2004 BROKERAGE PERFORMANCE REPORT

An analysis of the nation's top performing residential real estate companies.

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INTRODUCTION

We are pleased to present the 2004 REAL *Trends* Brokerage Performance Report. This is the second year we have conducted a survey to study the performance of the top real estate brokerage companies in the United States as reported in the annual REAL *Trends* 500.

We believe that the data provides significant benchmarks for the leaders of the nation's top real estate brokerage companies. We believe that such benchmarks can assist in setting strategic initiatives, performing self-examination of corporate performance and establishing some guidelines for management accountability.

All respondents in this year's study are companies ranked in the REAL *Trends* 500 – the 500 largest brokers in the U.S. The study is broken into both geographic regions and various size categories. As always, all information is treated confidentially. In this report, reference is made to percentages but not to actual dollars.

We trust you will enjoy examining the results and putting to good use the data as it may apply to your own planning process. We extend our thanks to all participating companies which shared information about company performance. Those firms which participated in the survey will receive a copy of the Brokerage Performance Report with their own data directly benchmarked against the results of all participants. We encourage those who did not participate to do so in future years in order to benefit from this personalized report.

David B. Colmar Editor	Susan M. Cox Publisher

TABLE OF CONTENTS

2004
BROKERAGE PERFORMANCE REPORT

Purpose

Comparative analysis has become a mainstay of American business. Statistical data available for various business segments as well as businesses themselves have generated acceptable performance standards and created benchmarks allowing businesses and their owners to measure individual performance against peer groups and/or the norm to be found in other related entities.

For those of you who have not yet read Moneyball, by Michael Lewis, you are encouraged to do so. The book is about the Oakland A's who simply came up with a whole new way to measure and gauge the performance of their ball club and the players using data and statistics that others had never considered. The result was one of the lowest payrolls in the league with increased attendance and greater profitability. And a team that has made the playoffs five years in a row. We may take a lesson or two from this source.

Publicly held companies provide great benchmarks inasmuch as most of the performance measuring data is public and is reported on a periodic basis to various regulatory agencies. Whether in business where performance is measured in terms of dollars or returns on assets or capital or earnings per share or whether the activity is sports and athletics with measurements of won/loss or time or percentages, standards are set and records are recorded.

Leading real estate brokerage firms are just now seeing the real value of comparative benchmarking. In order to establish standards of practice, the data must be collected on a voluntary basis.

Some information may be available through franchise affiliations and leading companies often belong to a CEO group where such data is gathered. However, there is no national collection of data that incorporates all brokerage businesses offering owners a chance to compare their individual performance with like size peers or other companies in their respective geographic regions.

To this end, we wish to thank all of those brokerage companies across the country which participated in this the second annual Brokerage Performance Report (previously the Top Performing Company) study. We hope that the value of the information will assist in measuring performance and setting targets for improvement over the years. So, the purpose of this report is:

- Provide brokerage ownership with comparative data to measure their performance.
- Establish "benchmarks" for developing future strategies for improved performance
- Measure quantifiable information that generates orderly company growth
- Provide information that can increase customer service in programs offered.

Data Sources

REAL *Trends* provides significant data that begins to serve as benchmarks in reviewing individual company statistics and trends. The annual REAL *Trends* 500 report provided the basic list of participants for the last two years. Data provided by survey participants is not audited and for the most part was provided by the CEO or CFO. Approximately 25 percent of the top 500 participated this year, equivalent to the same number for 2003.

Assumptions

1. All information collected is for real estate brokerage only. This year some additional information was collected on primary or core services such as title, mortgage and escrow and as such is identified separately.
2. All information is confidential. Participants in this year's study will receive a personalized version of the final report which reflects their respective placement in the categories as assigned. This is being done to provide greater ease of using the information primarily for self-evaluation.
3. Information on owner's compensation was neither requested nor included in the analysis. Therefore, all data (i.e. profit) does not include owner's compensation.
4. Reference is made to the "Top 20." This refers to those companies performing above the 80th percentile for each category, or on average, what the top 20 percent did. While this number is random, it is the same level that was used last year and provides a benchmark within the totals for any given category.
5. The study is divided into six geographical regions. These are the same regions used by REAL *Trends* in other studies and was done to provide for consistency.
6. The study is also divided into five size categories based on gross commission income.
7. This, the 2004 study, is for 12/31/03 ending data.

Definitions/Glossary of Terms

1. Gross commission income is divided into those categories which generate brokerage commission dollars either through residential sales, commercial sales or leasing, property management fees and referral fee income. It does not include income from other sources such as mortgage or title or income from transaction fees.
2. Commission expense relates to obligations to others for the generation of commission income. This includes sales agents and/or other brokerage companies to whom referral fees are due and royalty fees.
3. Gross profit or company dollar is derived by subtracting all commission expense from income. Dividing gross profit or company dollar into the gross commission income will provide the gross profit retained.
4. Advertising expenses should be self explanatory. Itemized as shown and then tally up all other non-categorized expenses and classify them as "other." Should there be charge-backs to agents for advertising (such as newspaper) credit the appropriate line item.
5. Sales promotional expense should be self-explanatory.

6. Salary/payroll expense should not include the principle owner's compensation. This category relates only to payroll employees.
   - Managers include branch sales managers. Some may be also commissioned sales people, but include that portion of pay as it relates to the management of the office. Also included are others who have a related job, such as general managers or regional managers
   - Office refers to all other personnel other than branch managers, including marketing staff, relocation, clerical, IT, etc.
7. Building and equipment would include such things as rent (owner or company-owned buildings are to be included at lease rates or, in the absence of a lease, market rates.) Depreciation relates only to buildings where applicable.
8. Communication expense may include high-speed connections, local and long distance.
9. Recruiting expense is for room rentals, lunches and dinners and finder fees paid to others for recruiting efforts. If there is a recruiter as an outside contractor, include such total costs here.
10. Training is for printing of materials, paid speakers or outside contracts for any and all company training programs. This may include company events and speakers or training for new agents where room rentals may also apply.
11. Other company operating expenses include
    - Legal fees are those costs incurred with outside contractors
    - Professional services may include legal as well for such things as corporate as well as outside accounting fees or other services provided the company..
    - Merger and acquisition costs are those write-offs taken for acquisitions in the past year if any.
12. G&A. General and administrative, or corporate overhead, is a mere restatement of those costs already shown that are decidedly overhead in the operation of the company and not related to sales offices. What is the total cost to operate essential but not revenue producing parts of the company such as accounting and marketing. If such costs are allocated to the offices this would be the cumulative amount of such allocations assuming the allocations are direct and real.
13. Gross margin or company dollar %: Company dollar divided by gross commission income (GCI)
14. Transaction sides: A listing sold and closed or a buyer controlled sale and closing. There are two sides per transaction.
15. Per person productivity: The total number of closed sides for the year divided by the ending number of licensed agents in the company. (PPP)
16. Full time equivalents: Relates only to employees. The total number of payroll hours per year divided by 40. While there may be some who work in excess of 40 hours a week, including branch managers, the maximum denominator is 40. Covers all branches, administrative functions and other brokerage relates employees except the owners.

- **Average =** The arithmetic mean or average of particular data
- **Median =** The midpoint; the same number of responses are above that point as there are below.

