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Commercial Firms Fight Back in a Post-Boom World

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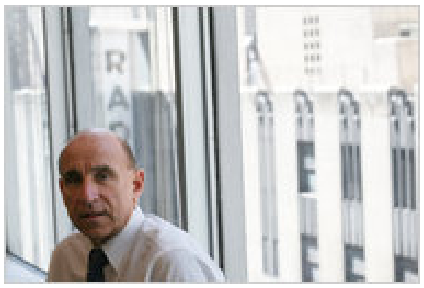
After taking a battering in the severest recession in modern memory, commercial real estate brokerage firms are trying different strategies to compete in a post-boom world. Some are weighing options for infusions of capital, while others are aggressively hiring or consolidating far-flung affiliates.



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Glenn Rufrano, Cushman & Wakefield's new chief executive, is preparing the firm for a possible stock offering.

Robert Caplin for The New York Times

Mitchell E. Rudin of CB Richard Ellis favors ad hoc groupings of brokers rather than formal teams.

One of the biggest question marks is the future of Cushman & Wakefield, the world's third-largest commercial real estate brokerage, according to National Real Estate Investor magazine. After losing $127 million in 2009, Cushman & Wakefield recently installed a new chief executive, Glenn Rufrano, whose specialty is turning around troubled real estate firms. The majority stakeholder in the company, the Italian firm Exor, is considering an initial public offering, according to Mr. Rufrano.

"Exor is an owner that looks longer term, but like any investor, liquidity is important to them," he said. To increase the chance of obtaining this liquidity, either through an I.P.O. or from private financing, Mr. Rufrano is making the firm more financially open. He has a five-year time horizon — the term of his contract with Cushman.

Jones Lang LaSalle, based in Chicago and ranked fourth in the world, recently posted a profit after several losing quarters and began a four-year plan in January to increase its New York-area revenue by 50 percent, in part by hiring brokers away from other companies. Colliers International, which has a global presence but is less well known in the United States, is hoping that a recent move to consolidate its many separate franchises under a single name will help it gain market share and a reputation as a major player in New York.

At Cushman, Mr. Rufrano faces an uphill battle. While the slowdown in the economy has affected brokerage firms across the board, the firm has been hit particularly hard. In 2009, for example, when Cushman posted a loss — which it attributed partly to one-time charges like the relocation of its worldwide headquarters in New York — CB Richard Ellis, the largest global brokerage firm, posted a $33 million profit.

One main reason for Cushman's troubles may be a lack of top-down management, those familiar with the firm said. Bruce E. Mosler, who stepped down as chief executive in January, was a powerful broker in his own right and the firm is largely organized into teams that are focused around successful deal makers. These teams may compete with one another for commissions.

In comparison, firms like CB Richard Ellis and Colliers International favor grouping brokers together on an ad hoc basis. While there are independent brokerage teams at Jones Lang LaSalle, employees there were compensated with salaries and bonuses instead of commissions until seven years ago, helping establish a more unified culture, the firm says.

"Having individual teams is constraining," said Mitchell E. Rudin, president and chief executive officer of the tristate region of CB Richard Ellis. "Instead, we select teams for a particular assignment, mixing and matching to bring together the best resources." While this model serves the clients, it also cuts down on friction between brokers, he said.

There is also the issue of Cushman's ownership structure. While it is private, its majority stakeholder, Exor, the investment arm of the Italian Agnelli family, is public. Exor spent $563 million to acquire a 67.5 percent position in Cushman in December 2006, at the height of the market. It later increased its position to 72 percent, and is growing anxious to see its investment turn the corner.

The hiring of Mr. Rufrano in February indicates that Exor is preparing an exit strategy, some analysts said. Mr. Rufrano was most recently the chief executive of Centro Properties, one of Australia's largest real estate firms, where he was credited with shoring up the public company's abysmal balance sheet.

In addition to increasing transparency at Cushman by instituting the same financial disclosures as a public company, Mr. Rufrano is working to unify the firm's management structure. This includes de-emphasizing geographic barriers so that the leasing team in London, for example, can coordinate more closely with colleagues in South America and New York.

“The problem with Cushman is that they are not as big as CB Richard Ellis or Jones Lang LaSalle globally, but they aren’t small either,” said Brandon Dobell, a principal at the investment firm William Blair & Company in Chicago. An I.P.O. is the most likely possibility for the firm, said Mr. Dobell, because private financing is hard to come by and a merger is unlikely as there are few players in the market with whom it would make sense.

As Cushman determines its future, Jones Lang LaSalle, which posted a profit of $200,000 in the first quarter of this year compared with a $61 million loss in the same period last year, is focused on increasing revenue.

“When I joined seven years ago,” said Peter G. Riguardi, president of the firm’s New York operations, area revenue “was below $20 million and it is now more than $120 million. We plan to grow this by another 50 percent over the next four years to bring it to $200 million through a combination of improving market conditions and strategic hiring.”

The firm recently made a splash when it hired away some of Cushman’s most prolific deal makers, including much of the capital markets group. The team of Scott Latham, Richard Baxter, Jon Caplan and Ron Cohen was behind some of the largest transactions of the boom era, including the Plaza Hotel and 666 Fifth Avenue.

Another firm that is undergoing a major shift is Colliers International. The second-largest global brokerage firm, it is largely unknown in the United States. This is partly because of its structure as a loose network of franchises that operate largely independently. Through acquisitions and management changes, the publicly traded FirstService Corporation in Toronto, which owns a number of the Colliers franchises, is consolidating these firms under the Colliers International brand. Firms that decline to join will be forced to drop the Colliers moniker.

“We are in a position where we can’t lose any more market share,” said Mark A. Jaccom, the chief executive of Colliers for the tristate region. “We can only gain. And we plan to take our competitors’ market share out from under them.”

Mr. Jaccom and his team are building up a consulting group and plan to hire 25 or so additional brokers. “We want our brokers to mine their relationships, to hold our clients’ hands throughout the entire process,” he said. “Our business is going to be much more sophisticated, where we do an entire playbook and work on everything from workplace solutions to I.T.”

So far a consolidated Colliers has received mixed reviews. David Gold, a senior equity analyst at Sidoti & Company, said he believed “it will be the firm to watch over the next three years. They used the downturn wisely to grow, and I wouldn’t bet against them.”

Others dismiss the move as nothing more than a name change: “It takes years to build a brand,” said Mitchell S. Steir, chief executive officer of Studley, a New York-based brokerage firm that specializes in representing tenants and is a competitor. “It can’t be invented overnight by slapping a new name on a collection of different firms with different philosophies.”

Whatever the chances of success, industry insiders say it is clear that changes are afoot that could lead to power shifts in the industry. “Times of turmoil often lead to consolidation and strategy shifts,” Mr. Dobell said. “It will be interesting to see how it all plays out.”