Published on *Inman News* (http://www.inman.com)

Realtor association mergers: easier said than done

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Created *2011-02-11 07:48*

Jerry Matthews

Editor's note: This is the final installment in a two-part series detailing the consulting work former Realtor association executive Jerry Matthews is conducting for the National Association of Realtors to facilitate association mergers.

Realtor association exec-turned-consultant Jerry Matthews says that when he's working with associations that want to explore mergers, he can "get them to the preacher," but "it's up to them to get married."

Although there are compelling reasons for Realtor associations to consider consolidation, there's also no shortage of issues that can derail merger talks -- even after they're well under way.

Having an objective third-party mediator "is probably the biggest thing" determining whether merger talks will succeed or fail, he said.

"When one member tries to drive the process, they are biased or perceived as biased," Matthews said. "When you have negotiations between parties, one of the parties can't be the facilitator.

This is not a (for-sale-by-owner) deal -- you should have somebody who's been through it, and knows the nuances."

Matthews says that when he's acting as mediator, there are five or six issues he likes to resolve upfront, because they pose the greatest risk of snowballing into insurmountable obstacles.

He likes to start with a "visioning" process, in which participants are encouraged to look ahead to the end results they'd like to achieve.

"If you don't know where you're going, your never going to get there," Matthews said. "Usually, you have Board A and Board B presidents say, 'Let's start talking,' but they don't have any grand vision."

Associations may enter into talks with the goal of achieving efficiencies and economies of scale in order to reduce dues, or at least keep them in check. But it's a mistake to begin talks with a predetermined outcome in mind, such as cutting dues, Matthews said.

"You don't know whether you will be able to do that until you put a plan together," he said. "The ones I've done, they have actually cut dues, but they had to do it with a (consensus-building) approach."

Consolidation can also help a larger association provide more member services without a big increase in spending that requires a dues increase.

"If you don't have a lowering of dues, in good mergers you always have an increase in the number and quality of goods and services," Matthews said. "The value proposition is increased."

"For me personally, I don't think you approach unification just because you're going to save money," said Mark Trenka, who was the president of the Denver Board of Realtors when Matthews helped get merger talks there under way last summer.

"I think you approach it because what you will end up with at the end of the process is better, and brings more benefits to the membership than what you have now."

Larger Realtor associations are typically better equipped to provide education and training to members, and have greater political clout.

But members will still want their association to maintain a local presence and serve as their voice on local issues.

Banging on the elephants

Once association leaders have a vision of what they want to achieve, "then we bang on the elephants," Matthews said.

One problem to confront head-on in merger talks is any fear among association executives or board members that they will lose their jobs or influence.

"A Realtor association leader or association executive can quietly kill a merger in the halls," outside of the formal discussion process, Matthews said.

Association executives will naturally worry that consolidation will leave them without a job.

"You have to make sure that they have due process, and are treated fairly," Matthews said.

In Denver, Trenka said, "We have experienced CEOs in all three associations, who have been an asset to the process," calling on their contacts nationwide for advice.

Whether any of those CEOs or other association management staff will end up losing their jobs remains to be seen.

"We haven't got that all figured out yet, but we've had open discussions," Trenka said. "That's been an important area even when we first started getting rolling, and the transparency to both the executives and staff has helped the process along.

"It's a tough economy, and everyone knows things are going to change. They've all shown a dedication to the process, making things better, and making it a success."

Association board members, while generally not compensated for their service, may also worry they will have less influence in a larger organization, or not be recognized for their contributions.

"What I've found over the years is that sometimes we look at the hard numbers and we forget about the concept of volunteerism," said William Malkasian, president of the Wisconsin Realtors Association. "People have given a great deal to their association, and their recognition is tied to the old board they have given so much to."

In Wisconsin, one association formed by the merger of four boards still maintains separate tables for each board at ceremonial functions, where past presidents are seated, he said.

"I think that's what Jerry does so well -- he looks at the human side as well as the economic side," Malkasian said. "Anybody can come in and crunch the numbers. I can put any merger together, and lower the dues by $20. Where things fail is on the human side."

Before signing off on a merger, rank-and-file members will also want assurances that they won't lose access to local facilities, and that local customs will be preserved.

"When you have three boards with three buildings, there is a lot of emotion in those buildings," Matthews said. "And then there is the whole cultural thing: 'How we do business in the valley is different than how they do it in the mountains.' "

Although the goal is to close facilities that aren't needed, "sometimes you keep (buildings) alive to allow for healing," Matthews said.

"If you have four associations and four buildings, and you sense they are not going to sell them even when they own them free and clear, you pick one that's a natural geographic center and say, 'That will be the headquarters. The others will be satellite branch offices for three years,' " Matthews said. "Then you can decide whether it makes economic sense (to keep all four buildings). You buy time."

In Denver, Matthews said, there's talk of getting rid of the headquarters buildings owned by the three associations that are considering a merger, and building a new campus that's centrally located to serve the combined membership.