EXECUTIVE SUMMARY

This, the 2004 study, provides significantly more information for developing strategies than did last year's study. First, there are now two years to review and interpret trends. Second, more companies responded and all provided more information. Third, there was a marked overall improvement in the same company to same company comparisons from the past two years. And fourth, for the participating companies we are now able to generate a specific report for each company that compares the data provided with the average for the entire study for the past two years, giving you some compelling comparative data.

Developing standards for your respective companies is one of the goals with this report. Being able to benchmark targets, establish goals and measure performance are all part of the management process that can now lead to greater accountability and coaching for improvement.

For fiscal 2002 we reported that the companies in the middle of the pack were getting squeezed. There was pressure on their profit lines because their operating costs were simply higher than their smaller and larger competitors. This was again true for 2003. We also reported that there was a clear relationship between per person productivity and profitability. This again was the case for this year.

The higher the productivity, the greater the profit margins. There is also a residual to this, although not quantifiable. When agents are producing greater numbers of transactions, then their income either is growing or remains high, and when this is the case, there is usually a greater chance that the agent will be less likely to leave his/her company.

On average the companies in this year's study out-performed those last year with an average profit margin of 7.1 percent vs. 6.9 percent of gross commission income for last year. This while average productivity declined a fraction. Rising home prices solved a number of issues, but overall there was also some improvement in various expense line items. Encouraging were some of the ratios of agents to staff and of production per square foot. Both are highly important numbers, as personnel and occupancy expenses continue to be more than half of the total operating costs of brokerage.

Effective commission per side did not decline this past year for the first time in nearly ten years. Also significant was the improvement in company dollar retained percentage from 25.7 percent in 2002 to 28.1 percent in 2003. The unfortunate part is that only a small part of this increase of 2.4 percent fell to the bottom line.

2003 was the first year that we collected data on primary services of mortgage, title, escrow and warranty. Although limited by the number of firms that responded in some parts, it was a start to review data that could assist in offering benchmarks for the future. Clearly the consumer is looking for a one-stop shop and offering these services is less an option than a necessity. The margins, though, can be excellent with little overhead or fixed cost. If your firm is not participating in this part of the home service business, it needs to in the future.

Some Recommendations for 2004 and a few years beyond can be gleaned from the past two year's data.

1. Concentrate on programs that can improve per person productivity by 10-50 percent over the next five years. This is not s short term fix but rather a long range program. The first step is believing that it can be done and developing strategies to do it.
2. "Brick and mortar" is very expensive. What can you do in your respective companies to reduce the amount of square footage allocated to your agent population? This is either a focus on recruiting and training or a reduction/elimination of non-productive agents and therefore a reduced amount of space on which rent and related costs are being spent. Like other financial service businesses we have become complacent in the amount of space we occupy.
3. A very strong review of personnel costs needs to be made. Reducing people costs during normal slow or down times can save dollars. Staff and their related expenses simply remain too high for the business. We need to become much more efficient in this the highest expense line item.
4. Recruiting does solve a great many problems. While not the panacea, is comes close. Added agent base reduces personnel and occupancy expense ratios and generates greater market share. Educating and training new agents in the use of title and other company primary services increase revenues. Coaching agents to production standards increases their income while doing the same to the company. If there ought to be a re-allocation of resources from certain items, this is one area that needs to be enhanced.
5. Work on long term plans over the next 2-5 years. Much of the improvement one desires can not be achieved in 6 or 12 months. These are longer term issues and need some focus accordingly.

For those that participated in this year's study we express our thanks and encourage you to continue to use the information to improve your operation. For those that did not, we hope that you find the data helpful and that you will consider sharing your successes with us next year. Above all, we hope that you use the data as a learning and self examination process. Doing so will fulfill the primary purpose of the study.

REAL *Trends* Data

Let's review what some of the REAL *Trends* numbers have been as reported in the annual REAL *Trends* 500 for all companies

Some Basic REAL *Trends* 500 Statistics:

	2001	2002	2003
Total # agents	216,150	239,942	270,014
Total # of offices	5,464	5,759	5.968
Total # of closed transaction sides	2,641,137	2,850,080	3,029,961
Agents per office	39.6	41.7	45.2
Per person productivity	12.2	11.9	11.2

Comment: Of significant note here is the continual decline in per person productivity. The drop is 1.0 from 2001 to 2003. While the participating companies have increased in size by approximately 54,000 agents as well as adding more agents per office, production did not keep pace. This, in light of one of the strongest real estate markets we have ever witnessed. We have become less efficient instead of more. This results in greater dependency on appreciating values of real estate for increased dollars of revenue versus greater output by agents. In spite of the increase in the use of technology, productivity continues to decrease.

REAL *Trends* Top 100 Brokers:

	2001	2002	2003
Total # agents	149,984	167,267	187,920
Total # of closed units	1,682,902	1,815,031	1,942,223
Per person productivity	11.2	10.8	10.3
Effective commission rate/side	2.64%	2.53%	2.54%
Average gross commission/agent	$68,072	$66,989	$70,349

Comment: Being the biggest did not necessarily guarantee that one would have increased per agent productivity. It is at the top 100 level that the per agent productivity has eroded the most. Most of the agent growth last year occurred within the top 100. Of particular note is the fact that last year was one of the first times in over 10 years that the effective rate per side did not decrease. Inasmuch as per agent productivity continued to erode, it is assumed that the increase in agent income was a simple result of housing appreciation.

Effective Average Commission Rate – Real *Trends* 500 Report

(Please note: these averages include sales of all existing, new and luxury homes. We are aware that the average for just existing home sales is very likely higher than these numbers indicate. However, it is useful as a benchmark to examine these results against your own and those of other regions, etc.)

	2003	2002
NE	5.14%	5.20%
MA	4.78%	4.78%
SE	5.38%	5.50%
MW	5.38%	5.62%
SW/MTN	5.26%	5.16%
FW	5.00%	4.92%
National total	5.12%	5.12%

Comment: The REAL *Trends* 500, consisting of more than 270,000 agents, makes up approximately 27 percent of the total membership of the National Association of Realtors and more than 3.0 million closed transaction sides make up approximately 30 percent of total closed transaction sides for the same period.

In 1991, the top 100 companies of the REAL *Trends* 500 reported an average per person productivity of 8.8 transaction sides per year. Compared to 10.3 reported for 2003, this accounted for a 17.0 percent increase over 11 years. What has sustained the brokerage business has been the increase in the average and median sales price. In 1991 the average sales price for the top 100 companies was $151,627; in 2003 it was $247,721, a 63.4 percent increase from 1991.

In 1991 the average size office was 38.1 agents for the top 100 companies in the REAL *Trends* report. In 2003 the average was 45.2 agents, an 18.6 percent increase in the average size of the office in eleven years.

