

THE REAL DEAL

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Q & A: Going for brokerage

Firm management walk fine line in quest for profits

By Melissa Dehncke-McGill

If location, location, location is the core cliché of real estate success, the second is at least equally sound: Watch the bottom line. *The Real Deal* spoke to chief executives of Manhattan's top residential firms about running a brokerage in today's market.

Agents constantly push for better commission splits, and technology, space and advertising overhead costs continue to mount. Keeping operating costs down and revenue up is a tough proposition for any business, but it's especially hard in the competitive Manhattan real estate market.

Of course, brokerage heads are finding more ways to make money too, including the "gold rush" of new condo developments. Other firms are recouping some costs of doing business with new agent fees.

"It has never been overly profitable; it's a razor-thin business," says Neil Binder, principal and co-founder of Bellmarc.

Barak Dunayer

founder and president, Barak Realty

How profitable is the brokerage business now, and how has that changed over time?

If you know what you are doing, it's very profitable. Because of the intense competition, if you don't know how to manage your overhead, it's less profitable. A lot of people go from agents to brokers, but running a company is a completely different business. You are managing human resources, cash flow and administrative positions. A lot of people are coming into the business and opening their own shops and have no idea.

Corcoran recently introduced an annual marketing fee that brokers are required to pay, similar to what's seen in the rest of the country. Do you think you'll see more of that in the city?

That is huge. I think \$1,500 per agent is outrageous. I think a lot of agents are not happy about that. It's going to get a lot of resistance. They still have the traditional commission split model, so they can have their cake and eat it too.

How important is marketing new condo development in the brokerage business today, and how has that changed in recent years?

That's been the gold rush of last five years. People got extremely wealthy marketing new developments. If it's a successful project, it's like selling pizza slices. On the other hand, there are firms that have entered into bad projects that were not successful. There is a huge risk in putting so much into marketing a new project. A lot of time and resources can be concentrated on that project, and if it's not successful and you neglect other areas, you can be in trouble. You have to select carefully and turn down bad projects.

What are the major costs to run a brokerage, and how has that changed over time?

Office rents are up, advertising rates go up every year, and payroll -- you have to keep managers on a salary.

What about desk costs?

We take the 30 desks at Barak Realty -- overall overhead plus phones, electricity, paper and administrative costs -- and divide it by 30, and we get the cost to run the desk. We say to agents that at a minimum assume \$50,000 to run a desk. If the agent is on a 50/50 commission split, an agent at minimum has to make a \$100,000 to break even, to make a minimum to maintain a desk. A handful of firms have popped up recently offering 100 percent commissions to agents, instead of a typical split with the brokerage. In exchange, the agents have to pay a monthly service fee to the brokerage.

Do you see this type of business model increasing in New York City?

The firms with fees have passed the risk of cash flow management to the agents. I don't think the agents are equipped to assume that risk. It's a nice novelty, though.

For the brokerages that follow the traditional commission model, what trends are you seeing in terms of commission splits?

I think as desk costs and overhead costs go up, the people in the middle of those firms who are at 50 to 55 percent commission splits are the bread and butter for the firms. That's how the firm makes money. The higher commission splits have a lot of activity, but the bottom line is that the firm makes much more money on the people in the middle.

Do you think you'll continue to see the biggest firms -- Corcoran and Elliman -- continue to get bigger, which it seems they certainly have in the past couple of years?

I think so. They are going to get bigger; I don't know if they'll get better, because it's harder to do quality control, but they will certainly get bigger. The key is quality control, which is extremely difficult.

Is there an overrated part of the brokerage business right now?

One thing the biggest firms sell you is the Web site. I think it's the most overrated part of the pitch, a lot of smoke and mirrors there. Mainly because 90 percent of the time property is sold broker to broker -- there's a seller broker and buyer broker.

How important is office location and spending money on an office? Is it important to have a retail presence?

I think it's very important to have some kind of retail presence. We are planning to open a storefront on the Upper East Side next year. But you have to look at it as half is rent for the space and the other is for advertising.

Dottie Herman

president and CEO, Prudential Douglas Elliman

What is the most interesting trend you see in the New York City residential brokerage business right now?

Ten to 15 years ago, if you did really well, a broker might decide to open his or her own company. Now the cost of opening one's own shop is astronomical, and it is prohibitive to do that and give the service that big companies provide, so sales agents are basically becoming a business within a business. They have their group or team that they run within the context of the larger company. In New York City it is new that agents are branding themselves a bit. Five or six years ago you would never see an agent's name in an ad.

How profitable is the brokerage business now, and how has that changed over time?

Traditionally the real estate brokerage business has been a very low-margin business, and it really still is. The costs are a lot more now with computers and technology. Years ago there was no secretary, and the demands of the consumer were a lot less. If anything it's a declining margin. That's why companies look for other avenues of income.

Corcoran recently introduced an annual marketing fee that brokers are required to pay, similar to what's seen in the rest of the country. Do you think you'll see more of that in the city?

At the end of the day I think that the whole industry has changed. The cost of being in business is much greater, and if companies intend to stay in business, they need to pass on some costs.

Are the broker ranks expanding right now or receding?

They're expanding. Being in this business is one of the hardest, most grueling careers, but if you are good at what you do, it looks easy.

Neil Binder

principal and co-founder, Bellmarc

What is the most interesting trend you see in the New York City residential brokerage business right now?

One trend is a much greater tendency toward image marketing rather than portraying apartments. [Some firms] would rather portray an awareness of who they are as an identity, as a participant in the game, rather than showing a slew of apartments in the newspaper for sale.

What are the major costs and how has that changed over time? What about desk costs?

