

# New national appraisal franchise - can it compete with AMCs?

**R**esidential appraisers regularly talk about "getting together" to compete with AMCs. But it takes money, time, and business experience to do this.

Integra Realty Resources (IRR), a national commercial appraisal company, announced it will be offering appraisal franchises throughout the country, and are recruiting existing appraisal companies.

IRR is a commercial appraisal organization that is now branching into residential with a new company, IRR-Residential.

## What is IRR?

Integra ([www.irr.com](http://www.irr.com)) started 5 years ago. The company now has over 50 offices and 700 professionals that focus on commercial appraisal and consulting. Each of its offices is managed by an MAI. The company is governed by a board and executive officers. Many of their stockholders also own participating offices.

Belonging to Integra allows local appraisers to obtain assignments from large, national clients, including portfolio work. The offices continue to do their local work and get additional work from Integra.

The company has national sales people and a common Web site with one contact point for portfolio assignments.

Integra only allows one appraisal company in each geographic area and has recruited top commercial appraisal companies. Some companies get a lot of work from Integra and some don't get much, depending on their geographic area.

The participating companies include "Integra" in their name, such as Integra Realty Resources - San Francisco and Integra Realty Resources - Minneapolis/St. Paul.

## What is IRR-Residential?

IRR-Residential, LLC is a separately owned and managed company, though Integra has an ownership interest, with 70% owned by current Integra shareholders, including Integra's commercial appraisal firms, management team, and outside investors.

A model is real estate franchises, where the franchisee benefits from national marketing and other services. The franchisee typically pays a start-up fee plus a percent of revenues.

IRR-Residential has a traditional franchisee-franchisor relationship where the franchisees are not stockholders.

## Why was a franchise structure chosen?

Integra Realty Resources (the commercial appraisal company) is a unique structure with the franchisees owning the franchisor, so they had some experience.

They looked at other models for establishing a national firm: purchasing appraisal companies and starting their own branches, but they are expensive and take a long time to set up.

The franchise model seemed to work best. Franchising is very familiar to many people and has the legal structure to operate in all the states.

Most franchises appeal to new business owners and provide all or most of their business. In contrast, IRR-Residential is a supplement to an existing appraisal business.

For a national appraisal company, getting started is tough as you need lots of appraisers when (or soon after) you start to get national accounts. The current AMCs use large appraiser lists.

## Why is IRR doing this?

Why is a commercial appraisal company expanding into residential? The markets are very different. Commercial and residential appraisers don't "mix" much. Some appraisal firms do both residential and commercial appraisals but most specialize in one or the other.

Integra has 50 offices with 15 of them doing both residential and commercial appraisal.

Commercial appraisal is much steadier than residential, and does not have the wide swings in appraisal volume. Assignments are much fewer, with higher fees than residential. Clients prefer to use a local appraiser but can have difficulty locating someone for their specialized property, such as 300 apartments or a shopping center.

In contrast, residential appraisers only appraise a few property types, 1 to 4 residential units and vacant lots.

According to John Wood, CEO of IRR-Residential, a similar model is Coldwell Banker Real Estate expanding from commercial into residential.

The residential appraisal industry is a very fragmented market dominated by local appraisal firms. Their clients, however, because of centralization of appraisal ordering, have become more distantly located from them.

The appraisal management companies (AMCs) have stepped in. They are now the companies that have the relationship with the large national lenders and take a significant percentage of the appraiser's fee.

Integra plans to bring the "best local residential appraisal firms into a national organization that can then re-establish a direct relationship with the clients, thus increasing revenue to the local appraisal firms."

### **What's the time table?**

Currently, franchisees are being solicited with the first appraisal orders planned for early 2006. National coverage depends on franchisee recruitment.

### **What do franchisees get?**

The advantages listed by the company are similar to what Integra (commercial) offers.

Integra has a limited number of offices that cover larger areas, but IRR-Residential plans on more franchisees in smaller submarkets.

Below are quotes from IRR-Residential materials:

Branding – similar to a national real estate company, such as Coldwell Banker. As the company grows, the plan is for IRR-Residential to develop as a national brand name, similar to Integra.

Marketing – IRR-Residential offices will gain the benefit of a corporate sales department selling to regional and national clients. As IRR-Residential work displaces AMC work, the franchisees can keep a larger percentage of their AMC appraisal fee.

Cost savings – IRR-Residential can bring to its members group buying power, resulting in savings for such things as E&O insurance, data services, stationery, computer purchases, software purchases, 401(k) administration and others, similar to what Integra offers.

Entrepreneurial acumen – many successful companies working together as one stimulates more ideas and allows all franchisees to benefit from each other's successes. Appraisers share their ideas for increasing profits.

### **What does it cost?**

Similar to other franchises (restaurant, copy shop, etc.), there is an initial startup fee plus a percent of income. The fee structure is still confidential but appear reasonable to me.

### **When will franchises be available?**

IRR-Residential is up and running and headquartered in Kansas City. They have started contacting prospective franchisees and plan to roll out the initial franchise offices later this year. They project to add approximately 60 offices per year.

All states except those below have approved the franchising. CA, HI, IL, IN, MD, MI, MN, NY, ND, RI, SD, VA, WA and WI) that require individual state UFOC (Uniform Franchise Offering Circular filings and reviews. In those states, IRR-Residential's ability to start marketing franchises could lag by one to three months.

### **Who else has tried to establish a national appraisal company?**

So far, only AMCs have been successful in the national market. When AMCs have a national client, that client wants you to take all their orders, where ever they are, even the little town with only one broker who does appraisals on the side.

About 10 years ago, ABNet, an AMC formed by affiliated appraisers, tried but was undercapitalized and sunk in the appraisal recession of 1994-1997.

Primis tried to expand by purchasing appraisal companies, an expensive method. It also had problems during the 1994-97 recession and was sold to a much larger company and shrank significantly.

Recently, Forsythe Appraisal has expanded but it is slow as they set up their own offices.

### **Will IRR-Residential be successful?**

They are starting with 5 years of experience in a successful national commercial appraisal company. Residential is very different, but Integra does have some experience.

I'm sure there is demand for appraisals done by experienced and qualified appraisers. Some of those appraisers work for AMCs now, but the fees are typically very low, limiting the number of qualified appraisers to choose from. I suspect that some appraisal companies use trainees because they are willing to work for very low (or no) fees.

Setting up the company will require capital investment in franchising (already done) and Web-based computer capabilities for ordering, tracking, etc. (not yet done).

AMC main offices are people-intensive, primarily in finding appraisers to take assignments in outlying areas. It will take some start-up capital. IRR-Residential doesn't plan on hiring armies of people to call appraisers 3 or 4 times a day asking when the appraisal will be done similar to some AMCs.

I hope they are successful as a competitor to the other AMCs who typically take a very large percent of the appraisal fee (over 50% in some urban areas) and negotiate for even lower fees when work slows down.

### **Where to get more information**

Contact Mark Westphale, National Franchise Sales Director for IRR-Residential at (913) 748-4738 or [mwestphale@irr-residential.com](mailto:mwestphale@irr-residential.com). A Web site is planned for later this year. Some information on Integra is available at [www.irr.com](http://www.irr.com), including a zip code search for the nearest office.

For more information on franchises, go to [www.franchise.org](http://www.franchise.org) and click on the FTC Guide. Be sure to carefully read the UFOC for IRR-Residential if you are interested in a franchise.