



THE 9.6% REPORT

**A REPORT ON THE PRICING
ADVANTAGE OF COOPERATION BY**

SOLOMON PORETSKY

*EXECUTIVE VICE PRESIDENT
SVN INTERNATIONAL CORPORATION (SVNIC)*

DOES COOPERATION BRING VALUE?

One of the hallmarks of the residential real estate market is that increased exposure can help to boost a home's value. In the commercial world, though, the brokerage community is more divided. Some commercial real estate brokers encourage wide cooperation to bring as many buyers as possible to both investment and user properties. Others believe that cooperation complicates the marketing process without improving the end result.^{1*} While common sense might specify a clear answer to this debate, the relatively small number of commercial transactions that are actually sold on a cooperative basis indicate that either clients, commercial real estate brokers, or both think otherwise either due to a misunderstanding of how to effectively sell properties or due to other priorities, such as some brokers' desires to control the entire commission.

In an attempt to clearly define whether cooperation benefited clients, SVN worked with an international research team to answer this question. After poring over almost 15,000 records, an answer emerged. Transactions where brokers cooperate sell for an average of up to 9.6 percent more per square foot compared to those where brokers do not.

*All footnotes in the study are included at the end as endnotes.

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I. EXECUTIVE SUMMARY

The axiom that broker cooperation can bring higher prices is often discussed, but has not historically been backed up with raw data. A survey of 14,793 commercial real estate transactions spanning 10 years and 10 states has established that a property sold through broker cooperation achieves an arithmetic average of up to 9.6 percent more per square foot than a property sold with a single broker involved in the transaction. Broker cooperation's pricing advantage holds true in every major asset class.

II. DEFINING COOPERATION

In its most stringent definition, a cooperative transaction is one where different brokers represent the seller and the buyer. The underlying idea is that each individual broker has a finite universe of potential clients. While it is possible that the optimal buyer is located in that broker's database, it is likely that some other real estate practitioner has a superior purchaser in his or her universe of clients. When a deal is sold cooperatively, that seller broker is simultaneously marketing that property to multiple other buyer brokers' databases, which, hopefully, generates a better result for the client. While that better result is traditionally a higher price, depending on that client's needs, it could also be something different — like a buyer who will close at the same price as others, but do it more quickly.

Outside of the commercial real estate world, cooperation is the norm. After all, this paper is being typed on a Lenovo computer connected to an Asus monitor and to an HP printer that will be used to generate a paper draft for review. Amazon.com displays prices from multiple vendors side-by-side, letting you find the best combination of price, shipping time and condition for a given item.

The residential real estate world has been sharing listings for over 100 years. The term "multiple listing" dates back to 1907, although listing sharing dates back to the 1880s.² In fact, the practice of cooperation is so common in the residential world that most states require agents who are representing both sides to disclose the nature of their "dual agency," so that both parties know that

the agent isn't fully representing either of them. Some states even ban dual agency outright.³

Cooperation is a relatively rare beast in the commercial real estate world. Out of over 14,793 transactions surveyed, only 2,458 were clearly identifiable as cooperative. This is just 16.6 percent — almost exactly one in six. Interestingly, on the leasing side of the commercial real estate industry, cooperation is the norm. It is so common that there are entire firms dedicated to doing nothing but representing tenants. Those firms are compensated just like buyers' brokers in the residential industry — by getting a portion of the seller's broker's fees.

The arguments for cooperation are relatively straightforward. Cooperation brings more brokers, which brings more prospective buyers or tenants, which brings more offers, which drives competition, which ultimately creates a higher price or better terms for the seller or landlord. It is a simple matter of economics that increasing demand without increasing supply leads to higher prices, and broker cooperation is the best way to rapidly generate more potential buyer or tenant demand. Furthermore, this happens at little or no cost, since the seller pays the fee and, typically, that seller's agent either keeps both sides of the fees for him- or herself or splits it with a buyer's agent at no additional cost to the seller.



