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Avison Young: expanding in the 'squeezed middle'

By Nick Johnstone | 13-12-2017 | 08:54

You'd be forgiven for not knowing much about privately-owned agency Avison Young before it snapped up well-established North West agency WHR last month.

The firm, founded in 1978, stepped outside Canada for the first time only in 2009. Since then, Avison Young's (pronounced "Ay-visor" Young) growth has been exponential: today its footprint includes 55 offices in the US, a Mexico City branch and five German offices.

Over here, having set up in the UK just three years ago and acquired Haywards and North Rae Sanders, quickly amassing a workforce of 36, it has just doubled its numbers with the purchase of WHR.

EG sat down with Avison Young's UK managing director, Jason Sibthorpe, and its chief executive, Mark Rose.

Beyond Manchester

The acquisition of WHR was certainly a headline-grabber, but what does it mean in practice? Besides ramping up the Avison Young workforce dramatically and providing further office and industrial agency, the deal gives the company its first property management and rating teams, who will be expected to deploy their services UK-wide.

WHR's partners, led by Mark Williams, have each taken stakes in the Avison Young business, putting them on an equal plane with partners in across the pond.

The firm now offers services to the North for the first time, and has the established reputation and connections of the WHR business. Sibthorpe says it's just the start regionally; he hopes to open offices in Birmingham soon, as well as, eventually, Leeds, Bristol, Scotland and Northern Ireland. This would be achieved through a mixture of organic growth and corporate activity.

And the advantage of Avison Young's "standing start" is that every new appointee bolts on something new to the business, rather than simply filling a vacated role.

Those services are currently dominated by offices and distribution, but Sibthorpe would like to add retail, leisure, alternatives, debt advisory, planning regeneration and anything else that falls under the commercial banner. He says Avison Young might provide residential investment advice, but that would be the limit of its residential exposure.

Middle men?

Such aggressive expansion comes at a challenging time for agencies of this size: the "squeezed middle" thesis says competitors must either consolidate rapidly to serve a globalised property market, or become niche players, servicing specific disciplines and geographies. Perched somewhere between the two, Avison Young is therefore an increasingly rare species.

Rose dismisses this argument. He criticises most larger firms for failing to provide long-term holistic advice because being publicly listed makes them answerable only to arm's-length shareholders.

Beyond one capital injection of 15% of the business by private equity backer Parallel 49, the firm is owned by its 400 partners. The backer has no preferential control of the business.

Rose, who was previously chief executive of Grub & Ellis, and before that chief financial officer of JLL, says: "The consolidation in the sector has highlighted some of the struggles of public structures that occur when you start to realign the objectives towards public shareholders.

"In those exchanges, the only people who ultimately matter are the shareholders. Whatever you're doing and whoever you're working with, your objective has to be earnings per share growth, with 90-day reporting.

"The services are set up in separate silos and each one has a president with a profit and loss account underneath. 'I'm using size and brand to win business, I can charge less, given our size I can pay less, and I can create more earnings.' We got that. There is a case for a company that takes a longer-term approach to client service over 10 years, because 'I don't have to deliver revenue to my company today'."

He likens the partnership model to King Sturge before its merger with JLL, or LaSalle during the 1990s. Knight Frank is an obvious competitor, but it only has a US partner company, rather than offices in the States, argues Rose.

It is still risky, though, trying to set up a full-service global firm while the bigger fish swallow up so much of the work, often more cheaply, efficiently and with greater geographical reach.

Sibthorpe, whom Rose has tasked with generating a £50m turnover within five years, dismisses the squeezed middle line as "myopic" and "lazy". He emphasises the long-termism that a private business can offer, allowing it to prioritise consultancy over one-off transactional work.

Expanding in the UK from essentially a standing start enables it to grow with more exactitude than some of the large-scale agencies, he argues.

"Yes, it is aggressive growth. It's also intelligent growth," Sibthorpe says "The beauty is that, where we're coming from, we can be very intelligent about how we grow and where we go. Irrespective of the challenges, we can take a more tailored approach to the growth we achieve.

"If you work for one of these corporates, you're a day labourer and you're not creating additional value."

Hunting down innovation

While it has arguably never been more important, adding value is nonetheless becoming more difficult, with the spectre of automation hanging over agency services and technological advances leaving the industry breathless. What about emerging areas such as proptech and artificial intelligence? Isn't aggressive growth dangerous against the parallel encroachment of technology into traditional property?

Avison Young is trying its best to stay ahead of the game in this context. It has abandoned emails and texts, for example, in favour of a professional networking tool called Yammer, connecting offices in real-time internationally.

It has also invested in the burgeoning market for short-term, flexible offices: LiquidSpace pitches itself as the Airbnb of office lettings – rather than leasing offices and then reletting them to tenants, it wants to bridge the gap between landlords and shorter-term users.

Rose is uncharacteristically bearish, though, about the prospects for the property agency world against the backdrop of technological advances, suggesting that in 10 years' time, "40% of the people who work in our industry will no longer be needed and AI will be used".

He says: "Our industry has always been one-and-a-half to two decades behind, but we are starting to see it take up this technology.

"The origination of new tech is happening very quickly, and competitors are embracing some of them a bit too quickly. Next year they might have to invest in a new company after investing in another one in 2017 and wasting that money.

"At EXPO Real a couple of months ago, I sat with three or four technology companies and they showed me something better than I saw three months earlier at ICSC in Las Vegas. I'm trying to focus us on leaving the door open because there will be something better the following year."

The rapid rise of technology, with all its upsides and potential downsides, is one macro issue among many. When asked whether investing in a Manchester agency was the wisest idea given the prospect of a UK exit from the EU, Rose shrugs off any concerns, pointing to the opening of a Mexico City office in January, in the context of Donald Trump.

He says: "We could not be more thrilled to be investing from Canada through the US to Mexico, because our approach to anything is long term. Walls and border taxes are a blip on the scale for enterprises to push aside because we do things for 20, 30, 50 years."

It's this sunny attitude that Avison Young is applying to the UK. Rose reckons all the noise and apparent bearishness around Brexit is massively overplayed by the "gossipy" world of property. ("The UK is the fifth-largest economy in the world, which isn't going away," he says.)

Hence the bold move of buying a regional business in the context of so many counter arguments. In fact, the very bearishness and caution that is shown by investors and rivals is seen by Avison Young as an advantage.

Rose concludes: "Anyone who's been in the industry for more than a day knows that there are cycles and there's government intervention. Anyone who wants to get bearish, we couldn't be more thrilled, because we're going to be there to fill the gap."

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