Rutenberg's real estate

Charles Rutenberg Realty shakes up industry with 100 percent commission model July 01, 2010 07:00AM ***By Candace Taylor***

Kathy Braddock (center), with Rutenberg brokers, said the firm was profitable in its first year.

When Paul Purcell, the erstwhile COO of Douglas Elliman, decided in 2000 to hire Kathy Braddock as general sales manager, it caused an uproar at the venerable, century-old firm.

Braddock owned a personal service firm called the Intrepid New Yorker, and she'd worked with Purcell -- who'd started Elliman's relocation division -- for years as she helped new arrivals get settled in the city. Still, she was considered an outsider to the real estate industry, and Purcell's attempt to hire her caused "a big hubbub," recalled Braddock, 53, in thick-framed, rectangular glasses and a candy-pink pashmina.

Getting her hired meant she and Purcell had to spend weeks schmoozing Elliman's top brass over dinners at the New York Athletic Club.

"I used to think it would be really cool to go find managers who had nothing to do with real estate," Purcell, 57, chimed in from across the narrow office they share at Charles Rutenberg Realty, the New York City brokerage they cofounded in 2006. "I had no idea it would have to be packaged and teed up. I was exhausted."

The unconventional hire turned out to be only the precursor for a much greater change the two would bring to the industry.

Today, Charles Rutenberg is at the epicenter of a sea change in the way New York City real estate companies do business. It's one of several new firms with a vastly different compensation structure from the one used in Manhattan for decades: Instead of splitting commissions with the firm, agents keep the lion's share, paying fixed monthly and transaction fees instead.

Proponents of this model border on fanatical in their devotion, saying it's the only way the industry can survive the onslaught of technological advances that threaten to render brokers obsolete.

"The world is changing," said Craig Lamb, the managing partner of William B. May, a brokerage with a similar model to Rutenberg's. "I frankly can't see how the [current] model is going to exist in the future. When you start doing the math, it doesn't make sense anymore."

Though the high-commission-split model is widespread in other states, many New York City agents view it with suspicion. At first, established brokers -- those with the city's priciest listings -- largely stayed away from Rutenberg and firms of its ilk; most new recruits were industry newcomers or agents from other small firms.

But the downturn has begun to change that. As the large brokerages faced hard times, many responded by raising agents' fees and reducing commission splits. As a result, more dissatisfied agents from top city firms are considering Rutenberg and similar firms, industry insiders say.

The most high-profile example of this is Douglas Heddings, a well-known blogger and Elliman veteran who joined Rutenberg in June 2009. Heddings actually left in May to start his own firm, which also has a high-commission-split model.

"The industry is like an old boys' club of this very traditional brokerage model," Heddings said. "It's being shaken up now, with these 100 percent brokerage commission models actually gaining traction. Of course, the management at the big firms is going to pooh-pooh it, but I'm telling you, they are going to succeed."

Rutenberg's vitals

Number of agents: 370

Average number of transactions a month: 100

Number of exclusive listings (at end of June): 223

Number of listings per agent (at end of June): 0.6

Armed with an ambitious public relations campaign and a goal to become the city's largest firm, Rutenberg was profitable after six months, Braddock said. It now has 370 agents after four years in business, making it the fastest-growing firm in Manhattan. At first, the company had few exclusive listings, but as more agents from major firms join, that's changing.

"The number of exclusive listings that their agents are bringing in today is far greater than what it has been [in the past]," said Jonathan Greenspan, the president of listings platform On-Line Residential.

Ironically, brokers say Rutenberg's rapid growth -- and the 100 percent commission model with it -- are largely due to Braddock and Purcell's sterling industry credentials.

Rutenberg "has made this transaction fee model acceptable in the industry," said Larry Link, president of the Level Group (formerly known as Pari Passu), a six-year-old firm that also has a 100 percent-commission model. "Their growth and standing has legitimized the model."

But others noted that Rutenberg still has a long way to go before it presents a serious challenge to the dominance of the major firms.