III. COUNTER ARGUMENTS AGAINST COOPERATION

Even though the argument for cooperation is extremely strong, some brokers take the opposite position. They claim that cooperating with other brokers harms their clients' interests. This argument typically takes two shapes.

The first argument that they make is that the universe of buyers is relatively small and highly predictable. This assertion enjoys a modicum of truth, especially in the investment sales side of the business. For every asset, any active broker can usually name a list of buyers who would acquire it and the price at which they would execute on the transaction. Some of those buyers are known quantities who are active in the market. Others are local private owners who pay higher prices to accumulate more assets in a small area so that they can achieve economies of scale by controlling a market, combining management resources, or both. Another group of likely buyers could be well-known large institutions that are able to access money to purchase properties at a lower rate of interest or return than other buyers, letting them pay more.

This argument is almost true enough, but not quite. While a broker can find an obvious buyer on his or her own, that broker cannot find every buyer. Whether the buyer is a new foreign investor, an inactive "mom and pop" who is ready to make a once-every-fifteen-years acquisition, or a high net worth investor who is ready to enter the commercial real estate market with a splash, the top 20 owners in any given market are far from owning all of the

properties. This is especially true in the \$2 million to \$20 million market that is covered by this survey. In that market, private owners and small-scale professionals frequently own more than half of the properties in any given geography, making the overall buyer pool extremely diverse and unpredictable.

Brokers seeking to avoid cooperation also argue that cooperation is a detriment to the marketing process. Some say that the most qualified buyers prefer to work with listing agents, while others claim that having a property marketed cooperatively creates a risk that operations at the property or tenant relationships will be disturbed. A third group of brokers who prefer not to cooperate on the properties they represent make both arguments.

These arguments all contain a kernel of truth within a larger pool of inaccuracy. There are buyers who prefer to work with listing agents. This is undeniable. They feel, sometimes incorrectly, that the listing agent can give them access to “insider” information and believe the listing agent is more likely to give them the leg up in a marketing process. However, just because this relatively small class of buyers behaves this way does not mean that other buyers will not work with their preferred agent or with anyone who brings them a desirable investment opportunity. Adding cooperation to a marketing plan does not eliminate these buyers — it makes them compete.

Unprofessional marketing, on the other hand, can actively damage a property. An inexperienced buyer’s broker running around an apartment building talking about an upcoming sale could scare tenants and cause them to move out. However, a for sale sign in the yard, posted by the listing broker, could do the same, as could a disruptive buyer who chooses to confront tenants or employees. Unfortunately, these occurrences are a risk that comes with marketing a property for sale. The solution to these challenges is to professionalize the marketing process by exposing the asset to as many brokers skilled in commercial real estate as possible while also providing a more measured approach to expose the asset to people without commercial real estate expertise to ensure that their lack of understanding of the industry’s standard behaviors does not impact the property. The idea is not to stop them from working on the property. Instead, the best practice is to give them enough access to find the buyer, then help them through the process to ensure that the outcome is positive for all parties.

Ultimately, the only remaining argument for not attempting to cooperate on a property is that it benefits the listing broker. Not cooperating can simplify the marketing process, since it means fewer buyers engage, request access to the property, and generate offers. In addition, it also eliminates the risk of having to split the fee. This benefits the listing broker, but does nothing for the seller.⁴

IV. THE DATA

The database for the study consists of 14,793 sale transactions completed between January 1, 2006 and December 30, 2015.⁵ This time period includes both strong and weak markets, providing a balanced view of the overall market. The transaction data came from Real Capital Analytics®, a New York-based commercial real estate analytics firm that commercial real estate professionals both inside and outside the brokerage world use and extensively trust.

The 14,793 transactions spanned four core asset classes — apartment, industrial, office and retail properties.⁶ To best represent the segment of the market where cooperative brokers and non-cooperative brokers directly compete, the dataset was limited to transactions with sale prices falling between Real Capital Analytics' \$2.5 million minimum and an upper limit of \$20 million.

