

IS BROKERAGE DEAD?

“NO, BUT IT IS BEGINNING TO LOOK A WHOLE LOT DIFFERENT”

Since 1996, the real estate brokerage community has had its foot on the accelerator and its eye on the rear view mirror. The robust economy and emerging opportunities created by dot.coms, corporate mergers and IPOs have provided brokerage firms with a plethora of leasing and investment sale opportunities. As the economy grew at an unprecedented pace, most brokerage companies pushed down on the accelerator

and aggressively spent money on talent acquisitions, technology upgrades and market expansion. If the booming economy captured the heart of the brokerage community, the Internet captured the mind of every broker and brokerage organization. By looking in the rear view mirror, Brokers would opine on how soon the Internet would “catch up” with and subsequently pare and reshape the industry.

Start-ups such as PropertyFirst.com, LoopNet

and RealtyIQ.com joined the CoStar Group in a race to see who would become “the” source for extensive data on properties for sale or lease. Recently, the Goldman Sachs Corporation, Inc. announced that it had been secretly developing a real estate Web portal that would essentially eliminate the need for a broker. By going direct to the building owners, Goldman Sachs (unlike the other listing Web sites) does not need a

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HOTTEST MARKET

One clue... it is not San Francisco! The hottest market is Bangalore, India — population 5 million. Bangalore is now home to 300 tech firms employing more than 40,000 people. Called the Silicon Valley of India, Bangalore is the outsource IT department and home to computer programmers for thousands of U.S. firms. ■

INTERNET FACTS

- The online payment market is expected to generate approximately \$2.71 trillion in e-commerce sales transactions by 2004 — representing nearly 37 percent of the overall B2B e-commerce activity.
- Online home and auto insurance sales are projected to grow to an \$11.1 billion business in the year 2003. This is a dramatic increase over the \$1.9 billion mark posted in 1999.
- The demand for web hosting services is expected to increase from \$4.4 billion in 1999 to \$50 billion in 2002.
- The business-to-business niche is expected to increase from \$51 billion in 1998 to \$919 billion in 2002.
- The Internet professional services market is projected to grow from \$7.8 billion in 1998 to \$78.5 billion by 2003.
- The home grocery business is expected to increase from \$233 million in 1999 to \$3.5 billion in 2002.
- U.S. businesses are expected to exchange \$7.29 trillion in goods and services online in 2004.
- Online shopping is expected to generate slightly over \$60 billion in sales in 2000 - an 85 percent increase over the prior year.

Source: CEL & Associates, Inc. and various publications.

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broker to provide data. This latest activity by the well-capitalized Goldman Sachs highlights the dramatic changes occurring within the brokerage industry.

Is brokerage dead? No...but it will look a whole lot different in the years ahead. Commissions are likely to fall as sellers and tenants use the Web for their initial search and wonder: "Why should I pay a full commission when I did all the work?" The number of brokers is expected to decline as an increasing percentage of "smaller" deals are transacted on/over the Internet. Brokers who are unable to serve as advisors and artful negotiators will find their client base shrinking. Brokerage firms that don't possess a fully integrated technology platform will lose market share to those who do. Property Managers and to some extent Asset Managers will become more involved in renewals. Client loyalty will decline within those brokerage organizations that celebrate the "lone ranger" broker.

However, the dramatic changes to the style and capabilities of the traditional broker will be overshadowed by the bold moves made by others seeking a share of the brokerage pie. What will happen to brokerage when an Arthur Anderson acquires a national brokerage firm? What changes will occur when Microsoft announces the establishment of its own site for real estate listings? How will the brokerage community respond when buildings have an embedded chip that informs all who walk or drive by what space is available and how to "go direct"? What will happen when available space is auctioned off on eBay or Priceline? Yes, the industry is rapidly changing, and it will bear little structural resemblance in the very near future to its appearance today.

What will remain intact? The one thing technology cannot do is create a personal relationship. Brokerage will become a source for connectivity, collaboration and counseling. The brokerage industry will emerge from this transition and transformation smaller, more talented, more profitable and with an improved identity. Brokers will become Knowledge Officers, who can interpret information, provide advice and guide a process.

In order to overcome these challenges and changes, CEL & Associates, Inc. recommends that every brokerage firm take a critical, independent and objective assessment of its vision, talent, business practices, client base and available resources. An unbiased determination of the firm's ability, capacity and desire to meet each challenge should be completed. As a CEO of a national brokerage firm remarked: "Asking the right questions and finding out where we really stand gave us the ability to make an informed decision on how to move forward and it forced us to address problems we all knew about... we just never had a reason or motivation to correct them."

Real estate brokerage companies "are about to change uniforms" in the game called real estate. Anything less than dramatic change (i.e., doing different things, not doing things differently) will relegate those "unwilling to change" to a minor role in the years ahead. Getting there will not be easy, but each journey starts with one step. Will you take one step ahead or one step back?

For more information on how CEL & Associates, Inc. can complete a critical assessment of your firm and assist in successfully meeting tomorrow's challenges, please call us at (310) 571-3113. ■

"Real estate brokers are about to change uniforms in the new real estate game."