

The Impact of New Information Technologies on the Commercial Brokerage Industry

by Dr. Joseph Gyourko and Asuka Nakahara

The rise of new information technology is likely to bring about three broad changes to the commercial brokerage industry. The first, which already is occurring, is the development of specialist firms that perform only a part of the brokerage process such as the research or listings function. We believe the real issue for the commercial brokerage industry is not whether the research function largely will be outsourced in the future, but who will provide and control the data.

If a stand-alone, for-profit firm proves to be highly profitable, we would expect some type of collective response from the brokerage firms themselves to capture some of that value. Either they will create some type of multiple listing service platform or the stand-alone firms will “share” some of the profitability with the brokerage houses by lowering fees. Additionally, we believe other portions of the brokerage process will be outsourced to non-brokerage firms as technology advances and adoption rates increase.

The second area of change involves how new technologies will continue to influence the existing operations of traditional brokerages, absent a fundamental change in their underlying business models. New technologies have already interacted with the trend toward corporate outsourcing to make it easier for large brokerages to manage complex portfolios more efficiently.

In addition, the increased transparency that is making the brokerage process more visible to clients is likely to lead to new payment mechanisms that do not rely exclusively on commissions. Project-based fixed prices should become more common, and a fee-per-hour-worked arrangement, possibly with a bonus or other incentive structure, is likely to become more common in the industry. By no means should this be viewed as unambiguously negative for brokers, as the possible loss of commission may potentially be balanced by the security of an income stream.

The final change we envision is a discount brokerage model that focuses on smaller, relatively low-margin transactions. This represents a major change in the underlying business model of a brokerage firm and requires the meshing of new technology and firm labor force arrangements.

While it is still unclear precisely how such a firm will be organized, the factors necessary for success are becoming more apparent, and we believe the obstacles to success are

surmountable. That said, not all firms will want to pursue an explicit discount strategy or even offer it as part of a package for clients. However, a successful discount model should be closely scrutinized by all in the industry because it always has the potential to be adapted to serve higher-margin clients.

We do not believe that a purely electronic or virtual brokerage is feasible in the near term. Widespread standardization of documents and processes would be required for this, and we do not think that is a likely outcome in the near term.

Finally, we conclude that these changes are much more likely to affect the tenant rep and project leasing sectors of the industry than they are the investment sales and corporate disposition areas (in the near to medium term, at least). Hence, relative commission growth going forward should be lower in the tenant rep and project leasing sectors. ❖

The above report is the abstract for the Report for the Society of Office and Industrial REALTORS® Educational Foundation Phase III: What Does New Information Technology Make Possible and Under What Conditions Will Changes Occur? The complete report can be found at www.sior.com

This research was funded by a grant from the Society of Industrial and Office REALTORS® Educational Foundation.

*Dr. Joseph Gyourko and Asuka Nakahara
Zell/Lurie Real Estate Center at Wharton
University of Pennsylvania
Philadelphia, PA 19104-6330*