Ten states were chosen for this analysis. They included Western and Southwestern states (Arizona, California, Colorado, Nevada), Midwestern states (Illinois, Oklahoma, Ohio, Texas), and Eastern states (Florida, North Carolina). Northeastern states were omitted due to higher property values, making the \$2.5 to \$20 million range less reflective of the market as a whole.⁷

Originally, the database contained 15,440 transactions. For the purposes of this analysis, 67 transactions that named no brokers on either side were deleted. In addition, 357 transactions without confirmed sale prices were excluded as were 223 transactions that did not report building square footages.

The 14,793 transactions are what is left over after these exclusions.

The overwhelming majority of the 14,793 transactions were not cooperative in nature. To be exact, 12,335 of them — 83.4 percent — had brokerage representation on only one side of the transaction. 2,458 — 16.6 percent — were cooperative, as generally defined by having different brokerage firms representing the buyer and the seller. This count also includes transactions that had two brokerage firms, both listed on the sell-side of the asset. While it is possible that this was the case, the analysis team chose to consider those transactions to be mis-reported cooperative deals.⁸

Unfortunately, because of limitations in the dataset, this analysis only counts situations where brokers from two different companies represent the buyer and the seller. Transactions where two brokers are from different offices of the same company are treated the same way as deals where only one person represents both sides. While this means that the total number of cooperative deals may be under counted, it also means that the 2,458 transactions included are a conservatively accurate representation of cooperation.

