

**Real Estate Brokerage**  
**(Organizational Change)**

**By**

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**Organizational Development**

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## **Real Estate Brokerage (Organizational Change)**

### **Introduction**

Sometimes an organization can get absorbed with trying to maintain the “status quo” and not see the changes coming about in their own market. Real estate brokerage, for instance, continues to use an antiquated method of conducting business by today’s standards. Internet technology has empowered real estate buyers and sellers to bypass the traditional real estate agent and use their own personal computers to locate property for sale or list their homes. In addition, real estate discounters are coming on the scene offering “bundled services” or “fee for service” plans which look attractive to the homeowner wishing to forgo paying a perceived “high” commission to a real estate broker. But, are these buyers and sellers being duped? Are the low fees and extra work required to market your own property or locate your own home really beneficial? Will they be able to negotiate a price comparable to a professional real estate agent?

### **Technological Challenges**

The real estate industry has been struggling with its outdated mode of conducting business for several years. The traditional commission sales office is being challenged by technological advancements. The consumer is empowered with the Internet and can even access the protected realtors Multiple Listing Service (MLS) properties to search for current listings. [www.realtor.com](http://www.realtor.com) In addition, dot.com companies provide a wide array of discounted services and unbundled packages. Online companies like [www.erealty.com](http://www.erealty.com) , [www.cyberhomes.com](http://www.cyberhomes.com) , and [www.ziprealty.com](http://www.ziprealty.com) are drawing consumers online by providing cost-effective online alternatives. Franchise discounters such as “Assist-2-Sell” [www.buyassist2sell.com](http://www.buyassist2sell.com) and “Help-U-Sell” [www.helpusell.com](http://www.helpusell.com)

are offering sellers alternatives to the standard real estate commission fee structure. (These franchises are fast movers in major metropolitan cities) A format for change is lurking in the background because consumers are savvier and demand better services for their dollars. (Garton-Good)

### **Client-Centric**

Image marketing is no longer the accepted method to attract customers in the real estate market. Although this technique was laid to rest in the 1990's, many real estate agents still employ this tactic. Needless to say, in this new era of real estate marketing it is taken for granted that real estate agents will have their own web page to advertise properties and to generate leads. [www.augustarealestateconsultants.com](http://www.augustarealestateconsultants.com) The days of agents publishing information web pages to sell themselves is dead because our new consumers are not interested in what we have accomplished in the past—only how we can help them get what they want now. All they care about is the “WIIFM” principle—“What’s in it for me?” Telling a customer how great we are (Noted by all of the initials after our name) and trying to convince them to work with us because we are the “true professional” has no value to real estate buyers and sellers. Besides, when we talk about ourselves we are not building a strong relationship which is the key to obtaining trust with our clients. (Ross)

### **Discounting**

The traditional real estate brokerage office normally charges 4-7 percent of the sales price as a commission for marketing the property. Of course, what many sellers and/or buyers neglect to account for is the numerous services provided by a real estate

agent in addition to marketing. For instance, market analysis (Used to properly price property) professional contract negotiations, coordination with property inspectors, contractors, real estate appraisers, mortgage companies and closing attorneys take up the majority of the realtor's time. There is no doubt the bulk of the out of pocket expenses is with marketing the property; however, these other tasks can consume the lion's share of the realtor's schedule. Nonetheless real estate agents can be their own worst enemy. "The reason so many agents surrender part of their commission is they are unable to explain the value they bring to the transaction." (Ross)

Should the realtor consider charging for additional services if they are asked to reduce their commissions? Absolutely! Should they also incorporate "fee for service" plans or "bundled services"? (This type of service moves away from the traditional commission splits and focuses on a flat fee compensation package) Why not?

### **The Big Lie**

Does reducing commissions always result in more money for the seller? Not necessarily. It should be noted the real estate professional has a fiduciary obligation to their clients to assist them in obtaining the highest price possible in the shortest amount of time. Therefore, agents tend to be more informed as to market values and selling techniques which will allow them to command higher prices for property. After all, if an owner is attempting to sell on their own, most would be buyers perceive they will be getting a discount. This perception almost always leads to lower values for the seller. In addition, discounters cannot compete profitably without foregoing some of the services a buyer or seller needs. For instance, selling a property for 100K with a 3% commission taking 120 days is not equal to selling it at 105K with a 6% commission in 60 days.

