REAL ESTATE
Brokerage: A Management Guide

10TH EDITION

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Dearborn™
Real Estate Education

Real Estate Brokerage: A Management Guide

Tenth Edition

REAL ESTATE BROKERAGE: A MANAGEMENT GUIDE TENTH EDITION

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The publisher would like to thank Laurel D. McAdams, GRI, for her hard work in developing the content for several editions of Real Estate Brokerage: A Management Guide, beginning with the fourth edition. Laurel transformed the third edition of *Real Estate Brokerage: A Sales Guide* into a business management book tailored specifically for the operation of a real estate company, a concept that encourages brokers to thrive. Over the years, she as updated the subsequent editions to meet the changes in the real estate industry.

A licensed real estate broker in Pennsylvania since 1978, Laurel has devoted the majority of her career to the professional development of real estate licensees, teaching, developing curriculum, and coordinating a collegiate real estate program. She also had a consulting and training business that concentrated primarily on business management, strategic planning, personnel development, and fair housing and civil rights. She has tapped into this expertise to contribute to approximately 20 editions of national and state-specific books, including six editions of *Real Estate Brokerage: A Management Guide* since 1985.

As of the 10th edition, Laurel has retired from professional endeavors to devote herself full time to family and caregiving. She says, "I am extremely grateful for the loyal users of our products and the talented publishing teams with whom I've worked over the years. My best wishes to all for continued success."

We are grateful to Laurel for her expertise and creativity over the decades and wish her luck in her future endeavors.

INTRODUCTION

Welcome to the world of business management—better yet, management in a real estate brokerage company.

Every industry considers itself unique. But the reality is business is business, with the objective to deliver products or services that appeal to the marketplace. Every business enterprise has stakeholders, owners, and investors who want to make money in those endeavors. Every manager plays a role in planning, organizing, and directing the systems, processes, and, most of all, the people that make companies work to achieve their stakeholders' objectives.

The fundamental principles of managing a business are universal, regardless of the industry, product or service, or individual company. So why devote a book to management in a real estate brokerage company?

For example, in what other industry do competitors both compete for business and share information and inventory to serve their respective clients? In what other industry is a successful transaction dependent not just on the skills of the salesperson himself, but on the skills of so many other people along the way (lender, closing agent, appraiser, etc.) – including the skills of the agent on the other end of the transaction.

By the very nature of our industry's licensing procedures, the typical training ground for company owners and managers is real estate sales. Salespeople presumably know their part of the business but generally don't have the training or experience to manage a company, unless they've acquired that in collegiate courses of study or prior business endeavors. And as much as business management principles are universally applicable, the how-to has to follow the lead of numerous industry laws and regulations.

A common path many follow is from top producer to leaving the firm to start their own office, or from salesperson to company trainer or office manager. Real estate brokerages must follow many rules and regulations, and licenses are controlled by the state. Managers must understand not just generic business management principles but also the regulations pertaining to our industry and those specific to their state's licensing laws.

In many states, a course in brokerage management (by whatever title) is required for a broker license. Generally, the course is expected to explore such fundamental issues as business planning, financial management, marketing and advertising, and professional ethics as well as law of agency, antitrust, and other laws (including the state regulators') that serve to protect the public. *Be sure to refer to prevailing laws that affect real estate and business practices in your area.*

A well-run, well-managed company is not only a credit to the industry but best serves the company's other stakeholders—the clients to whom the company is accountable. *Real Estate Brokerage: A Management Guide* suits the purpose of those courses but, most importantly, explores the fundamental principles of managing that well-run company.

As the name implies, the book is a guide. Each company has its own business philosophy, organizational structure, and work culture. Companies are an amalgamation of systems, processes, and people lead by managers who have individual styles and personalities as well. The purpose of a guide is to help you analyze situations and make decisions that suit your company, the prevailing marketplace, and the laws that apply in your circumstances.

The first unit opens with a statement about there being no magic answers, only some that are better than others in a given situation. Keep that in mind as you open the pages about being a manager and the multitude of activities involved in planning, organizing, staffing, directing, and controlling a business enterprise. Think about how you can inspire people to grow professionally and make your organization a worthy model for success.

Take some time to define what success means to you, and what a successful brokerage looks like to you personally. Not all brokers or managers have the same definition or vision of success. Some will define it as achieving a certain number of transactions or by profit, others by number of agents working in the office or by market share. Reading this guide hopefully will help you craft your own vision of what success means to you and your brokerage.

Users of *Real Estate Brokerage: A Management Guide* have observed that one of its greatest strengths is its futuristic yet timeless value in a wide range of applications. You, too, should find this helpful for gathering the tools of today's management trade and seizing new opportunities. We wish you much success!

UNIT 1

The Challenge of Change

KEY TERMS

consumer-driven model
core services
downsizing
iBuyers
Internet Data Exchange (IDX)
multiple listing services (MLS)
pocket listing
rightsizing
supplier model

LEARNING OBJECTIVES

When you have completed this unit, you will be able to accomplish the following.

- Discuss the general effects of the economic environment on businesses and consumers.
- Describe how the most recent economic cycles have affected the real estate business.
- Describe the four stages of an economic cycle.
- Describe the evolution of the MLS and its purpose in facilitating transactions.
- Discuss the future of the real estate industry: what consumers want, what agents and brokers need to provide, and what industry associations should do for us.

INTRODUCTION

What did you learn about doing business in the recent economic environment?

What will the real estate business look like in the future?

