

# Leadership Principles for Today's Residential Real Estate Brokers<sup>1</sup>

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## Introduction

The US residential real estate industry can be a tumultuous market. It is not always possible to list properties on the multiple listing service (MLS) and have multiple bids above the full listing price. Brokers may face challenges making their customary listing commission from the sales price of a home. Properties can lose their equity or go “upside down” (i.e., the mortgage balance is greater than the market value of the home). Thus, with no equity, homes cannot sell and brokers cannot make commissions.

Despite these potential issues, there are opportunities for real estate brokers willing to implement the leadership principles based on the residential real estate brokerage business model discussed herein. This includes implementing the vision-influence-passion (VIP) framework, creating a niche-based business focused on listing and selling REO properties (real estate owned by a bank or lender), creating a large value network, and implementing leadership principles to empower listing agents.



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## Real Estate Industry

According to the dictionary of real estate terms, a real estate brokerage is defined as “the business of being a broker, which is a state-licensed agent who, for a fee, acts for property owners in real estate transactions within the scope of the law” (Friedman, Harris, and Linderman 2008). In addition, according to the IBIS World Industry Report (2009), the business of residential real estate sales and brokerage is classified in the United States under NAICS Code 53121, which consists of operators acting as agents or brokers who sell, purchase, and lease real estate for others.

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The sources of revenue for real estate firms are typically drawn from residential sales brokerage fees and commissions (65.6%), rentals (15.7%), non-residential transactions (7.6%), land sales (3.5%), agent office fees (2.0%), property management non-residential fees (1.5%), property management residential fees (1.3%), and other miscellaneous fees (2.0%) (IBIS World Industry Report 2009).

The real estate industry has faced rapid consolidation in recent years. Major competitors in the industry are mainly localized firms that operate independently under larger national franchise systems that have implemented aggressive acquisition and consolidation strategies, such as Realogy, CB Richard Ellis, and NNN Realty Advisors (IBIS World Industry Report 2009). Under this type of arrangement, the principal broker pays a fee in exchange for using a widely known pivotal name of the parent organization (Bureau of Labor Statistics 2009).

Those brokerage franchisees that are part of a franchise system account for 20 percent of the residential real estate sales in the United States (IBIS World Industry Report 2009). Accordingly, there are 98,000 brokerage firms operating over 200,000 local offices in the United States that provide potential employment for over 2.5 million real estate licensees (US Department of Justice 2007). Furthermore, due to the increasing pace of technology and economies of scale achieved by market leading franchisors, independent brokerages are falling by the wayside.

This is analogous to the mid-1990s, when residential real estate brokerages faced a recession caused by smaller brokerage firms trying unsuccessfully to achieve the same economies of scale and scope as their larger counterparts through rapid consolidation (Zumpano, Elder, and Anderson 2000).

Unfortunately, the most recent housing boom was supplanted by an influx of depreciated properties and falling demand for new and existing homes from the 2007 housing bust. Moreover, because of detrimental economic conditions over this time period, such as rising unemployment rates, stringent credit policies, slowing construction activity, declining consumer spending, and falling demand for new and existing homes, it was estimated that the annualized revenue for real estate brokerage firms participating in the industry in 2009 would drop 6.4 percent, wages in the industry would drop 6.3 percent, and employment would drop 2.2 percent (IBISWorld 2009).

The Case-Schiller Home Price Index has rebounded somewhat since the peak in 2006 (McGraw Hill Financial

2015). In 2009, the ten-city index was down 31.6 percent (Sutton 2009) and in 2008, according to Realty Trac, 1 in every 134 households faced foreclosure (Cole 2008).

## Leadership Challenge

Despite changes in industry structure and declining demand for residential real estate, there are other challenges of which residential real estate brokers need to be aware. First, 75 percent of new licensees who obtain their real estate license end up leaving the profession, 57 percent of real estate brokerage companies lose money (i.e., they are not profitable), and there is a 50 percent failure rate for new brokerages (Perotti 2007). However, for those companies that do become successful as measured by gross commission income (GCI) of over \$1 million a year (Keller 2004), implementing leadership attributes has been identified as a key reason for their success (Atkinson and Wagner 1969).

