Brokers look for cheaper brands

An increasing number of agents are fleeing bigger firms to avoid breaking the bank June 01, 2010 08:49PM ***By Candace Taylor***

A few years ago, it would have been almost unthinkable for an agent to willingly leave Prudential Douglas Elliman, the city's largest brokerage, to join a small upstart firm like 40-agent Barak Realty.

But that's exactly what Chuck Sage did. Before the recession -- when he was earning six figures -- he didn't mind paying an annual "business fee" to Elliman on top of his commission splits. But the fee recently rose from $1,200 to $1,600 a year, he said, and to pour salt on the wound, the firm took away his desk, saying his earnings during 2009 weren't high enough.

So last month, after six years at Elliman, he moved to Barak, where he's paying a smaller one-time fee.

"We have to pay Elliman a huge fee to work there, and for what?" Sage said. "I don't need it."

In an age where customers can browse through hundreds of property listings on their laptops, the brand names of real estate companies may be less important than ever. And yet, many of New York's largest firms are charging their agents steeper fees in return for the same, or even fewer, services.

Most agents are willing to fork over the cash in exchange for the security of a big-name firm. But for some firms, these marketing fees may be reaching a point of diminishing returns. More and more agents are deciding the high cost of the brand name isn't worth it, and are moving to smaller firms or taking advantage of new business models that offer larger commission splits.

"A lot of people are very disheartened about the big firms," Sage said. "They take advantage of the people they have. I don't feel it's fair, especially in a difficult time like this."

To some extent, the proof is in the pudding: The total number of Elliman agents in Manhattan fell 3.4 percent between 2009 and 2010, according to The Real Deal's ranking of top firms last month. The Corcoran Group saw its ranks grow from 1,030 to 1,047, but only after picking up 49 agents from the dissolution of Coldwell Banker Hunt Kennedy, whose agents were encouraged to move to Corcoran because they are both affiliated with the corporate real estate company Realogy.

Meanwhile, newcomer Charles Rutenberg Realty saw its ranks swell by 52 percent. Founded in 2006, Rutenberg operates under a business model that allows agents to keep more of their commissions and pay lower fees than traditional firms, but doesn't provide permanent workstations for them.

But brand names are clearly still important in some ways: Most clients say they want agents who work for reputable firms, and sellers in particular seem to prefer big-name brands.

"Whether it's true or not, there's a perception that [clients] are going to get more exposure with a top-line company than with a lesser-known company, that the degree of professionalism is going to be greater," said Michael DeRosa, a former CBHK agent who now works at Halstead Property.

It's undeniable that brand names still count for something. But the question is: How much are they worth?

"I think the brand name is less important than we think," said Paul Purcell, cofounder of Rutenberg's New York office.

As *The Real Deal* has reported, in the past several years, real estate companies in the city have started charging their agents fees on top of their commission splits. Often called "technology fees" or "business fees," they range from around $1,000 to $5,000 a year, industry insiders said.

The Corcoran Group charges a marketing fee of around $1,900 and a "legal defense fee" on top of each commission. Elliman, in addition to the $1,600 business fee, recently started charging rental agents a $50 fee for expanded rental listings services (though company executives say it's less than what agents previously paid).

Moreover, many firms now require agents to pay for their own "Errors and Omissions" insurance, to the tune of $500 to $1,000 a year (though rates vary depending on the plan). On top of that, firms that are part of national franchises often charge agents a franchise fee with each transaction.

For many firms, increasing these fees is a necessity to help support the bottom line, explained Purcell, who was formerly the president of Elliman. That's been especially true during the recession as revenues have dropped.

Some agents say they now have to pay more for the same basic services they'd been receiving in the past.

"Every time you turn around, you have to pay for this and pay for that, when you didn't used to," said an agent who recently left the Corcoran Group for a smaller company. Meanwhile, "they were pulling back on a lot of the perks they were offering."

Corcoran declined to comment.

Dottie Herman, Elliman's president and CEO, said she makes an effort to limit fees for her agents. For example, her national umbrella firm, Prudential, charges its agents a franchise fee, she said, but she pays those fees rather than passing them to her New York City agents, a holdover from the fact that there were few other franchises in the city when she first purchased the firm in 2003.

The $1,600 fee is mainly to cover technology costs, like the firm's $1 million website overhaul, Herman said, adding that it's less than what other large firms charge.

"We are very competitive," she said.

Herman also noted that as part of the recent belt tightening, "we've had to double up on desks."

One former Corcoran agent said the amount of money is less important than the principle.

"They were nickel-and-diming you over little things," the agent said. "I've been a successful agent for so many years, and I felt like they didn't really care."

In addition to the bruised egos, many agents are starting to wonder how important big-name brands are in real estate. In the past, the biggest companies had access to the best listings and market information. But stricter co-broking rules and new websites now make listings accessible to consumers and agents all over the city, not just to those at big firms.

"In the olden days, the name of a brokerage would lure people to look at their exclusive listings," said blogger and real estate agent Malcolm Carter, who recently left Elliman for Rutenberg. "Now, that advantage has totally disappeared."

Sage said most of his clients come through referrals, so he felt it doesn't matter which company he works for.

Many agents are choosing the middle ground by staying within the world of well-known firms, but choosing the ones where they feel they get the most service in exchange for the fees. These agents said they believe branding is still very important.

DeRosa said he's found it easier to get exclusive listings now that he's at Halstead, the city's fourth-largest firm.

"Coldwell Banker does not have the same reputation in New York City that some of the better-known firms do," he said. "There were times I went on pitches and I believe that I didn't win the business because people perceived that CBHK had less of a presence in the New York market than other names."

At Halstead, he said, he paid a fee of around $1,500 when he first started, but he felt it was worth it.

Glenn Norrgard, a senior vice president at Sotheby's International Realty, said the brand's worldwide recognition is one of the main reasons he joined the company.

He is currently working with Italian clients who knew about the brand because of Sotheby's office in Rome.

He declined to disclose the amount that Sotheby's agents pay for marketing fees and insurance, but said: "It's more than other companies. I think it's worth it to be part of the brand."

Carter drew the opposite conclusion when he was considering a move to Rutenberg. He suspected he would lose some business, but he decided he'd make up the difference by keeping more of his commission.

"The calculation I made was that I would make more money through the greater commission than I would through my association with a household name like Elliman," he said.