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Re/Max refugees form new competitor

Silicon Valley / San Jose Business Journal - by [Sharon Simonson](#)



Vicki Thompson

Dennis Badagliacco and a prominent Southern California Re/Max franchisee are forming a new company they hope to grow through franchising.

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One of Silicon Valley's largest Re/Max International Inc. franchisees is abandoning the brand, marking the fourth notable California defection this year for the Denver-based real estate franchisor.

Re/Max Valley Properties, which has 85 agents in four Silicon Valley offices, is leaving Re/Max because the two sides cannot agree on the terms of a new contract, said Dennis Badagliacco, who owns the company with his wife Colleen. Colleen is the immediate past president of the California Association of Realtors. In 2007, the Badagliaccos' company reported gross property sales of nearly \$500 million. Their franchise agreement with Re/Max expired Oct. 15.

“The (Re/Max) model has morphed to something that is significantly different from what it was,” Dennis Badagliacco said. “They are asking franchisees to take huge risks, and they are charging more money in a

down market.”

Re/Max officials said there is no large-scale franchisee exodus.

Badagliacco, however, is joining forces with another significant broker who has split from Re/Max with the same complaints.

Gary Thomas, who was previously one of the country’s largest Re/Max franchisees, and Badagliacco are launching a new brand under the name Altera Real Estate. They intend to operate under that name and to license it to other brokers statewide.

Thomas left Re/Max on Sept. 27 after 23 years. His company has eight offices with more than 300 agents in Orange County. Thomas, CAR president in 2001, is on track to be president of the National Association of Realtors in 2013. NAR is the country’s largest trade association with 1.2 million members.

“When I saw the new (Re/Max) contract, I said, ‘No way,’ ” Thomas said. “They want their income stream guaranteed, but no one is guaranteeing mine. I was going to be on the hook for \$1 million a year.”

The partners already have been joined by Mel Wilson, another former Re/Max franchisee who jettisoned his arrangement in the past month and is now using the Altera name. Wilson has a single office with 40 agents in an upscale area of Northridge near California State University.

“Re/Max has been a good brand, and I think they have done a masterful job with their business model. But today, their fee structure is too expensive for my agents. I think the new contract is out of touch with the realities that agents and brokers have to deal with in this environment,” Wilson said.

All three men predict an exodus of California Re/Max franchisees as existing agreements expire and new ones must be signed. Re/Max International is positioning the exits as opportunities for new franchisees.

But Jack Kreider, an executive vice president for Re/Max International who oversees the California operation, said the departures represent anomalies. His company is renewing about 90 percent of its California franchisees, Kreider said, excluding cases in which a company closes or

consolidates offices. Each office, even those operated by the same company, has a separate franchise agreement.

“We have sold 19 new franchises in California this year and have five more in discussions,” he said.

To that point, San Jose’s Jerry Hill, broker and owner of Re/Max Santa Clara Valley with 18 agents in one office, said he has renewed his Re/Max agreement for the next five years. The old one expired Oct. 1.

“Re/Max is a good brand name, and they provide value,” Hall said of his decision.

Bill Aboumrad, a Fremont-based broker who left Re/Max 10 months ago after 13 years as a Re/Max franchisee, said he was shocked to learn that Thomas had left the Re/Max fold. “He is someone I thought would never go,” he said.

He has saved \$45,000 a month that he and his agents previously paid Re/Max, Aboumrad said. The elimination of that expense has allowed him to eke out a profit this year even though he expects to close only 600 transactions, down one-third from 2007. He has 130 agents, down from 150 when he left Re/Max. A Livermore office with 35 agents where he is part owner left the Re/Max family in July.

The turmoil at Re/Max stems not so much from market conditions but from a decision in 2007 by Re/Max International to buy Re/Max of California & Hawaii, which was owned since 1982 by an independent third party known as a “master franchisor” in the industry. At the time of sale, the California and Hawaii operation represented Re/Max’s largest franchising network with 448 offices and more than 10,000 agents.

As a consequence of the sale, California Re/Max franchisees are being asked to sign contracts consistent with those Re/Max International uses elsewhere in the country but different from the contracts the franchisees had under the previous owners. Besides potentially increasing agents’ annual fees over the next five years, the contract asks brokers to guarantee to pay any fees that agents don’t. For Badagliacco that meant personally guaranteeing \$2 million to Re/Max over the next five years. For Wilson, it meant a personal guarantee for \$675,000. For Thomas, it was \$5 million.

At the same time, Re/Max International wants to shrink the geography controlled by franchisees, potentially exposing them to new competition from their own brand at a time when their financial risks were rising, the brokers said.

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