Leading individual real estate agents need to be aware of several leadership crisis indicators (Dearborn Real Estate Education 1996):

1. Sales may be missed when individual real estate agents for the brokerage company are too busy with mundane tasks that require adhering to strict deadlines such as paperwork.
2. Filed complaints against licensees due to inadequate work or shortcuts can jeopardize the license of the agent and the broker.
3. No internal finance controls to determine why the company has increased sales and decreased cash balance in the company's bank account
4. Uncontrolled growth of a sales staff, which often increases training and advertising overhead while reducing short-term firm profitability

A real estate broker operates a short-term service business using his or her knowledge, talent, and time in developing and nurturing personnel teams (Atkinson and Wagner 1969). This is fundamentally important because agents and office staff can be critical success factors for a brokerage company, and it is imperative that proper leadership attributes are implemented early on in developing or recasting a brokerage office.

Once a real estate brokerage has managed to sustain a competitive advantage in the marketplace, it faces another challenge: growth. While trying to gain an edge on

competitors and achieve horizontal expansion, a leader's ability to train, motivate, and delegate becomes a critical role for success. Furthermore, it is the leadership role of the broker that is the most important role factor for failure or success in a new office. More particularly, it is the inner drive in a real estate broker that can lead and persuade others to create and perform to achieve positive results (Dearborn Real Estate Education 1996).

## Leadership Opportunity: Niche Market

One of the most powerful leadership value-added strategies that exists is creating a niche market. Moreover, identifying the most powerful niche and dominating that niche are critical success factors (Belasco and Stayer 1993). In today's marketplace with rising foreclosures, the opportunity to list and make a commission for brokers has shifted from the consumer back to the banks because banks now hold over one million foreclosed properties in their inventories (Eldred 2009). With the rising number of foreclosures, it is imperative that brokers shift their focus from consumer listings to REO listings.

In addition, to create a successful and sustainable brokerage with core competencies in today's marketplace, a residential brokerage company must create a "value network" (Fjeldstad and Andersen 2003) and serve as an intermediary between first-time home buyers, cash investors, and lending institutions (i.e., banks). Real estate brokerage is driven by connecting buyers who need or want to purchase a property with private and non-private sellers who need to sell. It is the art of allowing customers to exchange goods, information, and capital through a network.

Thus, in a network environment, value is created by linking customers together through contracts and infrastructure (Fjeldstad and Andersen 2003). Herein, both sellers and buyers have different needs from the market place. Of their brokers, sellers demand maximized sale prices, minimized inconvenience, regular progress reports, good marketing strategies, and reduced liability. Buyers demand good purchase prices, minimal time investment in finding appropriate properties, a variety of purchasing options in their price range, assistance with writing purchasing agreements, negotiation of superior deals, and regular progress reports (Lee 2007). In conceptualizing a new residential brokerage company specializing in REO properties as a value network, the goal is to maximize value for the end-consumer by building large networks that allow both the buyer and

the bank to interact through the intermediary real estate brokerage company.

Thus, the primary aim of a new real estate broker should be to link consumers with those bank-repossessed listings commonly known as REOs. Brokerage firms provide a network service to connect first-time home buyers with bank REOs that provide governmental public policy initiatives and incentives (e.g., first-time home buyer tax credits). In addition, value can be created by adding as many bank REOs as possible to the network to serve a large pool of first-time home buyers and investors who want to buy them. Thus, the value for the brokerage firm will increase by expanding its network: the bigger the network, the more value can be provided for buyers and sellers (Stabell and Fjeldstad 1998).

It is the premise of the value-network model that the value of a communications service depends on the connections it creates between the sellers and buyers (Stabell and Fjeldstad 1998). For example, the brokerage firm acts as a "club manager" by using a network (such as the US Department of Housing and Urban Development (HUD)) to connect lenders that have distressed properties with "customers" such as first-time home buyers and investors (Cole 2008). Ideally, customers for "club memberships" are preapproved for mortgages by meeting rigid lender guidelines, such as verifying the last two annual tax returns, having acceptable debt-to-income ratios, sufficient down payment funds, and sufficient credit scores. Likewise, investors who are all-cash buyers should be brought into the network, especially those who can show proof of funds.

A third type of customer who could be brought into the network would be specialized real estate agents employed by the brokerage company (i.e., REO listing agents) to help alleviate excess bank inventories within a 90-day period or less. They would be responsible for managing the operational tasks of the businesses, from establishing the broker price opinion (BPO) value of properties, to procuring buyers and closing the transactions.

Finally, selling agents or "cooperating agents" should be brought into the network to work in conjunction with the REO listing agents to procure buyers. Selling agents can be from any brokerage company and usually share the total commission offered to the REO listing agents. The number of selling agents can be unlimited; the more the better, because their sole function is to find a buyer for the REO listing agent. All members of the network would be governed by contracts, which would enable the brokerage



company to establish, monitor, and terminate relationships among the members of the network (Figure 1).

