

Lessons Learned and Earned, Part II

Knowing thyself and knowing how to think when times are bleakest

Last week, I began reviewing notes from a speech I made before the members of the local chapter of CCIM here in New York City in late April. The subject of the talk was the lessons I have learned over the years building a brokerage company and selling properties in the most competitive market in the United States.

This week we continue the recap of those lessons.

It is important to note that I am not implying that the platform we implement is the best one out there. It is clearly the one that works best for us, but we realize that other platforms have their merits as well. I am merely trying to convey the thought process behind our systems and pass along the lessons we have learned along the way.

At Massey Knakal, we implement a strategy of breaking up the massive New York metro area market into small "territories" in which our agents focus, specialize and become market experts. This territory system is one of the most misunderstood platforms in the business as many people believe our agents are allowed to work only within the territory they are assigned, thus limiting their potential. This couldn't be further from the truth. The fact is that while each of our agents does indeed focus on a specific geographical territory, they are free to originate business, and earn commissions, anywhere they can. Often,



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our top agents have a commanding market share within their territory and, additionally, are participating in sale transactions all over the metro area.

One of the reasons we decided to implement this platform is because this city is far too large for anyone to know everything about every neighborhood. By focusing on small territories, each agent really gets to know these areas as well as, or better than, anyone else. Each agent knows who is buying, who is selling, what properties have sold and all the details of those sales; what zoning changes have been adopted or are proposed; and what new developments are under construc-

tion or are in the planning stages. This focus does a number of things, not least of which is to enable us to accurately determine property value. This is a key to brokerage in a city like this, where identical buildings may have very different values depending upon which side of the street they are on.

The importance of all of the factors mentioned in the previous paragraph was recognized by Paul Massey and I immediately when we began our careers. This led us to a fundamental realization and to the main reason we utilize the territory system: We are not in the real estate business; we are in the information business. Bricks and mortar are merely the medium for the information. Understanding that the quality of the information we have

is the most important thing we bring to the table convinced us that a territory approach made the most sense for us. So ...

LESSON 11:
Know what business you are actually in.

The Massey Knakal platform, in addition to using a territory system, is highly specialized. In our investment sales practice, we represent only sellers and will work only on exclusive listings. We believe we are the only firm in New York that works this way.

We believe that representing only sellers eliminates potential



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conflicts of interest and allows us to be indifferent when we are dealing with buyers who are trying to purchase one of our exclusive listings. Buyers know that whether we have known them 25 years or 25 minutes, they have an equal opportunity to purchase the property and they will be treated fairly. It is very clear that our main objective is to maximize the result for our client, the seller.

The territory system also eliminates conflicts of interest within the office as it is very clear whose territory a property is located in. These aspects of our platform have been part of our corporate plan since the early days. So ...

LESSON 12: Have a game plan.

Other benefits of our platform include the ability for brokers, without a tremendous amount of experience, to quickly demonstrate expertise in a neighborhood. Within several months of working in a territory, the agent probably knows as much as anyone about what is happening there and, after brokering a few sales in the area, is likely to have as good a track record in the area as brokers who have been working for years but have not had a specialized focus. As the agent's career grows and develops, this track record in the local market becomes tangibly better.

This focus provides an agent with the ability to differentiate his or her capabilities from others by demonstrating a command of the dynamics within the territory. So ...

LESSON 13: Be able to differentiate yourself from others in the marketplace.

After achieving the ability to differentiate yourself from others, it is important to create a competitive advantage. There is no doubt that our platform requires discipline to implement, both from a management perspective and from the brokers themselves.

Often in our business, a brokerage firm is a group of individuals who are essentially working independently but all under the same roof. There are several examples of brokerage teams that work very well together and achieve great results. It is rarer to see several of these teams working collaboratively at a firm to produce a mutually beneficial environment.

We try to achieve this by getting our agents to realize that they are part of an integrated platform that promotes their individual achievement but also provides open access to the vast resources and the potential of other professionals within

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the firm to enhance their personal performance.

It occurred to us that there are three potential cultures a brokerage business can have. The first is the "dependent culture," which is the culture of "you." Here, there is almost an entitlement psychology so that agents feel like, you should take care of me; you must come through for me; you didn't do enough for me; you are responsible for my success or failure—I blame you! This culture is certainly not one for fostering a successful collection of agents. After all, this is a business in which you effectively eat what you kill, and, for the most part, you must put in tremendous effort on your own behalf and are primarily responsible for the relative level of your success or failure.

The second of these cultures is the "independent culture," which is the culture of "I." Here, everything revolves around the individual: I can make it happen; I am responsible for my own success or failure; I am self-reliant; I can decide how best to use my time. There are many brokers in our business who operate with this mind-set and several of them are very successful. Often we see several of these brokers working within a firm, and, collectively, they do a good job but may not be maximizing their true potential by being completely independent.

The third type of culture, which is the one we try to promote, is the "interdependent culture," which is the culture of "we." Those who are part of this culture believe that their greatest successes can be achieved by exerting maximum personal effort and augmenting this effort with the efforts of others. Here, the psychology reflects a knowledge that teamwork works best: we can do it; we can combine our talents for the greater good; we can cooperate with each other; working collaboratively, we can create something better together. It is important to realize that all things in nature are interdependent and this interdependence leads to a balance that provides maximum results. Independent people who do not have the ability or the desire to think interdependently may be good individual producers, but they are not typically good team players.