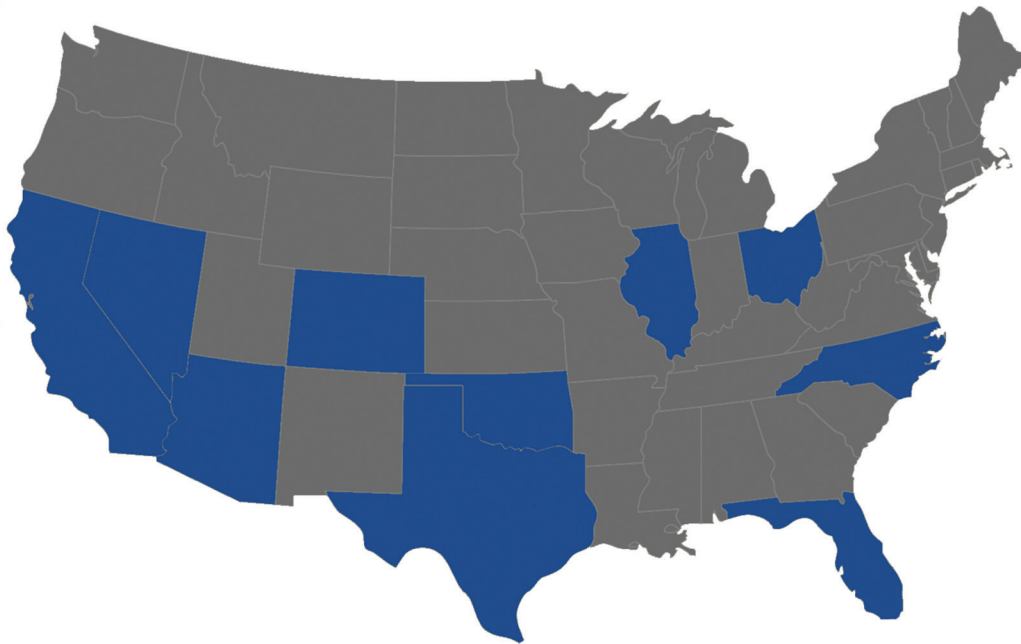


FIGURE 1: STATES INCLUDED IN THE COOPERATION SURVEY

TABLE 1: TRANSACTIONS AND COOPERATION

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
AZ	250	214	127	51	54	91	94	52	41	43	1,017
	15.2%	24.8%	33.1%	29.4%	20.4%	18.7%	27.7%	32.7%	39.0%	25.6%	24.2%
CA	1,223	1,352	964	449	569	856	792	537	537	440	7,719
	16.3%	15.9%	15.5%	21.4%	20.6%	21.6%	19.2%	26.1%	25.9%	18.2%	19.1%
CO	119	125	111	41	46	42	67	56	45	28	680
	10.9%	20.8%	20.7%	22.0%	23.9%	21.4%	20.9%	32.1%	22.2%	14.3%	20.8%
FL	313	373	260	105	146	183	194	111	55	34	1,774
	7.7%	10.7%	11.9%	6.7%	6.2%	11.5%	6.7%	17.1%	7.3%	14.7%	9.8%
IL	148	160	126	50	49	87	102	41	44	31	838
	7.4%	8.1%	10.3%	14.0%	16.3%	10.3%	12.7%	26.8%	31.8%	22.6%	12.6%
NC	75	91	71	35	28	38	49	35	25	10	457
	6.7%	5.5%	5.6%	17.1%	10.7%	13.2%	6.1%	8.6%	8.0%	10.0%	8.1%
NV	101	93	59	19	28	39	39	27	11	20	436
	17.8%	19.4%	8.5%	10.5%	3.6%	15.4%	17.9%	29.6%	27.3%	25.0%	16.7%
OH	90	101	70	30	33	50	67	21	20	14	496
	6.7%	11.9%	5.7%	6.7%	3.0%	10.0%	13.4%	19.0%	10.0%	14.3%	9.5%
OK	49	59	37	10	16	13	20	7	7	3	221
	20.4%	10.2%	10.8%	10.0%	6.3%	15.4%	0.0%	42.9%	28.6%	0.0%	13.1%
TX	286	375	169	55	57	63	85	37	21	7	1,155
	14.0%	9.3%	11.2%	12.7%	8.8%	15.9%	12.9%	13.5%	19.0%	28.6%	11.9%
TOTAL	2,654	2,943	1,994	845	1,026	1,462	1,509	924	806	630	14,793
	13.7%	14.4%	14.7%	18.0%	16.3%	18.4%	16.4%	24.7%	24.3%	18.6%	16.6%

V. THE FINDINGS

When different brokerage companies represent sellers and buyers, properties sell for higher prices. This is true on an absolute price basis and on a price per square foot basis. While cap rate data is limited, it also indicates a positive impact from broker cooperation.⁹

In our data set, 12,335 transactions sold without cooperation. Their average price was \$5,895,621 and their average size was 59,651 square feet. These transactions achieved an average price per square foot of \$98.84. The 2,458 cooperative transactions enjoyed a 5.0 percent higher price of \$6,192,315, even though, at 57,142 square feet, they were 4.2 percent smaller than the non-cooperative cohort. Putting these two variables together, we come up with a price per square foot of \$108.37. Properties sold with broker cooperation achieved 9.6 percent more on a per square foot basis.¹⁰

One possible explanation for the higher price achieved by cooperatively marketed assets could be that assets that are sold cooperatively significantly differ from those that are not sold cooperatively. The metrics, however, do not bear this out. Geographical differences do not appear to be a major statistical factor. Most states were within one standard deviation of the mean. Two of the states that were outside that range — Arizona and Florida — are both perceived to be “hot” markets for commercial real estate and largely cancelled each other out.

In addition, property size does not appear to be different enough to significantly impact results. As already discussed, across the entire group, properties sold through cooperation were only 4.2 percent smaller.¹¹ The differential in industrial and retail properties was less than 3.0 percent (2.8 and 0.6 percent, respectively). In apartment properties, which had the largest 17.2 percent physical size delta, the difference was still only 13,138 square feet. Using an average unit size of 1,000 square feet, this works out to average sizes of 63 units for cooperative sales and 77 units for sales with only one brokerage firm involved.

Cooperation rates varied by property type. Property types where the buyers are almost always investors (like apartments) had lower cooperation rates than those asset classes like industrial and offices where some sales are conducted to investors while other properties are sold to end users. In the most extreme example, industrial properties were 52.9 percent more likely to be sold through broker cooperation than apartment buildings. Apartment buildings, which had the lowest rate of broker cooperation, also brought the greatest benefits to clients who chose to work with a broker that included the entire brokerage community in his or her marketing plan. Those assets sold for 18.4 percent more, on a per square foot basis, than apartments marketed non-cooperatively.¹²

While the data did not reliably delineate between investment and user transactions, an analysis of the companies acting as listing brokers enables some broad conclusions to be drawn.