2004 Brokerage Performance Report

Geographical Regions

(If companies operated in more than one state, the state in which the corporate office is located is where the company data is registered)

- Northeast: ME, NH, VT, MA, RI, CT, NY
- Mid-Atlantic: NJ, PA, DE, MD, VA, WV
- Southeast: NC, SC, GA, AL, FL, TN, LA, MS
- Midwest: OH, IN, IL, MI, WI, MN, IA, AR, ND, SD, NE, KS, OK
- SW/Mountain: TX, MT, ID, WY, CO, UT, NV, NM, AZ
- Far West: AK, WA, OR, CA, HI

Company Size Categories by Gross Commission Income

- Less than $10M GCI
- $10 - $20M GCI
- $20 - $30M GCI
- $35 - $60M GCI
- More than $60M GCI

An Average Company Profile in the 2004 study

An average company in this year's study based on the data from all respondents shows:

- Offices with an average of 45.2 agents
- Average per person productivity of 11.5
- Average agent growth last year of 10.0%
- Averaged a gross margin (company dollar) % for 2003 of 28.1%
- Averaged a profit of 7.0%
- An average of 6.6 agents per FTE employees
- An average office reported 75.8 closed transaction sides per FTE employee
- The average office generated $565 in GCI per sq. ft. of space
- The average office allotted 136 sq. ft. of space per agent.
- Had an average sale price of $248,434.
- Had an extrapolated company dollar per closed unit of $1,878.
- Had an extrapolated average profit of $458 per closed unit.

It was determined that the largest expenses for the broker are the costs associated with occupancy and personnel. To this end, we began to take a different look at the information to see if some benchmarks could not be created accordingly.

One should keep in mind that this recently completed study along with the data available through REAL *Trends* is generic and not brand specific.

Table 1: Profitability Analysis – 2004 Top Performing Companies

The average profit as a percentage of gross commission income for all respondents this year was 7.0%. This compares favorably to the 2003 study with an average for all participants of 6.9% of gross commission income. Distribution by size and geographic regions are shown below.

	2003		2002	
Size	Average	Median	Average	Median
<10MM	9.07%	8.35%	8.36%	4.80%
10-20MM	6.76%	6.50%	7.31%	5.00%
20-35MM	5.74%	5.00%	2.56%	2.50%
35-60MM	6.63%	5.25%	5.41%	5.10%
>60MM	6.24%	7.00%	4.76%	3.74%
Region	Average	Median	Average	Median
NE	8.16%	7.10%	12.48%	11.40%
MA	8.70%	9.18%	11.30%	9.00%
SE	7.44%	6.50%	5.83%	4.00%
MW	6.20%	5.51%	5.04%	3.82%
SW/MTN	9.64%	7.25%	5.50%	4.00%
FW	5.03%	4.00%	6.26%	5.00%

There is no easy explanation for the higher profitability in the northeast, mid-Atlantic or southwest/mountain regions. Average sales prices in the East and in the far West are higher compared to other regions of the country, but the gross margin (company dollar) of companies in the study for the northeast and mid-Atlantic states is higher. It is only speculation, but it is possible that the NE, MA and SW/MTN regions are able to retain a higher company dollar split with their agent base and/or the average effective commission per side is higher than other parts of the country.

The trend of smaller companies to be more profitable held true for both years. Larger size companies also faired better last year, but the data appears to point out what has been the perception for some time, which is that the middle size companies are getting squeezed for profit. They do not have the critical mass found with the larger size operations and are beyond the tight controls of the smaller organizations. It is better to be either small/niche focused or a larger retailer. Companies in the middle are finding it difficult to maintain growth and margins.

Reaching the 80th Percentile (Top Performers)

In the development of this year's survey analysis, we began to investigate some of the top performing companies in the various categories. To this end we arbitrarily left the bar at the 80th percentile and compared data for the top 20 percent.

Here are the comparative numbers for the top performing companies which surpassed the 80th percentile. They have not been distributed into geographic regions or company size.

	2003		2002	
	Average	Median	Average	Median
Average profit for all respondents	7.0%	6.1%	6.9%	5.0%
Average profit for the Top 20%	14.4%	13.0%	15.5%	11.7%

	2003		2002	
	Average	Median	Average	Median
Average gross margin (company dollar) for all respondents	28.1%	27.6%	25.7%	28.8%
Average gross margin (company dollar) for the Top 20%	37.6%	37.1%	37.1%	36.2%

The average profitability increased marginally from 6.9% to 7.0% over the past two years. This is most likely attributable to the fact that the average company had an increase in company dollar of 2.4%.

Of further note is the fact that 2003 was a record year in real estate sales. While the top 20 actually decreased a percentage point, their profitability remains high. In fact, the top company reported a net operating income of 24%. As one will see in the subsequent data, those companies in the top 20% outperformed their peers in all categories.

Realize that the three largest expenditures of brokerage operations are personnel, occupancy and advertising. These three make up roughly 67% of the total cost of operations. In addition to running a higher profit margin, the top 20 have out-performed others in managing their expenses.

A comparison was also done this year to compare year-to-year data on those companies that participated in the survey for both years, 2003 and 2002. Some of these same companies grew through acquisitions or had other dynamic events occurring. Same company to same company comparisons are shown below.

Two Year Same Company Comparisons

	2003	2002
Average profit	6.9%	5.6%
Average gross margin (company dollar)	28.1%	29.7%

Comment: Perhaps the participants from the first study implemented some initiatives to change the way they were conducting their operations. There were more than 50 companies which participated both years. Profit increased 1.3% of GCI for this group as opposed to an increase of 0.2% for the entire study group. Overall the group did better this past year than they did in 2002 with reduced costs and improved ratios. The reduction in company dollar percentage is of concern but was offset with an increase in profitability. Their 28.1% was identical to the average for all respondents.

Table 2: Per Person Productivity

Productivity in closed transaction sides per agent per year for all respondents is shown below.

	2003		2002	
	Average	Median	Average	Median
All Respondents	11.5	11.2	12.2	15.6
Top 20%	20.8	21.0	26.7	26.4
Geographic Regions:				
NE	10.2	11.0	9.4	9.9
MA	9.5	10.1	13.0	20.8
SE	12.2	13.5	11.4	14.8
MW	12.1	13.1	16.5	18.9
SW/MTN	13.6	13.8	11.9	15.1
FW	10.6	10.2	9.6	11.2
Company Size:				
<$10M	14.3	16.3	17.3	19.0
$10-$20M	12.8	13.4	13.6	15.0
$20-$35M	11.0	11.0	11.3	12.5
$35-$60M	11.8	10.2	10.9	10.4
>$60M	10.6	10.5	10.1	10.4

These numbers are telling. It would appear that there is greater management oversight and one-on-one accountability in the smaller companies, which we would expect to see. Less structure and fewer organizational layers probably exist in the smaller companies and in these smaller organizations there is less chance for unproductive agents to escape management's attention.

The 2003 productivity numbers tell us even more when we compare the top 20% to the REAL *Trends* 500:

Average annual per person productivity for REAL *Trends* 500	11.2
Average annual per person productivity for all survey respondents	11.5
Average annual per person productivity for Top 20%	20.8

Operating Costs

The three highest operating costs in a brokerage business are employment costs, rent and advertising.

Table 3: Employment

(Expressed as a percentage of gross commission income)

	2003		2002	
	Average	Median	Average	Median
All Respondents	9.58%	9.00%	9.58%	7.10%
Top 20%	3.93%	4.23%	3.02%	2.80%
Geographic Regions:				
NE	11.78%	13.28%	7.83%	7.66%
MA	11.57%	11.64%	17.82%	12.90%
SE	9.42%	7.60%	7.39%	7.08%
MW	10.82%	10.15%	8.07%	7.66%
SW/MTN	9.59%	7.50%	11.41%	7.00%
FW	6.85%	6.46%	7.72%	5.80%
Company Size:				
<$10 M	8.42%	8.07%	10.65%	7.00%
$10-$20M	9.92%	9.35%	9.14%	7.00%
$20-$35M	8.94%	7.50%	9.56%	7.31%
$35-$60M	9.80%	10.36%	8.32%	7.87%
> $60M	9.36%	9.36%	5.40%	5.07%

Comment: Recalling that the higher the productivity the higher the profit, then it should hold true that the top 20% would have lower costs for employment since their gross commission income would be higher.