Moreover, who looks after the buyer's or seller's interest when negotiating loans, property inspections, appraisals, and closing? Unfortunately, these services are left to the buyer or seller themselves who have very little knowledge in this arena. Costly mistakes in this area also reduce net earnings. (Ross)

### **The Consultant**

The real estate industry is no different than any other financial organization confronted with technological changes which affect the nature of their business practices. The real estate industry is one of the last hold-outs in this changing scenario. We well know the consumer can now educate itself on many aspects of the business without the aid of a salesperson. Therefore, service beyond the consumer's expertise is what attracts these customers to spend money.

Julie Garton-Good has written a very informative article titled: "Consult and Grow Rich-Why Be a Real Estate Consultant". She is a "Consumer Certified Real Estate Consultant" (C-CREC). She begins her article with a brief excerpt published by the National Association of Realtors (NAR). The NAR commissioned Arthur D. Little Company to conduct a study of the real estate industry. The results of their findings suggest by 2005 the real estate licensees will refrain from calling themselves salespeople to advertising as "real estate consultants". (Gardon-Good)

Ms. Garton-Good also states our traditional skill model is "upside down". Most agents spend the majority of their time servicing the seller and driving buyers around to look at homes. "This is what is perceived to be what we get paid for when in fact, the negotiating and advocacy services are really our specialty and we should charge for them". (Garton-Good)

What is the “right path” to follow in reinventing the real estate broker’s organization? Studies suggest the consumer is only willing to pay for services they need. Therefore, why not charge for conducting Comparable Market Analysis (CMA), negotiating and counseling with buyers and sellers, and assisting with financing and closing details. It is also a known fact that “For Sale by Owners” (FSBOs) is becoming more prominent in the real estate industry. It is estimated that FSBOs will double in the next ten years to comprise 40% of all properties for sale in the marketplace. This appears to be a statistic to pay attention to. (Garton-Good)

### **The Team Approach**

Today, we live in a society which favors the functional teams to the outdated military style leadership hierarchy. This style of leadership is more diverse and comprehensive and requires special relationship skills to empower employees to be more productive. (Noe, Hollenbeck, Gerhart, Wright)

Therefore, it is not surprising the preferred method of conducting business in the “new” real estate practice is to organize your sales staff into teams to harness the power of each individual salesperson’s strengths. After all, the days of the salesperson managing the gamut of all their sales transactions from the marketing to the contract then financing and finally to closing is gone. Self-managed teams work to ensure the goals of the organization are accomplished. (Jones)

Now team members specialize as either “listing agents”, “sales agents” or support staff who handle documentation for financing and closing. These teams are managed by “team leaders” who work to promote the team’s success. The consumer is better served by a team than an individual agent. Of course the commission split is still similar to that

of traditional offices. The only difference is this type of arrangement allows the real estate broker to contract with either the seller to sell his home or the buyer to provide their housing needs. The term “buyer’s agent” is a recent phenomenon brought about by the insistence that buyers also be represented in the real estate transaction.

Another aspect which is in need of reform is the traditional fee structure for agents. Many realtors are “fed up” with financing the broker’s elaborate lifestyle by giving up 50% commissions and receiving virtually no services in return. Although there are companies which offer 100% commission splits (Re-Max), they still charge extensive monthly fees for office space and the use of the trade name. Keller Williams, on the other hand, is fast becoming one of the most sought out companies because of their unique approach. They offer a 70/30 split with their agents until that agent pays \$18,000 within a year time period and then the agent “caps-out” and everything from then forward is 100 percent to the agent. They even offer recruiting profit sharing. What is really rare is Keller Williams does not promote its company but prefers the agent build their own business within their umbrella. Nevertheless, if real estate agents are to remain truly “independent” they will want to be compensated commensurate with their knowledge and skills.

Perhaps the “new” real estate office should be set-up like a professional law practice or CPA’s firm where you have partners who’s functional areas can either be similar or different but everyone is working together to generate income for the firm. These “real estate firms” will need partnership agreements and a legal form of practice i.e. partnership, limited liability company (LLC) or just a general corporation. Income can still be primarily commissioned based but a percentage is invested back into the firm.

It has the look and feel of a professional law or CPA office but this model will be tailored to the real estate practice. This arrangement is far superior to the traditional broker's office where the "broker in charge" splits commissions with agents on a 50/50 basis.