Across the entire dataset, 16.6 percent of transactions were done on a cooperative basis. Among the top 50 brokerage firms in the dataset, who together represent 72.0 percent of the total transactional volume, the cooperation rate was 18.0 percent. However, a subset of that group made up of nothing but investment firms had a much lower 12.9 percent cooperation rate. This indicates that investment brokers, who have typically been positioned to have multiple buyers, are less likely to do the work necessary to bring those buyers and drive value for their clients.¹³

TABLE 2: BROKER COOPERATION PERCENTAGES AND IMPACTS ON PRICE PER SQUARE FOOT BY ASSET CLASS

	COOPERATING PERCENTAGE	COST/SF NON-COOP.	COST/SF COOPERATING	% CHANGE
APARTMENT	13.5%	\$82.66	\$97.84	+ 18.4%
INDUSTRIAL	20.8%	\$65.17	\$71.23	+9.3%
OFFICE	17.3%	\$136.80	\$145.18	+6.1%
RETAIL	15.7%	\$167.08	\$184.01	+10.1%
TOTAL	16.6%	\$98.84	\$108.37	+9.6%

VI. THE 9.6 PERCENT DELTA

In real world selling conditions, the impact of a 9.6 percent price delta at sale is even more significant than the difference between \$8 million and \$8.768 million. After adjusting for cost of sale and debt relief, the impact on the total amount of money that the seller takes away from the closing table (the net proceeds) is much more significant.

All things being equal, a property that would yield \$8 million through non-cooperative brokerage that sells for \$8.768 million through cooperation will generate an additional 9.6 percent in sale proceeds. However, if that seller pays a full 6.0 percent fee, 0.5 percent in miscellaneous costs of sale and retires a \$4 million loan, his or her final proceeds will be \$4,198,080. Selling it without cooperation for \$8 million yields just \$3.48 million in proceeds, which is \$718,080 less than the \$4,198,080 from a cooperative sale. The 9.6 percent absolute price increase represents a 20.6 percent increase in final proceeds over the lower price obtained through non-cooperative brokerage.

The impact of the price increase achieved through using cooperative brokerage is equally significant when viewed through the lens of internal rate of return. A seven-year investment in a retail center or office building, with conservative investment fundamentals and 60.0 percent loan-to-value financing would yield an internal rate of return (IRR) of 7.84 percent, based on the inputs in Table 2 on the previous page. The exact same investment, but with a 9.6 percent higher sale price, would yield a 10.09 percent



IRR. Even though the higher sale price did not impact the annual returns and was, instead, back-loaded to the end of year seven, the IRR grew by 28.7 percent across the life of the investment.

Some non-cooperative brokers will attempt to win business by cutting their fee. The underlying argument for that business practice is that a seller can do better by paying a 4.0 point commission than by paying a 6.0 percent commission. However, the price benefit of cooperating is much higher than any fee differential that can be achieved by discounts from non-cooperative brokers.

TABLE 3: SAMPLE TRANSACTION METRICS

Price	\$8.0 million @ 6.25% cap
Loan	\$4.8 million, 5.0%, 25 year Amortization, 2.0% origination
NOI Growth	2.0%
Terminal Cap	6.75%
Cost of Sale	5.5%