Technology has become a larger cost year by year. The Internet is a huge expense. You can't just put up a site; you have to manage the site, manage the content, usability and the degree of services the site offers. My Internet consulting firm views me as one of its best friends. It's a marriage between in-house and out. We have a design development person who is not internal who does design for us. We also have an internal computer department of four people.

Corcoran recently introduced an annual marketing fee that brokers are required to pay, similar to what's seen in the rest of the country. Do you think you'll see more of that in the city?

Every firm has certain kinds of expenses in one form or another that they charge salespeople. This has become back-door income for a lot of companies, but I am not in favor of it, and it is not in our plans to do it. Some charge a computer fee of \$1,500 a year and \$1,000 a year for errors and omissions. Those are names given to those expenses; they are just mechanisms to get additional money for the company, in my opinion. At the end of the day, it's more money in my pocket rather than in yours. It's a device used by certain firms in order to tell people they can have a higher commission split because they are not focused on all the ancillary costs that are not being deducted from every deal. Marketing high commission splits but getting more increases in fees is just a device. That's how I read it.

What surprises you most about the brokerage business currently?

How well we are doing. I can't believe how many transactions there are compared with the rest of the country and world. In 1990, many firms went under, so Manhattan does not always do well.

Frederick Peters

president, Warburg Realty Partnership

What is the most interesting trend you see in the New York City residential brokerage business right now?

I think the major trend in recent years has been small companies going out of business or being swallowed up by bigger companies. As with other industries, consolidation seems to be the word of the day.

A handful of firms have popped up recently offering 100 percent commission to agents, instead of a typical split with the brokerage. In exchange, the agents have to pay a monthly service fee to the brokerage. Do you see this type of business model increasing in New York City?

That model requires brokers to focus on running more like a small business. It distracts them from doing what they are likely to do best, which is selling real estate.

How profitable is the new development marketing part of the business compared with regular resale brokerage?

On a unit-per-unit basis, it's probably slightly more profitable. If you are the agent for that building, you get a boatload of exclusives to sell. In one negotiation you can get access to 20, 50 or more exclusives. From the agent's perspective that's extremely desirable.

What trends are you seeing in terms of advertising? In terms of amount spent, design of ads, branding, etc.?

Every year there is less interest in classified advertising. The major trend has been the Internet, and most of us, firms that do significant business, are increasingly interested in directing traffic to our Web site as well as marketing properties and ourselves most effectively.

Are the broker ranks expanding right now or receding? Are firms changing their hiring patterns in general?

I basically urge them not to go into the business. It is a very hard time to become a broker unless you have a big sphere of influence and can get up to speed with information and be committed to surviving a number of months without money. People are exiting the business, and fewer are coming in, and I think that's all to the good.

Do you think you'll continue to see the biggest firms -- Corcoran and Elliman -- continue to get bigger?

Yes, that will continue if you are part of a public company. It is all about year-over-year growth.

Any changes you see ahead in how brokerages will expand their business model?

Throughout the country, there are on-site mortgage services and the one office that does everything. That has never really caught on in New York City. My personal feeling is that the people who do best in any industry are the ones who stay focused. Speaking for myself, I really want to remain a brokerage business. I don't want to be distracted by doing other stuff.

Jim Mazzeo
president, Weichert Realtors Mazzeo Agency

What is the most positive trend you see in the New York City brokerage business?

The industry in the city is more cooperative. The Real Estate Board of New York's regulations requiring members to co-broker their listings has pulled the industry together a bit and standardized some of the ways we do things. It has also increased education and member events, which in general are good things for the industry.

Corcoran recently introduced an annual marketing fee that brokers are required to pay, similar to what's seen in the rest of the country. Do you think you'll see more of that in the city?

The larger companies have greater difficulty with advertising because they are unable to monitor each individual ad, and instead of monitoring, they put their agents on a budget. I think that makes it harder for the agent. I approve every ad I run, which actually allows me to run more ads for my agents because I can better monitor the results. I think you will see the larger companies continue to get tougher with their agents on advertising as they continue to try to maximize profits.

Is there an underrated part of the brokerage business right now?

The underrated part is that you really are having a positive effect on people's lives and they most often fare far better from having purchased than not.

Rick Hoffman
regional senior vice president for the East End of Long Island, Corcoran

What percentage of brokers have left the industry in New York?

I haven't seen the ranks diminish out here, but there are fewer coming in as newly licensed agents. We have the same number in the industry; it's just not growing the way it was with new people.

How important is a retail brokerage presence?

Retail is very important. Spending money is important; we have some of the best [retail] offices in the industry out here.

Jerry Weinstein

founder and president, Manhattan Apartments

What is the most interesting trend you see in the New York City residential brokerage business right now?

The most interesting aspect of the brokerage business right now is the motivation of most companies to continue to grow and expand as quickly as they can. This trend has been going on for a number of years and shows no signs of a letup.

What is the most negative trend in the brokerage business?

The most negative trend is that agents forget that they are the brokers of a deal, and the ones who make the deals happen, rather than the idea that they just "show" apartments through open houses and the opening of doors. They are tending to underestimate the value of their own participation in the transaction.

Are the broker ranks expanding right now or receding?

Right now the glamour of the brokerage business has receded, and fewer people are coming into the field. That requires more competition in marketing and hiring techniques. Still, most companies are looking to expand.

Is there an overrated or underrated part of the brokerage business right now?

The overrated part of the business is the continued drive towards luxury as the prime market, in a city that prides itself on the commonality of all.

The underrated part of the business is the steady presence of the rental business as a strong force in the New York real estate market.