Also of interest is the fact that the costs for employment between the two years remained unchanged. Average sales prices increased, gross commission incomes increased, but so did the cost of personnel. Reminder: owners compensation was not included in the survey so it is unknown if the market windfall provided more income to the company owners. There is no explanation for the drop of nearly a full percentage point for the top 20%.

There are other calculations in the survey with respect to productivity of the employment section of the business.

Table 4: Rent & Related Occupancy

	2003		2002	
	Average	Median	Average	Median
All Respondents	5.10%	4.00%	5.21%	3.70%
Top 20%	2.24%	2.44%	1.94%	2.03%
Geographic Regions:				
NE	7.78%	4.60%	3.02%	2.70%
MA	5.44%	3.95%	5.85%	4.00%
SE	5.44%	4.80%	4.06%	3.80%
MW	5.21%	5.00%	4.66%	3.18%
SW/MTN	5.15%	3.80%	6.70%	4.00%
FW	3.39%	3.00%	3.76%	3.00%
Company Size:				
< $10M	5.50%	3.79%	4.86%	3.40%
$10-$20M	5.75%	4.65%	5.90%	3.40%
$20-$35M	5.35%	3.80%	6.45%	3.80%
$35-$60M	4.35%	3.83%	4.10%	4.00%
> $60M	4.10%	4.20%	3.40%	2.90%

Comment: Small companies spent more as a percent of the total while the mid-size and larger companies spent less. Additional data is available for comparison purposes relating to operating costs per square foot and other "occupancy" ratios. The general observation is that brokerage firms need to improve in these fixed costs in order to remain competitive. Where other businesses have relied on technology or greater mobility of staff, real estate brokerage continues to provide lots of space for many who do not occupy the space. This is the second highest expense and more effort needs to go into reducing the costs of this fixed overhead.

Table 5: Print Advertising

	2003		2002	
	Average	Median	Average	Median
All Respondents:	2.15%	1.73%	3.12%	2.50%
Top 20%	0.53%	0.50%	0.77%	0.82%
Geographic Regions:				
NE	2.68%	2.83%	3.56%	3.20%
MA	2.26%	1.64%	2.24%	2.60%
SE	2.44%	1.63%	2.84%	2.70%
MW	2.69%	2.07%	2.67%	3.10%
SW/MTN	1.65%	1.45%	2.96%	1.28%
FW	1.49%	1.20%	1.97%	1.41%
Company Size:				
< $10M	2.21%	2.00%	3.13%	2.50%
$10-$20M`	2.88%	1.88%	2.88%	2.47%
$20-$35M	1.83%	1.71%	4.78%	3.70%
$35-$60M	2.01%	1.51%	2.04%	2.00%
> $60M	1.84%	1.58%	1.46%	1.36%

Comment: There are positive signs that we are slowing up in the expenditure of dollars for print advertising. Pretty universal is the fact that on average we spent a full percentage point less than the previous year. The only group to increase these costs were the largest brokers who spent about a half point more.

The question of print advertising vs. Internet marketing remains. Did the decrease in spending last year for advertising result in the decrease in productivity?

Are real estate brokers on the cutting edge of Internet marketing? Participants in this year's REAL *Trends* 500 report responded that 92% of the top 500 had Web sites. Which means that in 2003 there were 40 of the largest 500 firms that did not report they had Web sites. Of the next 375 largest companies, 118 or 32% had no Web site. The use of Web sites in today's marketplace seems a natural given. Yet, nearly 20% of all companies reporting to REAL *Trends* last year did not report one.

Table 6: Other Advertising

	2003		2002	
	Average	Median	Average	Median
All Respondents:	0.95%	0.74%	1.30%	1.00%
Top 20%	0.18%	0.18%	0.35%	0.42%
Geographic Regions:				
NE	1.26%	1.10%	0.77%	0.87%
MA	1.12%	0.87%	1.94%	1.70%
SE	1.53%	1.08%	1.35%	1.20%
MW	1.08%	1.00%	1.33%	1.00%
SW/MTN	0.85%	0.55%	1.68%	1.23%
FW	0.66%	0.50%	0.75%	0.50%
Company Size:				
< $10M	1.10%	1.26%	1.07%	1.00%
$10-$20M	0.90%	0.48%	1.38%	1.02%
$20-$35M	0.91%	0.74%	2.19%	2.00%
$35-$60M	0.81%	0.93%	1.40%	1.20%
> $60M	0.93%	0.87%	0.76%	0.70%

Comment: Mailing campaigns, handouts, inserts, open house materials and more make up the bulk of this category along with company promotions. Again, as in print advertising, the single increase was with the largest brokers. Positive news for most of the participants is that in both print advertising and other advertising the costs have, on average, decreased. Perhaps speculation, but the “hot” real estate market in 2003 may have seen fewer days on market and multiple offers resulting in less need to spend dollars on advertising.

Table 7: Printing (Only for 2003)

	Average	Median
All respondents	0.26%	0.21%
Top 20%	0.04%	0.05%
Geographic Regions:		
NE	0.18%	0.10%
MA	0.41%	0.21%
SE	0.31%	0.31%
MW	0.34%	0.20%
SW/MTN	0.25%	0.23%
FW	0.18%	0.18%
Company Size:		
< $10M	0.28%	0.25%
$10-$20M	0.31%	0.16%
$20-$35M	0.29%	0.30%
$35-$60M	0.20%	0.20%
> $60M	0.21%	0.17%

Comment: This category of expense was not tracked in the first year of the study. As a suggestion it was added to the 2004 report. The category relates to letterhead and other office type products, recruiting and training supplies, manuals and others. Whether or not these comps are high or low is not yet known.

Table 8: Supplies (Office, Expendable, etc.)

	2003		2002	
	Average	Median	Average	Median
All Respondents:	0.74 %	0.60%	0.98%	0.70%
Top 20%	0.12%	0.10%	0.29%	0.30%
Geographic Regions:				
NE	1.04%	0.90%	0.96%	0.70%
MA	0.89%	0.58%	1.46%	1.00%
SE	0.73%	0.65%	1.08%	0.70%
MW	0.86%	0.91%	0.88%	0.64%
SW/MTN	0.40%	0.33%	1.40%	1.14%
FW	0.66%	0.53%	0.86%	0.60%
Company Size:				
< $10M	0.63%	0.57%	0.94%	0.67%
$10-$20M	0.82%	0.54%	1.18%	0.94%
$20-$35M	0.59%	0.55%	1.08%	0.60%
$35-$60M	1.07%	0.83%	0.80%	0.70%
> $60M	0.62%	0.48%	0.63%	0.60%

Comment: Overall some additional good news as both the average for the group and for the top 20% improved. This also held true for nearly all categories. One statistical ratio which companies may wish to incorporate into their operation is to compare the total dollar spent on supplies to the number of agents. The goal is to minimize this amount. Investigate ways in which costs can continue to be reduced or passed on. The probable culprits in this category are most likely print related for such things as paper and cartridges (estimated at 60-70%). If your company belongs to a CEO idea sharing organization, investigate leveraging the buying power of the group for the benefit of the members.