There are no magic answers in business—only some that are better than others, depending on the situation. Guarantees are few. But change is certain.

Business management is as much about the situations as it is about the money. The money is the end result of making wise decisions that suit the circumstances, not just today's but those we assume for the future. Any business, a real estate company included, is at the mercy of a number of forces over which it has little control. What separates those that succeed from those that don't is the ability to deal with the realities of change.

The "Challenge of Change" sets the stage for the pages that follow with some poignant lessons about doing business in that environment. Think about what were, what are, and what will be the events framed in the big picture that create opportunities and challenges for businessowners and their companies.

THE BIG PICTURE

> Our nation continues its struggle to secure peaceful coexistence among differing cultures. The stock market loses value, corporate profits diminish, and older workers are forced to rethink retirement plans for their golden years. Corporate leaders are forced to explain their deception that cost investors mighty amounts of money.

Does this sound like life after 2007?

Actually, these words are extracted from commentary written in 2003 when our nation was struggling to regain its footing after 9/11, investors were trying to repair the damage after the "tech bubble" burst, and corporate executives were making headlines for appearances in court and jail sentences for fraud.

This also could have been written in the spring of 2020, after the COVID-19 pandemic shut down most of the economy in the United States and the rest of the world as well.

After the September 11 shock to our country and the economy, low interest rates played a major role in fueling consumer spending and corporate growth. The stock market regained its stride and reached unprecedented highs, and an exceedingly robust housing market reached new heights, too. Then, life changed once again when subprime mortgages made headlines in 2006.

The sequel to that story is low interest rates played a major role in fueling consumer spending and corporate growth. The stock market regained its stride and reached unprecedented highs, and an exceedingly robust housing market reached new heights, too. Until subprime mortgages made headlines in 2006, and then life changed once again.

We were sitting on a dangerous precipice in 2007. As the magnitude of the subprime mortgage problem came to light, the stock market plunged, credit markets seized, and thousands of people lost their jobs. The investment market was in shambles, having worldwide implications. Consumers dramatically curtailed their spending. Housing prices dropped 30% and wiped out over $7 trillion of homeowners' equity. The economy did plunge close to a bottom that hadn't been touched since the 1930s.

Few people are still alive to share firsthand stories about the Great Depression that began on Black Tuesday in October 1929 and left thousands of people destitute and homeless. But people *are* alive who grew up with parents who endured those times and remained ever wary that history could repeat itself. They can tell about rationing during World War II and the scarcity of goods that are so easily taken for granted. But that war also mobilized a huge amount of material and manpower that solidified the recovery from the Depression and set us on a path of growth after the war years.

Out of that Great Depression came banking regulations and amortized mortgage loans to protect depositors from bank failures and families from losing their homes. Out of the war came prosperity that fueled great optimism and instilled a rosy, almost fearless view of the future, despite economic ups and downs along the way.

How easy it was to expect that the real estate market, which drove the economy to record heights into the middle of the 2000s, couldn't possibly lose steam, let alone plunge to such miserable lows. Or that the mortgage loans that provided financial wherewithal for thousands of homeowners would be the undoing of their American dream. We took credit for granted because it was always there, and saving was something we'd get around to after we lived for today.

Optimism fuels our strength and determination. It also causes us to lose perspective and fail to prepare for the inevitable change along the economic seine waves. There's also an element of greed that craves more in the good times and drives desperation in the bad, not always with praiseworthy results.

These words can be written for any business enterprise or industry. It just so happens that banks, investment houses, and mortgage companies were front and center in the drama that played through what came to be known as the Great Recession.

Profit motives do interesting things. When the economy is good, the real estate market is thriving, and everyone is making money. The banks fuel the market with more money and make loans easier for borrowers to get. Buyers purchase more houses and more expensive ones than they could afford in stricter lending times. Sellers make more money and move up into even more expensive homes. Real estate companies sell more properties, make more money, and salespeople earn better livings. The market is on a roll, real estate prices (values?) rise, and there's no way but up—until it collapses.

The real estate market crumpled after 2008. The banking and real estate industries rode the wave of the early 2000s but—when it was over—few owned up to the part they played in buyers sitting with houses in foreclosure and mortgages that were upside down. Everyone took a risk but not everyone knew how much risk they were taking.

Waves always break. It's just a matter of time. Then new waves come along, and we climb on another one. People tend to forget the lessons of the past.

MOST RECENT ECONOMIC CYCLES

Recovering From the Great Recession

The next wave was jumpstarted with the government's bailout of the banks and auto industry and the American Recovery and Reinvestment Act of 2009, commonly known as The Stimulus or The Recovery Act. The objective of the stimulus was to save and create jobs and invest in infrastructure, education, health, and renewable energy. The rationale was based on a macroeconomic theory which argues that during a recession, the government should offset decreases in private spending with an increase in government spending to save jobs and stop economic deterioration.

The cost of the stimulus package was estimated to be about $830 billion between 2009 and 2019. Since then, housing prices have recovered in most areas and soared in others, and the unemployment rate dropped to 3.7% in September 2018.

According to the National Bureau of Economic Research, June 2009 marks the date of the official start of recovery from the Great Recession. The pace of economic growth during that recovery was much slower than after previous recessions. Slow growth in employment and accompanying wage scales were significant factors in the sluggish recovery.

Housing prices started to rebound in 2012 according to the Federal Reserve, with rising values contributing to increased household wealth, particularly for the middle class. Some data suggest that about 61 million owners had at least 25% equity in their homes in 2016. The number of houses with "underwater" mortgages decreased from 12 million in 2009 to 4.4 million in 2016.

