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5 QUESTIONS WITH: CHRIS MCLAUGHLIN

Fast Track Realtor Takes Off

By Rachel Pleasant
The Ledger
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LAKELAND -- At 30, Chris McLaughlin, owner of Lakeland's Keller Williams realty office, can recount numerous successes -both educational and professional.

McLaughlin graduated from Georgetown University and obtained a law degree from the Georgetown University Law Center as well as an MBA from the McDonough School of Business at Georgetown.

While at Georgetown, he was elected student body president.

McLaughlin, an active member of the Florida Bar Association, was president and CEO of the online company SmartPortfolio.com, which was sold to New York-based The Street.com in 2001.

He also worked as a Realtor at Coldwell Banker's Central office in Lakeland and serves as a director of the Lakeland Downtown Development Authority. He's chairman of the Peace River Center Advisory Board, director on the Peace River Center board of directors, treasurer and trustee of the Polk Museum of Art and a member of Lakeland Rotary and the Leadership Lakeland Alumni Board.

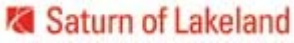
Before turning 30, McLaughlin embarked on the process of bringing the Keller Williams concept to Lakeland. On Oct. 1, the company had its grand opening. McLaughlin took a few minutes to discuss how KW works, what he thinks the future will hold for real estate and why he's sure this venture, too, will be a success.

Q. How many associates does Keller Williams have on board currently and is there a right size for the agency?

A. Keller Williams Realty has been in operation for just over two weeks and already has 26 Realtors on board. Never before in Polk County has a real estate firm grown that quickly, and we're particularly proud of that fact. We have commitments from many more Realtors to join within the next few months, but they have obligations they are unable to currently leave behind for obvious financial reasons.


One of the benefits of a Keller Williams franchise is that it allows the owner to set up multiple locations within the franchise area without having to pay another large franchise fee. In addition to our state-of-the art facility in downtown Lakeland, look for us to pop up somewhere else. So there's not a specific number of agents we are limited to in Polk County. But unlike many of our competitors, such a decision will come from the agents themselves. At Keller Williams, agents are empowered to vote on whether or not we should expand into a new area.

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







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Q. KW's commission rates are comparable to those of other agencies, but KW also offers its associates the opportunity to partake in profit sharing. How does that work and how have Realtors been responding to the program?

A. Keller Williams' commission rates are not the same as other brokerage firms because we are the only firm in Polk that caps the company dollar and lets an agent truly earn 100 percent after he hit his cap. That means once a Realtor hits a certain threshold, which is approximately \$60,000 in gross commissions, he goes on a true 100 percent split until his anniversary date.

This is what makes the owners of desk-fee companies nervous, because their franchise fee never caps, and the agent has to take the risk instead of the broker. At a desk-fee company, the model is high risk/high take (Realtors may have to pay fees for the months they have no closings).

At a traditional company, the model is low risk/low take. At Keller Williams, the model is low risk/high take. We think the model of low risk/high take will win in the end.

In terms of our profit sharing, the owner of Keller Williams distributes approximately 45 percent of the firm's profits at the end of each month to the associate partners. The agent leadership council reviews the income statement every month to hold ownership and management accountable for staying within budget. An associate partner receives a profit distribution based on the performance of the Realtors that associate partner has brought into the company.

The profit sharing is seven levels, vests with an associate partner after three years and is based on the same multilevel profitsharing plan the respected commercial firm Trammel Crow uses.

Q. How is the profit sharing program different from a similar program at Exit Realty, called a single-level sponsoring initiative, in which any agent who brings in or sponsors another agent receives 10 percent of what they make, and how is KW's system not a pyramid?

A. Keller Williams offers a profit-sharing plan; Exit offers commission sharing among the agents -- something we already do at Keller Williams. For example, we have teams where the team leader is paid at the 80/20 level [the commission split between the agent and the broker] and his other team member is paid at the 70/30 level, with 10 percent going to the team leader.