Lynda Hysong, president of the Brevard Board of Realtors in North Carolina, said one goal of talks between four Realtor associations in that state is to consolidate operations "without losing the identity of each of the areas. There's a delicate balance there -- to bring it all under roof, but don't lose the identify."

The MLS hurdle

Matthews said that while association leaders may want to start off by defining the new organization's structure, governance, and even its name, those are relatively minor details that shouldn't be allowed to derail talks in the early stages. They should be dealt with only after bigger issues, like multiple listing service ownership, are resolved.

"MLS is a huge hurdle to get over," he said. "If you have three associations with three MLSs, you have to solve who is going to own that. If we can't get over MLS, how are we going to talk about association governance and structure?"

If there's already a regional MLS in place, and all of its member associations are interested in consolidating -- as is the case in western North Carolina, where Matthews helped get the ball rolling in those talks under way by the four associations -- that can simplify merger talks.

A regional MLS can also be an obstacle, if some of its members are interested in consolidation and others are not -- as is the case in merger talks in the metro Denver market that Matthews also helped to facilitate last summer.

The talks in Denver originally began with seven Realtor associations -- all members of the regional MLS, Metrolist Inc. -- but four boards dropped out.

For the three associations that are now in the final stages of merger talks -- the Denver Board of Realtors, the Jefferson County Association of Realtors, and North Metro Denver Realtor Association -- how a unified Denver board will be represented on the Metrolist board remains "one of our biggest challenges in this process," Trenka said. "There's some good dialogue that's finally happening. I'm confident we're going to overcome the challenges."

The three associations that are still contemplating a merger want to know if they will be allowed to retain the shares and representation they currently hold on the Metrolist board if they become a single entity, said Ann Turner, CEO of the Jefferson County Association of Realtors.

Another issue is whether the merged associations will have the same voice at the state level as they do now.

"We'd like to maintain proportional representation" on the Colorado Association of Realtors' board of directors, Turner said. Coincidentally, there's talk of downsizing the state association's board, which could help the Denver associations considering a merger achieve that goal.

Metrolist is an open MLS, so brokerages don't have to be affiliated with a local Realtor association to provide their agents with access to the MLS.

"It's attracting people who don't want to pay Realtor dues, and puts the onus on us," Turner said. "They look at the economy and say, 'Realtor dues are one thing I can cut.' As shareholders of the MLS, that's definitely a concern for us."

No large brokerages have chosen to drop their Realtor affiliation -- as recently happened South Carolina, when Columbia's biggest brokerage, Russell & Jeffcoat Real Estate, cut its ties to the local board. But "little pools" of non-affiliated brokerages are "springing up" in the Denver market, Turner said.

"We're closer now than we've ever been (to a merger) because membership numbers are down and the economies of scale are more imminent," Turner said. "I think the movement to the non-Realtor companies is a challenge to all of us right now, and we can better meet that challenge as a stronger, larger entity. We need to prove our value to those people, and bring them back into the Realtor organization."

Terry Wenze, president of the Aurora Association of Realtors, said, "I think we all agree that the economics of real estate will result in a harder fight for the member's dollar."

That was the "primary motive" for participating in the merger talks facilitated by Matthews last summer, Wenze said. The Aurora association dropped out of the talks after determining that consolidation "was an alternative, but not the only alternative," he said.

"Our association has a heritage of very close association with members," he said, and has a strategy to "increase the value proposition to our members."

The last mile

Once the large issues have been resolved, talks can enter the "due diligence" phase, in which financial statements and other confidential details are shared.

Hysong said merger talks in western North Carolina were driven partly by tough economic times and dwindling association membership.

In the last two years, the combined membership of the four boards -- the Asheville Board of Realtors, Haywood County Board of Realtors, Hendersonville Board of Realtors and Brevard Board of Realtors -- has dropped 22 percent, to just under 2,400.

"Events of the time started dictating this," Hysong said. "But we were also looking to create a better entity for the members, not just a larger one. It's being proactive, because the best time to look at a merger is when you don't have to."

By combining, the four associations project they would cut their per-agent costs by $180 a year, and become the third largest in North Carolina, according to a presentation posted on the website of the Asheville Board of Realtors.

Merger can be something of a "dirty word," Matthews said, implying that a stronger association is absorbing another. Although that's sometimes the case, consolidation is a more neutral term that suggests parties coming to the table on equal terms.

Matthews said there can be several possible successful outcomes when associations start talking about mergers and merger alternatives.

First, there are straight acquisitions, where a stronger association absorbs a weaker one, he said.

Alternatively, two, three or more roughly equal associations may dissolve their boards and form a new one.