But housing prices remained below pre-recession levels in 2016 in many parts of the country. Household wealth, which is measured by real estate, stocks and other assets minus mortgage and credit card debt and other borrowing, doesn't necessarily translate to increased consumer spending. Consumers did have less debt, payoff having been a necessity to weather the recession. But concerns about the labor market—unemployment, underemployment, and job creation—and softness in the business sector, especially in the energy and oil sectors, stifled consumer confidence. The stock market that has always cycled on the feet of the bulls and the bears also sends mixed signals about their next moves on any given day.

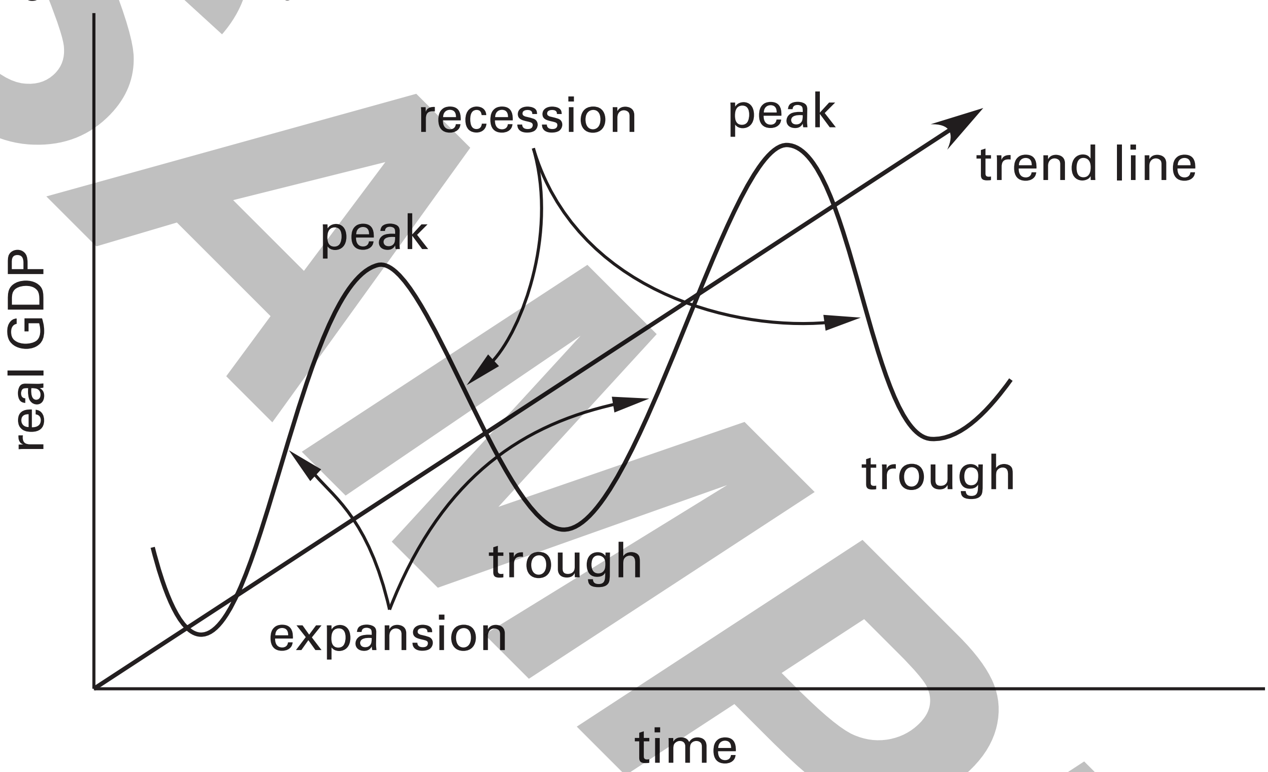
FOUR STAGES OF AN ECONOMIC CYCLE

The Global Pandemic

As stated previously, the economy runs in cycles, or waves. Historically, the cycles last as short as 18 months (1981–1982) to a decade. The historical average is about 5.5 years. The most recent upswing began in 2009, when we started to pull out of the Great Recession.

By 2019, economists began predicting an inevitable downturn. Experts cited tensions in foreign relations, specifically between the United States and China, could lead to a recession. Still, unemployment sat at record lows and the stock market experienced only minor bouts of nervous trading. The housing market saw extremely low inventory and remained a tight seller's market in most of the country, until early in 2020 when it all came to a quick halt.

Figure 1.1: Economic Cycles



Economic cycle s go through four stages as they move from highs to lows:

1. Expansion
2. Peak
3. Contraction
4. Trough

The expansion period of 2009–2019 was a long and slow decade. Housing prices moved up (but not too quickly) and we ate through the inventory of foreclosures and underwater houses (slow and steady). By 2019, the lack of inventory on market choked the market. We had more buyers trying to buy than sellers who wanted to sell. As January of 2020 came around, we looked forward to more spring inventory to satisfy buyers. Then the pandemic hit.

Businesses nationwide shut down in February and March of 2020 and the economy ground to a halt. Economists had warned of the inevitable market shift, but nobody predicted a global pandemic would be the source of the turning point.

