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THE CHANGING BROKERAGE FIRM



BY MICHAEL HOBAN

As firms both large and small seek ways to better serve the rapidly evolving needs of their clients, the CRE brokerage industry continues its steady transformation from a transaction-based business to a full service advisory model.

The impact of technology on the workplace and access to data has dramatically influenced the decision-making process for investors and corporate users. No longer focused primarily on location and price, they're now demanding a wider range of services from their real estate service providers—from staples like traditional brokerage services and property management to sophisticated data analytics and strategies for curating the optimal tenant experience. For the larger firms, particularly those that are publicly held, that means developing specialists in-house or acquiring what they need to meet that demand.

"Just being a 'brokerage firm' no longer cuts it for growing and established clients," says Maura Hudson, senior managing director for strategic and business development marketing for Newmark Knight Frank (NKF) in Los Angeles. "Our largest, most successful clients don't have the time, inclination, or risk tolerance to distribute their real estate needs across a number of service providers. And the more corporate real estate departments centralize their delivery model, the more they want a full service, one-handshake firm."

"Today's clients require a fully integrated real estate services platform that provides a full complement of verticals and comprehensive geographic coverage. This allows the client to realize the benefits of a strategic

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partnership across the full spectrum of their activities.” says NKF chief strategy officer, Jeff Day. “Our largest, most successful clients don’t have the time, inclination, or risk tolerance to distribute their real estate needs across a number of service providers.”

One avenue that NKF and other large brokerage firms have pursued when looking to add or bolster existing services is the acquisition route. Day believes that one of the most significant strategic moves for NKF in recent years was the 2015 purchase of CFI (Computerized Facility Integration), a real estate strategic consulting and systems integration firm.

At the time of purchase, CFI was managing more than 3 billion square feet of property for Fortune 500 companies, government agencies, and healthcare and higher education clients around the globe. “That was a huge competitive differentiator for us,” says Day. “We were the first firm of our size to purchase a technology solutions provider of that scale, and it gave us the ability to integrate all the third-party technology apps while gaining a world class tech adviser.” JLL followed with a similar purchase a year later, acquiring BRG to lay the groundwork for their own workplace technology division, JLL Digital Solutions.

NKF, JLL and other global real estate service providers (CBRE, Cushman & Wakefield and Colliers International as well as private firms) have continued to add and strengthen service lines via acquisition in recent years, and headlines announcing buys—particularly of emerging tech companies—seem to be a routine occurrence. Last year, NKF acquired RKF Retail Holdings to augment

its existing retail practice and expand its talent pool (200 additional brokers) and expanded its national brokerage footprint with acquisitions in Wisconsin and Utah with MLG Commercial and NG Acres, respectively. NKF has also added specialty practices like Valuation & Advisory, launched by industry leader John Busi, MAI, FRICS, in 2017, and the group has grown to nearly 500 professionals in less than two years. NKF also added Spring11, a provider of real estate due diligence, asset valuation, advisory and underwriting services (2017) and MiT National Land Services, a national title agency in late 2018.

On the acquisition front, JLL is arguably the most active of the large firms. In addition to their July blockbuster deal to acquire HFF to fortify their capital markets business, the firm added 300 technology experts with their buyout of ValuD Consulting last year. In July of 2017, they launched JLL Spark, a global business that identifies and delivers new technology-driven real estate service offerings, and in 2018 announced the creation of a \$100 million global venture fund for investment in companies innovating in proptech. This past spring 2019, the firm acquired Corporate Concierge Services, a provider of onsite tenant amenities for office users, to enhance their emerging tenant experience practice, JLL Curae Approach.

Acquiring firms is a decision that NKF and others are increasingly making, because it helps them to grow efficiently while enhancing their ability to serve clients.

But while acquisition is a viable path to add or enhance services or to increase efficiencies through digitization, there

is risk involved. That is especially true with emerging technology companies, says Geoffrey Kasselmann, SIOR, CEO at Op2mize in Northbrook, Ill. as well as a sustainability, technology, and innovation evangelist for the industry. “The problem is that by the time you vet out a new technology, figure out how to scale it across your global operations, get everybody trained, ramp it up, and try to generate a respectable ROI on it, guess what? The technology changes, a better mousetrap comes along...and that’s where the risk lies,” he cautions.

