

Asset

by Donald Teel



Real estate as a business enterprise has a problem...an asset problem. For most of my two decades in the industry I have struggled with this asset puzzle and have yet to have others answer my question, “what is a real estate company’s primary asset?” Today, however, I believe I have discovered the answer to the illusive asset dilemma.

Let’s go back a few decades to the beginning of the *Second Economic Wave*¹ (circa 1976 to 1994) of the real estate industry for it is here that we begin to see the struggle for asset definition coming clearly into focus. The Second Economic Wave is the era of the agent-centricity or, agent dominated business models. At the beginning of the era, broker/owners controlled all of the property information. The broker/owners wielded their power through the local Multiple Listing Services they owned. At the end of this era, the property information was beginning to leak from the bottle, spilling into the streets of the information super highway. This single event would ultimately prove to redefine the industry’s asset, forevermore.

What happened in 1994 changed everything and launched us into a new economic wave never before seen. 1994 was the year of the Internet for real estate and it began the transformation of the industry from a local market focus controlled by local broker/owners to a multi-market focus influenced by a new set of controlling factors. From 1994 until the present we have been operating in the *Third Economic Wave*² of the real estate industry.

During the *Second Economic Wave*, what did most broker/owners consider their real estate company asset(s) to be? Excluding traditional fixed assets and depreciable real estate, most of us were referring to our agents as the asset. What’s more frightening about this is that we actually believed it! A few cited listing inventory and opened escrows as additional assets but the core of our belief was that agents were the asset.

In the Broker-Centric Era and the Agent-Centric Era, the more agents you had the better off you were going to be because you had more bodies working in limited vertical markets where the consumer could not access property information without being in the presence of an agent with a book (yes, MLS books!) and the agent couldn’t get the book without the broker’s permission. This created the notion of the "agent asset" as the fundament nucleus of brokerage business models.

No economist, C.P.A. or even the IRS recognizes independent contractors as business assets in our annual tax returns!

¹ There are three economic waves, or eras, in the development of the real estate industry. The Second Economic Wave began in the mid 1960’s and concluded in 1994 and is characterized by me as the “Broker-Centric Era” because the broker/owner controlled the real estate industry through the MLS.

² The Founder of e-Partner®, Donald Teel, first coined the phrase “New Real Estate Economy” in 1996 and coupled it with what is now referred to as “The Third Economic Wave” of the real estate industry which began in 1994 and continues to the present. This is the “Consumer-Centric Era.”

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The proof that we actually believed the “agent-asset” notion is the great lengths owners would go to in order to create what we called “retention” tools and programs that we believed would help create broker loyalty and longevity with our agents. Millions were spent in the 1970s, ‘80s and 90s engaging various retention models.

Ultimately, I personally came to believe that it was just another capital intensive attempt on the part of broker/owners to control vertical markets by throwing more money at them. Indeed, our dreadful fixation on the mistaken belief that agents are assets is only superseded by our dogmatic devotion and passion for overhead expressed in office buildings.

Who among us can deny that our traditional formula for brokerage asset creation used to be the following simple industrial real estate asset model:

BUILDINGS + AGENTS + LOCAL MLS MARKET = ASSET

We who held this asset belief (I must confess, I did) began to find ourselves overwhelmed by the sheer pressure of just keeping up with the creation and maintenance of a *Vertical Asset*³. A kind of hurry sickness invaded the industry at the management level that took us nowhere in terms of “NEW” asset creation.

My new asset premise and belief has been formed as a result of the influence that technology and the Internet (keep these separated in your mind) have had and are having in redefining almost every aspect of real estate since 1994. Now I firmly believe that in the face of that changes bearing down on owners and barring the creation of agent-employee models, that the markets are now the asset.

Market penetration, presence, management and capital extraction form the new asset. Technology and the Internet simply make it all possible. And it is entirely possible to execute this new asset model without the accoutrements of office buildings situated in the markets as the primary expression of our presence. Things like web-based paperless transaction management from the front end to the back end of the transaction PLUS market management platforms like e-Partner[®] make this all possible. So what’s the downside? Change is the downside. Are today’s broker/owners willing to transition from single, vertical market development with high-cost buildings as the primary expression to streamlined and agile market management models? The new formula for brokerage asset creation is:

HORIZONTAL MARKET PENETRATION + HIGH TECH MARKET MANAGEMENT = ASSET

³ The *Vertical Asset* is in actuality the sum total of all that a brokerage firm can do within a geographically defined and limited single market. This includes offices, agents, listings and closings. It is in actuality a glass cube where the sides, top and bottom are fraught with limitation. In order to increase the asset base many broker/owners open more offices and recruit more agents in a limited *Vertical Market*. This set of beliefs and their accompanying actions on the part of owners create the faulty *Vertical Asset*.