Record low levels of unemployment turned quickly into record highs. Buyers who wanted to buy in February of 2020 may have been unable (due to being unemployed) only a month later. As we write this edition we are still navigating through this period of incredible change and uncertainty. Buyers may want to buy, but are not qualified. Sellers (who only a few months ago were confidently in a seller's market) may be sitting on houses that are no longer as desirable as they were pre-pandemic. This is the challenge of change. It is what leaders must navigate through if the company is to survive.

The global terrain in 2020 is rockier than it has been in recent decades. Right now, our economic woes pale in comparison to the brink of insolvency some countries face. Some may say that the problems in other countries are not our concern. This is a myopic view. We live in a small world where we are more connected now than ever before, which the quick spread of COVID-19 from China to the rest of the world perfectly showed us. International problems become domestic ones, as the U.S. stock market demonstrates with precipitous declines on bad news from across the oceans.

The geopolitical environment is as unstable as it was (if not more than) in the first year or so after September 11. The off-shore venues have changed and political powers have shifted, but threats rooted in cultural differences persist. This has also changed the tenor of immigration policy, fueling our nation's domestic and global agenda.

Only time will tell how well all the many moving parts, which also include the nation's debt and tax policies, will align to propel the economy on a sturdy and enduring growth trajectory. Of course, ideologies in power can change and shift the course of the economy. But we do know that mortgage lending, appraising, and settlement procedures will continue to live under a critical eye that views real estate through the prism of subprime mortgages, which were blamed for tipping the economy into the Great Recession in the first place.

THE FUTURE PICTURE

Once we think about the *then* and *now*, we can appreciate the significance of the decisions that come next. The challenge, of course, is that the barometer on current events changes daily and little about the economic and political climate is the same for very long. But one thing is timeless—the fundamental theories of management are the framework that gives business managers the tools to manage in any climate.

One of the axioms in business management is—*companies can't continue to do the same things the same way and expect different results*—especially when the world around them is different.

The smartest thing we can do is challenge our thinking, with no "sacred cow" or "way we always do it" being off limits, and see what surfaces as the best way to do business in the future, regardless of the ups and downs in the economy. Sometimes we have to think way outside the box to decide if we're building the right box. There's no risk in asking the questions.

What Will a Real Estate Company Be Doing?

The fundamental business since its inception has been to bring together real estate properties and users. Those could be properties for sale or rent and users to purchase or lease, and then we dressed this up (or complicated it) with agency representation and fiduciary duties. Unlike other business enterprises, real estate companies don't make any products or have any control over the products they sell. So, companies claimed rights to products with listings and vigorously controlled that information.

How relevant is that model today? The real estate industry organized early in the 1900s when brokers banded together in pursuit of professional business practices. Out of that came a unique alliance of competitors who work together for the end result of helping our clients with their real estate needs. In the earliest days, that business alliance was the only way brokers had to share information about their properties for sale. The alliance evolved into a formal structure that came to be known as a **multiple listing service**. Pre-internet, the data (listings) were shared by way of listing sheets, and eventually printed books. Before long, numerous such services formed to serve many geographic areas. MLSs became a controlled conduit for the broker-members' property information.

The two tenets of the MLS system are cooperation and compensation. That is, brokers who belong to the MLS agree to cooperate with each other for the benefit of each other's clients. For their cooperation, the buyer's broker expects compensation. A buyer's broker brings his client (a buyer) to a seller's broker, and expects to be compensated for a successful transaction. Compensation is spelled out in the MLS listing. Thus, the MLS facilitates both cooperation and compensation between its member brokers.

More than 100 years after the first gathering of brokers to share property information, technology gave us the internet. There's still a need to bring buyers and sellers together, and there's still a need to circulate property information. But gone are the days when brokers relied on the MLS's weekly delivery of paper listing sheets or printed books. Technology gave us a far more efficient way to distribute that data amongst ourselves, but even that pales in comparison with what the internet has done for consumers, who now have direct access to information and the ability to drive their own real estate transactions.

It wasn't that long ago that buyers needed agents to help them find the right house. Agents controlled the listings and the data. Today, it is much more common that the buyers find the houses themselves online, and then contact a real estate agent for access to view the property and help them write an offer and negotiate the process. They don't need agents to find the house. They need agents for all the work that comes afterward. *What role should the real estate company play?*

Businesses operate on traditions, which are perpetuated by generations of businessowners and their models for work. The great divide in today's companies is just that, the generations. The majority of real estate companies are run by the over-age-50 crowd (Generation X and Boomers), which is confronted by the Millennials who are the ages of their children and grandchildren. They are less steeped in tradition and often frustrated by the "old" that seems irrelevant today.

In some cases, younger generations don't want the hassle of dealing with an agent. They found the house on the internet and simply want someone to open the door (whether it be a licensed agent or perhaps a piece of technology that gives them immediate access). They may not want to get preapproved and talk to a lender first. They've done a lot of their own research online and may want to proceed without much of the friction an agent seems to insert into the process.

Weaned on Amazon and instant delivery—from food to clothes to everything in between—younger generations may not want to go through the process their parents did in purchasing a home. When you can buy a brand new car online or order just about anything without jumping through hoops, why should buying or selling a home be any different? There are companies launching to meet the needs of these instant-access buyers.

Online companies are competing for sellers as well, some of which cut out the real estate broker (who they see as a middle man). Today, **iBuyers** will buy your home and allow you to move on with your life without the hassle of showings and the uncertainty of the buyer's financing contingency. They may not pay you what you think your home is worth, or you may pay steep fees for the privilege of convenience, but this emerging competitor to traditional brokerages does appeal to a certain type of homeowner who values ease and convenience over maximum net. *How will the company deal with tradition versus change?*

What Is the Role for MLS?

