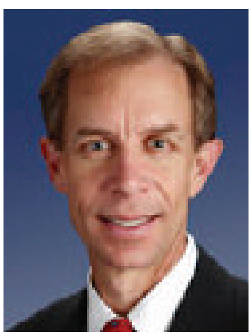
How Do Regional Real Estate Brokerage Firms Stay Competitive?



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By Edward Indvik, SIOR

Powerhouse global brokerage firms have emerged from recent mergers and acquisitions. What affect do these new firms have on the survival and continuing success of smaller, regional firms? How do these smaller firms survive, thrive, and stay competitive? Four key elements determine the success of these firms: seasoned real estate specialists, a market-specific business model, higher broker compensation, and strong client relationships.

Hire the Right Broker

Unlike brokers in this industry 10 years ago, today's real estate broker is a market and industry specialist. These specialists are becoming more precise and detailed about their individual areas of expertise. Thus, hiring real estate veterans who offer value-added services coupled with vast knowledge about a specific property type and market makes a smaller firm more competitive and valuable to the client. That said, many of these seasoned brokers are shunning the more traditional move to yet another "top 10" brokerage house by joining, or even forming, regional full-service brokerage firms. For some, this is simply a way of moving away from the "one size fits all" mentality of the larger houses; for others it is a way to gain more independence and more control over their own destiny. Either way, it is clearly a growing trend.

Develop a Market-Specific Business Model

Though the Grubb/NNN and CBRE/Trammell Crow deals were mergers of giants, the U.S.

brokerage industry remains highly fragmented. Real estate experts say that it is very unlikely the larger firms will corner the market due to these firms' business model. Today, large brokerage firms primarily target the CBD market. This type of business strategy is to identify the cities with sufficient mass and place an office accordingly. From a location perspective, these larger firms have abandoned the submarkets. Some smaller, more specialized firms, however, have committed to both the CBD and the submarket model; so brokers who work closest to a specific submarket will have the knowledge and resources to better serve clients. Large firms that focus only on the CBD do so for economic reasons. These firms have to cut back on offices, commissions, packages, tools, and resources because of costly administrative overhead. Ultimately, this creates vast opportunities for the local/regional firms where dollars are spent on the client or broker, not on corporate overheard.

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In addition, many large brokerage firms are trying to "commoditize" the broker. In other words, these firms are selling other services and products over the value of a personalized broker. This belief stems from the "Xerox" or "IBM" business model where the services or product is the material issue and the broker is just the delivering system. Why do these firms incorporate this business model? First—so that they can justify a diminished or reduced commission package and second—to provide an opportunity for publicly traded brokerage firms to be rewarded by Wall Street with a higher multiple and valuation.

Provide Higher Broker Compensation

The real estate brokerage business is more complex than ever before. Those complexities include greater broker liability, bureaucratic red tape, and less synergy at larger firms. For example, more and more seasoned brokers are leaving the larger firms because of the environment that may be found in global entities—the lack of a company culture and teamwork, the vast competition between peers, and the difficulty of being heard. At smaller, regional firms, most brokers have the ability to be part of the decision-making process and can work directly with the client.

In addition, many brokers understand that there are firms that offer—in addition to tools and resources—superior compensation models. At several smaller, regional firms, compensation participation is greater than at some of the larger firms. For example, a broker's commission splits can be 50/50 at larger firms, but at some smaller, independently owned brokerage firms 50 percent goes to the broker, 20 percent goes to the overhead, and 30 percent comes back to the broker as a bonus. Typically, larger firms require a higher portion of brokers' commissions to support the vast infrastructure and fixed overhead resources. This is why mergers and acquisitions of global brokerage houses benefit the smaller firms.

Build Strong Client Relationships

No matter what the size of the firm a broker is affiliated with, the key to success centers on garnering new business and establishing solid client relationships. Seeking new clients is a difficult task for all brokers no matter where a broker is housed. By necessity, clients will gravitate toward a brokerage model that best fits their requirements. Naturally, this will differ from client to client. Tenants, landlords, and investors may want to work with a national name; however, there is a lot to be said for a broker who lives in and works the local market on a day-to-day basis. Being a successful broker all comes down to market expertise, building relationships, and keeping your client's interest at the forefront. It doesn't matter what logo is on a business card—what matters is broker performance. This attitude seems to be shared throughout the industry. For example, the membership of the SIOR reflects this trend: Of their 2,700 members, 40 percent of the membership work for the five largest firms while 60 percent work in independent or regional firms.