Table 9: Signage

	2003		2002	
	Average	Median	Average	Median
All Respondents:	0.25%	0.20%	0.41%	0.27%
Top 20%	0.06%	0.06%	0.12%	0.13%
Geographic Regions:				
NE	0.57%	0.25%	0.17%	0.20%
MA	0.31%	0.17%	0.50%	0.48%
SE	0.18%	0.10%	0.32%	0.25%
MW	0.28%	0.20%	0.52%	0.39%
SW/MTN	0.20%	0.20%	0.54%	0.25%
FW	0.17%	0.12%	0.32%	0.18%
Company Size:				
< $10M	0.19%	0.20%	0.43%	0.40%
$10-$20M	0.41%	0.20%	0.49%	0.31%
$20-$35M	0.23%	0.20%	0.49%	0.10%
$35-$60M	0.21%	0.10%	0.26%	0.13%
> $60M	0.18%	0.18%	0.20%	0.17%

Comment: Like supplies, signage costs continued the downward trend last year as well. And like supplies, this may be a category where companies might pool their resources and leverage their ability to buy through a CEO group.

Table 10: E & O (2003 Only)

	Average	Median
All Respondents:	0.39%	0.24%
Top 20%	0.07%	0.08%
Geographic Regions:		
NE	0.35%	0.18%
MA	0.67%	0.19%
SE	0.24%	0.17%
MW	0.36%	0.22%
SW/MTN	0.28%	0.30%
FW	0.33%	0.37%
Company Size		
< $10M	0.34%	0.28%
$10-$20M	0.43%	0.21%
$20-$35	0.41%	0.24%
$35-$60	0.51%	0.30%
> $60M	0.21%	0.20%

Comment: It is assumed that the cost for E&O is somehow passed on to the agent and many companies see this line item as an individual profit center. There also are companies which charge their agents, but in fact remain self-insured. In all cases, though, this category is an increasingly important priority to the broker/owner. Information for Errors and Omissions Insurance was not requested prior to 2003, so there are no comparables or benchmarks. Many companies, though, are now discussing ways in which they can control more of the settlement process on claims as well as the type of coverage. Risk management has become the “buzz” word. Alternatives being investigated by brokers today include leveraged purchasing and insurance captives.

Table 11: Communications

	2003		2002	
	Average	Median	Average	Median
All Respondents:	1.03%	0.80%	1.26%	0.92%
Top 20%	0.22%	0.28%	0.39%	0.41%
Geographic Regions:				
NE	1.40%	1.00%	0.87%	0.90%
MA	1.05%	0.90%	1.24%	1.00%
SE	1.15%	0.80%	1.03%	1.00%
MW	1.00%	1.00%	1.05%	0.92%
SW/MTN	0.66%	0.66%	1.47%	1.13%
FW	0.60%	0.59%	0.76%	0.70%
Company Size:				
< $10M	0.98%	0.77%	0.96%	0.90%
$10-$20M	1.17%	1.00%	1.86%	1.00%
$20-$35M	1.26%	0.80%	1.61%	1.00%
$35-$60M	0.89%	0.90%	0.96%	0.90%
> $60M	0.69%	0.70%	0.73%	0.80%

Comment: The telecommunications industry is difficult to understand, but in most cases has become highly competitive with various alternatives and rate reduction programs available. Overall, the average company saw its costs decrease a quarter of a point last year. To continue this trend some focus and attention needs to go into this line item. High speed Internet connectivity, long distance and voice mail options have increased in recent years. The ability to use the Internet as a means of carrying data and voice is here and more should be investigated as to how companies can again band together to leverage their buying power.

Table 12: Technology

	2003		2002	
	Average	Median	Average	Median
All Respondents:	0.67%	0.50%	1.11%	0.51%
Top 20%	0.16%	0.18%	0.20%	0.20%
Geographic Regions:				
NE	0.98%	0.53%	0.99%	0.85%
MA	0.56%	0.52%	1.17%	0.75%
SE	1.07%	0.70%	0.86%	0.51%
MW	0.57%	0.43%	1.70%	0.58%
FW/MTN	0.48%	0.30%	1.42%	0.98%
FW	0.46%	0.41%	0.55%	0.30%
Company Size:				
< $10M	0.72%	0.50%	0.74%	0.50%
$10-$20M	0.98%	0.70%	1.38%	0.83%
$20-$35M	0.39%	0.40%	1.30%	0.61%
$35-$60M	0.77%	0.60%	0.67%	0.47%
> $60M	0.43%	0.40%	0.32%	0.20%

Comment: This category encompasses those annual expenditures for hardware, software, outside contractual services, Internet, Web site maintenance and more. Surprisingly, the average respondent spent about a half a percent less last year than the prior period. In all likelihood many of these companies have had their technology platforms in place for some time.

Of further note is the fact that many companies continue to operate with a number of different technology providers for such things as accounting, sales management, contact management, advertising, relocation referral tracking, personnel records as well as others along with more than one multiple listing service. Companies frequently find that few to none of these programs are integrated and data entry has become redundant at a multiple of 3 to 5 times. There appears to be no simple solution to this time consuming and expensive problem, but caution should be the rule in order to eliminate this duplication.

Table 13: Recruiting

	2003		2002	
	Average	Median	Average	Median
All Respondents:	0.31%	0.18%	0.90%	0.25%
Top 20%	0.02%	0.02%	0.06%	0.06%
Geographic Regions:				
NE	0.32%	0.11%	0.06%	0.05%
MA	0.58%	0.55%	1.34%	1.00%
SE	0.48%	0.20%	0.92%	0.20%
MW	0.29%	0.20%	1.86%	0.23%
SW/MTN	0.28%	0.20%	0.80%	0.50%
FW	0.14%	0.05%	0.54%	0.20%
Company Size:				
< $10M	0.32%	0.20%	0.81%	0.30%
$10-$20M	0.42%	0.25%	1.84%	0.38%
$20-$35M	0.35%	0.20%	0.47%	0.17%
$35-$60M	0.17%	0.08%	0.16%	0.10%
> $60M	0.23%	0.09%	0.24%	0.10%

Comment: At the heart of the brokerage business is the ability to seek out and recruit qualified experienced or new agent talent, train them and retain them to be more productive in the business. The recruiting and training aspects of the business along with agent growth are essential to improving the productivity of the company. What companies are spending on recruiting and training and how these line items correlate to per person productivity and agent growth should remain a focus.

Productivity for this year decreased a little more than half a unit per agent. Agent growth, as you will see later on, increased a little more than 2% on average. It would appear that progress was stymied last year, perhaps because of a good market? The resale market was good so efforts were reduced to recruit and train.

When competitors acquire or merge, a by-product of such actions is frequent agent migration. While the REAL *Trends* top 100 grew some 20,700 agents last year, this study did not determine how that growth was achieved. NRT Incorporated and HomeServices of America grew their agent base by 2,700 and 2,400 respectively. It is speculated that the majority of this growth was by acquisition and not recruiting.