Information has become the hot commodity in the marketplace. It can be warehoused, delivered, and exchanged for something of value in return, which has moved the real estate industry into the information business, more than a brick and mortar one. The industry's hot commodity, of course, is property listings—an asset brokers have considered proprietary information, to be shared only among MLS members (as permitted by the property owners).

Information is power—the MLS has the power and those desiring the information must join the fraternity of members. An MLS is essentially a cooperative amongst brokers. As previously explained, the MLS hosts a database of listings (information) that the cooperative shares. The introduction of the internet challenged the MLS's information management model. As MLS members posted their own listings on their websites, consumers demanded access to more listings. The MLSs formed **Internet Data Exchanges (IDXs)** which gave consumers access to an MLS's entire database through a member-company's site (within the limits of MLS policies).

The IDX model provided landing places for consumers and served the purpose of promoting listings. But this was purely an informational model and did not provide an interactive business setting for the consumer and broker. That led to the development of Virtual Office Websites (VOWs), which added an e-commerce component to the IDX model, again administered according to MLS's policies.

In the information-is-a-hot-commodity scheme of things, a number of internet-based companies formed to distribute real estate information, listings included. The growing power of web-based sites such as Zillow makes them attractive venues for real estate companies to promote their listings as well. The Real Estate Transaction Specification (RETS), which is a standardized digital format, makes it easy for companies to update that listing information.

One lesson the internet teaches, though, is that once information is cast in digital form, there's very little way to control where data circulate and how it's used. This has resurrected the debate over ownership of information, especially when third-party internet companies sell leads to real estate companies that were generated by the companies' own listings. In the process, the number of skirmishes (and litigation) over MLS rules has increased.

MLSs generate revenue (often for local REALTOR® Associations), but that revenue is threatened by the increasing challenges to their business models.

The move to consolidation has already begun, primarily because the real estate business is no longer defined by narrow geographic boundaries. Twenty years ago, there were approximately 1,000 MLS groups in the United States. As of 2020, there are less than 600 due to consolidation.

In 2017, a major consolidation occurred in the Mid-Atlantic region, with the formation of Bright MLS. A total of 43 associations joined forces to create an MLS that as of September 2020 includes 95,000 real estate professionals in six states plus Washington D.C. Bright encompasses 40,000 square miles total in their MLS. Agents still must be licensed in each state to do business in a particular state, meaning they cannot cross lines and sell properties in neighboring states unless they are licensed there. However, by expanding the MLS system across such a wide geographical area, agents on bordering areas or those holding licenses in multiple states find it easier to do business.

While some brokers see negative effects in joining such a large group (for example, it opens up the territory to new competitors who find it easier to operate there than in the past), others see the positive. Bringing in new competitors also increases exposure to their listings, which may help their clients sell faster or for more money. As with any change, you have to balance the good with the bad. The only thing constant is change itself. Strong leaders learn to shift with the times and adapt to the changes.

With so much information online already, and with the consumers doing a lot of their research on third party portals, the role of the central MLS continues to be questioned. When inventory is low and it is a seller's market, we see **pocket listings** and off-market sales promoted by some agents or firms. This moves contrary to the purpose and spirit of the MLS system, which believes that a property will achieve highest and best value when marketed to the largest pool of buyers (through the MLS). Decisions will ultimately have to be driven by what's in the best interest of the owners whose properties are for sale.

FUTURE OF THE REAL ESTATE INDUSTRY

What Will Consumers Want?

For decades company businesses were based on a **supplier model**—the supplier controls the selection of products and services offered in the marketplace, essentially a take-it-or-leave-it model. But today's companies serve the marketplace with a **consumer-driven model**, which creates products and services tailored to suit consumer demand, essentially answering the question about what consumers want.

Their wants today are rooted in the cyber economy that gives consumers access to most any product, service, or sliver of information with the stroke of a finger on a tablet, laptop, or smart phone. This means delivering products and services in a "one-stop shop" in front of their devices and with vendors who can link them with other services.

A once geocentric business has no geographic boundaries and serves a very culturally diverse population. The domestic Hispanic and Asian populations are growing at three times the rate of the overall population, with Hispanics now being the "majority minority." And the global population is increasingly more mobile. The multicultural market has huge buying power, which represents a host of opportunities to tailor products and services to capture that diverse clientele.

For real estate, the meaning of **core services** has expanded beyond brokerage in many companies to include an array of services that seamlessly take buyers and sellers from doorstep to settlement. In some companies, that includes linking consumers with job placement for a spouse, day care for a child or elderly parent, or housecleaning, yard care, or handyman services.

The industry has also provided alternatives to the one-stop-shop and one-size-fits-all service models to appeal to more selective consumers who want to purchase and pay for only selected services from a real estate company. This has pressured companies to unbundle their services, shed transaction-based fee structures in favor of alternative pricing models, and offer a menu of options from which consumers can choose and then pay only for the services they use.

Consumer wants also represent their diverse ages as well. The over-65 age group, which is now outnumbered by the 20- and 30-year-olds, will continue to be a force in the marketplace as people live longer. This will add to the need for alternatives to the one-size-fits-all service model.

Because more business is done with little personal interface today, some wonder why any commodity can't be traded the same way a sizable investment portfolio can—online without intervention of a person and without paper, too. A few websites already give buyers the ability to make offers online. *Will the day come that real estate will be fully traded online that way too?*

Where Will the Real Estate Office Be?

