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Mergers Squeezing the Loose Brokerage Alliances

By JOHN HOLUSHA MAY 18, 1997

CONSOLIDATION is much on the minds of real estate brokers and managers these days as acquisitions and mergers, announced and rumored, are widely thought to be on the way toward creating a few large national companies that will dominate markets.

One of the issues raised by this trend is whether the networks that link independent companies to give them something of a national presence will survive in their present form or falter as some of their strongest members opt to join the new national powers.

There has certainly been a flurry of activity. Last week, CB Commercial Real Estate Services Group announced that it had ''essentially completed negotiations'' for the acquisition of Koll Real Estate Services for $130 million of its own stock and the assumption of $35 million in debt.

The combination will create a behemoth with 6,400 employees and 250 million square feet of property under management, and which last year had almost $700 million in revenues and participated in 26,000 sales or leases.

Meanwhile, LaSalle Partners has announced plans to acquire the Galbreath Company and its intention to sell stock to the public. Although the headquarters of each of these companies are elsewhere, all have offices in New York and have sought to be important players in this market.

Some participants in the market say real estate service providers are simply acting in ways that parallel the corporate patterns of their customers by : providing national and international management and transaction capabilities and tapping public capital markets to finance growth,

"We really don't have any choice," said Raymond T. O'Keefe, president of Grubb & Ellis New York. "If you want to do business you have to be national. And you cannot finance that kind of structure as a private company."

"This is a very important time in real estate," added Mr. O'Keefe, whose parent company, Grubb & Ellis, is publicly traded. "We are seeing a sea change take place. Clients don't want to deal with 80 different brokers in 80 different cities."

Most industry executives say that small, entrepreneurial firms will survive, using their knowledge of local markets and ability to move quickly to make deals happen. The question, they say, is the

fate of larger, regional companies and of the tactics they have used to try to match the broad base of their larger competitors.

One of these tactics was networks, which come in a variety of forms. In general, they are confederations of independent companies in different geographic locations who agree to cooperate, maintain standard procedures and refer business to one another. This allows a company that has a strong presence in one region to offer clients access to affiliated concerns elsewhere in the nation or the globe.

BUT with the growth of true national real estate service firms some question the continuing viability of networks, particularly with corporate clients who increasingly want one-stop shopping.

''Networks, in my opinion, are an endangered species,'' said Stephen B. Siegel, president of Insignia Commercial Group. ''They were developed to be an alternative for organizations without the inclination and wherewithal to become national and international. There is a desire now for seamless delivery of services and a single point of contact.''

Indeed, Insignia Commercial recently broke with a network that a predecessor company, Edward S. Gordon, helped to found. Oncor International and Insignia said in a joint statement that three companies acquired by Insignia, all previously members of the network, were ending their participation. The companies are now known as Insignia/Edward S. Gordon, Rostenberg-Doern/ESG and Insignia/Frain, Camins & Swartchild.

The resignations poke some pretty big holes in Oncor's net. Gordon was its representative in New York City and northern New Jersey; Rostenberg-Doern covered Westchester and Fairfield Counties to the north and east of the city, and Frain, Camins was the affiliate in the Chicago area.

Since Insignia Commercial is growing by acquisition, using financing supplied by its parent, Insignia Financial Group, the loss of the network affiliation has little consequence. Indeed Mr. Siegel has said the company wants to be represented in seven or eight major markets across the country.

David A. Ball, the president of Oncor, said the split was the direct result of Insignia's acquisitions, which he said would inevitably lead to conflicts of interest. "What we had here was a simple difference in structural incompatibility," he said. He noted that a group of brokers who had been with Koll in Phoenix had recently set up operations as an Insignia subsidiary that competes with an existing Oncor affiliate in the city..

"We have a big company in Phoenix," he said. "When they opened that office it was in direct conflict."

"Having Gordon stay in Oncor was like having the wolf guard the hen house," said Andrew H. Roos, executive vice president of Williams Real Estate Company in New York. "Eventually," he said, referring to the Gordon company's acquistions of other Oncor concerns, "it ate too many hens."

Mr. Ball said he expected Oncor to replace the losses in the New York and Chicago areas with other affiliates. But executives in New York said that the Gordon operation would be hard to replace. ''Who is he going to get?'' said Mr. O'Keefe asked. ''Galbreath has gone away and Williams and Newmark are affiliated with other networks,'' he said, referring to Newmark & Company Real Estate.

''Losing Gordon takes the heart out of Oncor,'' said Steven A. Swerdlow, executive vice president and manager of CB Commercial's office in New York. ''The New York office drives a high percentage of the total business in an organization like that.''

BEYOND the details of the Oncor-Insignia split, some executives question whether alliances of individual companies can match big national firms in the competition for corporate business.

''The big question is whether being a regional company and part of a network has any validity anymore,'' said Richard Podos, vice president of Equis Corporation and manager of its New York office. ''The big companies are not going to networks, they are going to the national companies.''

But not everyone is ready to declare a calamity. ''If I'm Macy's and Oncor is Gimbels, bad news for Gimbels is good news for Macy's,'' said Robert L. Billingsley, an executive vice president at Colliers ABR, the New York affiliate of the competing Colliers network.

He said that despite the trend toward consolidation the firms in the Colliers organization were prospering and retaining their

independence. "They are healthy and they provide an alternative to national companies," he said. "This is all client driven and our clients say they like us the way we are."

But the pressure for consolidation is pushing even successful companies to alter their operations. Mr. Roos of Williams, which is part of a network called GVA, said the members were tightening their financial ties to one another and taking added steps to appear more seamless, including opening a Williams GVA office in Chicago. "Customers do not want referral representation," Mr. Roos said, "you have got to provide them with standardized service."

There is a downside to standardized service, he said. "Large companies look for a single source and accept lower echelon talent as the price for it," he said. Moreover, He said, many of the companies rely on salaried workers, who may be less motivated to be creative than brokers who put together deals to earn more lucrative commissions.

"In the end, the best and the brightest will go where they can make the big bucks," Mr. Roos said.

Personal relationships count, too, and they can be hard to develop, particularly if top executives of a company are managing a complex organization, said Peter R. Friedman, president of the Friedman Realty Group. "New York is different," he said. "It is too big and too complex to be dominated by one or two companies. In New York, senior managers have relations with property owners at the highest level. It takes a long time to build these relationships and some of these people are just starting."

Some people think the urge to consolidate is a result of both the efforts of corporate America to farm out the real estate operations they once handled internally and the efforts of companies to squeeze the management fees they pay to the absolute minimum.

"Consolidation is being driven by the property management side, not brokerage," said Patrick M. Robinson, a principal in The Staubach Company, which opened a New York office in January. "The margins in management are so thin that you really have to be huge to get the economies of scale."

He said the basic problem with networks is that, as confederations, they find it hard to enforce discipline except at relatively long intervals. "If a partner screws up a deal, you can't fire anybody," Mr. Robinson said. "As a single company, you can deal with it."

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