The question begs. Could productivity and agent growth be enhanced even more if additional resources were allocated to recruiting and training? What would happen to one's company's growth if another .5% of gross commission income were applied to these categories. The data suggests such a move would be positive

Table 14: Training

	2003 Average	2003 Median	2002 Average	2002 Median
All Respondents:	0.34%	0.18%	0.60%	0.20%
Top 20%	0.03%	0.02%	0.06%	0.07%
Geographic Regions:				
NE	0.35%	0.20%	0.21%	0.25%
MA	0.42%	0.32%	1.45%	1.00%
SE	0.72%	0.43%	0.24%	0.18%
MW	0.26%	0.13%	0.70%	0.14%
SW/MTN	0.16%	0.14%	1.25%	0.66%
FW	0.22%	0.22%	0.45%	0.18%
Company Size:				
< $10M	0.36%	0.22%	0.34%	0.20%
$10-$20M	0.55%	0.20%	1.15%	0.19%
$20-$35M	0.24%	0.18%	0.97%	0.14%
$35-$60M	0.25%	0.13%	0.12%	0.13%
> $60M	0.15%	0.12%	0.37%	0.40%

Comment: If your company is spending less to recruit, then some proportionate decrease in training should follow. The data suggests that this occurred. It should be remembered, though, that training relates to a far broader segment than just new agents. Manager workshops, training programs for upper management, sales training and more are included here. Agent growth increased as did productivity. As with recruiting, then, the question becomes; could the company increase even more if additional resources were allocated to this line item? The data suggests the answer is probably "yes."

Table 15: All Other Operating Expenses

	2003		2002	
	Average	Median	Average	Median
All Respondents:	4.41%	4.78%	7.47%	5.70%
Top 20%	0.63%	0.60%	2.15%	1.85%
Geographic Regions:				
NE	6.80%	4.07%	7.06%	7.50%
MA	3.10%	3.10%	10.59%	5.00%
SE	2.58%	1.99%	7.52%	4.13%
MW	2.33%	1.46%	6.30%	4.00%
SW/MTN	4.75%	3.27%	6.12%	5.75%
FW	4.06%	3.00%	7.79%	7.00%
Company Size:				
< $10M	4.73%	3.19%	6.53%	5.00%
$10-$20M	4.85%	2.47%	10.29%	5.00%
$20-$35M	5.28%	2.92%	6.13%	6.35%
$35-$60M	2.92%	3.06%	6.15%	5.20%
> $60M	2.12%	2.04%	6.60%	4.50%

Comment: This is a catch-all category. Whatever does not fit in the survey information elsewhere is put here. If one is looking to increase spending for recruiting and training this collection of expenses is one place that could provide a re-allocation of resources.

Table 16: Depreciation & Amortization

	2003		2002	
	Average	Median	Average	Median
All Respondents	0.94%	0.91%	1.03%	0.88%
Top 20%	0.14%	0.15%	0.23%	0.21%
Geographic Regions:				
NE	0.96%	0.50%	0.66%	0.60%
MA	0.67%	0.50%	1.58%	1.10%
SE	0.94%	1.00%	0.82%	0.60%
MW	1.03%	1.00%	0.84%	0.70%
SW/MTN	0.87%	0.76%	0.91%	0.93%
FW	0.96%	0.77%	1.12%	1.00%
Company Size:				
< $10M	1.17%	1.00%	0.87%	0.60%
$10-$20M	0.94%	0.85%	1.28%	1.07%
$20-$35M	0.86%	0.88%	1.02%	0.95%
$35-$60M	0.79%	0.66%	0.95%	01.00%
> $60M	0.85%	0.95%	0.83%	0.76%

Observation: Depreciation and amortization is what it is. Granted it is a non-cash expense and is tied to whatever your company is expensing based on purchases and allowable write-offs, but perhaps more importantly is whether there is a policy within the brokerage operation as to developing and implementing a ratio of capital expenditures for next year based on the depreciation expense of this year. The issue and a possible policy or practice falls to cash management. Obviously acquisition activity for last year, or the lack thereof, played a part in this line item as well.

Table 17: G & A (General and Administrative Costs for 2003 Only)

	Average	Median
All Respondents:	10.33%	6.25%
Top 20%:	1.45%	1.69%
Geographic Regions:		
NE	10.91%	7.00%
MA	4.40%	3.26%
SE	9.47%	5.90%
MW	13.18%	7.10%
SW/MTN	8.43%	5.25%
FW	10.00%	9.50%
Company Size:		
< $10M	10.94%	5.90%
$10-$20M	6.70%	4.80%
$20-$35M	11.00%	7.50%
$35-$60M	12.30%	9.35%
> $60	11.38%	8.25%
G&A costs/transaction side	$666	$401
G&A costs/agent	$7,654	$4,755

Comment: 2003 was the first year in which the survey attempted to identify the costs for "general and administrative" expense as a percent of gross commission income. Basically this is a restatement of the costs of the brokerage business allocated to non-revenue generating areas: accounting, marketing, human resources, legal, information and technology and other corporate overhead. In some cases this may be an allocation of expense pushed back to the sales offices, though frequently that number is higher or lower than actual. Suffice to say the average for the group of 10.3% appears to be "in the ballpark" or a current "rule of thumb."

When comparing your own data for General and Administrative costs keep in mind that the average costs in dollars per closed transaction and per agent are not statistically supported as is other data in the study. At best these should also be viewed as ballparks numbers.

More information should be available next year.

Other Measurable Brokerage Data

Over the past two years the survey has also investigated some other quantifiable data which can prove most helpful in controlling expenditures, further evaluate your company's performance and assist in long range strategic planning. Most of us have this information available but in all probability have not used it to evaluate or measure company performance. Much of this type of data is used to measure performance in most other industries/businesses whether it be service, financial, retailing or manufacturing. The same type of analysis can be applied to real estate brokerage as well.

Since personnel costs are the single largest line item in the operation of a real estate brokerage company we examined it first.

Helpful Ratios

Measuring performance solely by the profit and loss statement can be misleading. A single measuring device does not provide dimension to the process. Using additional information in the form of ratios may better assist broker owners in viewing a three dimensional picture of performance where data can be substantiated. As an example, a person can have what appear to be reasonably good cholesterol levels, but the ratio between HDL and LDL can frequently present a different picture relative to heart disease.

Table 18: Transaction Sides Closed per Full Time Equivalent (FTE) Employee:

	2003		2002	
	Average	Median	Average	Median
All Respondents:	75.8	87.4	69.3	92.7
Top 20%	189.9	186.8	276.0	267.0
Geographic Regions:				
NE	69.7	76.5	50.3	42.6
MA	64.6	66.7	61.3	79.4
SE	70.6	82.6	65.2	82.7
MW	95.7	101.8	106.3	124.4
SW/MTN	98.5	97.1	80.3	86.8
FW	61.9	77.2	63.4	81.2
Company Size:				
< $10M	103.7	127.4	91.7	130.3
$10-$20M	78.4	95.5	61.3	90.4
$20-$35M	70.7	88.2	84.5	84.0
$35-$60M	72.8	70.3	58.0	61.9
> $60M	74.8	82.5	69.9	72.2

Comment: By referring to the actual costs for personnel (see Table #3) it is apparent that companies simply spent the same on personnel last year but also became more efficient in doing so, albeit by about 9%. Whether this was a result of additional agent programs, greater customer service or added recruiting or training is not known. It is hoped that this number will continue to increase as the average per person productivity increases. Caution should be exercised in the area of personnel. Brokerage firms tend to hire to relieve stress but not de-hire when the necessity no longer exists. The caution flag is again out for the mid-size companies where the squeeze continues.