The traditional measure of market share has been tied to brand recognition in geographic or physical locations, with location also being the draw for foot traffic. The industry began in single real estate offices comprised of the broker and perhaps several associates. Then, companies grew market share by growing into multiple-office organizations, some staffed by hundreds of personnel who offer a wide range of services.

Large companies got bigger, often by assimilating midsized companies for their command of an appealing share of the market. Megabrokers merged with other megabrokers to further strengthen their presence. Despite the trend of "bigness," the majority of our nation's businesses are small enterprises. This remains true for real estate companies, as well.

NAR's 2019 Profile of Real Estate Firms showed that 81% of real estate companies had a single office, typically with two full-time real estate licensees. The majority (86%) were independent, non-franchised firms. There's still a place for small real estate companies, their appeal often being their smallness and more personalized or specialized services. Internet-based companies are also proving there's a place in the market for small, independent enterprises.

In the world of e-commerce, companies (not just real estate ones) are learning that cyberspace is more important than office space. The physical site plays a supporting, rather than starring, role in the great multi-act play of today's business enterprises. There will always be a supporting role for a company's headquarters and for branch or satellite offices, as long as state regulators hold on to requirements for fixed office locations. But consumers are much more interested in *what* they consume than in where they consume it. The same can be said for how the sales force works.

What Will a Real Estate Company Look Like?

Real estate companies have merged, divested themselves of previous affiliations, and forged new alliances with other real estate enterprises or enterprises offering complementary products and services. Some have been drawn under a single corporate umbrella along with a number of diverse or even non-real estate-related corporate units. The companies restructure in the same ways our nation's major corporations restructure theirs, and do so for the same reason—to achieve more profitable operations.

Downsizing and *reengineering* are terms commonly heard in corporate boardrooms as companies strive to work smarter as the cost of operation increases. Companies often suffer from misaligned structures and bloated workforces as a result of mergers or acquisitions, or changes in the work they do. Real estate companies already function on narrow profit margins, and cost of operations must be managed very carefully. Costs that diminish bottom lines are often the very expenditures that help an organization work more efficiently and productively.

Rightsizing is the more accurate term for what companies do to realign their operations. The major part of that involves the workforce. Often, realignment (by whatever term is used) is associated with job loss. Although there may be fewer personnel positions in the short term, especially if adjustments are dictated by a downturn in the economy, the long-term result is new jobs are created with different or refined skill requirements.

Real estate companies can become more effective by downsizing the sales staff, employing a smaller number of people but ones who are highly productive. Companies that still subscribe to the practice of hiring large sales staffs (with the expectation that larger staffs will produce comparably larger revenue) are more closely scrutinizing this strategy because of the cost to attract and retain top producers while also carrying a large number of marginally productive salespeople.

Companies can also work smarter by hiring salespeople as employees rather than as independent contractors. The appeal is that companies can exercise greater control over sales activities and, ultimately, revenue production. While employee costs are higher, the expectation is that those expenditures can be offset with higher revenue. Although this strategy has not been widely embraced by residential sales companies, it is prevalent in nonresidential ones.

The conundrum we have in this business is that real estate sales tends to attract entrepreneurial spirits who chafe at being told how to do their job or when to do it. Yet the broker ultimately is in charge of the sales staff, and is responsible for their actions. How does the manager control a fleet of independent-thinking, entrepreneurial salespeople who are independent contractors? That is the balance many managers struggle with on a daily basis.

If agents were salaried or hourly, instead of paid out upon successful sale, the oversight and control would be much simpler. The average agent closes only 11 sides per year—less than one sale per month. If the broker were able to control the appointments and hours worked, this number would surely increase.[1]

Instead, this industry attracts a stable of (mostly) low-producing but high-risk and high-reward takers who often don't want to be told what to do or when to do it. After all, that does go against the IRS rules in hiring independent contractors, which states that independent contractors are paid for the results of the work (culmination in a sale or lease) but not how it will be done.

The problem here is that brokerages and agents are licensed and must follow the state's rules and regulations. Therefore, the broker (as the person who must, by law, supervise the agent) must also dictate (to some extent) how the work is done and be sure that all state laws are followed in the process. This is the manager's challenge.

Certainly, the number of available licensees plays a role in staffing decisions, including the effect of portable licensing that allows practice across regulatory jurisdictions. That number tends to peak and wane as the real estate market rises and falls. The catch is that companies tend to trim staff or not replace loss by attrition when business trails off and are then caught short-handed when business flourishes again. Such is the challenge for a cyclical business like real estate, but that means anticipating shifting trends is all more important.

There is no *one* suitable model for a real estate company, only the one that supports the work the company needs to do in the contemporary environment and do it profitably. *How many people will that take? And what will they be doing?*

Who Will Be Leading the Company in the Next Ten Years?

The logical answer is the next generation, the Gen Ys. But that's not a realistic answer if the parent- and grandparent-age owners and managers don't inspire youth to enter the business and give that talent a chance to flourish.

Although there are no employment guarantees, today's workforce is more resilient, less intimidated by change than workers of decades ago. There are few 35-year-service "gold watch" retirements any longer. The Bureau of Labor Statistics indicate that 20-to-24-year-old workers change jobs every 14.5 months; 24-to-35-year-old workers switch every 2.8 years. The average length of time in a job is 5½ years for all workers over age 25.[2] That mobility brings new blood with fresh perspectives into a company's workforce.

