

Management and sales tools for the residential real estate broker

Business Models

“Cloud-based” brokerage goes public, sells shares to agents

Virtual brokers have been popping up nationwide, but broker Glenn Sanford serves up a new twist on the low-overhead model.

He calls his publicly traded brokerage a “cloud-based company.” eXp Realty International Corp. is based in Bellingham, WA, and over the past four years, Sanford has recruited 355 agents in 29 states and Ontario, Canada.

Sanford was a traditional agent and broker for a time. But the 2008 crash convinced him that profits and bricks and mortar don't mix.

Still, Sanford wasn't sold on the virtual company model that lets agents keep 100 percent of their commissions in exchange for limited services. Unlike that model, eXp offers 80-20 splits for an agent's first \$80,000 in gross commission income. After that, the split goes to 100 percent.

To convince agents to pay the company \$16,000 a year, Sanford says he must offer plenty of tech support.

“Without the bricks and mortar, we need to be less expensive than the typical 70-30 company,” Sanford says.

Unlike a virtual company's plain-Jane web page, eXp uses what Sanford calls “a 3-D virtual office.”

“To some extent, it looks like playing a video game,” Sanford says.

Agents and staffers create avatars that appear on the page. The video game comparison goes only so far, though — Sanford aims to keep the avatars professional.

“Unlike Second Life, we don't have transvestite rabbits running around,” he says.

Unique ownership structure

To earn its split, eXp offers more than a dozen training sessions a week. One recent topic: Using drones to take photos of listings.

“We have classes going on throughout the week,” Sanford says.

In addition to its unusual tech offerings, eXp has a unique ownership structure. After merging with a shell company in 2013, eXp is publicly traded as a penny stock, with Sanford owning more than 40 percent of the shares.

Sanford is not a fan of franchising, which he believes adds unnecessary cost to a brokerage model. But he is urging agents to buy shares of his company. eXp Realty trades on the Over-the-Counter Bulletin Board, a marketplace for small, untested companies that generally get little love from Wall Street.

Shares traded in mid-February at 45 cents, but eXp offered shares to agents

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for 30 cents. Part of the reason for the discount is that the shares are restricted and can't be sold for eight months.

Investment regulations mean the stock offering is available only to affluent agents who make \$200,000 a year or have portfolios of \$1 million or more. Sanford is seeking a minimum investment of \$5,000 from each agent, and he hopes to sell shares totaling \$100,000.

Investors will get a stake in a company that's losing money but growing fast. In a filing with the Securities and Exchange Commission, eXp says revenue for the first nine months of 2013 was \$8.2 million, up from \$4.8 million for the same period a year earlier.

However, its net loss widened to \$951,665 from \$61,332 as expenses spiked. So much for low overhead translating to profits.

"eXp estimates over 50 percent of real estate brokerages today are not profitable due to the impact of high or fixed overhead and a costly struggle to drive higher productivity among their agents," the company writes in an SEC filing.

eXp Realty's model appealed to Louise Kennedy, a longtime agent who joined in January as managing broker for Louisiana.

"This particular company is on the cutting edge of cloud-based brokerage," Kennedy says.

She sees the low-overhead model as the future — and she says agents have begun to look at traditional offices as a burden.

"They're excited they don't have to do desk duty," she says.

Sanford once was a top producer for Keller Williams Realty, and he has taken a page from that company's recruiting incentive. An eXp agent who recruits another agent gets 3.5 percent of the recruit's gross commission income up to \$80,000, or \$2,800 a year.

Some well-connected agents bring in six figures in annual recruiting fees, Sanford says.

"Our ultimate goal," he adds, "is to truly be a global, cloud-based real estate company."

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