

# Real estate brokerage is broken

A simple question for you: If real estate brokerage is such a good model for business, then why didn't the late Mary Kay Ash of Mary Kay Cosmetics, or Ray Kroc of McDonald's, use that model when they started out to build empires?

Face it, traditional real estate patterns ceased to make sense a long time ago. With the advent of the franchised brokerage, many brokers have been transformed into landlords, who rent space and sell ancillary services. The equation for these brokers has become:

Profits = more bodies (tenants).

There is a very good reason for this — real estate brokerage is broke! According to a recent American study by the National Association of Realtors, the average real estate transaction netted a broker about \$150. Average American commissions are now about 4.2 per cent, down from the traditional six per cent. If you think that these figures are out of line for Canada, you are wrong. Most brokers I contacted felt that a similar Canadian study would have a similar conclusion, if not even less.

Daryl Jespersion of Re/Max International agrees that the results are reflective of the current state of the industry. In an article for *Agents News*, Mr. Jespersion wrote, "Even while we enjoy the longest and strongest real estate market ever, broker profit margins continue to shrink."

Major changes in technology are coming into the real estate market, and some of those changes are not going to benefit all present day players.

Broker controlled consortiums, instead of traditional MLS board provided services, are emerging. Next year, in the United States, brokers will be able to post MLS listings on their own websites. Costs for agents to direct traffic to their websites will increase as more avenues will be open to sellers and buyers. Instead of limited sites, multiple sites will vie for the consumer's attention.

Where will this leave many in real estate today? I don't know about you, but I have only one thing that I can offer to anyone, my three decades of real estate industry expe-

rience. I admitted to myself years ago that I do not have a business, I only have a product — me! A business allows someone else to duplicate what you do. Walt Disney never stood at the gates of Disneyland taking tickets. No one else has my experience; no one else has yours. You cannot replicate what you have learned or pass on your personal knowledge data bank, but you can maximize it. I don't sell my knowledge or experience, I rent it. I have chosen a different path. I do not want to be part of the treadmill of real estate; I want to maximize what I have accumulated.

As my readers know, consulting is an area that is becoming a good part of my livelihood. Consulting and fee-for-service is an area that is emerging. Recently, in Toronto, the first 50 Canadian students attended the first ever Consumer Certified Real Estate Consultant course. Taught by the dynamic founder of the National Association of Real Estate Consultants ([www.narec.com](http://www.narec.com)) Julie Garton-Good, for two days the attendees learned to think of the services that they could provide to the public and to charge for those services that most have been giving away for free.

You can't make a living when you compete against free. Free valuations, free advice, free consulting...free never made anyone a dime. Sorry, it may open doors for you, but most people who take advantage of free are the same people who will cut your commission to the bone and still want full service.

Too much service in real estate may be part of the current real estate problem. You take a listing, you provide the vendor with reams of print-outs, copies of ads, data galore. You get backed into open houses and advertising, and they reward you for being such a hard-

## THE LEBOW REPORT



BY BARRY LEBOW

working, nice person — when the listing comes close to expiring, they grant you an extension. You have worked hard, you have provided service (in your definition) and eventually the listing does expire, only to go to another agent who sells the house. For your hard work, you have reaped a negative investment. To the seller, service is a sale. You made the biggest mistake in real estate, you equated service with results.

I am a well-paid real estate professional. I get paid for my time. Yes, I still chase commissions and yes, I still sell a certain amount of



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properties each year, but most of my income comes from selling my time, renting my knowledge, not for results. I had my share of disappointments this year, with one rather large commission being lost, but I still made a good living from selling my time. The sale was the bonus.

I recently sold a house after being hired as a consultant. The assignment lead to a nice commission. You see, I turned around the old model of throwing in one of my best services — negotiating an offer. Instead of giving away my

honed negotiating and advocacy skills, I charged for them. I got paid to negotiate and in this case, I worked on a percentage, or commission. What is exciting for me, this is the first house that I have sold in 10 years, and without consulting, I just wouldn't have been involved in the residential market.

I did not show the property, drive around buyers, put up a sign or engage in other time-wasters. I have had my eyes opened to a new model and that model lies in consulting and being trained to sell my services to the public rather than give them away.

The next C-CREC course is now being arranged in Mississauga for March 2002. I am proud to bring the NAREC to Canada and slowly we will build an active and professional association. For more information about consulting as a viable real estate livelihood, go to the NAREC website. For information about this coming course, just send me an email.

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You may remember some months ago when I outlined the problems within the organized real estate appraisal industry. I received close to 100 emails and all were in support of my comments. Many warned me that the Appraisal Institute of Canada would try to come after me; although I did not receive negative emails, I knew there were grumblings. Well, the warnings were correct. I now am engaged in a feud with the Ontario AIC over a very trivial matter. I will keep you posted. If it were not happening to me personally, it would be comical. The fact that I have engaged a lawyer to pursue litigation prevents me from outlining any details at this time. I received a lot of interesting horror stories from members of the AIC about their personal dealings with the association. I would be very interested in hearing from any member, past or present, and your own stories. I will keep your identity confidential, but some of your stories may make for very interesting reading in future columns.

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