[1] National Association of REALTORS®. 2019 NAR Profile of Members. https://www.nar.realtor/sites/default/files/documents/2019-member-profile-highlights-05-09-2019.pdf

[2] Bureau of Labor Statistics. Employee Tenure 2020. https://www.bls.gov/news.release/pdf/tenure.pdf

Today's workforce is a melting pot of cultures and generations, especially as people work longer. This gives a company the energy of youth, the voice of experience, and varied perspectives for competing in the global marketplace. Companies fall short, though (our nation's large corporations included), in senior management and executive positions where culturally diverse viewpoints would aid decision making in the contemporary environment.

Unless companies promote younger workers, they will move on and leave the organization with a huge void in leadership as people retire. How will the company appeal to the next generation of buyers and sellers without that next generation of business leaders? Or will those leaders shun established companies and start up their own?

What's the Next Generation's American Dream?

The real estate industry has stumped in favor of home ownership for years. Clearly, the industry has a strong business reason for its advocacy, but home ownership also supports the construct of our nation's social, political, and financial agenda.

According to the U.S. Census Bureau, home ownership peaked at 69% in 2006, but that record high was short lived. By the first quarter of 2012, it reached a 15-year low as more people turned to rentals. Despite low interest rates and attractive housing prices, people sat on the sidelines, underemployed and with damaged credit, thanks to the Great Recession. The trend reversed itself only as we began to climb out of the recession, and over the past few years, the rate has increased again to 67.9% in the second quarter of 2020. Rentals still figure prominently in the equation, especially with younger generations.

The rental trend isn't limited to housing. A growing segment of the population is choosing the flexibility of enjoyment for everything from cars to clothing over the permanence of ownership. This appeals to an increasingly mobile population but also serves a cost-efficient mindset—renting even high-end is cheaper than purchasing, even at the low end. And there aren't the continuing costs of maintenance and repair, either.

The rental rationale doesn't suit the mindset that values the economic accomplishment of ownership or investment with the potential for appreciation, which is the premise of home ownership. Buying a home has also been a way to pivot from one stage in life to another, especially noted by single women who were 22% of the homebuyers in 2006, as opposed to 11% in 1981. Perhaps differences in mindsets are generational ones, but no question there are financial realities that affect choices to rent instead of own.

Moreover, college students are graduating with record student loan debt and working to pay off their past, not save for the future. Only 40% of them expect their lives to be better than their parents' lives.

One of the few bright lights in the Great Recession has been an increase in building, not single-family homes but multifamily buildings, spawned by demand for rentals. But that building boom is also a normal cycle, the hot segment being attractive until the next segment gets hot. Rental demand also attracted investors to foreclosed properties, which also absorbed overstocked single-family houses from the marketplace. *How long will it take for people to become homebuyer worthy? Or will renting be the new American Dream?*

What Will Professional Associations Be Doing?

Professional organizations such as the National Association of REALTORS® (NAR) and their state and local counterparts provide a way for people with like-minded interests to learn, socialize, and affect public policy. Professional groups serve purposes their members cannot accomplish by themselves (or elsewhere) and perform self-regulating functions, which was particularly important in the past when few laws guided professional activities or protected consumers.

Real estate brokers, homebuilders, appraisers—they all have organized associations they can join. Besides camaraderie, education, and advocacy, trade organizations traditionally offer members a menu of benefits. Over time, these benefits ebb and flow, changing with the era. Leaders in the professional organizations also need to ask themselves serious questions to stay relevant in the coming years. *Do the members need what the organizations offer? Or will a new association model emerge?*

What Will Industry Regulations Look Like?

Once was the day that the real estate industry had no oversight other than its own professional associations, especially the National Association of REALTORS® (NAR). Not until the 1920s and 1930s did the states pass licensing laws, and still many more years until the laws included education requirements. That's a long way from then to now, with real estate being one of the most highly regulated businesses.

Along the way, the business world (real estate included) encountered a variety of laws that grew out of movements to protect the consumer. And some legislation was borne out of the excesses of business. Those legislative trends continue to temper the creativity of business leaders.

We know after the headlined scandals on Wall Street that company executives are more closely scrutinized, investors are more critical, and the public is more wary of the way companies do business. Establishing credibility and trustworthiness, even for companies that aren't publicly traded (those that don't fall under Securities Exchange Commission and Sarbanes-Oxley accounting rules), is crucial to survival, let alone success. That's particularly significant for sales businesses, which have traditionally been suspect in the public's mind anyway.

The Department of Justice (DOJ), the enforcer of the antitrust laws, has been especially vigilant since the 1970s when it first cited MLSs and other professional groups (including REALTOR® boards, as they were known at the time) for setting commission rates, among other antitrust violations. The best-case outcome was allegations could be resolved by consent decree and agreements to adopt affirmative antitrust practices. In the worst case, brokers served jail time. But in all cases, the defendants incurred huge legal bills.

The DOJ continues to pursue an aggressive antitrust agenda, and the industry continues to defend. Antitrust law is complicated. In the simplest terms, the DOJ's mission is to support the free market and prevent anti-competitive behavior.

One recent case asserted that the industry's traditional policies and procedures inhibited the providers of innovative alternatives, particularly those whose business is primarily internet based. Therefore, consumers were denied access to property information and other services at a lower cost. This case is notable as the industry continues to see new business models enter the market. "Traditional" brokerages rattled by the entrance of iBuyers, cloud-based brokerages, and flat fee models need to learn how to evolve and compete. Calling for group boycotts of a certain model or price-fixing are illegal.

