

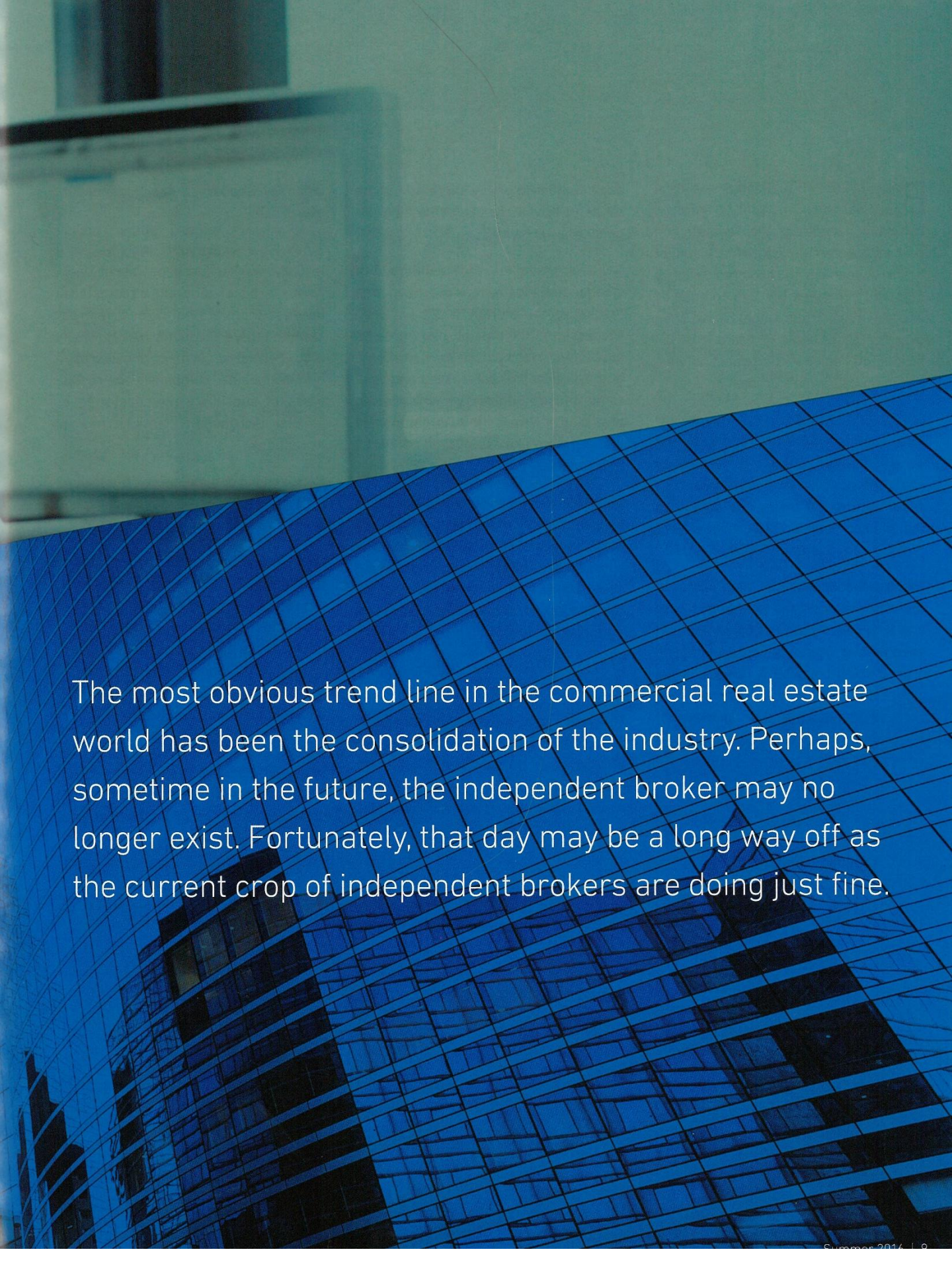


INDEPENDENT

VS

NATIONAL
FIRMS

By Steve Bergsman



The most obvious trend line in the commercial real estate world has been the consolidation of the industry. Perhaps, sometime in the future, the independent broker may no longer exist. Fortunately, that day may be a long way off as the current crop of independent brokers are doing just fine.

