
2006 Alberta Real Estate Association Broker Benchmarking Study

Viability on the Rebound, but Room to Improve!

Executive Summary

Another Alberta “first” has been registered with the successful culmination of a project to benchmark the profitability and other characteristics of our province’s real estate brokerages.

Benchmarking, or the “continuous process of measuring or comparing products, services and practices against competitive or similar associations,” had not been carried out before among Alberta brokers, although it occurs regularly south of the border. This inaugural study gathered data indicating that broker profitability – defined as pre-tax profit before owner compensation as a percentage of gross revenues – is in the range of 9% in Alberta. By most standards, this is a modest average profit margin, but data suggest it is an improvement over what it has been.

Study Background

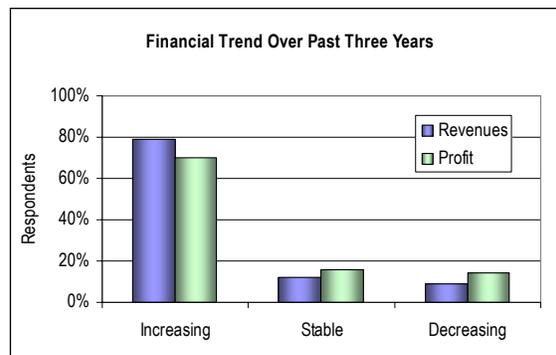
In 2003, responding to a recognized need in the industry, AREA set up a task force to discuss and address industry viability. In 2004, the Industry Viability Task Force undertook a study to analyze issues affecting industry viability, and one of the key recommendations was brokerage benchmarking. In 2005, the task force launched an association-supported, independently conducted benchmarking study.

Benchmarking is carried out regularly in other sectors, but this was a *first* for Alberta brokers. The wide scope of analysis characteristic of “first” efforts led to creation of a lengthy survey tool that landed on brokers’ desktops during a period of business activity unprecedented in Alberta real estate. Nevertheless, a response rate of about 10% was obtained (64 respondents generating a total of 59 useable datasets from a broker population of about 575).

Financial Results

Most brokers reported information based on a fiscal year ending in 2005. As the bar chart illustrates, Alberta brokers have witnessed their fortunes improving. The average profit margin of 9% from our study is higher than the finding of the most recent U.S. broker benchmarking study available (which was 7.8%).

While 9% suggests neither wealth nor long-term viability (remember that it is the profit margin *prior* to owner compensation), it does provide a base on which to build.



Summary financial statistics appear in the following table:¹

Financial Characteristics of Benchmarking Respondents

	Mean	Median
Total Revenue	\$1,840,990	\$666,039
Gross Commission Income	\$1,759,548	\$587,130
Profit Before Owner Compensation	\$166,104	\$101,811
Company Dollar Retained %	33.7%	27.5%
Profit Margin (Before Owner Compensation)	9.0%	12.5%

Business Practices

The study queried Alberta brokers on much more than financial data. Information was collected on transaction ends per agent, brokerage profit per agent, revenues per square foot, turnover and more. The following table provides a sample of the business practices that were tracked; the three columns contrast answers from *all respondents* to those from the most profitable half of responding brokers, and to those from the most profitable quarter of responding brokers (the “top quartile”):

Business Practices of Benchmarking Respondents

	All Respondents	Top Half	Top Quartile
Reported Profitability (Mean)	9.0%	20.7%	45.2%
	<i>Percent of Brokers Who Answered "Yes:"</i>		
Prepare Annual Budget?	36%	38%	33%
Split Commission?	63%	78%	70%
Use Television Advertising?	36%	31%	27%
Independent Brokerage?	53%	55%	73%
Ancillary Services?	31%	45%	60%

