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New real estate firms share wealth

But will stars part with big-brokerage perks?

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Real estate broker Douglas Heddings did something radical last summer. He started his own firm using a drastically different business model, one that not only pays brokers higher commissions but also a share of the profits. So far, so good.

“I get e-mails or phone calls daily from people who want to work for me,” said Mr. Heddings. “The profit I have seen is a multiple of what I was making at Prudential Douglas Elliman, and I am sharing it with my agents.”

Heddings Property Group is part of a new wave of residential brokerage firms that are taking advantage of a rule change last year that allows all city listings to be available to all brokers online. Sales and rental are picking up again, and brokers want more of that action.

“It is the right time to make an offer to brokers that is too good to pass up,” said Kevin Kurland, founder of Spire Group Inc., which launched Jan. 1 and allows brokers to keep 100% of their commission in return for a monthly fee of \$495. “Our model is so appealing we are going to grow exponentially.”

Similar ambitions

100%

COMMISSION brokers at Spire Group keep
in return for fee of \$495 a month

A growing number hope to do the same. To achieve that, they are looking to snag talent from

major brokerages by promising bigger paydays. Among the new firms are Level Group, which started up in June, and Charles Rutenberg Realty.

Charles Rutenberg has attracted 400 brokers since opening in 2007. Before going on his own, Mr. Heddings was one of Charles Rutenberg's first big recruits. Charles Rutenberg and Level both offer their brokers full commission in exchange for a \$99 monthly fee, plus a transaction fee based on deal size.

Just last week, Ilan Bracha stunned the local industry by announcing that he was leaving Prudential Douglas Elliman to lead the New York office of Keller Williams, the nation's third-largest residential real estate franchise. Though the Texas-based company is largely unknown here, its profit-sharing model is so successful that it is a case study at the Stanford Graduate School of Business.

“The market will change in the next three to five years,” Mr. Bracha said. “There will be no room for companies that pay agents 30% to 50% of their commission, [as they do now].”

At Keller William, Mr. Bracha will earn 70% of his commissions until he makes \$50,000 for the company; he will then get 100%. Additionally, he will receive a cut of commissions earned by brokers he recruits. Sources say he was getting as much as 75% of his commissions at Prudential Douglas.

Luring talent is only the first step, though. These firms will have ample competition from well-established firms with considerable financial muscle.

“New York is a big city, and there's room for different models. But when I hear that the days of big brokerage firms are over, I have to chuckle,” said Pam Leibman, chief executive of Corcoran Group. “There is a reason large firms are successful: the level of services we are able to provide to clients and our brand.”

Even Kathy Braddock, co-founder of Charles Rutenberg, admits most top producers hesitate to jump ship for firms like hers, because it means going without the things that big brokerages routinely provide for stars—assistants, marketing and back-office support. Typically, those firms also reward top producers with a bigger percentage of their commissions.

“These are new companies, with no record of any kind,” said Leonard Steinberg, a broker at Prudential Douglas Elliman. “Any top producer would have to think long and hard to make the move.”

But in an industry not known to attract the faint of heart, many may be willing to take that chance.

Andrew Heiberger certainly hopes so. The industry veteran, who founded Citi Habitats in 1994 and sold it to Corcoran 10 years later, last month started Town Residential. What it offers is not higher commissions but a different way of doing business. Mr. Heiberger said he will give

clients “a higher standard of service by embracing technology and face-to-face interaction.”

Brokers at Town Residential have access to consulting support from 20 professionals in such areas as lending and legal services. Mr. Heiberger has opened two Town offices in Manhattan with space for 140 brokers but declined to say how quickly he is recruiting.

“I’m in it for the long run,” he said. “I will build a much better traditional brokerage. I have done it before.”

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