

Prepackaged Sales Meeting Oil Supplies Impact on Real Estate

Introduction to Prepackaged Sales Meeting
Module: Oil Supplies Impact on Real Estate

Dear Broker/Firm Trainer:

NAR research indicates that 1 in 5 REALTORS® has been involved in an international real estate transaction. If this surprises you, you might ask yourself if business opportunities are being lost because your agents do not understand the elements of an international real estate transaction. The bulk of “international” business takes place in local markets and sales agents need a base level of knowledge to help them attract (and keep) this business, which often comes about from a former client whose needs have expanded beyond the domestic level.

NAR has created a series of modules to help you provide an introduction to global market transaction elements. These modules are designed to be incorporated into your regular sales meetings; many of which can be expanded, based on the firm’s needs. They include resources for additional information for agents seeking a more in-depth understanding of the topic.

Keep in mind that these modules *will not* make your agents “international experts.” (NAR offers advanced training and certification for REALTORS® who work in markets where they will benefit from this.) Rather this information is designed to provide agents with enough basic information on a range of topics so that when the potential client walks through the door who:

- *is looking to buy a vacation home in Mexico,*
- *has recently immigrated to the U.S. and is unfamiliar with U.S. industry practices,*
- *has recently inherited a property in Europe,*
- *wants to invest in an London flat to house a child studying abroad for a year or, a U.S. flat for a student coming to the U.S.,*
- *is a U.S. military spouse from Iraq, Germany, Korea, or any number of countries where U.S. military personnel is based and may marry local citizens,*
- *received in inquiry from overseas about a new development, or*
- *a dozen other possible scenarios...*

...Your agents will be able to assure this potential client or customer that they can help with this transaction!

This module on the world oil supply and its impact on real estate is basic world knowledge when working with foreign clientele. Most countries outside the United States deal regularly with shortages of essential daily living materials including gasoline and other oil based products. Their awareness of not having public transportation or being a great distance from their workplace is usually stronger than ours. It is important to be conversationally knowledgeable about some of these global issues and how they could impact our economy as well as that of the world. This knowledge makes you a more involved citizen as well as a well-rounded agent in this ever-changing world. And given the recent increase in the price of gasoline in the United States, you may find this information equally as useful with your U.S. clients and customers.

We hope you'll find this module useful in your sales agent training program, and we welcome your feedback. Questions or comments can be sent to NARglobe@realtors.org. For information on other international training resources from NAR, visit our web site at www.REALTOR.org/international, or contact Heidi Henning, Manager, International Education and Membership at hhenning@realtors.org (800.874.6500; x8376).



Broker/Trainer Instructions

1. Time: 20-30 minutes.
2. Read ahead of time and put in your own words or read verbatim the “Setting Up the Oil Supply Discussion” page.
3. Read aloud the information in the case study. A copy is included in the Participant Packet.
4. Divide attendees into groups of 4 or 5.
5. Give them 10 minutes to discuss possible outcomes to the U.S. real estate market as well as that of the rest of the world.
6. Have attendees offer at random an issue from their group discussion.
7. Put all responses on flip chart or black or white board.
8. Use discussion points from the Outcomes to Case Study page. May pass out copies of the Outcomes following the discussion.

Setting Up the Oil Supply Discussion

The recent run-up of gasoline prices has put a pinch on everyone's pocketbook. Real estate agents most certainly feel the impact as they conduct their daily business of listing and showing homes. While most would say the expense is deductible, the reality is the money must be paid out before it can be deducted. Gasoline has become our #1 expense item.

The question relative to the real estate business overall is how these prices and a possible shortage of fuel might cause further shock to our business.

Many groups within our government are discussing these very issues. They are creating scenarios regarding our dependency on foreign oil and what the outcomes might be if those foreign sources become less willing or able to supply us as they have in the past.

We have created a case study for discussion on this topic. Put on your thinking caps and see what possible outcomes you and your group may envision.

This issue is important regardless of our clientele.

Case Study

There is a breaking news story on CNN. Terrorists have staged a successful coup against the House of Saud in Saudi Arabia. Their first action is to totally turn off the Saudi oil tap to the world. How will this action impact our real estate market and other markets around the world?

Notes

Case Study Outcomes

The following are all likely outcomes for the U.S. in the event of a sudden elimination of relatively cheap oil (as of mid-2005, the U.S. consumer pays approximately half of what European consumers pay for gasoline).

