



Entangling alliances continue among brokerage giants

By **JASON HUGHES**

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It hasn't been but three months since I sounded the alarm via these pages about a growing trend we're seeing: commercial real estate brokerages forming entangling alliances with developers, real estate investors and the like.

I was duly concerned about a large commercial real estate brokerage suddenly becoming a major property owner after forming a real estate investment trust to purchase buildings -- this, after having acquired the Trammel Crow office building development firm for a hefty \$2.2 billion the prior year. It struck me as odd how CB Richard Ellis, in this case, could represent with total objectivity the interests of office tenants who are looking for office space if, in fact, that company had interests as both the broker and a property owner. It is well known to me -- and to anyone with a shred of common sense -- that brokers and property owners typically have two distinctively different and sometimes conflicting roles in dealing with tenants.

If that gave me and other objective observers the jitters, imagine how I felt a couple of weeks ago to learn that one of the nation's largest landlords, Triple Net Realty, is purchasing another brokerage giant, Grubb & Ellis Commercial Real Estate, for \$725 million.

Never mind the price tags in these deals: The issue has been and continues to be how these mergers among brokerages and property owners affect the tenants' right to be represented objectively in negotiating office space leases.

I've continually warned office tenants and others in this and other outlets about the problem of brokers who try to represent both the landlord and tenant in negotiating office space leases. It was bad enough when the broker didn't have an ownership position; the problem, to me, becomes more severe if the broker is now an owner of the building.

Predictably, office tenants are not going to hear those concerns from the new broker-owner leasing agents who will now come calling in the name of their snazzy Corporate Services identity. What they'll hear is a massive spin on how all this benefits the tenant.

For one thing, these corporate service brokers will tell tenants with a straight face that, since they "control" or have a fiduciary responsibility with so much office space inventory, they can see the real deals that others can't. That bodes well for a "better deal." Better get them to explain who the deal benefits. Trust me when I tell you it's not the tenant.

Think about it: Who stands to gain in terms of securing the highest rents possible with the fewest market concessions -- the landlord or the tenant? Does it seem reasonable to assume that a broker who either represents the building owner or whose company actually owns the structure will do all within his or her power to secure a bargain deal for the tenant? I was born at night, but not last night.

The second way the agent will spin this tangled web is by touting his or her relationship to extraordinarily large publicly held corporate tenants and their practice of offering volume discounts to the movers and shakers who lease tens of thousands of feet of space. Gee, that's got to impress the smaller tenant, who's looking to lease 10,000 square feet or so in downtown San Diego or in the suburbs.

In all likelihood, the agent who's boasting about his or his company's big-time client relationships is a rookie, fresh from a Green Day concert, who's agreed to take on a national assignment for fees that are sliced and diced a dozen times before it earns him a dime over minimum wage. For these newly merged real estate conglomerates, representing parties in an office space transaction is chump change. They're also involved in property and asset management, sale and subleasing of excess space in addition to the routine lease and purchase transactions.

Last but not least, our corporate services competitors are fond of telling tenants that they have better and more complete information than "boutique" brokers, such as us, who only represent tenants. The funny thing is we all access the same information from numerous third-party companies that collect, analyze and present data to the real estate brokerage industry and other parties. What's ironic is that our firm does not share information with

these sources, so, in effect, not only do we have access to all the third-party market information, but also to our own data.

I mentioned earlier the prices paid for these mergers didn't matter, but, in the end, they do. The high sums paid by and for brokerages to acquire other entities are directly passed along to their customers, the office tenants. The tenant is the hub of the wheel; everything having any financial impact revolves around the tenant. In the end, the tenant pays the rent, the overhead, the commission and other business expenses. Not the landlord.

Just something to think about the next time one needs to lease office space.

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