One of the most recent antitrust cases (*Moehrl v. NAR*) alleges that home sellers should not be required to pay a fee to a buyers' broker. The 2019 class action suit claims that sellers would pay less in commissions if they would not have to pay the buyer's broker. Copycat suits followed, based on the premise that the MLS structure harms consumers and is anticompetitive in general. The MLS does indeed provide a highly competitive market and commissions are negotiable. Consumers can choose between different brokerages and models. You can read the most up-to-date information on antitrust on NAR's website: https://www.nar.realtor/antitrust. Brokers need to remember antitrust is a serious issue and applies to them in their everyday business. In running the company, be alert to any situation or discussion that seems to tread on price fixing, boycotting or restraint of trade.

The industry is already in transition from a singular, long-standing business model into the world of numerous creative alternatives, supported in large part by the internet. But the question remains how significantly business models will change over time. Regulatory law is typically reactive rather than proactive to foster innovation and creative free enterprise. And laws take time to change.

One last question—can you answer the other questions objectively without stumbling on the "big elephant in the room?" *The money*. We know how we make money now (usually), but it's hard to be candid if the answer would diminish or eliminate a current revenue stream. The fundamental principle of the real estate business is rooted in the long-held belief that consumers need real estate people to help navigate the complexities of a transaction. But what do consumers need in the 21st century? Is there something new a company can do that is just as good or perhaps even better?

The point is to ponder the questions to be sure that the company does make money in the future. The goal is to establish a vibrant, relevant enterprise. If it can't be vibrant or isn't relevant, then it needs to be doing something differently. This is the ultimate challenge of change. It may well be that not much needs to change. But it doesn't cost anything to ask the questions, especially if the answers prevent the company from becoming a victim of progress.

A FINAL THOUGHT

Some observers say that fundamentally nothing has changed about the real estate industry. In a sense, there's an element of truth in that—the industry is still about real estate. But *the way* the industry does business definitely has changed, and that will continue in the future. In the triteness of "the future is closer than you think," there's another element of truth. The future any real estate company has to prepare for is not decades from now, but next year and the next.

All business organizations face similar challenges for similar reasons. Bottom-line pressures, economic downturns, abundant regulations, and aggressive competition are but a few of the realities of life. The latest challenge is the competitive forces brought about by the internet. The real estate business isn't any different in these respects.

Many valuable lessons can be learned from the corporate world. But this means stepping outside the real estate industry and learning how business organizations, in general, function. The processes that are explored in later units are similar to those that any business organization goes through. That is, business management.

CONCLUSION

The fitting conclusion to this unit is really a beginning. Having opened some lines of thinking from a global perspective, now you can take the next step. Look at your local business environment and your own organization. Some situations may be similar or you may identify other forces that impact your business. The theme in this unit is change. Brokers and managers must recognize that change is the only constant in this world. Change is inescapable. Astute businesspeople see change as an opportunity. Be open-minded and innovative, especially when you look into the future. No old way is so good that it can't be improved upon. Keep this in mind as you work through the management functions explored in this text.

KEY POINT REVIEW

History teaches powerful lessons about economic forces over which companies have little control. Managers must look at the big picture of that economic environment and consider what were, what are, and what will be the events framed in that picture to make wise decisions for their companies. Companies cannot continue to do the same things the same way and expect different results, especially when the world around them is different.

The fundamental business of real estate has been to bring buyers and tenants together with sellers and landlords to facilitate transactions. Brokers banded together to form multiple listing services (MLSs) to facilitate the exchange of property information. Consumers relied on brokers to guide transactions and provide information, especially about property listings.

Today information is power, the hot commodity in the marketplace served up by the internet. The internet also challenges the real estate industry's model that has controlled that information.

The marketplace is no longer geocentric, and the workforce and consumer populations are more culturally and generationally diverse. These factors challenge real estate companies to learn new ways to manage their workforces and serve consumers, and do so within increasing financial pressures and regulatory oversight that challenges traditional business models.

Consumers are also challenged by financial pressures. Job layoffs, damaged credit, and record amounts of student-loan debt have made the American dream of homeownership unattainable. For some consumers, the less permanent feature of renting is also more suitable for their lifestyles.

Considering all of these factors, companies must look at all the industry's traditional practices and make wise decisions about how to serve consumers in the future.

- What role will the real estate company play in the real estate transaction?
- What are the core services for a company?
- What role will multilists play?
- How will listing information be managed?
- What role will the industry's professional organizations play?
- What will the model be for a real estate company and its offices?
- Who will be the company's leaders?
- What will be the American dream of the future?

These are provocative questions but essential ones to consider for a company to make money, or even survive. The key to success is a willingness to look outside the real estate industry and learn how business organizations function in general.

DISCUSSION EXERCISES

What is your candid assessment of the current housing market in your area? The current economic climate? What do you expect to be different during the next few years?

What has changed about the demographic profile of your consumers and your company's workforce in recent years? What do you expect in the future?

What effect has recent litigation or regulatory changes had on real estate practices in your area? What issues are pending that could affect future practices?

Considering the financial pressures on today's organizations and the consumers' attitudes about the cost of real estate services, how do you think fees for real estate services and costs for transactions should be structured?

In thinking about iBuyers, would you be tempted to sell your own home to a buyer who promised a low-hassle close? No showings, money guaranteed in a fast sale? Would you be willing to pay a premium for the service if you owned your house outright with no mortgage?

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