



# Exactly How Transparent Are You?

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Andrew Zegas, SIOR, has been in corporate real estate since 1984. He is Founder and CEO of New Jersey based Real Estate Strategies Corporation, an advisory and transaction services firm serving CFOs, Management, and Corporate Boards in acquiring and disposing of leased and owned real estate throughout North America.

As a commercial real estate broker, you probably consider yourself to be professional, fair, open, and honest. But are you also transparent?

In this age of uncertainty, transparency is vital to maintaining and improving your relationship with your clients, and to building a positive reputation amongst other commercial real estate professionals, as well as existing and potential clients. Clients want to come to you and know that they have a broker who they can communicate openly with, who they know will hold themselves accountable, and who they know has no secrets relevant to their business. The importance of this cannot be emphasized enough. People will always be looking for brokers they can trust, and transparency is a large part of what separates the best brokers from the good brokers.

The following guide of questions and comments will help you get a better sense of just how transparent you are, and whether or not your clients view you as someone they can trust with their money.

- Can you describe the basic principles behind Sarbanes-Oxley?
- Do you tell clients and prospects that you will be transparent in your dealings with them and on their behalf?
- Are you really transparent in your dealings, or is that just marketing hype?
- Do you keep your tenants and buyers informed about your dealings on their behalf and about the compensation to which you may be entitled when they complete their transaction?
- Do you only mention compensation to your tenant clients when a landlord offers you a discount, an unacceptable rate, or payment schedule that takes too long or puts you at risk?

- Do you also inform your clients when landlords offer you compensation bonuses or incentives?
- Do you disclose relationships to your clients that THEY may see as being in conflict with your ability to properly serve their interests, even if you don't see the same conflicts?
- Are you really completely transparent?
- Are your company's relationships so vast and geographically dispersed that it is often difficult to understand the many possible conflicts-of-interest that may exist, let alone identify and report them to your clients?
- Are you transparent with your transactional opponents and competitors? Should you be?

Transparency is not just a buzz word, it's an absolute—a necessity in business. You cannot be transparent on some issues and ambiguous on others and then claim to be transparent. That's called being deceptive, and trust me—clients don't like being deceived. Either you're transparent or you're not!

Being transparent in your dealings is not as difficult as one might expect, and holds a number of long and short term benefits to your business. A common misconception is that transparency is "scary"—some commercial real estate professionals try and hide some information from their clients because they feel guilty in one way shape or form.

Well, to this I say: If you are decent at your job, you have no reason whatsoever to be afraid. In the end, what exactly is it that you



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afraid of? Do you think your clients will figure out that maybe you're not as good as you said you were? Are you afraid that if you are transparent about your compensation that your clients may want some of it? If you are not transparent, you need to take a good hard look at yourself in the mirror and ask yourself why not. If concerns immediately arise, then perhaps you should ask yourself if you really are worth what you expect to receive in compensation.

Transparency should be an asset to your business, not a fear. If it's the latter, than you need to take a look at your services, and the value of what you offer to your clients. On the other hand, if you deliver sufficient value to your clients, they will recognize your worth and entitlement to fair compensation, and more importantly, you will be forever known to them as someone they can trust with their money (hint hint: referrals).

You should never be afraid to tell someone how much you think you are worth. In fact, disclosing that information with confidence will impress your clients more than anything. It is much more important to your clients to do business with someone they trust—someone who can say, “This is what I am worth, and this is why I am worth it,”—than someone who is afraid to disclose their compensation for fear that it may offend their clients.

If you don't create a lot of value for your clients—if you're merely an old-fashioned real estate space jockey, doing little more than driving your clients around the market, dropping them on a landlord's doorstep and expecting to pick-up a check when the landlord completes your client's deal—then you SHOULD be nervous! While you're still providing a service and are entitled to be paid, you're probably not entitled to the same compensation as a true professional real estate broker who can provide a superior service by helping his or her clients plan and negotiate complex transactions from start to finish. Like in any other business, if you're in it for a quick hit and provide minimal service and value, you should expect to be compensated in a similar fashion, and frankly, in a lesser amount than your competitors who really deliver!

