

# REAL ESTATE BROKER'S INSIDER

Management and sales tools for the residential real estate broker

## Management Strategies

### Looking for a smoother succession plan? Pitfalls abound

For many brokers, it's a vexing thought: Who will take over your company when you retire?

Succession planning is a tricky issue even for large and sophisticated companies, but it can be especially fraught for real estate brokers, who often lack the expertise to pick and groom their replacement.

"For most brokers, the business is their biggest asset," says Hoby Hanna, president of Ohio and Michigan operations at Howard Hanna Real Estate Services. "The value of their business is greater than the value of their stock portfolio or their real estate holdings."

Adds Alex Perriello, president of Realogy Franchise Group: "Let's face it: That's the broker's retirement."

To help secure most brokers' biggest asset, Realogy this year launched a 46-week succession-planning program for its brokers. The curriculum covers leadership, culture, recruiting, and financial analysis, and the program includes four three-day sessions at Realogy's headquarters in New Jersey.

"I look at it as an insurance policy to make sure the person taking over the company knows what he's doing," Perriello says.

Whether the next broker-owner is a family member or a trusted lieutenant, many brokers like the idea that the company they've built will keep going strong into the future.

Of course, that's easier said than done, particularly if the goal is to keep the company in the family.

"Close to 70 percent of the proprietors of family enterprises say they would like to keep their businesses in the family, but only 30 percent succeed in passing the reins on to a second generation," writes management expert Noel Tichy in his recent book, *Succession*. "Only 12 percent in fact succeed in passing their wealth on to a third generation, while a paltry 3 percent of family businesses manage to survive into the fourth."

#### Some companies succeed at succession

Hoby Hanna is a member of the third generation of Hannas to run Howard Hanna Real Estate Services. He says keeping a family in the company is a difficult balancing act.

"A lot of patriarchs aren't willing to relinquish control and let the next generation grab the brass ring," Hanna says.

#### Passing it on

Tips for finding a successor:

- Give potential leaders a chance to take real risks.
- Consider a formal training course such as the one offered by Realogy.
- Remember that selling to or buying from a family member is fraught with emotion.

[www.BrokersInsider.com](http://www.BrokersInsider.com)

Reprinted from the April 2015 issue of *Real Estate Broker's Insider*  
© 2015 Alexander Communications Group, Inc. All rights reserved.

One of the keys to passing the torch? Giving the next generation legitimate responsibility, so that they can face the possibility of failure, learn how to succeed, and earn the respect of others in the organization.

For Hoby Hanna, that opportunity came in the form of expanding his family's Pittsburgh-based company into Ohio and Michigan.

"You couldn't just come in and become senior vice president of something," Hanna says. "You had to earn your stripes."

As he buys brokerages in Ohio and Michigan, Hanna has learned firsthand the importance of succession planning.

"The biggest reason brokers sell is they don't have a succession plan in place," he says.

Finding a way to test family members and let them spread their wings should be part of every broker's succession plan, Hanna says. For Howard Hanna, geographic expansion provided family members a chance to prove themselves.

"If we had just stayed in Pittsburgh, it probably wouldn't have been enough to satisfy that aggressive ego drive that all of us Hannas have," he says.

Meanwhile, Hanna notes that working in a family company isn't as easy as outsiders might think. Sharing a surname with the founder puts you on the fast track, but it also invites scrutiny from everyone else in the company.

"You can't leave early, and you can't come in late," he says.

### When emotion trumps financial considerations

Florida broker Gus Grizzard took over his father's company in 2007, and he says that transaction brought some unique challenges. Grizzard's father had started the company in 1968.

The younger Grizzard worked as a commercial real estate broker, so he was accustomed

## Four tips for keeping the brokerage in the family

How do you get your kids interested in the family business? And how do you make sure you don't set them up for failure? Management expert Noel Tichy offers four suggestions:

**Tip 1: Model enthusiasm.** Talk about the company around the dinner table. Create internships for your kids so they can learn about your brokerage.

**Tip 2: Don't make it easy.** Let the kids know they'll have to earn a spot in the family company.

**Tip 3: Keep it real — and let them fail.** If Junior comes to work for you, make sure it's in a legit position with real responsibilities — and risk of failure. These "crucible experiences" are the best way to test your children.

**Tip 4: Encourage honest feedback.** Give non-family members assurances that they can give honest, critical assessments about your child's performance.

to negotiating. But when it came time to buy his father's company, he looked at the deal as an emotional transaction rather than a financial one.

"He pretty much dictated the terms," Grizzard says. "This is a guy who has given me anything I've ever wanted, so this is an opportunity to give him an annuity as he lives out the rest of his life."

Grizzard said he paid his father no cash, but the buyout and earnout periods were "considerably longer" than in typical transactions.

The deal worked out well. ERA Grizzard Real Estate of Leesburg, FL, survived the deep downturn, and Grizzard has added agents and offices.

But, Grizzard says, "When you're dealing with a relative, it's not just a mathematical equation."

*Contacts: Hoby Hanna, Howard Hanna Real Estate Services, 216-447-4477; Gus Grizzard, ERA Grizzard Real Estate, 352-504-0055. *

### REAL ESTATE BROKER'S INSIDER

36 Midvale Road— Suite 2E, Mountain Lakes, NJ 07046

Telephone: (973) 265-2300 • Fax: (973) 402-6056 • Email: [info@BrokersInsider.com](mailto:info@BrokersInsider.com) • Website: [www.BrokersInsider.com](http://www.BrokersInsider.com)

*Real Estate Broker's Insider* is published monthly by Alexander Communications Group, Inc.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting or other professional service. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

— From a Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers.



© 2015 Alexander Communications Group, Inc. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying or otherwise, without the prior written permission of Alexander Communications Group.