The Co-Brokerage Debate

by David Frosh
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On average, co-brokered transactions result in a higher price for property sellers, according to real estate industry consultant Mark McLaughlin of McLaughlin Ventures. This fact alone should get the undivided attention of every investment broker and brokerage firm. What should get the attention of every investor is that approximately 80 percent of transactions in the United States are not co-brokered.

Sperry Van Ness is committed to raising the level of debate on the issue of co-brokerage. We believe if brokerage firms commit to working together, our industry, clients and brokers will all benefit. Yet most brokerage companies either refuse to co-broker or make an active effort to minimize co-brokered deals to keep the entire commission in-house.

In today's market, 10 to 20 percent of private investors are first time buyers and more than 50 percent buy outside the areas in which they live, making this a national marketplace. There are millions of qualified buyers but very few "serial" buyers. Eighty five percent of investors buy or sell approximately once every seven years. There is no efficient system for disseminating information to these investors since no technology provider has developed a commercial real estate equivalent to the residential Multiple Listing Service. This problem is compounded by the fact that most national firms will not even use information technology tools for the first 90 days of a listing. Most try to sell the property to their limited pool of investors before any marketing campaign is implemented. Bottom line: while technology services are an excellent component of an overall marketing plan, it is a false assumption that they have made the market independently efficient.

Brokerage firms or brokers that try to convince clients that they know all the "best" buyers are simply wrong. In an industry of approximately 125,000 brokers, data shows that no firm did more than a few percentage points of the hundreds of thousands of transactions completed in the U.S. last year. Most national firms do not even have a significant presence beyond the nation's 40 largest markets. To assume that any single broker or firm can directly reach the millions of qualified investors is a line of thinking that will ultimately cost sellers money.

The old school tactic of requiring buy side brokers to get their fee from the buyer, does not cut expenses to the seller, it just discourages buy side brokers from working to sell the deal. In addition, any time a buyer has to pay an additional fee to his broker for the purchase of a property, that fee will be factored into the purchase price.

Few would have anticipated the huge run up in prices we have seen over the past 5 years or predicted a 5 CAP market in some parts of the country. But these conditions are here today and ruled by a market value set by the highest bidder rather than comps, lenders, appraisers, or a broker's opinion of value. Since investor relationships are usually local and at the broker level, prospective buyers are eliminated when brokers do not market to and share their fees with competing brokers. Maximum value is only achieved when ALL qualified buyers are given the opportunity to bid on ALL available properties.

There is no better proof that cooperation works than the results being achieved at Sperry Van Ness. As one of the nation's largest investment brokerage firms, it would be easy to sell our listings directly to the clients with whom we have relationships. However, we go beyond marketing through our investor relationships and the information technology portals. We also market to the entire brokerage community and share our fee with competitors. Seventy percent of the time, this leads to a winning bid on a Sperry Van Ness listing coming from an outside agent. Contrast this with an industry where 80 percent of the time, the listing agent or firm does not cooperate with an outside broker. One needs to consider who these firms are really representing. This approach improves fees for brokerage firms but costs the seller money by denying the basic law of supply and demand.

A study by the National Bureau of Economic Research on the residential real estate industry (January 2005) shows that because agents are often better informed than the clients they represent, and are not incentivized by the incremental gains that come from maximizing values on the properties they sell. As a result, homes owned by real estate agents sell for 3.7 percent more and stay on the market 9.5 days longer than the homes they sell for their clients. This research along with the co-brokerage issue magnifies an industry flaw – incentives for bad behavior. If we do not change, considering the current political environment, the government will step in and cause the change.

If you are a buyer, find a brokerage firm or seller that disagrees with me, buy from them! The competition will be limited and you could get a great deal as a result If you are a broker and want to be added to the list of brokers with whom Sperry Van Ness electronically shares our billions of dollars of inventory and millions of dollars of fees, email me at froshd@svn.com.

Whether you are a broker or investors, I would love to hear your thoughts on this topic. This document is intended to keep the conversation moving forward. Please email me your comments at froshd@svn.com.