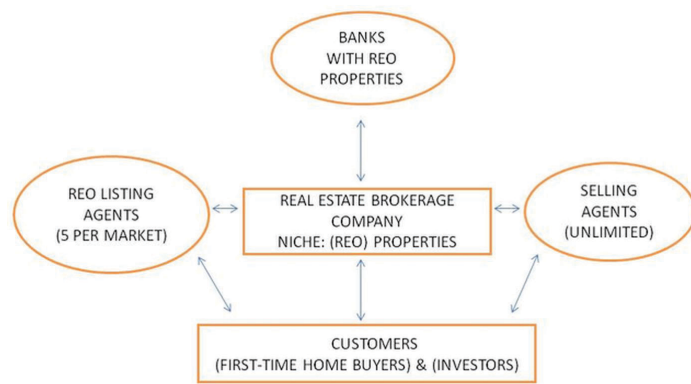


Figure 1. Niche-focused value-network model.

In addition to managing the network, web-based internet software technology could be used to qualify and control the transaction process, from signing the contract all the way to the closing table. The network infrastructure operations should be managed by online portals, and web-based technology should be implemented to ensure that all distressed assets are properly managed and regularly updated in the web-based software systems.

In sum, since the key to the value network is to increase its scale and composition because the value of the service to existing customers increases with each new customer added to the network, the focus should be to increase the number of banks that need to unload their foreclosed assets (Stabell and Fjeldstad 1998). This would offer value to listing agents, selling agents, first-time home buyers, and investors. Similarly, by increasing both the number of agents to handle the excess inventory and the number of customers to purchase the inventory, value could be provided to the banks and financial institutions that need to unload their troubled assets. Thus by focusing on solving the customers' problems more efficiently than other brokerage firms in the marketplace, a niche-focused, value-network strategy could be successfully executed.

## Leadership Opportunity: Vision-Influence-Passion (VIP)

### Vision

Peter Drucker defines entrepreneurs as individuals who exploit opportunities created by change or individuals who create something new or something different (Dulebohn 2006). This visionary thinking is necessary for brokerage companies to compete in today's marketplace. Successful brokerage companies need to be forward-thinking visionaries (Kouzes and Posner 2007). A clear-cut vision that is

shared between management and sales agents attracts, challenges, and unites people (Maxwell 1999).

A clear-cut vision is one of the most important motivational tools. It should be simple and idealistic, challenging but realistic, focused, beneficial for the organizational stakeholders, and easy to explain and understand (Harvard Business School 2006). Successful visions occur in an environment of trust so everyone has the opportunity to be creative and take risks (Dearborn Real Estate Education 1996). By embracing change and stepping to the forefront of the foreclosure boom, visionary real estate brokers can participate in the REO-niche market of assisting banks and organizations such as HUD with their REO inventories (Kelley 2006; Cole 2008).

Given these conditions, there exists an immense opportunity to create value in the marketplace by serving as an intermediary between first-time home buyers who purchase homes through government tax credit programs and lenders who need to unload their REO inventories to save their companies from bankruptcy. By implementing a leadership value-added strategy that provides solutions for their customers' problems (i.e., troubled bank asset problems), real estate brokers must focus on positioning themselves as "REO specialists" as the supply of home inventories shifts from private citizens and home builders to banks (IBIS World 2009).

### Influence

In addition to implementing a differentiation service strategy by carving out a niche market that specializes in REO properties, successful real estate brokerage companies need to create influence. Influence is considered a true measurement of leadership and certain factors delineate bona fide leaders from apocryphal leaders, such as character, relationships, knowledge, intuition, experience, past success, and ability (Maxwell 1999).

As a value network, recruiting high quality, productive, and ethical real estate agents should serve as a necessary condition for building a successful company. In influencing real estate agents, various tools are needed to motivate and to ensure continuity of the shared vision between management and the agents (e.g., caring for agents' needs and desires, creating a trusting environment, and adapting a flexible leadership style to accommodate individual sales agents). Creating a healthy work environment that allows agents to exercise their creativity, competence, and commitment should be focus of the business, not cutting costs (Rosen 1996).

