THE Registry®
BAY AREA REAL ESTATE JOURNAL
APRIL 2010

Bigger is Badder

The recession is shuffling the commercial brokerage deck.

By **Jennifer Caterino**

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> *Michael Kamm, chief executive of Cassidy Turley BT*

With transaction volumes near cyclical lows and revenue under duress, commercial real estate brokers are positioning themselves to survive the downtime and to reap the rewards of an eventual upturn. In what one industry expert dubs a "shuffling of the deck," firms are pursuing mergers and acquisitions, abandoning long-standing network affiliations and, in some cases, gearing themselves to a global environment by expanding their service offerings and creating recurring revenue streams to buffer the cyclical transaction work. The experiences of full-service real estate companies over the last several years including CB Richard Ellis Inc. and Jones Lang LaSalle suggest bigger can be better, though not always.

On Jan. 4, Colliers International and FirstService Real Estate Advisors, a subsidiary of publicly traded FirstService Corp., put an end to speculation, confirming a deal to increase FirstService REA's control of Colliers to about 70 percent of global business. The San Francisco Colliers office became FirstService owned; San Jose stayed independent but the senior managing director there says his company is still better off. The firm's Bay Area operation now consists of 365 real estate professionals working in 12 offices, according to FirstService REA.

In January, eight firms—two with deep Bay Area ties—from four different networks teamed to form a new privately held real estate company. Cassidy Turley consolidates San Francisco's BT Commercial, previously the largest affiliate member of the NAI Global network; CPS CORFAC International in Santa Clara, whose CORFAC membership expired at the end of the first quarter; BRE Commercial San Diego and BRE Commercial Phoenix, both formerly Grubb & Ellis affiliate members; Colliers Houston & Co. of New Jersey; and four former Colliers affiliates that merged in August 2008.

The Cassidy Turley merger unites 2,750 professionals in 58 offices nationwide. An anticipated international partnership with London-based GVA Grimley is expected to extend the firm's reach throughout Europe and Asia. In Northern California, the combined operations of CPS and BT Commercial give the firm 16 offices, including two Santa Clara locations in the short term, and 280 agents.

Bay Area brokers believe that a widening pool of corporate and institutional customers prefer a full-service platform. This allows the brokers business stability, offering less cyclical, repeat revenue through property management and other corporate services. While the meaning of full service is inconsistent it generally includes leasing and investment sales, property and facilities management, corporate services, capital markets, development and project management, valuation and mortgage brokerage.

Michael Kamm, chief executive of Cassidy Turley BT, said the decision for BT Commercial to leave the NAI Global network was motivated by a desire to compete for Fortune 500 clients. "Big institutional clients want one contract, one service provider across an entire portfolio," Kamm said. Strategic alliances will continue at Cassidy, he added, as the firm works to fill voids in its coverage in the next couple of years.

The FirstService REA deal is the latest step towards Colliers' long aim to transition from a network to a majority-owned, centrally managed global organization. Since 2004, FirstService REA has acquired controlling stakes in multiple North American real-estate service companies, including PKF Hotel and Hospitality Consulting and FirstService PGP Valuation. With the latest deal, FirstService REA now controls the U.S. license. In the last six years, it also expanded globally, acquiring significant Colliers International operations throughout Europe and Asia Pacific. The company now has 15,000 professionals in 61 countries.

Jeff Fredericks, senior managing partner of Colliers International's Silicon Valley operations, said his firm remains independent but will benefit from FirstService REA's stronger platform and "soup-to-nuts" services. "We already do a lot of work with Fortune 500 companies. For Colliers, this will have a bigger impact on our ability to work with the Fortune 50 to 100," he said. His clients won't be required to use FirstService REA partners. "We could still offer [an outside] facility management service. We wouldn't pressure [clients] to use ours."

The Colliers story continues to unfold. Alan Collenette, managing director of Colliers International's San Francisco office, and Fredericks said there likely would be more announcements from FirstService REA when the deal is finalized April 21 and more additions are announced.

While the state of the global economy has made consolidation more affordable, its chief driver is diversification of revenue streams. While that mission has a strong theoretical foundation, experience shows that the devil, as usual, is in the details. In June 2008, global service provider Jones

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Lang LaSalle Inc. acquired The Staubach Co., a Dallas-based tenant representation firm, in a deal valued as much as $727 million. Jones Lang Chief Executive Colin Dyer said at the time his firm intended to be a "consolidator" in a "consolidating" industry worldwide. Jones Lang added 14 offices and more than 1,000 employees.

In a Feb. 2 statement, Jones Lang reported a 34 percent year-over-year gain in Americas leasing business, which they attributed to the gains from a complete year with Staubach. Jones Lang also reported improvement in its property and facilities management revenue, up 25 percent for the quarter and 15 percent for the year, providing what it called a "solid and predictable annuity-revenue base" going forward. At the same time, the firm's capital-markets business suffered from record low market activity.

CB Richard Ellis Inc., which operates more than 300 offices worldwide, saw a fourth-quarter rebound in investment sales activity in the European and Asia Pacific markets, compared with year-ago levels. The firm also said leasing results jumped 88 percent in Asia Pacific during the fourth quarter versus the same period a year ago. Meanwhile, in its fourth-quarter financial statements, CBRE reported the U.S. property and facilities-management business is holding up reasonably well in the downturn. The business suffered only a 5 percent decline in the fourth quarter and full year.

But that doesn't mean CBRE has escaped the biggest impact to the industry: The cost-cutting that tenants have embraced with vigor. Brett White, CBRE president and chief executive, warned on a recent conference call against viewing corporate clients as cash cows. Many companies have cut internal real estate departments and are outsourcing business previously handled in-house. As customers continued to spend less on their real estate needs in 2009 compared with 2008, year-over-year comparisons show modest outsourcing revenue declines. Project management work is at, or near, historical lows and looking into 2010, White predicted outsourcing performance likely will remain impacted by the new corporate attitudes.

The question also remains: Will the full-service model still seem appealing when leasing and selling again are plentiful? Kamm said in Northern California, where the commission structure is generally very aggressive, in good times firms can expect net profit margins in the 10 percent to 12 percent range, with the rest going to the broker and expenses. Property management margins depend on scale, but a large base of office and shopping-center properties can yield 15 percent, Kamm said. "You need to have the right mix of properties."

Jon Torgeson, principal of Pasadena-based Torgeson Associates, an executive search and human capital consultant for the real estate and construction industries, said full-service platforms won't equate magically with success. "It might look as though the business is somewhat commoditized," he said. "Ultimately, it comes down to the human connection made when pitching the business." That is not to say a strong relationship guarantees continued business, however. "As soon as the decision is made, metrics are put in to judge the performance. And so a business relationship is always up for grabs." ■