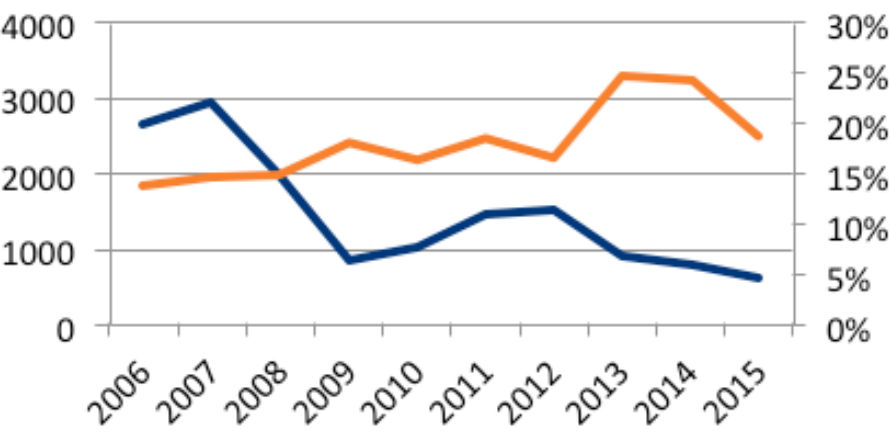
VII. CONCLUSIONS

Broker cooperation works. Over ten years and almost 15,000 transactions, the data shows that average selling prices and prices per square foot increase while cap rates decrease when different brokerage companies represent buyers and sellers. Furthermore, while the effect of cooperation varies between different asset classes, all four asset classes — apartment, industrial, office and retail — achieve better results when brokers cooperate. Given that the majority of \$2.5 to \$20 million dollar assets are sold with debt or other encumbrances in place, the net proceeds benefit of cooperation is even greater than the 9.6 percent that the survey calculated by only looking at final selling prices.

Interestingly, looking at cooperation rates over time indicates that clients and brokers know this. As the market's down period was established in the Great Recession, real estate transaction cooperation rates steadily climbed up from their pre-Recession lows. As the market has continued to heat up in the commercial real estate recovery, cooperation rates have spent two years (2014 and 2015) falling downwards. Apparently, while clients demand the best possible price in down markets, simply getting what seems to be a good price was evidently good enough in the up market of 2014 and 2015. At the same time, it is not a stretch of the imagination to believe that some brokers are taking advantage of higher velocities and selling prices to reduce their cooperation rates, reduce their fee sharing and, ultimately, increase their incomes at their clients' expenses.

This survey represents only a first step in gaining a greater understanding of how cooperation can drive value in commercial real estate. Nevertheless, its findings offer strategic guidance both for owners looking to hire brokers to assist them with dispositions and for the brokerage community. Brokers who cooperate with the rest of their community are well-served to trumpet their client-focused business model and to differentiate themselves from the majority of brokers that put personal profit before their responsibilities to drive value for their clients. Clients have only one wise choice — to select brokers that are willing to drive the highest possible price by gaining the widest exposure possible through extensive marketing, backed by broker cooperation.

FIGURE 2: TRANSACTIONS (BLUE) AND CO-OP RATE (ORANGE) BY YEAR



VIII. ENDNOTES

1. Brokers also stand to benefit by controlling both the list- and buy-side of the transaction. Doing this allows them to find buyers who are sympathetic to their interests. It can also enable them to earn fees on both sides, potentially doubling their income.
2. Per the “History and Background of Multiple Listing” from the National Association of Realtors®.
3. See “Avoid Dual Agency Pitfalls” in the April 2007 issue of the National Association of Realtors® RealtorMag. Note that many commercial real estate agents sidestep this issue by technically only taking on full agency duties for one side and serving as “facilitators” for the other side.
4. This argument should not be construed to imply that a client’s interest cannot be served by a listing broker that also brings the buyer. A good listing broker with specialized knowledge is likely to have not just a common buyer but a superior buyer in his or her database. As long as that broker — and his or her buy-side client — know that anyone else could bring a superior offer at any time, that threat can help to drive prices up. Ultimately, the identity of the agent that brings the buyer is not what impacts price. The number of other buyers and other brokers that have the ability to credibly bring buyers is what drives competition and improves selling prices, deal terms, or both.

