shrink
- Spending for all NRT Brands must be incorporated into one agreement

25

The Changing Landscape of Real Estate Advertising

What do Clients Want?

- Growth that parallels market population and demographic trends in areas that are important to advertisers
- Still prefer paid home delivery
 - Strong profile that often parallels our customer's profiles
 - Better educated, more affluent reader
 - Reliable and accurate statements on circulation

26

What Do Clients Want?

- Relevant trends and projections on consumer behavior
- Identification of opportunity areas based on data, not hunches
- Readership is important but don't leverage it against declining circulation

27

The Changing Landscape of Real Estate Advertising

What Can Newspapers Do?

- Focus on effectiveness and ROI
 - Quality of circulation
 - Minimize "other paid" and "third party"
 - Allow advertisers to opt out of selective circulation
 - Distribution capabilities
 - Improve zoning and eliminate forced situations
- Improve reporting
- Partnership

28

What Can Newspapers Do?

- More analysis is needed on the relevance and usage of
 - ROP
 - Preprints
 - TMC
 - Sections of Paper

29

The Changing Landscape of Real Estate Advertising

What Can Newspapers Do?

- Share Risk
 - New product/distribution testing programs
 - Improved contract language
- Accept electronic transmission of ROP ads
- Accuracy and Integrity
 - Circulation and preprint estimates
 - Seek customer centric solutions
 - Zoning
 - Editorial/advertorial
 - Business practices
 - Rate and Contract Negotiations

30

Where Do We Go From Here?

- Are we working together to find common ground or are some of the ways you are responding to our respective challenges actually pushing us further apart?

31

