

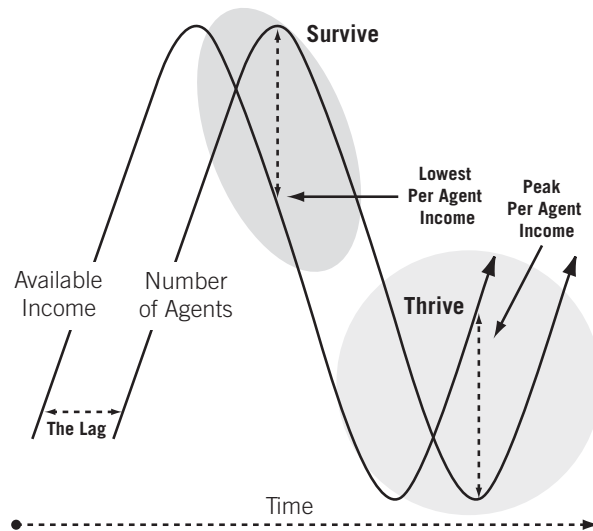
# THE LAW OF EQUILIBRIUM

THE LAW OF EQUILIBRIUM is as old as the real estate industry itself. It is simple and straightforward. The law states that the available income in a market determines the number of agents in that market. As the number of transactions rises, so does the number of agents. Conversely, when the number of available transactions falls, so does the number of agents. People are attracted to the industry by the perceived income opportunity and driven out by the reality of the competition for it.

Since perception tends to trail behind reality, two lag periods show up in every economic shift—the down-lag and the up-lag. The down-lag occurs because the number of agents doesn't decline until the number of transactions has already been dropping for some time. The low point of income opportunity then occurs when the most agents are chasing the least amount of income. The up-lag works in reverse when the transactions increase. The high-income opportunity point occurs on the way up when the fewest agents are chasing the most amount of income.

With relatively few barriers to entry the real estate industry can become flooded with practitioners during a prolonged sellers' market (an upshift). Larger and larger numbers of agents are attracted to the industry and this increases the competition for the existing business. When the amount of business then declines (a downshift) the competition becomes untenable. There are more people but less business and fewer deals. Fewer deals mean less money and less money means lower income for everyone—and eventually it means fewer people doing business. If you can ride out (survive) this initial lag period as more and more people

get out of the business you can find yourself in a less competitive market. There is now more business relative to the number of people working to get it. This is the time to thrive.



**FIGURE 7** Conceptually you can see it this way. For the historical graphs see Figure 64 and Figure 65 in the Appendix.

How long it takes to get from survive to thrive can vary greatly from time to time and from person to person. There is the market's shift and its lag time, and then there is your shift and your lag time. If you don't shift fast, your lag time will parallel the market and you may be at risk. To thrive in the upshift you must first survive the downshift.

Let's be clear here—there is nothing that says that an agent cannot thrive before the market upshifts. In fact, we have known and worked with many agents who had their best years in a “down market.” This book is based on the lessons learned from those agents who have actually accomplished this.

Here's the truth: not everyone will, but anyone can.