It is not too far out of reach to envision a combination of professional like real estate brokers, insurance agents, attorneys, and mortgage originators working under one roof. After all, their services tend to blend well together so why not keep all the business "in house". As long as real estate agents do not receive "kick-backs" they can refer their buyers and sellers to whomever they choose. The only drawback to this arrangement is the perceived "dedicated" nature of these people which might appear too biased for referral business from agents outside the company.

### **Role Model**

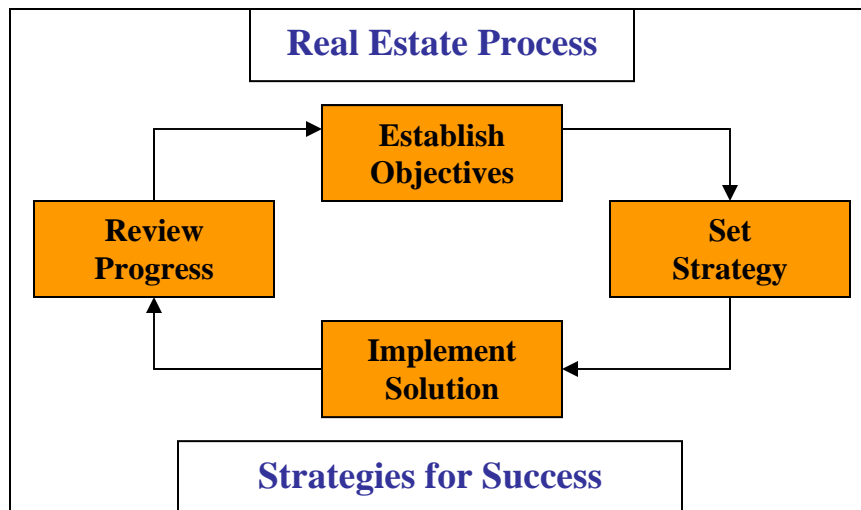
The real estate industry needs to look to the financial industry which has already gone through this transformation. After all, stock brokers have already advanced from "full service" to "discounted service" to "financial advisors". This transformation sounds similar to what the real estate market is telling us—we want more options. A customer may well be willing to continue to pay for "full service" if they perceive the value from such a relationship. However, it is time to listen to our consumers and give them the services they want and not force our traditional model on them. We can learn much from our financial counterparts. Their strategies key-in on certain "relationship-building" techniques which draw the customer to them. Take for instance the strategies employed by the financial industry to bond with potential clients: "Planning starts with listening. Your Financial Advisor will listen to understand your complete financial picture." (Merrill Lynch) They echo this theme throughout their presentation. "Because your

Financial Advisor develops a thorough understanding of your objectives - and keeps listening even as plans change - you and your Financial Advisor can work together to always have an up-to-date plan and the appropriate strategies in place to help you achieve your financial goals.” (Merrill Lynch) Additionally, the model they use is quite simple and could also be captured in the real estate industry:



Why should we “re-invent the wheel”? We can use this process with our current customers and clients:

1. **Establish Objectives**—what services do they want and why?
2. **Set Strategy**—how will we provide these services and what are the expectations?
3. **Implement Solutions**—put together a plan to carry-out the strategy,
4. **Review Progress**—how is the plan working?—do we need to change anything or offer more services?



### Conclusion

To grow and prosper in this changing real estate organization brokers will have to adapt to the new standards and become more dynamic by embracing technology and offering the consumers the services they need in order to make informed decisions. Only the organizations which can capitalize on the consumer's changing needs will profit in the years to come. The real estate industry cannot keep pushing the old role model in hopes of capturing the market. The age of mega real estate firms using this outdated method is rapidly diminishing. Most future agencies will no doubt offer a cornucopia of services from which the consumer can choose what will work best for them.

The whole organizational structure of the real estate broker's office will receive a "face lift" possibly several times before it finds the perfect fit. Many real estate offices will realize the need to specialize in order to capture a "niche" market instead of trying to be full service in all aspects of the business. More specialization within the local real estate office will become the norm where agents just take a slice of the pie and

concentrate on certain services. Professional relationships will continue to develop with other parties involved in the purchase of real estate such as attorneys, insurance agents, mortgage brokers, inspectors, and real estate appraisers whereby, in certain cases, strategic alliances will form to complement each other's business. A more professional image will appear which will garner support from some agents who want to form partnerships with other professionals in order to build a traditional business model which offers benefits such as insurance and retirement plans. Either way, the industry must find a better way to conduct business. The old structure will not survive in the future.

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