Instead, the proliferation of new technologies like AI, autonomous vehicles, and blockchain, or newer service lines such as opportunity zones, cannabis, sustainability, and energy efficiency are creating opportunities within the larger firms at the broker level. Kasselmann says that it is becoming increasingly important for brokers to have a specialization—if not a hyper-specialization—in one or more of the emerging technologies. “Within a big firm, it’s harder and harder to be a jack of all trades and still be a broker at the top of your game,” he asserts. “If you don’t have a specialty to bring to the table, you’re probably going to be obsolete rather quickly, because when the need for that hyper-specialization comes along and you aren’t up to speed, you can get left off the team.”

Specialization is hardly a new concept at brokerage firms. Jill Rasmussen, SIOR, spent much of her 30-plus year career working in healthcare practice groups with a number of national firms (CBRE, Grubb & Ellis, Cushman & Wakefield) before joining Minneapolis-based The Davis Group as a partner in 2009. Davis operates almost exclusively in the healthcare arena, providing brokerage

TODAY PEOPLE ARE LOOKING FOR THE EXPERT, THEY'RE NOT LOOKING FOR THE GENERALIST ANYMORE...

and consulting services to individual medical groups, hospitals, and other medical organizations, offering tenant/owner representation, investment sales, medical building development, and project management services.

"There are a lot of office brokers who do maybe one health care deal per year and say that they're medical (real estate) experts, but we do hundreds of leases a year as well as development and acquisitions, so we know everything that's going on in the market," says Rasmussen. "Today people are looking for the expert, they're not looking for the generalist anymore, and that's probably been the biggest change in the industry—that everybody is kind of specialized now."

Davis has grown exponentially over the past decade, from a half dozen employees to nearly 30, while broadening service offerings to meet client demand. About six years ago, Davis added property management and expanded into five other markets, and recently formed a strategic partnership with Synergy Architecture—a healthcare-focused firm—to speed the delivery process of development projects.

The shift to a full-service model is not restricted to the larger firms, as technology and strategic partnerships have allowed small and boutique firms to broaden the scope of their services as well.

"Over the last 10 years, the business has really changed," says Grant Pruitt, SIOR, who says that his job has transformed from "a trumpet player in the orchestra to a symphony conductor."

Pruitt is president of Dallas-based Whitebox Real Estate, a boutique (10

brokers) real estate advisory and development firm that he co-founded in 2016 after a six-year stint with Cushman & Wakefield. He says that when he left Cushman to start his own company, one of his main concerns was that he would not be able to replicate the resources that were available to him at the big shop. Instead he discovered cost-effective technology solutions that he says are equal or better than those offered at a global firm, but unlike at a global firm, "could be rolled out in an afternoon."

In addition to cutting edge proptech, Whitebox invests in multiple data platforms, including Real Capital Analytics and CoStar, and added an in-house tech whiz with a real estate MBA to handle the client-demand for data analytics. Whitebox has also formed partnerships with best-in-class industry specialists, including tax advisors, experts in site selection and municipal incentives, workplace strategists, etc. "There's so many great resources out there. If you're going to be in a boutique environment, you're going to have to spend the money to play the game," says Pruitt. "And the great thing about technology in a global environment is that I can get people from all over the world; they don't even have to be in my market."

Daniel Levison has been involved in nearly all facets of the commercial real estate industry during his nearly 40 years in the business, including investment sales, leasing, and development (1.1 million square feet of commercial property throughout Atlanta). He began as a researcher, is active in a broker/owner role with Commercial Property Professionals, and also holds leadership positions with three proptech companies—including

co-founder of Commission Trac, which provides back office intelligence for CRE firms.

He says that the biggest change in the industry is exemplified for him by the fact that although he has scaled back his firm to just three brokers, "through the proliferation of technologies, I'm able to compete at the same level, with the same analytics, packaging and marketing as the biggest companies in the world."

Like Pruitt and other boutique operators, Levison augments the benefits afforded by technology with a virtual team of real estate service providers and brings comprehensive market knowledge and a personalized level of service to the table for his clients. That includes things like understanding local tenant improvement costs for tenants or the entitlement process for a developer exploring a build-to-suit opportunity.

But for all the changes taking place in the industry, Levison says that brokerage is still "an incredibly relational business. Yes, the days where you could just get in a car and do tours is gone, and the way that these technologies have changed the business has allowed brokers to become more insightful, but at the end of the day, it's still two people talking to get the deal done." ▼

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