

# Analysis on the Business Models of the China's Real Estate Intermediaries

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**Abstract:** China has stopped welfare housing distribution since 1998 and house has become a commodity. The real estate industry has made unprecedented development in China. Along with the rapid development and maturity of the first-hand housing market, the proportion of the second-hand housing transactions, which will become the protagonist in China real estate market, is rapidly rising in the major cities of the country. However, such problems as small-scale, low-quality employees, single business and short lifecycle still exist in real estate intermediaries which are faced with a serious crisis of credit and survival. In addition, few researches on China's real estate intermediaries can be found. This article makes an analysis on the characteristics and status quo of the four business models mainly adopted by China's real estate intermediaries, with focus on the development of the Century 21 and China's local real estate intermediaries. Then based on the theory of chain-store operations and marketing, it points out that the business model combining regular chain and franchise chain will be the best choice for China's real estate intermediaries in their sustainable development.

**Keyword:** business models, real estate agency, chain operation

## 1 Introduction

Since 1998 when China stopped welfare housing distribution, house has become a commodity and China's real estate industry has enjoyed an unprecedented development. With the rapid growth and maturity of the first-hand housing market, the second-hand house transactions are taking an increasing share in the real estate transactions of the major cities in China and will gradually become the major player in China's real estatemarket. However, since China had implemented a welfare housing distribution system for a long time in the past, its commercial housing market didn't develop in the right path until the late 1990s and the development of the second-hand market has been lagging behind. At present, China's domestic real estate intermediaries are faced with a lot of problems such as small scale, ambiguous development plan, lack of theoretical support and lack of correct operational strategies, etc. Therefore, it's a pressing task for China to standardize its real estate intermediaries and provide guidance for them in terms of correct development approaches and operational models.

## 2 Analysis on the four business models mainly adopted by domestic real estate intermediaries at present

### 2.1 Hong Kong Model

As the "pioneers" of the real estate intermediary industry

in Chinese mainland, Hong Kong real estate intermediaries were the first to enter into Chinese domestic market. After having established their presence in the Pearl River Delta, they begin to "go up to the north" of the country, and wherever they go, they are committed to copying the Hong Kong model. Their representatives are Centaline Property and Midland Realty, etc.

This Hong Kong model has distinctive characteristics: it usually adopts regular chain model instead of the form of franchise store and puts emphasis on increasing the number of stores by regular chain. For example, the Centaline Property has more than 100 stores in both Shenzhen and Guangzhou and My Top Home has more than 120 stores in Guangzhou. Generally speaking, these intermediaries require low educational level of their sales agents, and mainly adopt a huge-crowd strategy, with a huge number of sales agents. Take the Centaline Property as an example, usually, the number of brokers in one of its average stores amounts to as much as more than 30. Since these intermediaries put too much emphasis on transaction volume, their employees have low acceptance of them and there's a frequent flow of personnel.

### 2.2 Taiwan Model

The real estate intermediaries from Taiwan also entered into Chinese Mainland very early, but they focus their business on Shanghai Market. Now they have become the mainstream of Shanghai's real estate industry. Their representatives are Sinyi Realty and Pacific Realty, etc.

The characteristic of Taiwan model is: putting equal emphasis on the expansion of franchise stores and the establishment of regular stores, with a lower speed of store expansion. Since these intermediaries attach importance to the educational level of their employees, improvement of their personal quality and construction of corporate culture, they're willing to spend their money in training, which led to a low frequency of personnel flow. They also ask the brokers to provide one-to-one full range service for their clients and encourage them to become real property consultants of their clients. They propose that information shouldn't be shared among their brokers, which means the brokers should keep secret their own information on the sources of houses and clients and the brokers should keep the information of their clients in a primitive way, for example, to write down the information in their notebooks. These Taiwan-based companies also pay attention to external cooperation to expand their businesses. Moreover, they're very distinctive in terms of diversified development. Besides property business, they also provide supporting services such as moving houses and interior design and decoration, etc.

## 2.3 U.S. Model

Giving priority to chain networks and attaching less importance to property business, the U.S.-based real estate intermediaries have grown rapidly in China although they entered into Chinese market very late. They are mainly represented by such companies as CENTURY 21, REMAX, COLDWELL BANKER etc., and they expand their businesses in China by adopting the method of franchise chain. Just take CENTURY 21 as an example: the American listed company CENDANT holds the shares of CENTURY 21 which authorized the "Beijing Aifeit International Franchise Operation Consultancy Service" to register the brand "CENTURY 21" and be responsible for the expansion of CENTURY 21 in Chinese mainland market.

