

Big fish, small pond, an ocean of opportunity

The challenge Find new opportunities for a residential property services company whose rapid growth is on the verge of a slowdown The call Go big and go global with the acquisition of a worldwide commercial real estate brokerage network

LORI MCLEOD

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When **FirstService Corp.** CEO Jay Hennick bought global commercial real estate broker network Colliers Macaulay Nicholls Inc. in 2004, he was convinced he was making a great deal. But that didn't keep him from getting a case of cold feet the night the final bids went in.

"It was a bit of a nail-biter but we felt if we didn't take advantage of this opportunity, with this management team, to become a global organization in a business that we knew, we would be making a big mistake," Mr. Hennick said.

A lawyer and entrepreneur, the chief executive officer founded his first company, commercial swimming pool firm Superior Pools, while in his teens. Fifteen years ago he started Toronto-based FirstService with seed money from friends and family, and by 2004 it had yearly revenue of \$700-million (U.S.) with a range of residential real estate services from property management and improvements to security systems.

But the markets still didn't seem to understand FirstService very well, and the firm also faced the challenge of how to sustain its rapid pace of growth, Mr. Hennick said.

"Prior to that time we were growing at 20 to 25 per cent per year. But at that time we realized if we didn't add another significant platform to our business our growth trajectory would start to wane. We knew that if we didn't do something in terms of adding another platform we would have had to convert into an income trust or sell the business or something like that."

Around that time opportunity knocked when long-time associate Colliers CEO Douglas Frye called to tell him the owners were planning to put the private business up for sale.

Under the guidance of Canadian real estate industry veteran John McLernon, the former residential real estate firm had taken on a unique structure. From his base in Vancouver, Mr. McLernon brought together a group of commercial brokers from around the world to form a network in which they would operate under the Colliers name and refer clients interested in local real estate to one another.

Over time, many of those operators ended up selling their businesses to Mr. McLernon and a group of shareholders he had gathered. When Mr. Hennick and FirstService entered the picture three years ago, the network owned by the Colliers Macaulay group had 80 offices in 20 countries. It was 70-per-cent owned by the shareholders, and 30 per cent of the equity had been retained by management at national and regional offices. Many more Colliers offices remained independently owned.

Colliers would be the largest, and most challenging, acquisition FirstService had ever taken on.

The bulk of FirstService's revenue came from contracts, predictable streams of revenue that would continue as long as its customers were happy. By contrast, most of Colliers' revenue was generated by commercial real estate deals, dependent on factors such as interest rates, real estate prices and the overall strength of the economy.

Mr. Hennick also worried about the scope of the business, which was extremely profitable in Australia and New Zealand, but barely limping along in areas such as mainland China and parts of southeastern Europe.

"We knew China was exploding, India was exploding, Eastern Europe was exploding, and if you were providing services in the new economy in those markets you really had a good opportunity to ride the wave. But that part of the acquisition really scared us too," he said.

Encouraged by the Colliers management team including James Horne, president of Asia-Pacific for Colliers, Mr. Hennick went with his instinct and took the plunge. In a deal valued at about \$88-million (Canadian), FirstService ended up with 80 per cent of Colliers Macaulay, while local managers still own 20 per cent.

Since then China, Latin America and Eastern Europe have indeed exploded, becoming profitable operations that are helping offset the current decline in commercial real estate transactions in North America, Mr. Hennick said. FirstService has expanded into related services for commercial transactions including financing and property valuation.

Along the way it has been buying up more branches, and now has 157 offices in 26 countries representing approximately half of Colliers' worldwide activity. Recent acquisitions include offices in Serbia, Bulgaria, Montenegro, Croatia, Greece, and Hawaii.

Colliers has become the largest part of FirstService's business, generating about \$800-million (U.S.) of the company's yearly revenue of \$1.36-billion in the fiscal year that ended March 31, 2007. Mr. Hennick is quick to point out the company's other businesses, residential property management, property improvement and security, also continue to thrive.

One of the biggest frustrations in running Colliers involves dealing with offices that FirstService doesn't own, and that don't share its structure and goals, Mr. Hennick said. As a last resort, FirstService can open a competing office under a different name, but prefers to buy the local Colliers office and turn it around.

With about half of the Colliers' network still independently owned, there are likely more acquisitions to come.

"There are lots of discussions with lots of affiliates about joining. Hopefully we'll do one or two more this year," Mr. Hennick said.

Asked if there's any time he's regretted the purchase, Mr. Hennick laughingly says "Oh yeah, just about every week."

"There are always stops and starts," he adds. "It was a huge opportunity for us, and in almost all ways it's more exciting today than ever before."

Jay Hennick, FirstService

Title: Founder and CEO

Age: 50

First company: Founded Superior Pools, a commercial swimming pool services firm, while still in his teens.

Education: Arts and Law degrees, University of Ottawa

The foundation of FirstService: Started the company in 1989 with seed money from friends and family.

Influences: The late management guru Peter F. Drucker.

Family: Mr. Hennick and wife, Barbara, have been married for 27 years and have three children.

Philanthropy: The Jay and Barbara Hennick Endowment Fund supports educational programs

Hobbies: Has an extensive collection of 18th-century porcelain harlequins from Meissen, Germany.

Lori McLeod

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Phillip Crawley, Publisher