

Independent reps 'headhunt' space for tenants

Tenant reps start making inroads;
brokers still dominate

BY BECCA MADER

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When March of Dimes executives were looking to relocate from their West Allis office, they sought more floor space for less money.

"As a nonprofit, we were more interested in putting money into our mission than into rent," said Greg Hollinger, March of Dimes state director of operations.

A volunteer search committee began looking but without real estate industry experience, it fell short of locating the best deals at the lowest cost.

After hiring Jack Quinlevan, an independent tenant representation agent, the nonprofit found a new home on Mayfair Road in Wauwatosa for about the same rent and double the space.

"It's like using a headhunter," Hollinger said. "These tenant brokers know the industry and what's coming down the road."

Tenant rep firms, such as Quinlevan Commercial Real Estate Inc., have not gained much foothold around Milwaukee. Only a handful exist here.

One of the earliest, Kitty Barrett Ltd. in Mequon, started in 1987. But the market size and competition from larger real estate brokerage firms have precluded further growth, experts say.

"It isn't that it hasn't caught on, it is just that we have a smaller market with brokers working both sides of the transaction to make a living," said Andrew Jensen, principal of Grubb & Ellis/Boerke Co., a commercial real estate brokerage in Milwaukee.

Tenant representation grew out of a recognition the traditional brokerage delivery model has its shortcomings. Typically real estate agents are paid to represent the landlord or property manager, experts said.

The concept "began to protect

tenants because they generally do not know the game," said Eric Berson, chief executive officer of the Alliance of Tenant Representatives, a Washington, D.C.-based consortium of 21 exclusive tenant representation companies.

LANDLORD MAY PAY

Tenant reps can help in lease negotiations and renewals, site acquisition and even architectural design. The landlord, not the tenant, often pays the tenant rep's fee, which is about 2.5 percent to 3 percent of the total gross rent paid over the term of the lease, Quinlevan said.

"Sometimes the value I bring to a client is the reality of the marketplace," about what are the best deals, said Brian Schwellinger, president of Wisconsin Tenant Representatives in Madison, a member of the national alliance.

Commercial real estate firms initially folded the practice into their service menu, along with property listings and property management. Some have a group of exclusive tenant rep agents; other agents split their time between listings and tenant representation.

Beginning in the mid-1980s, more agents have seen a need to spin off tenant representation, believing an inherent conflict of interest arose from the combination. Quinlevan worked for the Milwaukee office of Dallas-based Trammell Crow Co. until it closed in January. Two months ago, he started to focus solely on tenant representation.

"Leases are significant real estate decisions," Quinlevan said. "Most people would not make significant financial or legal decisions without financial or legal advice. Why would someone make a significant real estate transaction without being represented by a professional?"

Independent agents quickly point out the advantage of not being tempted by dual representation.



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Jack Quinlevan (right, with Rob Wirthlin of Southwest Securities Inc.) . . . "Why would someone make a significant real estate transaction without being represented by a professional?"

"We can be aggressive with landlords because we're not looking to have relationships with them to get the next listing," said Bill Goade, chairman of CRESA Partners L.L.C., a Boston-based national corporate real estate advisory firm with 45 locations.

Other benefits they bring are cost savings, time savings and liability protection, Quinlevan said.

"You've got to give the building owner a real good reason to give a good deal," said Quinlevan.

GOING TO TOWNE

Nearly 75 percent of the new leases Towne Realty Inc., a property management company in Milwaukee, signs are completed through tenant representation.

Vice president Mike Mervis finds those agents beneficial "because they provide that level of expertise so when a potential tenant comes to us as a building owner, they come with a very clear understanding of what they want."

Stand-alone firms have blossomed in larger markets, like San Jose, Calif., and Dallas, where tenants don't have old-line relationships with full-service real estate firms, Goade said.

Often agents from larger firms start their own ventures. Many have worked both sides of the field, like Quinlevan, giving them an advantage and often a ready-made client base. Quinlevan also generates clients through referrals and cold calling.

Yet it is difficult to stray from lucrative profit centers such as listings and concentrate solely on tenant representation, experts say.

"The number of transactional opportunities are half of what they would be if you are representing landlords," Berson said.

Real estate agents don't deny that the potential for conflict of interest exists but say it is avoidable. If there is a dual agency or conflict of interest, the tenant rep must sign an agreement disclosing that possibility.

Tenant representatives in general must sign an agreement with a client beforehand, according to state law.

NAI/MLG Commercial L.L.C. in Brookfield briefly considered spinning off its tenant rep services and forming a separate group but "we think there is strength in a company that offers both services," said Jack Jacobson, a principal.

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