### 2.3.1 Characteristics of the U.S. model

The characteristic of these U.S.-based Intermediaries is: they are more engaged in brand operation and expansion of chain networks than in real estate business. For example, as the parent company of CENTURY 21, CENDANT isn't a company specially engaged in real estate services; instead, it's a company engaged in franchise business. Its businesses and brands involves chains of real estate services such as CENTURY 21, COLDWELL BANKER and ERA; car rental chains such as AVIS; and small hotel chains such as DAYS INN, SUPER 8 MOTEL, AMERIHOTEL INN, KNIGHT INN, etc., and its income mainly comes from franchise fees. Although CENDANT is engaged in these industries which are unrelated to each other, they have the same profit model---franchise operation. The contributions of real estate service chains, car rental chains and small

hotel chains to the company's total income are 40%, 30% and 30% respectively, with little difference. The business model and profit model of CENDANT in its operation of franchise chain networks determine the operation model of its franchisees, and also determine that CENTURY 21, as a licensor in China, is engaged in franchise networks rather than in real estate services. Therefore, the collection of initial fees and royalty fees is the major income source of the CENTURY 21 and its second-level regions. And because of this, it needs to constantly increase the number of its stores and absorb more downstream franchisees. Large scale and networks have become the basis for their existence.

### 2.3.2 Typical example-the development of CENTURY 21 in China

Entering into Chinese market in March 2000, CENTURY 21 has established its presence as a comprehensive realty service supplier mainly engaged in real estate business, housing finance, insurance and other relevant derivative businesses. By the end of 2006, it has developed into the largest real estate franchise operation system in China with 25 regional divisions, 1000 stores and a transaction volume of 30 billion Yuan, covering 35 cities in China. In terms of the chain of authorization, it adopts the two-level-authorization model, namely, China headquarter---regional divisions---franchise stores, but all of the three are independent of each other and there's no subordinate relation between them. China headquarter is the consultant of the regional divisions rather than their superior authority. The company pays more attention to attracting large-scale regional franchisees, but the initial fee for a single store isn't high, it's usually about 30,000 to 100,000 Yuan.

In the regional markets where CENTURY 21 has entered into and started its official operation, it is among the top three leading companies in the local markets of 90% of these regions in terms of enterprise size and transaction volume, and it takes the first place in 30% of these regions in terms of absolute market share.

Each regional franchisee of CENTURY 21 is the sole franchisor of the company in the local market and it is usually the influential local property developer or listed company with good enterprise background and powerful financial strength. For example, Jinan Sanlian Group, Shanghai Jin Jiang Group, Guangzhou Pearl River Real Estate Development Group, Shandong Luyin Investment Group and Tianjin Yongtai Group, etc., are the regional franchisees of the CENTURY 21.

Now CENTURY 21 is expanding the number of its franchisees, training more brokers so as to promote and support the standardized development of its franchise businesses and achieve the localization of international brand by standard brand management and operational support, systematic training and IT platform, powerful integration of resources and development of derivative

businesses. Its future goal of development is: to establish 60 regional divisions across China, absorb 4,000 stores and train 30,000 brokers.<sup>[1]</sup>

## 2.4 Native model

Because of different participants, the Native real estate intermediaries in China is divided into two groups: state-owned enterprises and private enterprises. The former is mainly represented by E-House International Estate Agency Ltd. in Shanghai and China Merchants Property Consultants Co. Ltd. in Shenzhen; and the latter is mainly represented by Sunco Properties Limited in Tianjin, 5i5j and Golden Keys in Beijing, Sunstars in Shenzhen, Hopefluent Group Holdings Limited in Guangzhou and Fortune Sun in Shanghai, etc.

### 2.4.1 Main characteristics of China's native real estate intermediaries

2.4.1.1 They provide intermediary services in order to improve their service chain, together with the sales of buildings developed by the company themselves.

2.4.1.2 Their Business models are mainly the imitations of others'. The companies in Shanghai usually imitate the Taiwan model, those in Shenzhen and Guangzhou usually imitate Hong Kong model, and those in the Middle-west usually imitate the U.S. model because they start very late.

2.4.1.3 They have strong regional characteristics. They are usually not powerful enough to expand across regions.

### 2.4.2 Typical examples

2.4.2.1 Beijing Golden Keys Real Estate Co., Ltd. was established in 1996 and started with leasing business. Since Golden Keys pays attention to the establishment of chain store networks, it opens its chain stores in various key transportation centers of Beijing, which has formed a sales network covering the whole capital city. With the gradual increase of its chain stores, it enjoys a great advantage in the secondary and tertiary real estate market of Beijing and interacts with the sales agents in the primary market.

