

No Bricks, New Splits

Meet freedom shops and the new business models recruiting in your market



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Freedom shops and new business models woo agents from bricks and mortar brokerages

By Roger Cruzen

Declaring Independence

Wearied by the burden of expensive brick-and-mortar operations and responding to a new generation of agents who desire greater control over their business *and* their financial destiny, more broker/owners are declaring their independence from traditional real estate brokerage models. • Will the move toward hybrid business models that eliminate much of the overhead and reduce a brokerage's reliance on agent productivity fade away as soon as the economy recovers, or does their sudden popularity presage more changes ahead? *California Real Estate* asked an industry analyst and a handful of real estate entrepreneurs to weigh in—and to share how the business models they have adopted are helping maximize their profitability in a tough economy.

Let Freedom Ring

Thanks to technology, brokers today need agents more than agents need brokers, says James Allison Crumbaugh III, founder and CEO of Allison James Estates & Homes, which claims to be the nation's first entirely "virtual" brokerage. A former Prudential franchisee, Crumbaugh believes brokers today must give agents more of what they've always wanted—the freedom to do things their way.

Based in Florida, two-year-old Allison James is a "freedom shop." While details vary, freedom shops typically offer agents a place to hang their shingle for a flat monthly fee and little or no per-transaction contribution. At Allison James, agents pay \$295 a month, keep 100 percent of their commission, and work entirely from their home or mobile office. Local brokers earn 20 percent of the monthly fee for agents operating under their license. Recruit 25 agents and you've got a guaranteed monthly income of \$1,475, or \$17,700 a year, plus a small percentage for each recruit.

"If I can legitimize the business model and I attract 10,000 REALTORS®, I become a wealthy man," says Crumbaugh, matter-of-factly. (For those without a calculator, 10,000 agents paying \$295 would generate \$2.95 million a month,



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—James Allison Crumbaugh III | CEO, Allison James Estates & Homes

or \$35.4 million a year, without selling a single property.) “I think there could be 400,000 [agents] in this business model in the next 10 years.” So far, he’s recruited about 400 agents in 14 states, including about 100 in California.

For Some, It’s About Cutting Costs

The freedom shop concept appeals to brokers tired of constantly negotiating commission splits and agents who do only a few transactions a year and are looking to slash costs. Texas-based Connect Realty offers an 80-percent commission split for \$29.95 a month, plus a one-time set-up fee. Top producers eventually can earn a 95-percent commission. Everyone can earn passive income by recruiting others.

David Boatner, president and CEO of Connect Realty, says his firm was created out of a desire to eliminate bricks and mortar in favor of a virtual brokerage that allows agents to optimize their commissions, share in corporate revenues, and be able to build their business for a reasonable monthly cost.

Both Allison James and Connect Realty offer advanced technology and marketing packages they say would cost thousands to duplicate on their own. Both employ online transaction management systems and require agents to submit paperwork electronically. Allison James specifies that all transactions must be reviewed by the broker and a compliance attorney located in Florida. Connect Realty maintains its compliance review in the state where the transaction takes place.

“Some [agents] are struggling with that,” says Crumbaugh, “but we have zero tolerance for non-compliance. The second you step out of that box, you’re gone. What most brokers would allow, we just don’t allow.”

Some say freedom shops are one reason more agents haven’t left the business. For the same monthly fee, Connect Realty maintains an “affiliate” program for agents who want to keep their license active so they can earn referral and recruitment income. So far, approximately 80 of the 630 Connect agents in California (there are 1,500 nationwide) have signed on as non-MLS affiliates.

“We don’t encourage it,” says Boatner. “But what do you say to agents in markets that have experienced severe declines in pricing? Do you say, ‘Come back three years from now’ when right now they may be able to do only

three deals a year? I think we’re actually helping rather than hurting.”

Sometimes It’s About the Client

After three decades in real estate, Heidi Rickerd-Rizzo wanted to create a company that was less about production and more about a business culture focused on a high level of client service. In April, she and partner Bill Facendini opened Terra Firma Global Partners, a Northern California wine country boutique that applies the flexibility of a freedom shop with a commission split of 85 percent. Terra Firma appeals to established agents who have a solid book of business but want to align with a brokerage that offers the flexibility to work from an office or not, the technology to help them build community and client relationships, and the opportunity to share in the firm’s profits.

“Agents want three things: Leadership—and I mean dynamic leadership, not just a manager,” says Rizzo. “They want risk management, and they want some kind of marketing strategy to get listings. They don’t need affiliated business or one-stop shopping. It’s all about relationships, and they want to control their relationships. They don’t like to be told what to do and they don’t like a lot of stuff being packaged and rammed down their throats.”

That includes their work environment. Rizzo’s plan calls for Terra Firma to have up to a half dozen offices in unique lifestyle locations—art galleries, wineries, hotel lobbies. Size and amenities will depend on the needs of agents who sign on with the company. “Newer agents are willing to work virtually, but the biggest producers are still the most traditional agents, and those agents want their corner offices,” says Rizzo. “If they want additional space, they will help participate, but they will participate in the profits as well.”

Technology is a given these days and has leveled the playing field for boutique businesses, says Rizzo. Where she believes her firm can differentiate itself is in using technology to help agents build community and relationships. For example, Terra Firma has eschewed a static Web page in favor of Facebook and blog applications. “For anybody who has been in this business for any length of time, the reality is that their clients are doing business with
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them because of the relationship they have,” says Rizzo. “Everything we do is around community interaction.”

The View From the Observation Deck

What does the future hold for these emerging business models? When industry analyst and *REAL Trends* editor Steve Murray began tracking brokerage trends in the 1980s, approximately 97 percent of companies offered a “graduated commission” program that compensated agents based on sales performance. Today, this traditional model accounts for only 25 percent of brokerages, with the so-called “100 percent” concept, “capped company dollar,” and “freedom shops” equally dividing the other 75 percent. Then there are companies like ZipRealty, Redfin, and Lending Tree, and discount brokerages like Assist-2-Sell and Help-U-Sell, which have adopted other business models and account for a small percentage of the pie.

Both Allison James and Connect Realty already are profitable, which is one reason why freedom shops may continue to grow in popularity. But Murray predicts that current IDX and VOW rules will encourage the development of other new business models—including online lead generation realty companies. Murray says at least one national retailer reportedly is in the process of building a national VOW in order to capture proprietary customer leads for referral to partner brokerages. “Watch for the big national brand networks to invest in ventures outside real estate to capture customer eyeballs and turn them into real estate prospects,” Murray advises.

What does that mean for existing brokerages? Murray says companies need to clearly define their culture and value proposition. “Companies need to focus on that like a demon and not get trapped into being all things to all people,” he advises. “Otherwise, you will get killed.” ♦

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