Back in 2011, BGC Partners, a New York-based financial services company, acquired the commercial real estate company Newmark Knight Frank. A year later, it acquired Grubb & Ellis and combined the two companies into Newmark Grubb Knight Frank. Then over the past couple of years it began picking off regional companies as well, including California's Cornish & Carey.

In 2014, the former European, joint-venture, commercial real estate company called DTZ was sold to a private equity consortium, which later in the year also acquired Cassidy Turley and combined the two companies. Then last year, DTZ merged with Cushman & Wakefield.

Rampant consolidation has come to the commercial real estate business and it appears the big companies just keep getting bigger, which some say is a good thing because it takes a large, global, commercial real estate services company to handle the business of huge companies like General Electric or Google, as these firms spread their wings about the world.

What does that mean for entrepreneurial, commercial brokerage folk who prefer to be independent? Are their

days numbered or are there still some strategic advantages to being as independent as possible?

SIOR Report talked with a number of independents (or former independents) across North America, who have been successful in the past and expect to be successful in the future as well. Some of these entrepreneurs have come to a compromise by loosely tying themselves to a bigger firm or joining companies that act more like established networks or franchises.

So, there are now two camps of independents: those that remain true to the entrepreneurial spirit of self-ownership and self-determination, and those who have found, in a world where the big companies dominate, that they can straddle two worlds.

The Independents

Ten years ago, Bender Commercial in Sioux Falls, S.D., bought into the NAI franchise system, flew that flag for two years but in the end, "couldn't figure out how to make that connection pay out" so it let the franchise go, notes Douglas Brockhouse, SIOR, a principal with the

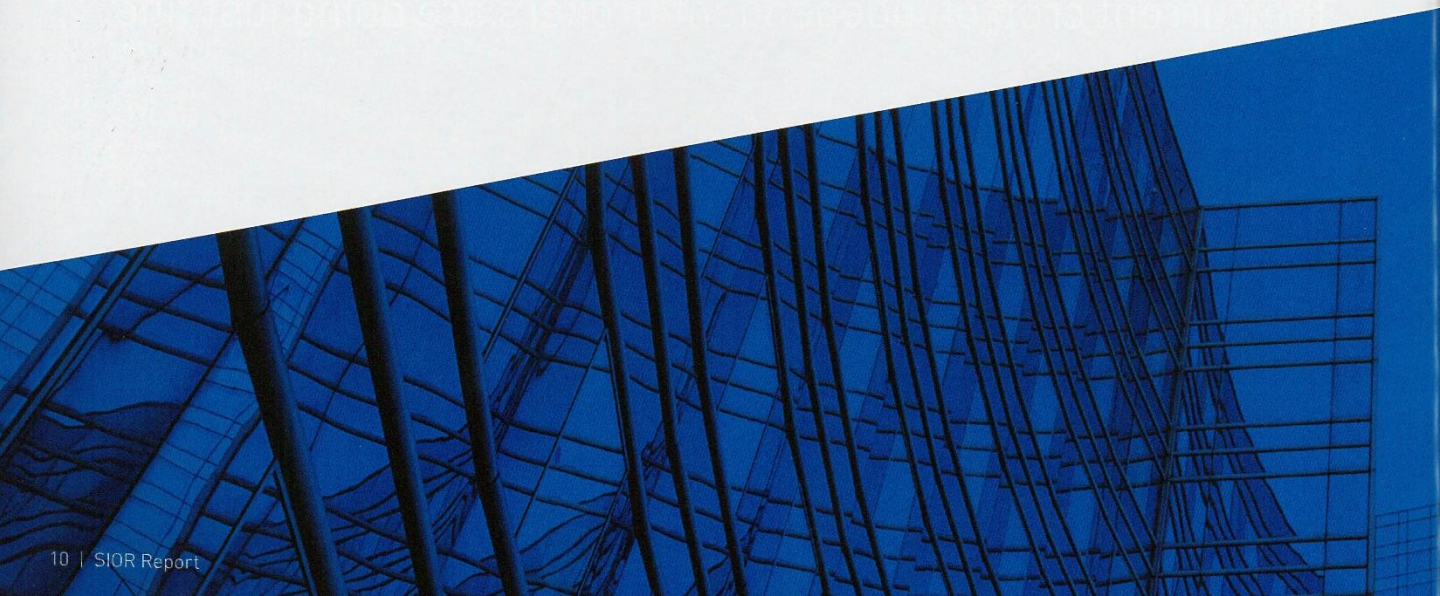
company. Bender has been independent ever since.