By being transparent with your clients, they will also be more likely to back you up when it comes time for you to be paid. How you treat your compensation will most definitely affect your relationship with your clients. For example: if you chose not to accept

discounts, and don't accept bonuses, your clients will immediately see that you are not out for your own best interest.

To go along these lines, another trick to building a relationship and winning your clients' support, is to state your compensation requirements at the outset of your engagement. I've heard of scenarios where brokers are afraid to disclose that a landlord offered them a compensation bonus. Why be afraid if the compensation is deserved? When a landlord or seller then offers you a bonus, tell them you must inform your client (that tells the opposition you can't be bought), then tell your client if you think you are deserving of the bones you should not hesitate to disclose that information. If you provide your clients with amazing service, they may feel that you are entitled to keep those bonuses. Even if they decide not to reward you with the bonus, your transparency throughout the entire process most likely went a long way in building your relationship with that client. You'll also likely find that your clients will support you when a transactional opponent attempts to under-pay you, or tries to put your compensation at an unfair risk.

Additionally, if a rogue landlord attempts to force you to accept a compensation amount or structure that is less than you would ordinarily accept, inform your client of the situation, and let the landlord know you're sharing this information with them. Many tenants won't feel comfortable with a landlord who attempts to under-pay their real estate advisor, as they often see that as a sign that the landlord will be dishonest or unfair to them, and will likely under-fund or under-deliver for them, too. Ask your client to support your efforts to secure fair compensation. If your client recognizes the value you've created for it, they'll back you up almost every time!


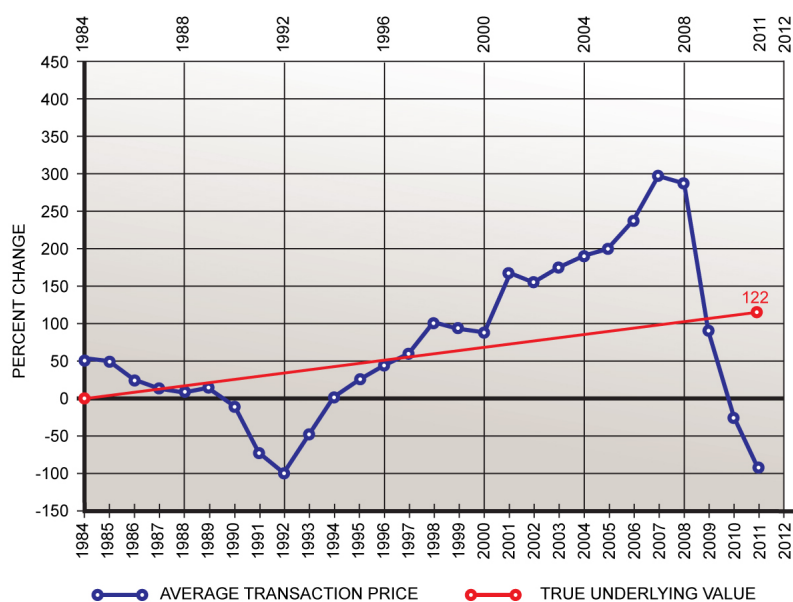
Heck! Even if you don't get to keep a landlord-offered bonus, think of all the incredible goodwill you'll create with your client. You also improve your ability to deflate the opposition's intent on swaying your negotiating strength by “buying you off.” By showing transparency and integrity you will see the benefits throughout the entire negotiation process as well. You will much stronger in negotiating on your client's behalf because of the additional concessions you'll likely secure. Having a client who can trust you with his or her cash will go miles in strengthening your reputation 

TABLE 2

AVERAGE TRANSACTION PRICE VS. TRUE UNDERLYING VALUE



The table to the left represents changes in commercial real estate values from 1984 to the present, versus the true underlying value during the same period. This graph is meant to illustrate the effect of market liquidity on the underlying value, where the property's characteristics remain constant during this period. The true underlying value in this example represents the cost of the property or its “book value,” which, with respect to business enterprises, is equal to the asset's cost at acquisition, less accumulated depreciation. The replacement cost approach is similar to book value in this respect and because the book value of stock and the replacement cost of real estate are both based on historical cost, they may differ from market value.