New York Bisnow
online commercial real estate news
New York, NY
March 7, 2016
https://www.bisnow.com/national/news/capital-markets/rock-meet-hard-place-brokers-on-going-public-vs-staying-private-57006

BROKERAGE IPOS: A SHOT IN THE ARM OR 'ANOTHER MASTER TO ANSWER TO'?

Mar 07, 2016 | Scott Klocksin, Bisnow

Amid chatter that Cushman & Wakefield may be eyeing a **post-merger IPO**, the question arises: why go public now, as brokerage stocks haven’t exactly had a Q1 to write home about?

Bill Boyd (pictured), senior managing director at LA-based brokerage Charles Dunn Co, has been in the business since 1981. He remembers the process of CBRE (then just called CB) being taken public in the late ‘80s.

“I saw the changeover,” he says. “When a brokerage firm goes public and now has a **shareholder interest** to report to and be responsible to, it takes the agents away from being client-centric. **It’s another master to answer to**.”

The best thing for a relationship with a client, Bill says, is sometimes to **advise against doing a deal** at a particular time, and working with a client over a longer-term period to meet their space needs—hardly what shareholders typically want to hear.

But what some call a burden, others call an opportunity. Marcus & Millichap SVP **Adam Christofferson** says the added discipline of being a public company has helped his agents and the firm hit growth goals. But the firm, which **went public in 2013**, only handles sales transactions and doesn’t do leasing, and Adam notes that the shorter time horizon to get leasing deals done might cast that outside shareholder pressure in a different light.

He says the company, which **expanded into Canada** last year, went public mainly to

access capital to help it open new offices and expand into more markets.

Another firm that's rapidly growing—but doing it as a private company—is Avison Young. The firm's CEO, Mark Rose, tells us that he and his firm's leadership **interviewed hundreds of clients** in '07 and '08 as part of working out which direction the firm would take. He says those clients told him directly that they were uneasy with a brokerage motivated by **EPS** and having to report earnings every 90 days.

"They told us, again and again," he says, "'we need you to **think more about us**, the client and less about the shareholders.'"

So why go public? Mark (shown with his daughter, **Marissa**, an associate at Avison Young), says the **share price premium** the ownership can get in an IPO is a bigger reason for launching an IPO than some may admit.

"If you look at the brokerages that are now public, they all did it **more for takeouts** of existing shareholders than for any other reasons," he says. "The owners were able to **cash out**."

Does he feel that temptation? “Not one bit,” he tells us. “We structured this company to be **private forever**.”

Greif & Co CEO **Lloyd Greif**, whose investment banking firm specializes in working with midsized companies as they scale, says there may be more to it than ownership cashing out. He notes that you can’t underestimate the power of the ego.

Being able to say “**we’re traded on the NYSE**” does roll off the tongue. And an IPO can be a way to maintain some control over the direction of a company without holding onto quite as significant a stake.

And when firms are bought by other firms, who’s usually doing the buying? As Lloyd reminds us, the **liquidity** and **access to capital** to be able to buy a smaller firm or pull off a merger is another reason to **pull the trigger** on an IPO.

But does the recent wave of brokerage M&A have any gas left in the tank? As Adam puts it, “the big dominoes **have probably already fallen**,” but we may still see smaller M&A deals trickle in.

Will that mean more IPOs? Not if Avison Young’s experience can be taken as an example. The firm has managed to acquire more than **30 companies** as a private firm in the last seven years.

Mark says the question of whether to go public was recently brought before the company’s **300 principals** for a vote. Nearly 100% voted not to take the firm public, Mark says.

“But hey," Mark says, "if those 300 people happen to change their minds, then **anything can happen**.”

See Also: World's Largest Brokerage Stocks Rebound This Week (Somewhat...)

Related Topics: Avison Young, Marcus & Millichap, IPO, Charles Dunn Co, Bill Boyd, Adam Christofferson, Cushman & Wakefiled, Greif & Co, Lloyd Greif

RELATED STORIES