Sioux Falls, one might kindly say, is a tertiary market (perhaps fourth tier?), so it's a bit of different circumstance because there are no major firms represented there except for NAI. However, Sioux Falls does get major consideration by international companies for certain types of subsidiary manufacturing or smaller distribution plants. It has its attractions.

So, when big companies come-a-calling they need someone to represent them. Bender tries to be that company.

"We are the broker's broker and what that means is that all of the national brokerage firms eventually have assignments in this area, and what we have done is position ourselves to get to the top of the vendor list for each one of those nationals," says Brockhouse. "We become their boots on the ground."

As an independent, Bender Commercial does well because it can work with all national firms. If it flew the JLL flag than someone from CB might not consider the company.



"We don't want to brand ourselves with one national because you then get unhinged from those other nationals," says Brockhouse. "We want to be everybody's best friend."

Apparently, they have been because in recent years, national firms have used Bender for such accounts as Dr. Pepper/Snapple, Citibank, CNA, and Syngenta.

Asked if not being in a corporate network is a detriment, Brockhouse responds, "our network is called SIOR and that machine works."

Sandy Shindleman, SIOR, CCIM, CIPS, FRICS, founded Shindico, a Winnipeg-based commercial real estate firm 41 years ago. To this day, it remains independent.

Winnipeg, with a population approaching 700,000, is not a small city and as

such all the Canadian national and international companies are represented there.

Despite the big guys in town, Shindico has been successful because it has taken a multi-faceted approach to business, says Shindleman. "We are involved in brokerage, in the tenant mandate business, asset management for Canadian pension funds and family offices, and we have a development business as well."

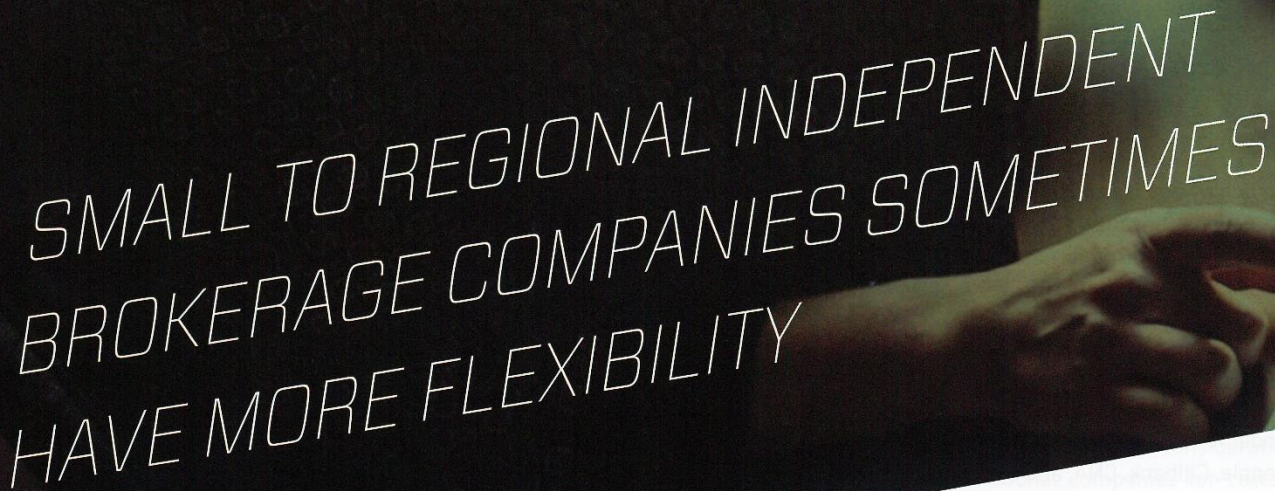
He adds, our strategic advantage is, "empathy, understanding our role in the transaction, and knowing we need to work harder and provide a wider range of service. There isn't anything we won't do. If a new company comes into town, we'll even find accommodations for their senior staff."