2.4.2.2 5i5j was established in April 2000. It has taken regular chain as its development model, which is also widely adopted by Chinese domestic real estate intermediaries. It has established 9 subsidiaries and 230 chain stores in Beijing, Nanjing, Hangzhou, Suzhou, Ningbo, Tianjin, Shanghai, Wenzhou and Taiyuan. As a native enterprise, "I Love My Home" enjoys rich human resources and indigenous advantages. While expanding its regular chain stores, it also establishes its own website [www.5i5j.com](http://www.5i5j.com) which provides professional on-line services such as house leasing, transaction and buying or exchanging of houses and relevant information on real estate finance. In this way, it has effectively combined the traditional way of property brokerage with the Internet. In August 2000, the company's English website was

put into operation, providing service platform for the expansion of overseas market. Together with the original telephone call network, the company established a business model integrating three networks which complement each other. Regular chain has led to expansion of its scale while Internet helps it to achieve information sharing. This is also the direction for the future development of domestic real estate intermediaries.<sup>[2]</sup>

## 3 Development approach for China's real estate intermediaries

It can be seen from the above analysis that although the real estate intermediary market in our country isn't full fledged, chain operation has become the mainstream business model in the expansion of Chinese real estate intermediaries, and the two major models of chain operation: franchise and regular chain, were equally adopted by these intermediaries.

In terms of regular chain, thanks to the unification of ownership and operation, it's relatively easy to manage the whole chain system and ensure the quality of service. However, because the chain network has to develop by raising funds on its own, its speed of development is limited; and moreover, it needs a large number of managerial personnel. But in terms of franchise chain, the head office and its franchisees are independent of each other in ownership and separate from each other in operation, and they are partners. Because the franchise chain system achieves its expansion mainly by recruiting independent legal persons, it can make full use of the funds of the franchisees and gain a faster expansion than regular chain. However, since the franchisees are independent legal persons which have greater autonomy, it's more difficult to manage the whole system and standardize the quality of services, and contradictions are more likely to happen between the two sides under the condition that the relevant laws and regulations in China are still not well-established. All these will have negative impact on the whole system.

From the current situation, it can be seen that neither regular chain nor franchise chain is the best solution for the real estate intermediaries in Chinese market. In my opinion, the mainstream business model of China's real estate intermediaries should be the combination of regular chain and franchise chain so as to make full use of the advantages of both of them. In the whole chain network, since regular chain store is easier to manage, it can be forged by the headquarter as the model store so as to carry out brand image promotion and attract more franchisees; meanwhile, this can also enable the headquarter to share a piece of cake from the rapid growth of China's domestic real estate industry and become a profit growth point of the headquarter. In addition, since operational experience is indispensable for the headquarters to give sound support to its franchisees and achieve continuous business innovation, the operation of regular

chain store may help headquarters to gain experience and reduce mistakes in decision-making.

Since domestic real estate industry has strong regional characteristics and there're big differences among different regions, when entering into a new market, the headquarters should, on the one hand, establish regular chain stores as a model, and on the other hand, make full use of the advantages of franchise operation to achieve rapid expansion and win the market by making use of the rich human resources and indigenous advantages of the franchisees in the local place.

Because the headquarters establishes both regular chains and franchisees at the same time, it will inevitably decide the ratio between the two. In my opinion, at the early stage of entering into the market when the headquarters is short of human resources and funds, it should follow the 20/80 Pareto Principle with focus on franchise chain, that is to say, the number of regular chains should take up 20% of the total number of stores while the franchisees takes up 80% of the total; when the headquarters has abundant human resources and funds, it may raise the proportion of regular chain appropriately by establishing new regular chains or simply buying back some of its franchisees and turn the proportion of the two into the same. This business model is also widely adopted by many chain systems. Many well-known franchise systems such as MacDonald and KFC generally adopt this business model of franchise plus regular

chain. As the largest franchise system in the world, MacDonald has always kept the ratio between its regular chains and franchisees at 2: 8.

For real estate intermediaries, the correct choice of business models is of great importance to their sustainable and healthy development. Because China's real estate intermediary market has developed only for a short time, it is still faced with a serious crisis of credit and survival at present. However, with the market becoming gradually standardized, scaled up and more market-oriented, the brand awareness of consumers will be gradually increased, which will provide favorable development opportunities for those real estate intermediaries with brand dominance. In the context, the adoption of the business model combining regular chain and franchise chain will be the best choice for Chinese real estate intermediaries in the upcoming period.

Of course, to provide their clients with better and satisfactory services is the basis for real estate intermediaries to win the market, and also the final solution to their development.

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