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Leadership Legends Speak Out

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Leaders of the real estate industry discussed the future of real estate. In the session's question-and-answer format, they discussed how they have survived and prospered through ever-changing markets and work environments, how extensive the changes have been in the real estate world, and how the industry will function in the future.



The Co-moderators

*H. Cris Collie, CAE
Executive Vice President
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*Pamela J. O'Connor, SCRP
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The Panelists

*P. Wesley Foster, Jr.
President
Long & Foster Real Estate
Fairfax, VA*

*Nyda Jones-Church
Principal and Chief Operating Officer
Prudential California Realty
Del Mar, CA*

*Ron Peltier
President and CEO
Edina Realty
Minneapolis, MN*

This session of leadership legends, representing three of the United States' top five brokerage firms, answered a series of questions on how to manage current challenges and what lies ahead.

Managing Today's Challenges

What do you think the single most significant change in the real estate business has been in the past three years?

Jones-Church: Technology and the speed of information have been the biggest pressures, the biggest challenges, and the biggest opportunities for our industry. Agents must change their mindset and understand the need to freely share information.

Peltier: The technology revolution and, more specifically, the Internet have been the most significant changes. The consumer has been empowered with information, and new channels of competition for information have been created.

Foster: The Internet is the most significant change, but two additional factors are the great market that has been created by consumer confidence and favorable interest rates, as well as "one-stop" shopping within the real estate industry.

To what do you attribute your company's success?

Foster: We try to select good managers, by using psychological tests, and several department heads and managers take part in the interview process. We also are looking for people with good ego drives and good empathy. They will attract agents that have drive and truly care about people.

Jones-Church: Our company has the ability to adapt to change and stay responsive to any hints or suggestions about where the market or the consumer may be going. One must be able to adapt to a good economy as well as a bad economy. Flexibility and relying on good people in the organization has been a mantra since day one.

Peltier: It is hard to fight the forces of change, and we may not be doing everything we can to deliver what the consumer wants. Change comes either internally or externally, and we must make a significant effort to adapt to it.

Mr. Peltier, you have led Edina Realty through several different ownership changes, and now the company's parent, Home Services, is one of the few residential real estate companies to go public. What are the differences in running a public company, other than the obvious one of having to answer to stockholders?

Peltier: The changes are quite significant. You are always under the looking glass and public scrutiny. Disclosures and expectations are more significant because stakeholders and shareholders are expecting you to deliver on your mission and vision; there are opportunities to share the ownership of the stock purchase plan with sales associates, managers, and employees. There is also an opportunity to grow and make acquisitions through the use of capital markets and equity markets.

Mr. Foster, you are truly one of the survivors in this business, moving from mom-and-pop status to one of the largest residential companies in the country. What are the biggest challenges today versus "the old days?"

Foster: During the past 15-20 years, the major problem has been the falling company dollar. In the past, the company had more than 40 percent after splitting the commission with the agent. Today, it is less than 30 percent. Long & Foster Real Estate has added ancillary products to survive, including mortgage services, title services, and insurance services that help the consumer. A few years ago, rents were negotiable; today there are no vacancies, and rents are going through the ceiling.

As broker profit margins shrink, there seems to be a trend toward one-stop shopping and deriving revenue from other sources, such as mortgage, insurance, concierge services, and so forth. Also, there is more emphasis on creating "company-generated" business as opposed to "agent-generated" business-business you can refer to agents for a referral fee, which is not passed through to someone else. Do you see these business development initiatives housed in the relocation department or in some other department of the company?

Jones-Church: Legally, all of the business units must be kept separate. Fundamentally, it makes sense to focus on ancillaries to enhance the value to the consumer. Agents need to increase their specialization, and there is a need to "blur the lines" to break away from the "company-generated" versus the "agent-generated" income.

Peltier: Many operating departments are under one umbrella, which provides a one-stop shopping environment. Today, we are focusing on "home services" instead of "real estate sales," and we provide many services during and after the real estate closing. We have sub-optimized the opportunity to work with the captured customer. We do a great job of working with the customer for 120 days. At that time, the meaningful relationship is dropped because services have ended. The real industry vision is the opportunity to manage the customer for life as he or she moves through the homeownership life cycle again and again.

Foster: Long & Foster does not incorporate ancillary services. We focus on business development.