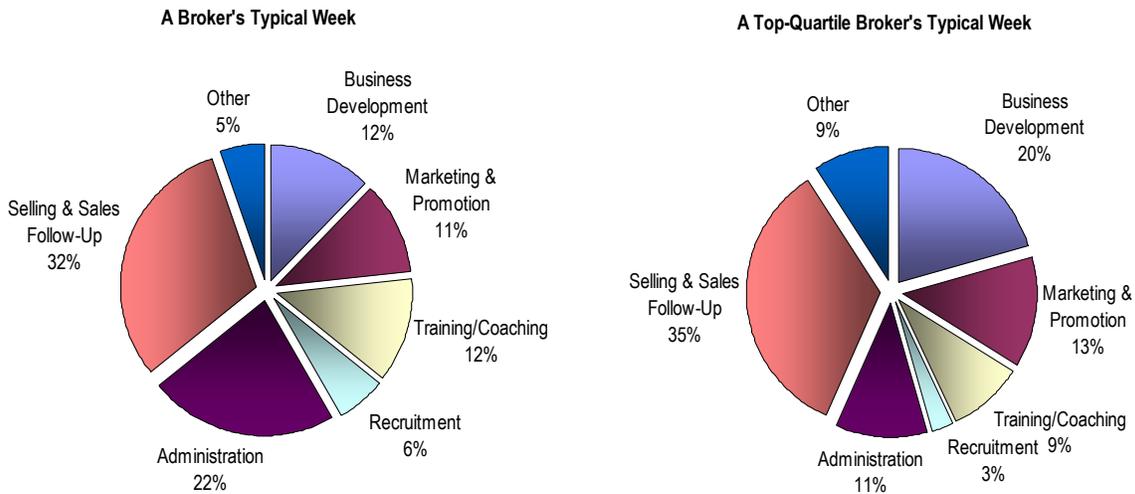
The benchmarking study findings suggest a number of factors with which brokerage profitability appears to be positively correlated. Some of those factors are:

- The commission split (as opposed to fee-based) business model
- More days spent on broker education
- Lower agent turnover
- Lower agent: employee ratio (i.e., more hired help)

¹ “Mean” is the arithmetic average of a group of numbers. “Median” is the mid-point of the group: the point at which half the numbers are greater and half are smaller. Both are fair representations but they convey different information. For example, in this benchmarking study the *mean* total revenue was higher than the *median* total revenue, suggesting that a few brokerages reported very high revenue while most brokerages reported substantially lower numbers.

Alberta Broker Attributes

The final report also contains detailed insight on the Alberta broker. The pie chart below left, for example, illustrates how responding brokers spend their “typical week,” while the one on the right shows the answer to the same question by only the most profitable brokers:



The study found that brokers with more years remaining before succession (typically younger brokers) are finding ways to be more profitable. This situation does not auger well for the value of the brokerages that will soon be sold or passed to the next generation – but it does suggest that longer term prospects for the industry (beyond the current impending wave of succession) are generally brighter.

Alberta vs. U.S. Brokerages

The results of this study were contrasted against the most recent available benchmarking report from south of the border, and the full report contains insights from that comparison. Also included are recommendations on “better practices” that Alberta brokers should consider in order to build their businesses into more profitable, more sustainable and higher value enterprises.

Value of the Benchmarking Information

The intent of a benchmarking exercise is never to make all individuals in a population seek to become alike, but, rather, to provide information that will help each individual choose prudent and distinct paths to bring their organizations closer to sustained success. AREA hopes that the study will suggest unique advancement opportunities to all Alberta brokers, particularly those who took the time to compile their data and formally participate. The provision of this information will, we believe, contribute to making the brokerage marketplace more competitive while enhancing the value received by the consuming public.

Access to the Full Report

AREA is greatly indebted to the Alberta Real Estate Foundation for the funding of this *first* effort. All participating brokers will receive the full report and a customized summary at no charge. Copies of the full report may be purchased by other AREA members for \$50 including GST and shipping. To order a copy for *your* brokerage, please contact:

Member Services
Alberta Real Estate Association
403-228-6845 or 1-800-661-0231
memberservices@abrea.ab.ca

List of Figures Available in Full Report

- Broker views on industry viability
- Industry viability study recommendations
- Projected world energy consumption
- Franchise/independent breakdown of Alberta brokerages
- Geographic breakdown of Alberta brokerages
- Unit sales breakdown of Alberta brokerages
- Net profit of brokers for Canada and select provinces
- Average total revenues & profit margin by brokerage size
- Financial trend over past three years
- Business model breakdown of Alberta brokerages
- Percentage utilization of advertising media
- Brokerage allocation of office space to agents
- Breakdown of a broker's typical week
- Alberta brokers' highest levels of education
- Alberta brokers' years of experience as brokers
- Alberta brokers' years of experience as business owners
- Average hours per week devoted by broker to brokerage
- Segment breakdown of 26 financial measures
- Segment breakdown of 27 business practices
- Segment breakdown of 12 broker attributes