Shindico is happy to work with everybody, says Shindleman. "That's the beauty of being an independent, we don't have conflicts with anybody."

Asked about a lack of corporate networks, Shindleman says SIOR and CCIM are his company's network. Plus, the company is involved with CORFAC International, an organization of independently owned commercial real estate service firms, his retail team has an affiliation with the RBN (Retail Brokers Network); and the company has a relationship with a property company in Europe.

Until recently, when he founded his own firm, Jim Kerrigan, SIOR, had worked with a number of major commercial real estate brokerages, from JLL to Grubb & Ellis to Avison Young. He decided to go

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SMALL TO REGIONAL INDEPENDENT BROKERAGE COMPANIES SOMETIMES HAVE MORE FLEXIBILITY

independent because as Liam Neeson says in the movie "Taken," he has a "particular set of skills." Jim Kerrigan probably can't kill anyone with a ballpoint pen but he is a specialist in data centers.

In fact, Kerrigan is one of only a handful of data center specialist specialists who are outside the mainstream. "In my space, about 75 percent of end users don't use a broker at all," he explains. "The guys at Microsoft or Google, they won't even deal with a real estate department. The guys in engineering say, 'we know everything that is to know about data centers, why would we want to bring in the real estate guys?'"

In addition, Kerrigan knows the data center markets nationally and he publishes a coveted year-end newsletter that reports every data center deal done in the country.

"A data center deal doesn't depend on a specific geographical area," Kerrigan explains. "A company might have to look at space in Chicago, Virginia, or Dallas. I have to jump from market to market. Being independent allows me that flexibility."

With such a specialty, being with a national firm was problematic.

"If, for example, I'm with a national firm and I'm based in Phoenix but have to do a deal in Dallas, I have to cut my fees in half because I'm going to have to work with someone else in Dallas, who might not even know what buildings have space," he explains. "And that person isn't likely to know anything about data centers."

Does Kerrigan need to be in a network? Not at all. Just the opposite, because as he says, "I don't even try to get additional business. I get inundated with phone calls from people who want to work with me. I don't have a problem finding clients, it's a question of, 'do I want those clients?'"


Like Kerrigan, Gabriel Silverstein, SIOR, had worked at national companies before founding his own company, Angelic Real Estate, 10 years ago, in probably North America's most competitive market, New York.

Silverstein is a theorist and his views on independents vs. nationals are interesting. Here are a few of his comments:

There is a lot of consolidation right now, which is going to continue for the time being. Small independent firms may always exist, but the most endangered independents of the species could become the unaffiliated regional firms.

One thing going against independents is that there is some percentage of the client base universe where it is hard for the corporate real estate director to not choose one of the three biggest firms because, even if something bad happens, no one is going to blame the director for hiring one of the big guys. In fact, the director won't get any credit within the organization if he hires the best independent firm that got an extra 5 percent on the deal. There is no internal upside to hiring an independent. Being part of a national network does not always overcome this problem.