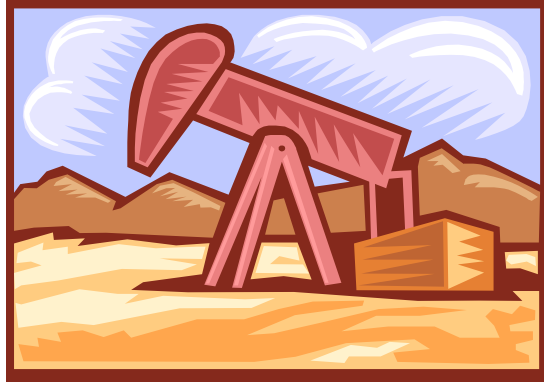
1. **Gas prices go to \$5.00+ per gallon** – *Oil demand is extremely inelastic; as oil prices head for the roof, so do gas prices. Impact of higher gas prices is far reaching: fewer people buy cars; less expendable income; unemployment increase in oil-production and oil-dependent industries; renters less likely to commit to home purchases or current homeowners unwilling to trade-up; home prices drop due to buyer's market and/or suburban locations less desirable.*
2. **GDP ↓ 5%** – *GDP represents all goods and services produced. Prices rise because oil is a component of so many products. So total purchases of goods drop; condition known as “stagflation” where prices are up and total economic activity is down; unemployment increases. Inflation inhibits buying, resulting in less production and drop in U.S. GDP.*
3. **U.S. Strategic Petroleum Reserves last a few months** – *U.S. SPR oil supply estimated at 6 - 9 months. No significant back-up source in the wings. It would take a number of years to develop new oil sources in U.S. or U.S.-friendly source.*
4. **Prices of all transported materials would increase significantly** – *Most goods produced in limited number of locations and transported across the country and across the world. The vast majority of transport methods rely on oil.*
5. **For those areas with no access to public transportation the prices of suburban real estate would drop drastically** – *Commuting to jobs less desirable/affordable, resulting in housing shift to city centers. Cost of public transportation may increase as well depending on use of oil (may be offset by increased rider-ship).*
6. **Suburban retail and office development would be put on hold** – *Disincentive for individuals to commute anywhere, whether to suburban offices to work or to suburban retail outlets to shop. Also, plans of a suburb-oriented community to expand or revitalize its urban downtown are stalled due to disincentive to commute.*
7. **Mortgage market would dry up** – *Price inflation for overall goods and services could lead to traditional governmental response to inflation, which is to increase interest rates, which inhibits new mortgages. Falling real estate prices,*

unemployment lead to mortgage defaults. New lending in this environment would diminish. Extreme scenario includes bank failures due to nonperforming mortgage loans and loss of value of real estate assets.

8. **Mortgage defaults would rise** – *Homeowners on very tight budgets may find that the rise in the cost of living results in the inability to make mortgage payments.*
9. **Many businesses would suffer/close** – *Businesses directly related to the oil production and distribution industries may suffer, along with businesses dependent on a mobile society, e.g., “drive-through” services, suburban-based business, oil consumption businesses (autos, recreational campers, airlines, etc.).*
10. **Resort/second home property prices would plummet** – *Consumers less likely to invest in vacation/second homes due to increased cost of travel and overall inflationary increase in prices.*
11. **Air travel prices would escalate** – *Resulting in reduction in vacations and loss of revenue for holiday-related industries, e.g., hotels, camp sites, recreation parks, etc. Business travel also reduced, possibly resulting in less new commerce.*
12. **Markets in other countries would follow suit** – *The above-listed impacts would be similar for most countries except those oil-producing ones which have no reliance on a foreign source for oil or those so underdeveloped that they are not users of oil.*

Resources

1. Signals in the Noise PowerPoint™ Presentation, National Association of REALTORS®, 2004. Available for downloading at www.REALTOR.org/international (search on “signals in the noise”).
2. The War on Terrorism, the World Oil Market and the U.S. Economy, Analysis Paper #7, October 24, 2001, George L. Perry, Brookings Institute Senior Fellow, Economic Studies (<http://www.brookings.edu/views/papers/perry/2001024.htm>)
3. “The Signals in the Noise: Interpreting the U.S. Mosaic,” Gordon Davis, Global Perspectives in Real Estate, 3rd Quarter, 2004. Available for downloading at www.REALTOR.org/international (search on “signals in the noise”).



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Participant Packet

Case Study

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