5. The data was pulled on December 30, 2015. Due to reporting lags, the data from December 2015 is an incomplete representation of actual closings during that month. Because the survey includes 119 full months and only one partial month, any errors introduced by having that partial data are likely not to be statistically meaningful.
6. Assets classified as Senior Housing and Development Sites were excluded due to relatively low transaction counts, although buildings with secondary classifications as development sites were included in their core product types.
7. Northwestern states were omitted due to the inclusion of Colorado, California and Nevada, which all have markets with similar characteristics.
8. 433 of the cooperative transactions fit into this dataset. This dataset includes 205 transactions listed by major national and global firms with broad coverage. Approximately half of those transactions include combinations that could only be mis-reported cooperative transactions, such as CBRE and Marcus & Millichap or Colliers and SVN® co-listing. Additional transactions that were likely to be two separate firms working together were not included in this “likely co-op dataset.”
9. Unfortunately, cap rate data is much more limited. Only 52.5 percent of cooperative transactions and 57.5 percent of non-cooperative transactions had cap rate data. Furthermore, cap rates are hard to compare since detail on their accuracy is lacking and their methods of calculation can be subjective. Nevertheless, deals marketed cooperatively also achieved cap

rates that were 2.7 percent lower than those that were not sold with multiple brokers. Since cap rates, like bond yields, move in the opposite direction from the asset’s price, these lower cap rates still indicate that cooperation brings higher values for sellers.

10. The 9.6 percent figure is an arithmetic average of all properties. A regression analysis using the natural logarithm of prices showed a 6.77 percent increase in price in transactions sold with broker cooperation. Results vary widely, so any particular transaction could show a smaller or larger benefit than the 6.77 to 9.6 percent range indicated.
11. Cooperatively marketed properties were 57,142 square feet in size, which is only slightly less than the 59,651 square foot average for non-cooperatively sold assets.
12. Apartment buildings in the cooperative and non-cooperative datasets had roughly the same average price — \$6,328,389 for the 3,691 properties sold non-cooperatively and \$6,204,762 for the 581 assets that involved a separate buy-side broker. These two groups of assets are roughly the same price and should fall in the same valuation range. As such, asset differences are not a reasonable explanation for the large differential in pricing on a per-square-foot-basis. Put simply, broker cooperation made the difference.
13. This estimate was calculated using the 9.6 percent aggregate increase. Actual increases will vary.



IX. ACKNOWLEDGMENTS

This document is thanks to the efforts of a group of people. The original concept was developed by SVN CEO Kevin Maggiacomo, Peter Froberg, and Viroj Jienwatcharamongkhol of the University of Nottingham. The paper, as written, benefitted from the wise input of Diane Danielson and Julia Taibl. Additionally, Joshua A. Harris, PhD., CRE, CAIA reviewed and commented on this document.

X. ABOUT THE AUTHOR



SOLOMON PORETSKY is the Executive Vice President of Organizational Development for SVN. At SVN, Solomon is responsible for driving organic growth initiatives to help Advisors serve more clients and helping SVN offices improve their performance.

Prior to joining SVN, he was a partner

at Custom Skills Development, a commercial real estate consulting firm that provided coaching, development, and training services to agents and commercial real estate brokerages across North America. Before CSD, Solomon was involved in over \$1.2 billion of listings, sales, and closings as both an agent and a regional manager at a publicly-traded commercial real estate brokerage firm. Solomon also worked on the instructional design of one of the world's first online master's degree programs. He graduated cum laude from Columbia University in the City of New York with a bachelor's degree and earned a second BA, with honors, from the Jewish Theological Seminary.

ABOUT SVN®

SVN International Corp. (SVNIC), a full-service commercial real estate franchisor of the SVN® brand, is one of the industry's most recognized names based on the annual Lipsey Top Brand Survey. With nearly 200 locations serving 500 markets, SVN provides sales, leasing, corporate services and property management services to clients across the globe. SVN Advisors also represent clients in auction services, corporate real estate, distressed properties, golf & resort, hospitality, industrial, investment services, land, medical, multifamily, office, retail, self-storage and single tenant investments. All SVN offices are independently owned and operated. For more information, visit www.svn.com/.



SVN INTERNATIONAL CORP. (SVNIC)
745 ATLANTIC AVE., FL 8. BOSTON, MA 02111

WWW.SVN.COM