

Can Christie's master the art of brokerage?

Skeptics question whether auction powerhouse can compete in crowded market

By [E.B. Solomont](#) | June 15, 2017 02:15PM



Can Christie's leverage its auction house cachet to build a brokerage brand in NYC?

When the heads of 140 Christie's-affiliated brokerages converged in April on London's Savoy Hotel for the auction house's annual real estate networking event, the message from its top brass was clear: Despite messy splits with some longtime partners, Christie's had no plans to get into the brokerage game.

Christie's presence in New York's property market for the last 30 years had been through an affiliation with [Brown Harris Stevens](#), the brokerage that most evokes old-money New York. But less than three months later, Christie's abruptly terminated that relationship and decided to [go it alone](#) here, despite assurances that it wouldn't go head-to-head against the firm. "They have now broken that promise," BHS president [Hall Willkie](#) told *The Real Deal*.

Through its affiliates, Christie's sold \$115 billion worth of real estate globally last year. But skeptics think it'll be hard-pressed to replicate that success on its own in New York, given the intense competition among the city's top firms and a tricky time in the luxury property market.

Further, the path from buying art to buying real estate — which has always been [somewhat murky](#) — has thrust the auction house model into the spotlight, and not in a good way.

"It's a huge investment and challenge to open a brokerage firm," Willkie said. "Christie's is a great international marketing company," he added, "but it has absolutely no experience in brokerage."

Finder's fee

Former affiliates said Christie's move into brokerage coincides with recent efforts to make more money from firms that license its name, in some cases increasing fees fivefold. That prompted firms to evaluate whether the association was worth all that money. Since last year, nine firms have dropped their affiliation with the auction house. The three largest — San Francisco's Pacific Union, Westchester's Houlihan Lawrence and Colorado's Howard Hanna — collectively sold more than \$33 billion worth of real estate last year, according to published reports.

"The reality is, they're not delivering enough value to justify the rates," said Chris Meyers, president of Houlihan Lawrence, which was bought by [Warren Buffett's HomeServices of America](#) in January.

Dan Conn, CEO of Christie's International Real Estate, defended the fee hikes, saying they were largely focused on longtime affiliates paying below-market rates. "Our objective is to get to a point of fairness with every one of our affiliates," he said. "Yes, we've lost some larger affiliates, but there's an economic decision that we've made that we should have a fairer fee structure."

But Meyers said Christie's accounted for just two or three sales a year — out of about 9,000. "I think Christie's has overestimated the value that they bring to the brokerage affiliates," he said, and added the company is "overplaying its hand" in New York City.

While Christie's doesn't disclose its fees, a lawsuit filed in California last year by Pacific Union — in which the firm alleged Christie's breached the terms of its affiliate agreement — offers a glimpse at how much it costs to use its name.

According to the suit, which was later settled, Pacific Union paid Christie's an annual fee of \$210,000 in 2011, its first year as an affiliate. The brokerage was also on the hook for a slew of other fees and agreed to participate in two "bespoke" campaigns in which Christie's created a custom marketing campaign for an exclusive listing. Christie's earns 25 to 50 percent of the commission for such campaigns, according to court documents.

But Pacific Union's CEO Mark McLaughlin said when Christie's tried to raise rates recently, it wanted fees amounting to roughly 30 percent of the firm's bottom line. Pacific Union sold \$10.5 billion worth of real estate in 2016. "I don't know what goes on in their conference room, but the fee structure is so imposing that either they don't understand the business or they want to drive us out," McLaughlin said.

In New York, of course, everything costs more — sources said BHS had been paying Christie's millions of dollars a year for the affiliation, though brokers were reluctant to offer up exclusives to be marketed via the "bespoke" program.

"Giving up 35 percent of the commission was too big a bite," said one broker. "It didn't mean they'd open their client list to us. They agreed to do mailings."

In a twist, William Zeckendorf, co-chairman of BHS parent company [Terra Holdings](#), sits on the board of Christie's. He declined to comment.

Picassos to pied-à-terres

Conn joined Christie's in 2014 from [Brookfield Asset Management](#). He said he began thinking of the auction house operating a wholly-owned brokerage the following year, during Christie's spring sale, which netted \$1.7 billion in art deals.

