

Book Review

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This section contains reviews on textbooks, professional books and other scholarly books that are appropriate to real estate. Areas of interest include, but are not limited to, mortgage markets, real estate investments, real estate finance, asset and property management, real estate development, corporate real estate, valuation and other areas related to real estate. If you have an interest in reviewing a particular book or if you wish to be considered as a reviewer, please contact James Frew.

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***Real Estate Confronts the Future.* Stefan Swanepoel and Tom Dooley, 262 pages, Thomson Learning, 2005.**

Reviewed by: James Frew, Willamette University.

This interesting collection of essays, edited by Swanepoel and Dooley, follows their highly successful book, *Real Estate Confronts Reality*, published in 1997. The prior work analyzed several innovations in how the business of real estate is conducted that are now part of everyday practice. The new volume continues in the same vein of discussing significant changes, presenting the opinions of twenty industry experts on how these trends will ultimately affect the industry. A wide spectrum of topics is covered, including: branding and new developments in franchising; the varieties of future agent education, compensation, communication and competition; firm productivity and new ways to sustain profitability in the face of increasing competition from outside the industry.

Since an adequate consideration of all of these topics would require more space than is appropriate for a book review, the remaining comments will focus on only a few issues. These will serve as examples to illustrate the type of insights offered readers in regard to firm size, agent compensation and profitability.

The essay on firm size (Chapter 17), entitled “Companies, Does Size Matter?” was written by Robert Becker, who has served as CEO of NRT since 1997. (NRT’s 900 real estate offices operate as ERA, Coldwell Banker and Century 21 franchisees.) This chapter fittingly explores the trend toward consolidation and larger brokerage firms. Becker observes that this trend has been caused by two factors: economies of scale in brand advertising and in “back office” functions (like training and accounting). He cites the 2003 NAR membership profile, which showed that the incomes of both brokers and their agents are higher in larger firms (eleven or more offices) compared to smaller firms (one or two offices). Becker believes that “consolidation has brought a more business-like approach to the industry” (p. 211), which makes larger brokerage firms more productive and efficient (and hence higher incomes are possible).

Of course this theory is arguable, but Becker’s strong statement invites reply, which helps to make this book thought provoking and a good source of classroom discussion topics.

The topic of agent compensation is further explored by Scott Kucirek, Executive Vice President of the innovative Zip Realty. (In 2000, *Realtor Magazine* voted him one of the “25 most influential people” in real estate.) In Chapter 13, entitled “Agents, Commission Based or Salaried?” Kucirek explains that Zip Realty has experimented with salaried agents but found that commission offered better production incentives. Zip sometimes offers their clients a reduced brokerage commission percentage in order to stay competitive (such as 3.75% in Boston). This reduces the compensation earned by its agents on each sale but Zip tries to offset this with increased sales productivity (more sales per agent). The source of the enhanced productivity is increased Internet technology (such as virtual tours). Kucirek believes that this will become the new norm in real estate, explaining: “The only firms that will survive. . .will be those utilizing technology to become more efficient,” (p. 161).

Profitability is further explored by a real estate economist, John Tuccillo. From 1987 to 1997, Tuccillo was Chief Economist at the NAR. (He presently consults and writes a column for *Real Estate Professional*.) In his chapter (Chapter 6) entitled “Profitability, Why is it so Hard?” he discusses the current trend toward paying a greater percentage of the sales commission to the agent (rather than the broker-owner). In scrambling to offset this lost income, many owners are:

1. Running “small shops where they themselves are the major producers.”
2. Acquiring competitors in order to grow and thus “spread overhead over a larger number of transactions.”
3. Expanding their business to include earnings from other related aspects of real estate transactions (called “re-margining”). For instance: “The brokerage function may generate \$200 [per transaction], but the title insurance transaction can yield \$800 and the mortgage origination, \$1200.” Thus, the total earnings (margin) on the transaction is greatly enhanced (p. 70).

Tucillo explains that in order to remain competitive in the future, brokers will need to continue to invest in expensive technology that “eats up budgets in a way nothing else ever has.” He feels that to continue to offer a service perceived as valuable, the real estate agency must become as “technologically sophisticated as its agents and customers,” (p. 76).

This concern over reduced commission income and the need for technology to remain competitive echoes those views expressed by Kucirek that were mentioned earlier. In addition, using growth to spread overhead expenses parallels the scale economy factors in Becker’s chapter. Hence, Tucillo bridges several issues contained in the other chapters reviewed above.

Thus, a last observation about the benefit of this book’s collection of essays is warranted before concluding this brief review. The overlap between essays provides opportunities to compare and contrast various views for discussion purposes. These common themes could each lead to interesting discussions in the real estate classroom or agency boardroom, especially when considering future strategy. For example, one could ask to what degree the statement by Tucillo summarizes the theme contained in all three papers:

“The real challenge that has affected the real estate industry is the need to operate more skillfully as a business than was necessary in the past. New competition has placed a premium on effective management and implementation of a thoughtful business plan,” (p. 77).