The best way for independents to win is not simply to be better, the independent has to provide a unique value proposition to a customer. Instead of being the best at whatever everybody else already does, it's about doing things that others haven't thought of doing – providing a service that isn't out there, especially



in a niche that isn't large enough to attract significant attention at a larger firm.

The bigger a company gets the less entrepreneurial it becomes. In big brokerages, if people deviate from the norm, that's perceived by upper management as an increased risk.

The Straddlers

Don Moss, SIOR, CCIM, left Hart Corporation's Regional Charlotte Office five years ago because he realized there was a movement by big companies to the top three or four largest international brokerage firms. He joined Colliers International where he is now vice president of the Charlotte Region. The irony is, Hart Corp. was acquired by Newmark Grubb and it, too, is now part of an international brokerage firm.

What's interesting about Charlotte Colliers office is that it is not a corporately owned office. The appraisal and property management side of the operation is corporate but the brokerage side is not currently corporately owned.

"We have the best of both worlds in that we have local management but yet we are part of the larger corporate platform," Moss explains. "More of the global business is going to larger firms. My old firm covered the eastern and central time zones but still was finding it harder to compete because

multi-national companies wanted a full service firm, including all types of brokerage (office and industrial), appraisal, and property management. It was becoming hard to get listings unless you also did property management. Also, there is a trend that larger multi-national and national firms want to lease some manufacturing and most of their warehouse facilities. These properties are owned by investment firms who want to hire a brokerage firm that does leasing and investment sales."

On the other hand, small to regional independent brokerage companies sometimes have more flexibility. Recently, Colliers lost a listing to an independent firm. When Moss inquired why the owner of the buildings chose the smaller company, the owner told me it was because the CEO of that company came to meet with him personally. That's an advantage of a small to midsized brokerage firm, the president of the firm has the availability to meet with a property owner directly.

"Colliers has excellent management, but it is not a prudent use of the CEO's time to meet with an owner of a single asset in a tertiary market."

Conversely, Colliers in Charlotte won a disposition assignment with a Japanese company because of the Collier's network of professionals, including Michael Yamada, SIOR, from Detroit.

"We got the introduction locally and we won the business because Michael Yamada, SIOR, who is fluent in Japanese, was on the team," says Moss.

Tom Gerard, SIOR, CCIM, was a partner with an independent brokerage company in Halifax, Nova Scotia, called Task Realty Group Ltd., before moving to Royal LePage Commercial, which was eventually acquired by Cushman & Wakefield. In February 2015, he opened the KW Commercial Advisors office in Halifax. (KW Commercial is the commercial real estate arm of residential broker powerhouse Keller Williams Realty Inc.).

"You can spin this any way you want," says Gerard. "On one hand, I'm independent in that I have to source my own business and pay the majority of my expenses. On the other hand, I also have the opportunity to network globally with the world's largest real estate brokerage firm including over 1,600 commercial agents in the KW Commercial network.

Having been in the national brokerage world for a long time, Gerard sees advantages to both sides of the business. What he didn't like about the national commercial firms were two things: first, sometimes your biggest competitor is the guy down the hall in your own firm because he is chasing the same client you are; and secondly, for every commission dollar you generate, you give up a much higher proportion. In

the independent model you can better choose where you spend your marketing resources, and you get to keep the lion's share of your commission earnings.

The last point is important especially in a location like Halifax. Although it is the biggest city in Atlantic Canada, it is only about 400,000 in population and relatively isolated. Several international broker firms are represented, yet as Gerard points out, the real estate services delivery business is really a local business.

"Real estate here is largely based on your local relationships," says Gerard. "My business is mostly self-generated through my local networking and marketing initiatives and through repeat business, but I had to continue to share too much of it with the national firm. As an independent I can now reinvest the additional revenues into my business and compensate my team better."

KW Commercial was Gerard's preferred solution because he didn't want to go back to totally working on his own. The platform provides him the best of both worlds for his particular market and, for a nominal charge, the Keller Williams Market Centre supplies all the back office, brokerage management, administration and accounting services.