Antonio del Rosario, a partner at the traditional brokerage A.C. Lawrence & Company, said Rutenberg "doesn't have the brand yet" to rival the power players.

"Right now, the most lucrative [model] for brokers and for companies is the traditional method," he said. "Will that change? I think so, but not anytime soon."

A different split

At Rutenberg's office on the fourth floor of 127 East 56th Street, the affable Purcell is catching up with a group of agents. Dressed in jeans, with close-cropped hair and a trim goatee, Purcell's booming laughter echoes through the 1,800-square-foot space.

Chatting with the agents, he said later, is his favorite part of the business. But he doesn't get to do it much. Rutenberg's office has only 14 workstations, each with a phone and computer, and most agents only stop by every few weeks, to cash commission checks or prepare co-op board packages.

The no-frills aesthetic is crucial to Rutenberg's low-overhead business model. Most brokerages in the city operate by taking around 50 percent of their agents' commission, using it to pay expenses, like administrative salaries and rent, and taking their profit from what's left. As agents make more money for the company, they graduate to larger commission splits.

At Manhattan's Rutenberg, agents pay a monthly fee of $99, along with a transaction fee of $1,000 for deals under $1.5 million, and $2,000 for anything larger than that. For rentals, transaction fees range from $200 to $800, depending on the size of the deal. In return, they get access to OLR, placement on Rutenberg's website, an e-mail address, use of the office and coaching from Braddock and Purcell.

Unlike traditional firms, Rutenberg agents pay for their own advertising and any other expenses, though the company negotiates group discounts from vendors like Craigslist and the New York Times online.

Rutenberg's overhead is covered by the monthly fees it collects from its brokers. The firm makes a profit by recruiting new agents, rather than taking a cut of commissions.

"At some other firms, they're pushing [brokers] to go bring [them] a deal," Braddock said. By contrast, "we have this consistent revenue at the first of the month."

It doesn't sound particularly radical, but in the world of Manhattan real estate, this model and others like it are "a total departure" from the way business has been done, Lamb said.

Blazing a new path

Braddock and Purcell have both had unconventional career trajectories.

Purcell grew up in Orange County, Calif., in an affluent, mostly white suburb surrounded by "horses, orange groves and strawberry fields," he said. Feeling stifled, he started working as a flight attendant at the now-defunct TWA after graduating from the University of California, Santa Barbara. The airline quickly promoted him to management.

After TWA, Purcell began climbing the corporate ladder, taking a job on Madison Avenue at Compton Advertising (now Saatchi & Saatchi).

In 1984, he started looking to buy an apartment and found himself "underwhelmed" by the brokers he encountered. Figuring he could do better, he decided to "take a flyer" and give it a shot. At his first firm, LBKaye Realty, he was named Rookie of the Year and caught the eye of Barbara Corcoran, who lured him to her company as an agent and then put him in charge of the relocation department.

That's when Purcell first met Kathy Braddock. A lifelong Upper East Sider, Braddock started the Intrepid New Yorker after graduating from Vassar in 1979. The company, she said, specialized in "taking care of things people didn't have time to do," from hiring nannies to looking at apartments. Later, she coauthored a book called "How to Turn New York into a Manageable Small Town," full of tips on how to get your kids into private schools and get taxis at rush hour (try heading to a hotel).

Companies like Goldman Sachs and Citibank started buying the book for their new employees, then hiring the Intrepid New Yorker to help get those employees settled. Braddock soon started working with Purcell to find apartments for the new recruits.

The two didn't particularly care for each other at first. While Purcell is gregarious, Braddock said she's quieter and not "touchy-feely." But they quickly developed an effective working relationship.

"I'm a chatter," Purcell said. "She was abrupt, very fast. But I respected that, because I was fielding 100 calls a day."


Paul Purcell

Braddock knew that if she directed a client to Purcell, "he wouldn't embarrass me," she said. "We really understood each other's language."