At Keller Williams, an agent can earn much more in commissions than they ever could with Exit, but they would also receive a portion of the owners' profits -Exit just focuses on the agent's commission side, not the owners' profit. And since the Exit program is only one level, it certainly can't be considered an adequate residual that one should think about for retirement -- after all, if that agent leaves, the entire residual disappears.

At Keller Williams, if an agent stays with us for three years, they vest and their profit-sharing residual is theirs for life and can be inherited by their children -even if they later decide to compete against Keller Williams.

At Exit, if you leave Exit and go to another firm, you lose your entire residual. If you retire, 30 percent of your residual goes back to the owner. If you pass away, 50 percent goes back to the owner instead of your estate. At Keller Williams, you keep 100 percent of your profit-sharing residual.

An important part of the Keller Williams plan is that the profit sharing only pays out if there are profits -- therefore there could never be a pyramid of money chasing money that doesn't exist.



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With this all said, I do think Susie Nicholas (who owns Exit Realty with Bill Nicholas and Mike Hamic) deserves credit for bringing a new concept to Lakeland. It certainly beats what the traditional brokers offer, but it doesn't measure up to what Keller Williams has to offer.

Q. KW's associates work on a 70/30 split, meaning they keep 70 percent of their commissions and pay 30 percent to the company. Once associates pay \$18,000 in commissions to the company plus \$3,000 in franchise fees, commissions are capped. At RE/Max, associates work on a 95/5 split and pay either \$850 or \$1,050 a month for a shared or private office. You've used KW's commission splits as a key recruitment point but Tony Fridovich, broker at RE/Max, says in a letter he distributed to his associates that you're using misinformation to recruit Realtors; that KW associates don't make more under the KW system. What's your response?

A. When we talk with RE/Max agents about a possible switch, we focus on the differences between our two approaches to business. RE/Max has a landlord/tenant relationship with its agents, whereas Keller Williams treats its associates as business partners.

To more directly answer your question regarding the commission differences, it all depends on how that agent's business is set up. For example, RE/Max may charge up to \$6,000 per year for a Realtor to use a licensed assistant at their office. We do not charge for assistants. In fact, our business model encourages agents to use the leverage assistants provide to do the 20 percent of things that produce 80 percent of the results. At the end of the day, the net commission isn't drastically different (as it is compared to traditional companies) until you get up to around \$250,000 in gross commissions, where Keller Williams clearly pays more.

For example, using the numbers RE/Max has stated, at \$1,050 a month and a 5 percent franchise fee, a Re/Max agent would pay out \$25,100 based on \$250,000 in gross commission.

At Keller Williams, an agent pays out a max of \$21,000 each year. So they clearly save \$4,100 without the risk of paying desk fees every month. If they had a licensed assistant, the agent could potentially save over \$10,000 with Keller Williams.

One thing we'd like to make clear is that we are not going to get into a price war with RE/Max. We will focus on our core competencies of local training, agent empowerment and the profit sharing economic model.

Q. You left a position with Coldwell Banker to open the Keller Williams office. Do you think systems such as KW's signal dissatisfaction in the industry and are the beginning of a fundamental shift in the way real estate agents earn a living? If so, what do you think the future will hold for the business of real estate?

A. The real estate industry is experiencing massive changes and the trends are clear: successful companies will treat their people as stakeholders, give them a say in the business and share the profits.

At Keller Williams, we believe that real estate is a local service business driven by individual real estate agents and their local image within their centers of influence.

At a traditional brokerage firm, they believe that the company is the center of the business and that the listings and customers belong to the broker, not to the agent. At Keller Williams, agents have a say in running the business and the books are always open, with both examination and involvement encouraged.

We believe the company is best served by building the agent's career first and putting the agent's image ahead of the company's. That kind of thinking is being completely rejected by the traditional brokerage firm. So yes, this is a profound revolution and shift in the way real estate will be conducted in the future.