Because coaching agents is vital to achieving core competency, brokerages should use flexibility in leadership style to influence their agents (Harvard Business School 2006). There are many leadership styles, including coercive (leader gives orders and demands acquiescence), authoritative (leader has an overall goal and pushes for cooperation), facilitative (leader focuses on people as the number one priority), democratic (leader empowers employees in decision making), pacesetter (leader has high expectation for performance standards), and coaching (leader is focused on personal development of each agent).

Once the brokerage has ascertained who its best agents are, it should select three to five talented REO listing agents per marketplace territory to control the bulk of the bank-owned listings. By keeping the REO listing agents under five, the broker can easily manage the REO listing agents' workloads and keep them accountable.

## Passion

Passion is critical because it is the first step for a brokerage to create VIP leadership. A passionate leader can inspire associates to be dedicated to the company to help it grow and be successful. In fact, a leader with great passion and few skills is more likely to outperform a leader with lukewarm skills and no passion (Maxwell 1999).

Passion and attention are codependent; people will not make sacrifices, work extra hours, or strive to achieve great results if they are not passionate about their jobs or the company (Kouzes and Posner 2007). Every person in the business must absolutely love real estate. It is a prerequisite for passion, as without it cynicism can arise (Perotti 2007). In short, a lack of passion can set limitations on a firm's ability to capitalize on the REOs.

## Leading the Team

To create a successful real estate brokerage in today's marketplace, leading a team is of the utmost importance. As a result, it is imperative to understand the different social styles of sales agents to effectively communicate with them because real estate is considered a "people" business, with individuals typically using different modus operandi (Atkinson and Wagner 1969). There are four social styles that are based on perception by both the sales agents and the broker: analytical, driver, expressive, and amiable. Each social style has a different level of assertiveness (degree to which a person tries to influence the thoughts and actions of others) and responsiveness (degree to which a person expresses feelings in relation to others).

Individuals who are "ask assertive" are less forceful and more tentative in expressing opinions, providing direction, and making requests, and are more acquiescent to others in owning decision making. This is contrary to individuals who are "tell assertive." Likewise, people who are "control responsive" generally are more fact-focused and task-oriented than individuals who are "emote responsive" since they allow feelings to have a greater influence on decision making.

The social style of analytical associates is ask-assertive and controlled-responsive because they like to deal with facts and work methodically using standard operating manuals. Driver associates are tell-assertive and control-responsive because they are goal-oriented, results-oriented, determined, and disciplined. Expressive associates are considered tell-assertive and emote-responsive as they are spontaneous, enthusiastic, and idea-oriented. Amiable associates are ask-assertive and emote-responsive as they are people-oriented, friendly, cooperative, and enjoy helping others in a team environment (Dearborn Real Estate Education 1996).

Moreover, for a successful brokerage company to meet the growing demands of its customers, the broker must not only match the leadership style to the social style of the sales agent, but must also focus on exponential growth by bringing into the network sales agents who themselves are leaders. Organizations need people who support the goals of the firm while retaining their own voice within the organization (Rosen 1996).

To create and support exponential growth, real estate brokers must focus on employing leaders who attract other leaders to the organization. Creating core competency through employing leaders who attract other leaders or help others to become leaders adds value to the organization and helps it to grow (Maxwell 2007).

Another way to create core competency in a company is to empower the sales agents. For example, after identifying leaders, brokers should support their associates by providing them with bank-owned listings, the correct tools to procure first-time home buyers and all-cash investors, and the responsibility/authority to build the value network. Empowering associates helps them reach their maximum potential by encouraging and supporting their progress with the organization so they can succeed (Maxwell 2007).

## Conclusions

In 1906, Vilfredo Pareto, an Italian economist, discovered a ubiquitous maxim known as the “80-20 Rule” which states that 80 percent of our results come from 20 percent of our actions (Keller 2004). In order to effectively operate a real estate brokerage in our volatile marketplace today, it is imperative to implement a VIP leadership framework: vision, influence, and passion. Focusing only on operations is insufficient. Developing a vision for the future, communicating that vision, influencing others to follow that vision, and being passionate about that vision are necessary elements to create a successful residential real estate brokerage.

Real estate brokerage is a knowledge-based service business, so brokers need to lead their associates toward change as the first step in creating value for the organization (Atkinson and Wagner 1969). This can be accomplished by creating a vast and resilient value network that can grow substantially by implementing a niche-based brokerage business focused on REOs.

By implementing the VIP framework to create leaders, focusing on the niche market of REO properties, and creating a large value network, real estate brokers can position their organizations to be successful in the residential real estate marketplace.

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