Table 19: Agents per FTE Employee

	2003		2002	
	Average	Median	Average	Median
All Respondents:	6.6	7.3	5.8	6.9
Top 20%	13.6	13.1	15.8	13.9
Geographic Regions:				
NE	6.9	7.0	5.4	4.3
MA	6.2	6.6	4.7	4.2
SE	5.8	6.9	5.7	6.2
MW	7.9	7.7	6.4	7.7
SW/MTN	7.3	8.1	6.7	7.2
FW	5.8	7.1	6.6	8.0
Company Size:				
< $10M	7.3	8.1	5.3	7.7
$10-$20M	6.1	7.2	5.0	4.5
$20-$35M	6.5	7.5	8.5	6.5
$35-$60M	6.1	7.0	5.3	6.0
> $60M	7.1	7.3	7.0	7.4

Comment: Note that the average ratio between the two years increased for the all respondents from 5.8 to 6.6. This means that staff was supporting about half an agent more last year than the year before. Again, the only group that decreased was the mid-size $20-35MM. Brokerage needs to capitalize on the opportunity in 2004 by continuing efficiencies and reducing overall people support . Caution is again offered as the overall market may tend to slow in the year ahead with rising interest rates.

Table 20: Gross Commission Income per FTE Employee

	2003		2002	
	Average	Median	Average	Median
All Respondents:	$506,812	$539,136	$402,249	$498,068
Top 20%	$1,179,117	$1,148,415	$1,225,864	$1,131,649
Geographic Regions:				
NE	$520,235	$486,188	$464,675	$484,532
MA	$488,831	$492,774	$337,664	$450,094
SE	$423,152	$489,701	$326,844	$437,218
MW	$482,854	$440,339	$448,802	$513,736
SW/MTN	$527,135	$545,126	$401,567	$548,510
FW	$596,094	$664,902	$513,343	$524,342
Company Size:				
< $10M	$445,897	$545,126	$369,610	$487,494
$10-$20M	$438,498	$566,038	$329,303	$510,424
$20-$35M	$453,811	$520,266	$455,716	$445,594
$35-$60M	$476,941	$504,812	$340,719	$410,343
> $60M	$596,102	$648,186	$586,299	$697,896

Comment: Another measured ratio is the amount of gross commission income generated per FTE. Overall the respondents did very well in this category with the exception of the mid-size companies. Continue to monitor this ratio as it relates again to your company's efficiency.

Table 21: Square Footage per Agent

	2003		2002	
	Average	Median	Average	Median
All Respondents:	136	136	137	149
Top 20%	75	76	78	81
Geographic Regions:				
NE	133	138	125	124
MA	135	131	152	178
SE	152	160	129	151
MW	132	138	168	168
SW/MTN	142	135	115	138
FW	132	133	111	109
Company Size:				
< $10M	142	143	153	168
$10-$20M	130	130	121	127
$20-$35M	138	128	106	104
$35-$60M	140	145	155	152
> $60M	134	134	123	120

Comment: Inasmuch as rent and related occupancy is the second largest expense and since in most ways it is a fixed vs. variable cost, we investigated two alternative ways to view the data that can prove helpful in reviewing your own company's operations. The first is the ratio of space to agents. This includes all owned or rented space in the company including training facilities, non-revenue producing departments like accounting and administrative, and not just sales offices.

The cost of brick and mortar as a fixed cost is escalating faster than most other costs. This point obviously ties to a company's ability to recruit, as well as the pressure from the agent population to require more space for assistants and the need for more space for technology (computers, printers, faxes, etc.). There is a trend, therefore, to reduce the space allocation per agent.

2003 showed no substantial improvement. Which really means that things got worse because in most every case there were additional costs associated with the space such as heat, lights, common area maintenance, taxes and more.

Another calculation done was the measurement of gross commission income generated per square foot of space operated by the brokerage company. The results were as follows:

Table 22: Gross Commission Income per Square Foot

	2003		2002	
	Average	Median	Average	Median
All respondents:	$565	$551	$518	$550
Top 20%	$1,031	$1,022	$977	$1,018
Geographic Regions:				
NE	$569	$539	$692	$652
MA	$580	$635	$473	$591
SE	$476	$415	$439	$477
MW	$460	$452	$408	$529
SW/MTN	$513	$605	$536	$512
FW	$805	$856	$691	$709
Company Size:				
< $10M	$431	$505	$448	$534
$10-$20M	$534	$523	$596	$576
$20-$35M	$534	$598	$545	$584
$35-$60M	$549	$570	$411	$365
> $60M	$626	$637	$687	$686

Comment: Overall brokerage operations did better here. Appreciation and the resulting increase in commission dollars may be the true reason. When combining this information with Table #21 it would appear that some added energy needs to go into space reduction and increased GCI per square foot.

Table 23: Closed Transaction Sides per Square Foot

	2003 Average	2003 Median	2002 Average	2002 Median
All Respondents:	.084	.087	.090	.103
Top 20%	.154	.153	.204	.195
Geographic Regions:				
NE	.069	.078	.090	.103
MA	.072	.075	.086	.105
SE	.080	.072	.087	.100
MW	.092	.112	.097	.125
SW/MTN	.095	.101	.107	.105
FW	.081	.090	.086	.095
Company Size:				
< $10M	.099	.100	.113	.114
$10-$20M	.098	.112	.111	.105
$20-$35M	.080	.079	.092	.100
$35-$60M	.084	.074	.074	.076
> $60M	.079	.076	.082	.080

Comment: Not much to comment on here except that there was no measurable improvement. The numbers in fact trended in the wrong direction. This would hold true as this data is directly related to the lack of increased productivity per agent. It is suggested that this data be checked on a quarterly and annualized basis for your companies.

Table 24: Agent Growth

	2003		2002	
	Average	Median	Average	Median
All Respondents:	10.0%	8.8%	12.0%	12.1%
Top 20%	26.3%	24.2%	28.2%	27.9%
Geographic Regions:				
NE	12.0%	9.1%	11.7%	10.3%
MA	11.1%	10.2%	10.6%	13.4%
SE	9.5%	10.1%	8.3%	8.3%
MW	8.7%	7.1%	6.7%	6.7%
SW/MTN	8.5%	6.6%	17.0%	11.3%
FW	11.1%	10.6%	16.9%	12.6%
Company Size:				
< $10M	3.2%	6.0%	3.2	6.0%
$10M - $20M	11.5%	10.1%	11.5%	10.1%
$20M - $35M	11.3%	10.0%	11.3%	10.0%
$35M - $60M	6.6%	4.2%	6.6%	4.2%
> $60M	12.0%	10.0%	12.0%	10.0%

Comment: The ability of the company to grow its agent base does many things. Closed transactions increase, space allocations are improved and the application of fixed costs is enhanced. Whether or not the growth is accomplished with experienced agents or brand new people to the business is not the issue as much as the fact that a company needs to continually grow its base. The business will cost more to operate tomorrow than it does today and the only way to cover those costs is through increased production (more agents producing or the same agents producing more), appreciating sales price or increased commission rates.

Agent growth in the company was calculated taking into account the beginning of the year agent tally to the end of the year tally and calculating the percentage of growth for the 12 month period. There was no distinction as to whether or not these growth numbers were achieved organically or through acquisitions. The average growth in membership over the past several years for the National Association of Realtors has been about 10% per year.

