

Acquisition

by Donald Teel



For the purpose of this paper, my use of the term “Acquisition” shall encompass both mergers and acquisitions (M&A) in the real estate industry for there are no acquisitions that do not involve merging and no merging that I have seen that did not involve some sort of acquiring. So, having defined our terms, let’s move on.

Commandment number eight, “Thou shalt not Attempt to Purchase Markets¹.” Wow, that kind of takes your breath away, doesn’t it? It flies in the face of our growth biases because many of us have been led to believe that we can buy markets and therefore, inherit the dominance that comes with such presence. This has resulted from the M&A mania that has permeated the industry. In actuality, the numbers of M&As are few when measured against the total number of companies operating in the United States.

In a business where the potential ROI is marginal at best, and where integrated technology is rampant, the idea of money purchases of new market positions is absurd...actually, insane. Admittedly, there are a handful of large entities whose enormous size and business diversity allow them to loss-lead such acquisitions.

Many brokerage firm owners are also coming out of hibernation and asking hard questions about the “free markets” in front of them waiting to be penetrated. After all, they ask, “why would I purchase something that is free?”

The chief job of a territorialist is to continue to perpetuate the myth that they actually have control of the real estate markets. This is how they create dependency and position themselves for control over demands for capital extraction in exchange for things like brand recognition and loyalty (a myth with consumers), national relocation business (controlled almost entirely by franchisors) and of course promises of referrals.

Today we have an entirely different fish being fried. Through Internet-based platforms, companies like e-Partner[®], with its pervasive reach, can position an owner for penetration of the free markets all around them and thereby empower them to extract new capital resources. In effect, the technology becomes a part of the owner’s brand...collectively we are the brand.

The lack of agility² and the lack of a true coherent technology commitment on the part of owners who are trapped in old industrial real estate models will prevent them from being able to re-design themselves fast enough to compete for the markets around them and perhaps for the ones where they currently operate.

¹ This is the eighth commandment of my *Ten Commandments of the New Real Estate Economy* and describes the follies associated with attempting garner maximum ROI performance from purchased market presence.

² Agility is the first of the *Ten Commandments of the New Real Estate Economy* and addresses the ability of an owner with high overhead and complex operating models to compete for the markets, including the markets where they are operating their traditional companies.

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Who are the new competitors who are NOT engaging in M&As? They are the *Non-Brokers*³ and the *Neo-Brokers*⁴ who are already on the march within the markets, reinventing the way in which they do business. Most of these entities are not utilizing the M&A strategy but rather, they are going it alone using less capital resources to accomplish greater financial results.

There is an emerging freedom market mentality that has adopted the position that there is no need to purchase markets when their penetration is so easily facilitated by implementation of Internet marketing strategies at a fraction of the capital risk associated with M&As.

When we dissect an M&A we find that it is indeed a very risky method to use in building a real estate company. An M&A involves capital risk, conflict resulting from cultural nuances (cultural can tear down faster than anyone or any amount of money can build up), management style assimilation, leadership and power issues.

Market penetration involves almost none of the risks inherent in M&A methodologies. Buying markets by means of company acquisition does not assure success by any means and there are some examples of rusty catastrophic failures dotting the real estate landscape.

Growth minded owners will eventually face the choice of whether to acquire markets or penetrate them with hard-hitting technologies that allow them to brand themselves in multiple markets quickly and recruit cyber-agents who work these markets from home or other low-overhead locations.

Eventually, in the business of real estate company development, someone makes a mistake that can be exploited by his/her competitors. One of the biggest mistakes that any owner can make in this day and age, where the tools for growth are so plentiful and affordable, is to engage in an attempt to buy a market position. Yes, acquisitions can accelerate the process of growth, but at what cost?

How are you as an owner, growing your business? What is the strategic growth model that gives you the lowest risk with the highest rate of return...long term? Is your growth model one that allows you to penetrate multiple markets simultaneously, build a long term market presence together with an exit strategy? Can you turn over your markets to another owner/buyer with minimal risk? These are the asset questions?

³ A “Non-Broker” is a person or legal entity that provides real estate related information services to consumers without being a part of the industry. The non-brokers seek to generate consumer loyalty and to then transform this relationship into a revenue model at the expense of traditional brokerage firms. Some, perhaps most, of the “Non-Brokers” loathe the industry and its practitioners calling them of late a “cartel.”

⁴ “Neo-Brokers” are the new emerging agile brokerage firms who are the first generation to actually operate their companies without the baggage of the old-line culture stemming largely from the Multiple Listing Service rules.