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Rethinking, rejecting Re/Max

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

Residential real estate giant Re/Max International is facing tough questions from some of its South Bay franchisees following a 2007 ownership change at the state level and the introduction of new franchise terms.

One of the larger Silicon Valley Re/Max operators, Bill Aboumrad, has elected not to renew a five-year arrangement with the parent company after 13 years under the Re/Max name. And at least two other local players, including 102-agent Re/Max Valley Properties, say they will be reviewing their arrangements carefully when their own franchise agreements come up for renewal later this year.

But an executive vice president with the Denver-based parent company says Re/Max International does not believe that Aboumrad's choice will be typical. Nor does he believe that most franchisees are dissatisfied with the services and brand image that Re/Max offers. Instead, he attributes Aboumrad's decision to the overall market conditions and to Aboumrad's particular business model.

"We are hearing very, very good things from our franchisees and our agents in terms of our business dealings," Jack Kreider says. "But let's face it. Most of them are dealing with one of the toughest real estate markets ever."

The newly tense relationships arise from changes that the parent company is asking franchisees to accept when former contracts expire and new ones are signed. The franchisees believe the changes represent a material difference in their financial responsibilities to the parent firm. At the same time, they say they are being asked to accept new covenants that they think would undermine their business.



Dennis G. Hendricks
Bill Aboumrad, owner of Legacy Real Estate & Associates, is not renewing his franchise contract with Re/Max International.

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Right now, they are granted territories, typically based on ZIP codes. Under the new system, they will be allocated only the area within a mile radius of their offices, which they believe will mean competing Re/Max franchisees will open closer to their operations.

For Aboumrad, whose former Re/Max Executive office in Fremont is now the independent Legacy Real Estate & Associates, his decision came down to a simple calculus: the benefits of his Re/Max membership versus the costs. He concluded that Re/Max International would not provide an adequate return on the \$500,000 that he was being asked to guarantee each year on behalf of his agents under the new franchise terms.

"I kept asking myself, 'How does the Re/Max national advertising finally trickle down to me?'" he says. "That's a lot of money I could be pumping into my agents locally."

His Fremont office has about 130 agents, Aboumrad says. A second office in Livermore with 30 agents will remain part of the Re/Max family until later this year when the franchise agreement covering it expires.

Re/Max's travails do not appear linked to market conditions. Good times and bad, somewhere between 3 percent and 8 percent of real estate franchisees decide to go independent or to affiliate with a new brand when their existing franchise agreements expire. However, all ponder the question deeply when their contracts are set to expire because getting out of them gracefully any other time is tough, says Denver industry consultant Steve Murray.

Overall, in broker-assisted home sales, nationally branded brokers did about 52 percent of the business and independents the rest in 2007, a ratio that has changed little in the last several years, he says.

Re/Max appears to be suffering from growing pains tied to its decision last year to acquire what had been an independently owned master franchise that controlled all of California and Hawaii. Over the years, the operation had become the largest in the Re/Max network with 448 independently owned and operated franchise offices and more than 10,000 agents. A price for the purchase almost exactly a year ago was not released. However, Re/Max is currently in the debt markets seeking a \$295 million

credit facility to refinance existing debt and to fund its acquisition of the California and Hawaii operations as well as others in Florida and the Carolinas, according to a published report.

Now, some of the franchise agreements reached under the previous California regime are expiring, and Re/Max International is looking to change terms. It is not an easy time for new demands. While Santa Clara County home prices in general are holding up well, the pace of sales was down 40 percent last month compared to December 2006, for instance. That is a direct and hard blow to brokers and company owners as well as agents.

Under the historic Re/Max model, agents paid flat annual and monthly membership fees, regardless of their sales performance. That annual fee today is \$390; the monthly fee is \$275. That model can be attractive when times are good because the upside for agents of selling more is unlimited. When sales are slow, however, the fixed fee can be a burden.

In response, Kreider says that the company implemented a new fee structure for new agents, reducing its monthly fee by \$50 a month and introducing a 1 percent gross sales commission instead, to make the franchises more attuned to the marketplace. Once a new agent's gross commissions top \$60,000, however, that 1 percent becomes greater than the former flat charges, Aboumrad notes. A Bay Area agent would reach \$60,000 in gross commissions from selling four homes, he estimates.

"Re/Max has been good to me, and I am not unhappy," says San Jose's Dennis Badagliacco, who owns Re/Max Valley Properties along with his wife, Colleen. But, he says, "I like the old contract better than the new one."

He, too, is concerned about the required broker guarantees for agent charges and the new 1-mile-radius rule. His franchise agreement with Re/Max expires later this year. "My attorney and I will review it, which is what I do with every agreement I get. But I'm not saying that I am leaving."

For his part, Jerry Hill, the broker and owner of the 17-agent Re/Max Santa Clara Valley in San Jose, says he, too, will be vigilant when his agreement expires later this year.

"I do think there is intrinsic value to the brand," he says. "But I don't like that they want to put more offices in the one-mile radius because it erodes what I think is my market exclusivity."

Also, he says, he is "disappointed" that Re/Max appears to be moving toward the commission business model and away from the flat fee. "All of it puts pressure on those of us who want to do business with Re/Max," he says.

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