When Purcell was recruited to start a relocation department at Douglas Elliman (now Prudential Douglas Elliman), Braddock shifted her business there.

Later, when the firm's owners were preparing to sell the company to Andrew Farkas' Insignia, Purcell became COO, then president.

Braddock and Purcell had never even shared a meal until he asked her to join Elliman in 2000. Now, they could easily be mistaken for a long-married couple. They sit face-to-face at adjoining desks in their Rutenberg office, and finish each other's sentences.

Braddock, a divorced mother of two, is engaged, while Purcell recently separated from his longtime partner, so on some evenings, "I'll call her and say, 'I don't want to eat dinner alone tonight,'" he said.

After Braddock joined Elliman, Purcell began to suspect another sale was imminent. The two left the firm in 2002 and founded a real estate consulting firm, Braddock + Purcell, shortly before current CEO Dottie Herman bought Elliman.

Starting another brokerage was the last thing on their minds. Purcell had become disillusioned by the slim profit margins and the bickering and jealousy created by the hierarchy of differing commission splits.

"I never, ever would have gone back to residential real estate in its traditional form," Purcell said.

At Elliman, "we were very profitable and we made 10 cents on the dollar," he said. "I used to think to myself, There has got to be an easier way to make 10 cents on the dollar."

So they were skeptical when investors Richard Friedman and Jeffrey Markowitz, whom they knew through mutual friends, approached them with the possibility of starting a brokerage based on the Charles Rutenberg model. The first Charles Rutenberg was founded in Florida, and there are offices in Chicago and Long Island. (The firms share a name, but are technically separate companies, not franchises.)

Their skepticism faded when they walked into Rutenberg's 3,500-agent office in Clearwater, Fla.

"We looked at each other, and we knew exactly what we were both thinking: There were 30 agents in the office and nobody was complaining," Braddock recalled. "We had never seen a real estate office where no one was bitching, quite frankly."

But the real breakthrough came when they met with OLR's Greenspan.

They knew the Rutenberg model would never work without access to listings. Greenspan had been developing OLR for years, but it was just "hitting its stride" at around that time, Braddock said.

"We sat in front of [Greenspan] and said, 'Oh my gosh, OLR is really good,'" she recalled. "We could actually do this business."

Gaining traction

High-commission-split models are popular in other areas of the country, as evidenced by the success of brands like RE/MAX.

But until now, the model hasn't gained traction here, largely because of limited access to listings information.

But as technology has made the industry more transparent, new business models have popped up.

Level Group, with 140 agents, was founded in 2004. William B. May, a longtime Manhattan firm, shifted to a 100 percent commission structure a year ago (brokers pay a franchise fee and $500 a month). Other firms with similar models include City Connections and Exit Realty.

In the beginning, "convincing [agents] that the model was legitimate … was one of the most difficult things to do," said Level's Link.

Established agents seemed particularly unwilling to give up the security of a big-name firm, especially since it meant working from home and paying significant advertising and marketing expenses.

When Donald Oula moved to Rutenberg from Citi Habitats a year ago, other brokers asked him: "'How are you going to get any business?'" Oula recalled.

In some cases they were right, said Oula, who chose Rutenberg because he wanted to focus on building his own brand. "This business model's not for everybody," he said. "The agent who requires a lot of hand-holding … will fail."

Because Rutenberg makes money by growing its agent population, some believe the company will hire anyone, regardless of skill level, and that the agents there are unproductive compared to those at other firms.

Del Rosario said he has great respect for Braddock and Purcell, and feels that the model can work for established agents. But "for an agent who's just starting, it doesn't make as much sense." He added: "Many agents I know who started there are not producing."

Moreover, sellers are often more comfortable with larger firms, so the majority of Rutenberg's brokers initially represented renters and buyers.

Braddock and Purcell freely admit that Rutenberg isn't the right match for everyone, but said they are careful to choose agents who are a good fit. When it comes to productivity, Braddock noted that one benefit to the model is that agents can do as many, or as few, deals as they want without significantly impacting the company's profits.