If you had to offer advice to real estate relocation directors or corporate relocation administrators in our audience related to today's real estate environment, what would you say?

Jones-Church: We need to stay directly in touch with the real estate agents at the field level, interacting with them on the challenges they encounter. It is essential to form partnerships with the agents in order to, in turn, form relationships with the consumer. The agent has an enormous talent to connect with the consumer to create a warmer working relationship.

Foster: The relocation directors should focus on training the agents who get the referrals.

Peltier: We get caught going forward by looking backward. We must look at how to enhance the delivery of services to our customers.

Ms. Jones-Church, the top management tiers of the large national brands seem to be dominated by men. To what do you attribute your success in overcoming the glass ceiling to get your position?

Jones-Church: This is a "people-industry" not a "gender-industry." Women dominate the field level. On both the personal and professional sides, it has been a roller coaster ride. I choose to move on with renewed inspiration and hope, rather than desperation and sadness. One must learn to see negative and radical changes as potential opportunities to forge ahead and become successful.

Are you hiring, training, and managing your sales associates differently than in the past, and do you see the profile and compensation of agents changing? Specifically, do you see a trend toward salaried agents?

Foster: There is not currently a move toward salaried agents. As a company captures more business and more third-party business, there is a possibility of salaried agents. But the business model currently calls for a majority of the agents to be independent contractors.

Jones-Church: The top producers are where they are because they are self-motivated and will thrive as independent contractors. New talent entering the industry will have the

opportunity to pick their own route. As the industry moves toward a greater scope of products and services, the agents will have greater choice, and the compensation opportunities are endless.

Peltier: The age of specialization is here, and we see it in every market. From the recruiting side, the typical sales associate has a college degree and does not want to play the corporate-world game. They desire recognition today, not 20 or 30 years from now. They are also technologically savvy. This creates interesting opportunities because today's homebuyer, particularly the first-time homebuyer, is from this same model.

Mr. Foster, you have a large relocation department of about 60 people, and you are one of the few real estate firms that actively compete as a third-party company. Has this hurt your relationships with third-party firms in terms of getting their business?

Foster: Third parties love competition. We foster strong relationships with third-party companies. Long & Foster goes after small corporations, which the larger third-party companies are not going after.

Mr. Peltier, Home Services has acquired several large real estate firms throughout the country, including J.C. Nichols in Kansas City, MO; Paul Semonin in Kentucky; and Long Realty in Tucson, AZ. How is your strategy different from that of the NRT?

Peltier: First, it is important to look at the framework for the industry in the United States. The real estate industry is one of the last remaining incredibly fragmented industries. If we look at the industry, there were 11 million transactions totaling more than \$1 trillion. The top 500 real estate companies still only represent 20 percent of the real estate transactions in the country. As the cost of business continues to rise, one must continue to look elsewhere. The Home Services model is not a franchise. The mission is to be a national player while retaining the local brand and programs. It provides the framework and the technology so everyone is not attempting to develop products and services. Each company can use the services without spending dollars and using resources on their own to achieve success.

In a perfect world, what would the role of the relocation department be within the real estate firm?

Foster: I would like to see the relocation department capture all the business that it can, including the corporate, affinity, and broker-to-broker business, and so forth.

Jones-Church: The relocation function needs to expand its own definition into business development. It does not make sense to form multiple streams to communicate with the agent when we can use just one.

Peltier: As a relocation director, if you can get the parent company to support it, go out to the major corporations. In addition, there are great opportunities for managed home-care services. When you consider the homeownership process, along with the lifestyle of busy transferees, you have an opportunity to provide a one-stop shopping experience, which would set you apart from your competition.

Preparing for Tomorrow

Ms. Jones-Church, they say everything starts in California. What are the latest developments or models emerging in California real estate, and do you anticipate those being absorbed by the rest of the country?

Jones-Church: There are two major models in California—volatility and liability. The real estate market is traditionally very volatile—very good or very bad. Currently, the market has been very good. In the early 1990s, along with the contracting military, California pushed too hard and drove corporations out. Technology is strong throughout

the state, and it is drawing people from all over the world. Liability is driving the litigation model, much more so than in other states. A new real estate contract was recently introduced that was driven by the litigation environment. It clearly states buyer and seller agency. It allows agents to step out of the decision-making roles and puts the responsibility on the buyers and sellers, allowing them to make their own choices.