Agent growth slowed last year in all categories. Firms barely kept pace with the 12% growth of membership in NAR. The brokerage business remains a people driven service program with agent and consumer in the triangular mix. Consideration should be given as the amount of attention and resources that can be allocated in order to achieve the company mission.

Other Measured Criteria

Additional recommended data should be secured on an individual basis. The study did not consider information for these statistics for obvious reasons, but you may wish to consider them. Ratios that were not taken into account by the 2002 and 2003 study were:

- Return on Revenue: A simple ratio to look at cash profit as a percentage of GCI generated. A good number to measure office by office as well. By reviewing the individual offices one could create the range and acceptable targets for your respective markets.
- Return on Equity: Another good measurement but one about which many companies may not even know. Companies handed down from one generation to another may have a significantly altered number and companies which withdraw annual profits due to tax reasons may not find this a reasonable benchmark but many who have purchased companies with cash may find this quite useful.
- Earnings per Share: Self evident perhaps inasmuch as there may have been very few shares issued, single shareholders or other data that makes this impossible to calculate. Your company may also be a sole proprietorship. This does remain a significant benchmark, especially when you are able to grow the number each year.

Related or Primary Services

Several years ago we referred to mortgage, title, escrow, warranty and others as "ancillary" services. This is no longer the case as these operations make up a vital part of what the consumer has been asking for all along: one stop shopping. To this end we now refer to them as "primary" or "core" services, as they are just that to the brokerage business.

2003 was the first year that an attempt was made to collect information on primary services. Some 50 companies responded with various information included herein. Like general and administrative expenses, though, it would be prudent to use this information in broad terms rather than specific. There was not enough data to break out the responses based on size or geography. Further, there were not enough companies that reported information for escrow to include this year with any meaningful data. Primary services will be limited this year to mortgage, title and warranty.

41 companies provided data on their mortgage operations:

	Mean	Median
Profitability as % of gross revenue	17.56%	13.17%

Only 19 firms reported data for title operations:

	Mean	Median
Profitability as % of gross revenue	21.76%	20.0%

23 firms reported information on home warranty business:

	Mean	Median
Profitability as a % of gross revenue	16.47%	0.26%

Comment: Obviously the data is abbreviated at best. If there is a conclusion to be drawn it is, a) the consumer is looking for a one-stop shopping experience so brokerage companies need to provide it, b) the profit margins, regardless of the type of structure of the enterprise, be it solely owned or a business affiliate, are better than the brokerage business itself, c) these primary services feed off the brokerage business in an almost symbiotic relationship. Therefore the brokerage business must be fine tuned to provide the business to its related parties.

It is our guess that more companies are involved in primary services than reported here. These may be joint ventures and so reporting of data to respond to the question simply does not work or they have chosen not to respond at all because the structure does not permit it. If your company does not engage in primary services, though, it is strongly recommended that your strategy change. You are missing out on not only the income stream but the complete consumer request. The fixed overhead is minimal and the margins are excellent, especially at the customer satisfaction level.

APPENDIX A

2004 Brokerage Performance Report Worksheet

Please copy and use for comparing your company's performance to the benchmarks for both all respondents as well as the Top 20%. As a reminder, there are no calculations made for owner's compensation. Please refer back to the study for definitions of terms.

	Company	All Respondents	Top 20%
General Statistics			
1. Per person productivity	___________	11.5	20.8
2. Average # agents/office	___________	45.2	73.4
3. GCI per FTE	___________	$506,812	$1,179,117
4. GCI per square foot	___________	$565	$1,031
5. Closed sides per FTE	___________	75.8	190
6. Number of agents per FTE	___________	6.6	13.6
7. Square foot per agent	___________	136	75
8. Net agent growth	___________	10.0%	26.3%
Key Financial Statistics			
1. Retained company dollar	___________	28.1%	37.6%
2. Net operating profit	___________	7.0%	14.4%
3. Rent/occupancy expense	___________	5.1%	2.2%
4. Salaries & wages expense	___________	9.6%	3.4%
5. Print advertising expense	___________	2.2%	.53%
6. Other advertising expense	___________	.95%	.18%
7. Printing	___________	.26%	.04%
8. Signage expense	___________	.25%	.06%
9. Supplies expense	___________	.74%	.12%
10. Communications expense	___________	1.0%	.22%
11. Technology expense	___________	.67%	.16%
12. Recruiting expense	___________	.31%	.02%
13. Training expense	___________	.34%	.03%
Balance Sheet Related Statistics			
1. Debt to equity ratio	___________		
2. Return on equity ratio	___________		
3. Primary income/# agents	___________		
4. Efficiency ratio	___________		

REAL*Trends*

2004 TOP PERFORMING COMPANIES STUDY

As a supplement to the REAL *Trends* 500, we are conducting a voluntary, optional survey to recognize and, more importantly, create benchmarks for "Top Performing Companies." As always, the information gathered will be kept in strict confidence and company names will not be identified. Participants will receive a copy of the results at a discounted price along with a personalized benchmark report.

Please use data for either the past fiscal year or for the year ending 12/31/03.

Company: ______________________________ State: _______________
Contact person: ______________________ Phone: ______________
E-mail: ____________________

A. Company Data:

Total sales volume: $____________
Total # of transaction sides: _________________
Gross commission revenues from residential brokerage activity $_______________

- ❑ Percent of gross commission income derived from referral activity _____% (only if able to segregate)
- ❑ Other income $_______________ (transaction fees, tech fees, etc.)
- ❑ Cost of commissions and referral fees $_________________________
- ❑ Gross profit (or company dollar) $_____________________________
- ❑ Number of full time equivalents (FTEs):____________
- ❑ Total square. footage used for brokerage offices including executive offices: ___________s.f.
- ❑ Number of agents at year end: __________
- ❑ Number of agents new to the company during year: _________
- ❑ Number of agents who left company during the year: _________
- ❑ Net gain of agents during the year: __________

B. Please express as a <u>percent of gross commission income</u> the total expenses for the following:

- Occupancy expense _______%
- Employment expense ______% (salaries, wages, taxes, health insurance and other direct benefits. **Exclude owners comp**)
- Print advertising expense _______%
- All other advertising _________%
- Printing expense _______%
- Signage ________%
- Office supplies ________%
- Errors and omissions insurance _________%
- Communications expense ________%
- Technology costs _______%
- Recruiting expense ________%
- Training expense ________%
- All other company operating expenses _______%
- Depreciation & amortization __________%
- Operating profit / loss (before taxes, if applicable, and owners compensation)_______%
- Total G&A Expense ________%

<u>PART II (Optional)</u>

Please respond as the questions may apply to your company. If operations are a joint venture or similar shared profit arrangement please respond only as it relates to distributions to your side:

A. Mortgage Operations:
- Total number of closed loans: _________
- Net profit/loss before taxes: $_________
- Net profit as percentage of gross income: ______%

B. Title Operations:
- Total number of title orders: _________
- Net profit/loss before taxes: $___________
- Net profit as percentage of gross income: _____%

C. Escrow Operations (if not included in Title data):
- Total number of escrows closed: _________
- Net profit/loss before taxes: $_________
- Net profit as percentage of gross income: ________%

D. Home Warranty:
- Total number of warranties placed: _________
- Net profit/loss before taxes: $_________
- Net profit as percentage of gross income: _________%