The Switcher

The Parsons Commercial Group Inc. in Framingham, Mass., had been independent for 20 years until 2015 when it announced its affiliation with Sperry Van Ness International Corp. It is now called SVN/Parsons Commercial Group.

"The biggest advantage to being an independent is that you have the utmost in flexibility, you can do what you want

and when you want," says Arlon Brown, SIOR, a senior advisor for SVN/Parsons. "You have no restrictions as far as geography or chain of command. There are firms in Boston that are totally independent and still in the top 12 of activity."

The big problem as an independent, Brown adds, is that there are many large companies that only want to deal with the national brokerages. The SVN platform gave Parsons what Brown calls "a real national springboard."

"We have a national accounts group and we can go after that national business," says Brown. "That's a tremendous advantage."

Plus, there are people in the SVN network with expertise in various disciplines that Parsons can collaborate with and can turn to for help.

Brown, personally, sees the difference. "Right now I'm working with a Fortune 500 company that needs an office relocation," he says. "I'm also working with an international insurance company that needs relocation."

There is no doubt the trend line in the commercial brokerage industry has leaned toward consolidation and there is a general hypothesis that the days of the independent commercial broker are numbered. That may be true — only time will tell. In the meanwhile, many independents are doing just fine, but it really depends on location, expertise, and a unique set of circumstances. ▾

CONTRIBUTING SIOBS



Douglas Brockhouse,
SIOR



Arlon Brown,
SIOR



Don Catalano,
SIOR, CCIM, MCR



Tom Gerard,
SIOR, CCIM



Jim Kerrigan,
SIOR



Don Moss,
SIOR, CCIM



Sandy Shindleman,
SIOR, CCIM,
CIPS, FRICS



Gabriel Silverstein,
SIOR

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THE ADVANTAGES OF INDEPENDENT BROKERAGE FIRMS

By Don Catalano, SIOR, CCIM, MCR, president and founder of iOptimize Realty, Commack, NY

Focus on A Few Good Clients

While big companies have lots of customers, independent brokerage firms focus like a laser beam on a few good clients. Each one of those clients is exceedingly valuable to the smaller brokerage firm and hence is typically lavished with extraordinary service. If a big brokerage firm loses a client, it has plenty more and their market share changed ever so slightly. If an independent loses a big client, it changes whether they're eating steak or hamburger.

Quick to Adopt New Tech

If the big brokerage firm wants to adopt new technology it has to pay license fees for perhaps thousands of users or perhaps buy thousands of new pieces of hardware, or both. Naturally, this all has to go through several committees for approval. Conversely, an independent brokerage firm doesn't need a committee to decide on new technology; nor do they have to roll it out to thousands of

end-users. Instead they can roll it out in days or weeks rather than years.

Entrepreneurial Rather Than Bureaucratic

Independent brokerage firms have a flat corporate structure with typically one or two key people at the top. Decisions are made fast and they are free to think outside the box. At a big brokerage firm the corporate pyramid is a true pyramid with many levels. Accordingly, the real estate practitioner at the bottom, or even in the middle, has to get the approval of all the decision-makers above them before implementing anything new.

Better Networks To Serve Their Clients

It's ironic, because the big brokerage firms tout their number of offices and salespeople, but independent brokerage firms actually have arguably better networks to serve their clients. They can avail themselves of prestigious networks such as the SIOR and CCIM. They can engage a local independent brokerage firm or a service provider

from one of the big brokerage firms too. The bottom-line, they are free to choose the best service provider to meet their clients' needs. Conversely, in the big brokerage firm, the individual is often penalized for going outside their own brokerage firms "network"

Big On Smallness

The business author Seth Godin said it well when he titled one of his books "Small Is the New Big." I couldn't agree more; thus, whenever I need a professional, such as an attorney, I stay with smaller firms because I feel the service is so much better.

Independent brokerage firms focus on a few good clients; employ technology better and faster; make decisions quicker; have better networks; and, I would argue, offer better service.