How will the Internet affect real estate business, and do you believe online real estate companies will significantly replace traditional firms and agents?

Peltier: A few years ago, people said technology would change the business and replace the agents. Today, technology is changing the way we do business, and technology-empowered agents will change the business, but agents will not be replaced. Buying and selling a home is a major life event that requires a number of components that technology cannot provide. The Internet will continue to grow, and it will become more important than ever to stay in touch with clients through the Internet.

Jones-Church: Look at technology as a tool, and the agent will not be replaced. Many major dotcom companies are advertising services that they cannot deliver that the real estate community can provide.

Foster: The Internet will continue to make us more efficient.

There has been tremendous consolidation in real estate in recent years. Will this continue, and if so, does this mean that the little company is a vanishing species?

Foster: Consolidation will continue, but there is a slowdown. Most people who wanted to sell have already done so. There are niche players in all of the market segments that do well and will continue to do well.

Jones-Church: The niche markets are everywhere that can serve many different users. Middle-sized firms trying to compete with large firms will face the biggest challenges, while the large companies and small niche companies will thrive.

Do you foresee changes in how real estate services are delivered? For example, do you see any shift from depending on the independent contractor sales agent?

Peltier: Years ago, the most savvy companies stepped on the toes of the financial world during the real estate operation. We have the ability to influence the customer when they have the checkbook out and ready to spend. There are more than 200 activities in the entire homeownership experience. Instead of offering one, two, or three of these 200, how can we offer more?

Jones-Church: A broader range of services will be offered. The consumer will be able to choose among these services, and also select the method (such as online, or in person) to take advantage of these services. Agents will increase their specialization as more and varied services are offered.

Has the growing demand for buyer representation changed any of your company policies? If so, how?

Foster: It has been a "non-event" for us and was very easy. About 90 percent of the contracts are with buyer agents and there have been no problems.

Jones-Church: It is important to be as strong in our commitment with the buyers as we have been with the sellers. From a liability standpoint, in California, several recent court cases have forced the definition of buyer agency to appear in print.

Peltier: Working with a buyer on behalf of the buyer was in the best interest of the real estate transaction, and the industry is now operating the way we should have been forever.

What about real estate commissions? We know that fees are negotiable and that we cannot discuss specific percentages or amounts, but there has been a downward trend in recent years. Do you see these fees continuing to decline, and what do you think is the revenue model of the future?

Foster: The Mid-Atlantic region is not leading the way. In other areas, some brokers are offering fees for service instead of commission. There is definitely pressure, especially in the good markets and the upper bracket.

Jones-Church: The agent population itself drives the pressure on the commissions. They are signing up for referral fees all over the Internet. Consumers are shopping around and driving down fees. There is an awful lot of agent giveaway, and I think we need to reinforce the value that we hold of ourselves, the services we provide, and our professionalism as we enhance the consumer's experience.

Peltier: Home Services' philosophy is full-service, full-price. People will not be satisfied with full price without the service. What we have given to the consumer on the front side of the transaction in the form of information, we need to replace on the back side of the transaction in the form of additional services to hold the value.

If you could fast-forward five years, how do you think the real estate business will look?

Jones-Church: The ability to know what will happen in five minutes is difficult, so five years sounds impossible. What you are "able" to do changes on a weekly basis. Greater services and transactional content will increase. As we focus on relationships, alliances will increase.

Peltier: The real estate industry will continue to offer more home services. The long-term goal or mission will be at the center of the home-ownership interaction. Foster: We will evolve beyond selling homes, offering mortgages, title, and insurance. We also will introduce them to other services, such as utilities, that enhance the homeownership process.

When will the current hot real estate buying boom begin to cool down?

Foster: This will come May 16, 2000, after the Federal Reserve raises the interest rate one-half of 1 percent!

Jones-Church: I am managing like it is tomorrow, but praying that it lasts for a long time. I think the emerging businesses will fuel us for a while, but the affordability is scary.

Peltier: There is a slowdown in some markets now, but others are strong and robust. The country is diverse. In addition to the interest rates, the two strongest drivers are consumer confidence and employment. When people are gainfully employed, sales activity will continue. Once there are layoffs, the real estate markets will fall.

Unlike the past, the creativity in mortgages today will always allow us to finance our homes.

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