If a collection of interdependent people can pool their abilities and resources and work cohesively, an environment can be created that is difficult to compete with because it is so rare to find this type of environment. As we continue to strive for a fully interdependent culture, our brokers are afforded an advantage. So ...

LESSON 14: Do what you can to create a competitive advantage.

The Massey Knakal territory system and operating platform have pros and cons. The pros are numerous and include unparalleled market knowledge and incomparable transactional implementation. There are no conflicts of interest internally, and no conflicts of interest between the firm's interactions with buyers and sellers. It creates a competitive advantage and the ability to differentiate our services in a very tangible way. Colleagues are completely accountable to each other. Most important, all of these aspects of the platform allow for the focus on the client's best interests at all times.

On the con side, brokers must pay a "tax" to other agents on transactions they originate outside of their assigned territories. Also, they must be extremely disciplined and comfortable with being fully accountable to others within the firm. Additionally, as the operating platform is so unique, growth must be achieved organically as brokers from other companies generally find it too difficult to adapt to such an abstract and disciplined method of operating. This last point is what makes it virtually impossible for an existing platform without such guidelines to morph into a similar system. Because of this, Massey Knakal will always be a net producer of agents to the industry rather than a receiver. You will likely never see that we have hired a team of brokers from another firm to join us.

While there are clearly pros and cons to our system, the important point is not endorsing one approach versus another, but simply fully understanding these pros and cons. So ...

LESSON 15: Know your strengths and weaknesses.

As I wrote last week, Massey Knakal was founded in 1988. People often ask why Paul and I chose that time to start the firm as it had been only about a year since the stock market crash of 1987. The fact is the real estate sales market continued to perform well in 1988. Many principals and brokers who were active in the market at that time remember that even though the stock market crashed in October 1987, the building sales market in New York remained strong in 1988 and even into 1989.

In 1990, however, the building sales market came to screeching halt. The volume of sales dropped to the lowest level we had seen since 1984, when Paul and I had started brokering building sales at Coldwell Banker Commercial (now CBRE).

Our overhead at that time was about \$15,000 per month and, by late 1990, we were down to our last \$15,000 in the bank. We thought about how to deal with this predicament. Should we pay \$5,000 in essential bills for each of the next three months? Should we pay 100 percent of the next month's bills and see what happens? We even seriously thought about going to Atlantic City and putting it all on black.

What we decided to do was to go to every bank we saw and apply for as many credit cards as possible. We were able to obtain a total of \$60,000 in credit card lines and took down cash advances on these cards to get us through this period. As a few transactions closed, we were able to pay off these balances and were lucky to have been able to finance our operation in this manner. So ...

LESSON 16: Always maintain a good credit profile.

By late 1991, the sales market had really not improved all that much. We were not prepared for such a poor market for such a long period of time. We had to take cash advances on the credit cards and when they were maxed out, we were coming up short once again. We approached a client of ours, who was very wealthy, looking for a \$75,000 loan to keep the lights on. The client said he would be happy to provide the loan, but he wanted 50 percent of the stock in our firm in exchange for the loan. Paul and I left that meeting with our tails between our legs. We were not prepared for a response like that.

We believed that we would be able to come up with the money, so we approached another individual for the loan, agreeing to give 25 percent of the stock in our firm in exchange. Paul set up a meeting for us with John Holler, a very successful mortgage broker he knew. John agreed to give us the loan, but, to our great surprise, he said, "Guys, I don't want the equity in your firm. Someday you will be very successful and you will regret that you gave me that equity." We were completely unprepared for this act of generosity. Since that time, one of our top company awards is named after Mr. Holler as a small token of appreciation for what he did for us. So ...

LESSON 17: Be prepared for the unexpected.

These trying times after the savings and loan crisis forced us to look brutal reality squarely in the

face. There is something called the "Stockdale Paradox," which derives from the actions of Admiral Jim Stockdale. He was the highest-ranking military P.O.W. during the Vietnam War. He was held captive from 1965 to 1973 and was tortured 28 times. He survived by confronting his reality head on and holding a staunch belief that eventually he would be released. He did not delude himself with unrealistic expectations or blind optimism, but instead maintained a clear focus on his reality and conviction that he would prevail.

During the early 1990's, we had to face an ugly reality but always believed that we needed to do whatever it was we had to because, ultimately, things would work out. So ...

LESSONS 18 AND 19: Confront brutal reality directly and honestly; and have unwavering faith that you will succeed.

During these difficult times, it would have been easy to simply worry about getting the next transaction closed as our economic viability was seemingly dependent upon it. It was a time when property values had plummeted and, for owners who did not have to sell, it was not a good time to be putting assets on the market. As difficult as it was, we advised many clients not to sell at that particular time. This paid off well for us as most of those potential sellers came back to us years later when they wanted to sell, remembering that we gave them the proper advice. So ...

LESSON 20: Regardless of the circumstances, always keep the client's best interests in mind.

We will conclude this three-part series next week. Stay tuned.
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