An unexpected boost

When the recession hit, many of the bigger firms angered their agents by instituting new fees. Meanwhile, with commission splits based on the previous year's earnings, many brokers suddenly had smaller paychecks.

"People are very upset with their firms," Lamb said. "People who have been around for a long time and were getting 65 and 70 percent are back to 55 or 50, and being charged fees in a market that has not gotten robust."

Alternative commission structures began to look better and better.

"The recession has helped this company quite a bit," said Robert Bernstein, who left Corcoran for Rutenberg this winter. "When you jump to a 100 percent model or a 90 percent model, you can do a little bit less [volume] and actually make as much money or even more money."

Rutenberg quickly emerged as the largest of the high-commission firms, thanks in part to the provenance of its founders.

"These are two people who have been through the wars," Bernstein said. "They've seen the ups and downs. I'm very comfortable with them. The other companies, maybe they don't have such a strong background."

Now, more agents from the city's biggest firms are joining Rutenberg, he said. In the last few months, "I've seen a lot of people come over from the bigger companies -- the Corcorans, the Ellimans, Sothebys," Bernstein said, noting that when Heddings joined, it encouraged others to follow.

"When he came here, all of a sudden eyes and ears opened up," Bernstein said.

Heddings said more top producers are now starting to consider alternative models.

Last month, "I got a phone call from a top agent who's leaving and wants to talk about Rutenberg," he said.

In the coming months, he added, "I think you're going to see a big shake-up in the industry. Top producers at the major firms who are frustrated at the bureaucracy, cuts in ad budgets, and charging of fees [will be] going to a Rutenberg, a William B. May, or they're going to start their own firms."

The CEOs of the two biggest firms in the city -- Dottie Herman at Elliman and Pam Liebman at Corcoran -- declined to comment.

Front-runner

Rutenberg, which started in 2006 with one agent, had 370 at the end of last month, and Braddock said she signed up eight new agents in one week alone last month.

The firm does an average of 100 transactions a month and currently has around 223 exclusive listings, Braddock and Purcell said. That's 0.6 listings per agent, less than the larger firms, but "not bad for Year Four," Braddock said.

Greenspan said that 223 listings "may not appear to be a significant number when compared to more established firms, but it is a significant number when compared to what the same firm had a year ago, or two years ago."

And as more established agents come on board, it's upping its share of pricier listings.

Agent Michael Meier, formerly of Elliman's Bracha Group, is currently listing a two-bedroom at 151 East 58th Street for $5 million, according to StreetEasy.com. Another Rutenberg agent, Lemin Chang, has an $8.5 million listing in the same building. And Stephanie Schuman's $7.2 million listing at 165 Charles Street just went into contract, according to Rutenberg's website.

Bernstein said even though Heddings left, "he gave [Rutenberg] credibility that still stands."

But his departure raises the question of whether Rutenberg can attract -- and keep -- other top brokers.

"The majority of high producers want to be under an umbrella [of a large firm]," del Rosario said.

The industry's top agents have the least incentive to try a new model, since they already receive large splits and often have other perks like secretaries and generous advertising budgets. And frankly, that's okay with Braddock and Purcell.

Rutenberg "is not right for anything above a 75 percent earner," Braddock said. "We wouldn't expect that kind of earner to make the move, because they're getting so much where they are. But that's 2 percent of the broker population. I'm not trying to get that top echelon."

After all, she said, Rutenberg makes the same amount whether an agent does a $2 million or $20 million deal.

She and Purcell both recall the days when they managed notoriously strong-willed superbrokers at Elliman. No matter what those brokers did, they could never be fired because they were too valuable.

It's liberating, Braddock said, that any Rutenberg agent can be fired at any time if he or she exhibits unethical behavior, because they all bring in the same small amount of money. "The beauty of what I'm doing here is that everyone pays me $99 a month," she said. "I'm not beholden to anyone."