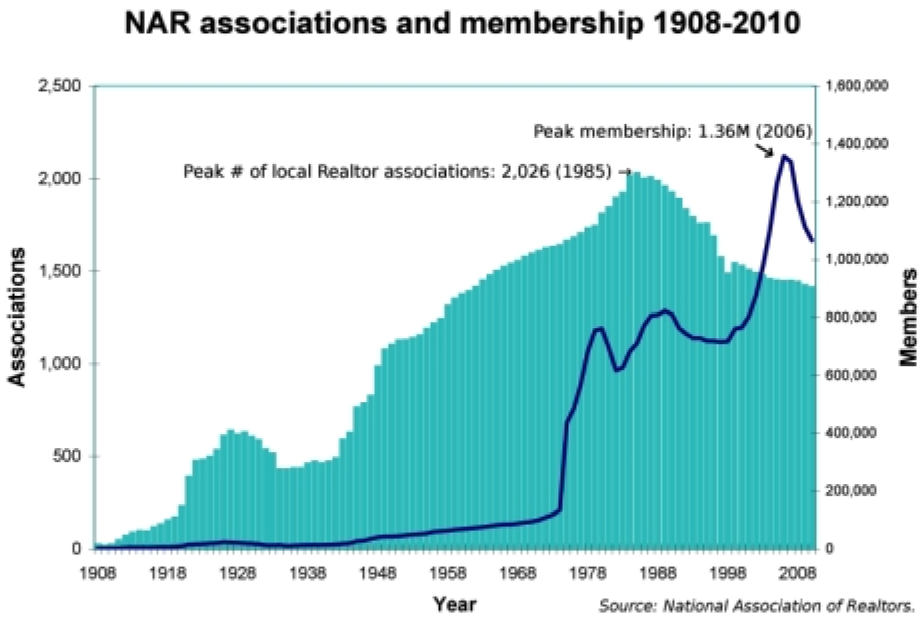
A third alternative -- as recently employed by four Realtor associations in Chicago -- is an alliance in which several associations maintain their respective boards but each takes on the responsibility for a function they perform particularly well -- such as education, technology or professional standards. The alliance model works well when associations are participating in a regional MLS, Mathews said.

Finally, associations can form cooperatives, and "get together once in awhile" to solve problems common to each, Matthews said.

The move toward consolidation is not new. Since peaking in 1985 at 2,026, the number of Realtor associations has declined by more than 30 percent. There are 1,408 associations left today -- about the same number as there were in 1961.

Although the pace of association consolidation slowed during the housing boom, it continued even as NAR's membership nearly doubled from 718,599 in 1996 to a peak of 1.36 million 10 years later.

NAR membership has since declined to 1.07 million, but thanks to consolidation, the average Realtor association had about 760 members -- more than double the 350 member average in 1985.



In Wisconsin, Malkasian said he's seen plenty of consolidation over the last three decades, and expects there's more to come.

"When I started 35 years ago, there were 44 boards" in the state, Malkasian said. "Today there are 25. My guess, based on geography, is that in time there will be about 20."

Some smaller boards are in such unique or distant regions of the state that they will probably never consolidate, he said.

Malkasian said the four largest boards already account for about 65 percent of the state association's 16,000 members, and the largest 10 or 11 associations can claim about 80 percent of Wisconsin Realtors.

In Wisconsin, there's a definite parallel between consolidation of MLSs and Realtor boards, with association mergers following within borders previously defined by the formation of regional MLSs, Malkasian said.

He said three boards in southeastern Wisconsin recently explored consolidation but failed to come to an agreement. Although representation at the state level was not an issue, there was "lots of ego involved," and concerns about loss of identity, with big firms pitted against little ones, he said.

Malkasian said he's found Matthews to be a great resource over the years -- "someone who gets it" -- and that he would like to play a similar role helping Realtor associations as a consultant in a couple of years.

In Denver, Trenka said Matthews was an instrumental part of the ongoing merger talks.

After identifying the big obstacles in an initial phase and tackling them in smaller groups, there was "a tipping point in the process," Trenka recalled. "I'd call it almost a launching pad, and then Jerry got out of the way."

"There's a point where the facilitator has to step out, or they are depending on you to do too much," Matthews said.

Of the four associations that dropped out of the Denver talks, "They weren't ready yet," Trenka said. "There were years of history, politics and varying trust issues between the groups. A lot of it's culture -- you don't want to give up what you've developed over the decades."

Trenka said a couple of associations expressed concerns that the process was moving forward too quickly, and that they weren't getting answers they wanted.

"There are a lot of questions that can't be answered at the outset, until you get to due diligence," Trenka said. "I think that was frustrating to some who chose not to participate."

The rumor mill has been "pretty rampant" in Denver, Turner said. "I've heard pros and cons from everybody -- a lot don't like change, but they are all struggling in this economy. They want us to show our value, and they don't want their dues to increase."

Because the associations considering consolidation in the Denver market have different dues structures, it's too early to say whether any would actually be able to lower dues should a merger go through, Turner said.

The associations involved in consolidation talks in the Denver market all have a fiscal year that begins on Oct. 1, and would like to take action before then, she said.

"Our hope right now is to bring this to a vote in June or July," Turner said. "If it gets delayed, it gets delayed. If that date passes, I don't think anybody would be surprised."