THE COMPLETE GUIDE TO

Buying & Selling Real Estate Brokerages

10 STEPS TO SUCCESS

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The Complete Guide to Buying and Selling Real Estate Brokerages

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Wayne Einhorn's extraordinary journey in the real estate industry spans four decades, during which he has left a lasting mark at every level - as an agent, broker, broker coach, and mortgage provider.

Through his unrivaled expertise, groundbreaking proprietary system and battle-tested strategies, Wayne has worked with hundreds of brokers to thrive in the real estate industry. And then, when the time is right, grow their business through a merger, or monetize their years of hard work through an acquisition.

Wayne strongly believes that real success comes from more than just numbers; it's about building real connections. Wayne's holds an MBA from the renowned Richard Ivey School of Business at the University of Western Ontario.

Discover for yourself the transformative power of Wayne's wisdom and experience.

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Norma Rawlings has a B.A. in French, a J.D. in Law and an MBA in business administration. She has spent the past 21 years in the real estate industry in various capacities from commercial and industrial developer to multi-residential builder to portfolio owner to property manager to strategic asset management. She has rarely met a problem property she didn't want to fix.

With her legal and business background, she has consulted over the years to numerous companies and individuals looking to sell their businesses. She brings a mediator's mentality to the table and enjoys helping people plan their own succession and organize the sale or purchase of their business in a mutually beneficial fashion. She believes that finding the right fit between buyer and seller is critical, and she does her best to ensure even difficult issues don't devolve into conflict.

When not working, Norma can be found in the pool doing laps, at the rink watching her boys play hockey, in the barn watching one of her girls ride, or in the gym watching her other daughter do gymnastics. She enjoys exploring then writing about her adventures, and always appreciates a good book.

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Introduction

As real estate brokers, you pay a tremendous price to start and operate real estate brokerages. It is one of the most gratifying but risky businesses to operate. Most of you, to start your business, mortgaged your house, went without a pay cheque, and worked many many years of evenings and weekends. All of this to achieve a dream – to have a bigger and brighter future. So if you are thinking of selling your business, it is critical that you take all the necessary steps to monetize your years of hard work while ensuring the brand that you have created stays true to your values.

On the flip side, buying a brokerage is the quickest way to grow your business. It permits you to grow exponentially rather than agent by agent. The right transaction can catapult you light years ahead. As a business transaction, though, it is fraught with risk and there are many horror stories making the rounds about deals gone bad.

This book was written as a guide to help you navigate the purchase and sale transaction. Our high level objective is a WIN-WIN transaction for both parties while minimizing the risk of losses and increasing the likelihood of success.

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When two parties complete a WIN-WIN transaction, it cements the strength of that brokerage and ensures that all parties are pulling for continued success going forward.

Mergers can be disastrous but they can also be extraordinarily successful. In the early 1990's, during the worst recession in Canadian real estate history, Einhorn was with a company called Family Trust. They were very good at developing relationships with brokerages that sometimes led to a merger or acquisition conversation. A conversation began with a company named Darryl Kent Real Estate due to the untimely death of their founder. As the conversation progressed, the senior team at Darryl Kent Real Estate called Einhorn and the team at Family Trust on a hot summer day on a Friday in August. The Darryl Kent Team told them that circumstances had accelerated and they wanted to make a deal by Monday. They had seven offices and 300 agents - a very large firm by the day's standards. Einhorn and The Family Trust Leadership Team worked all weekend and made a deal to acquire the company.

Often, transactions occur just like this. A relationship is struck, a conversation begins and over time, something changes that accelerates the timeline or motivation to get a deal done.

Integration of cultures of the two companies would be challenging. Geographically Family Trust serviced the suburbs and rural areas including farms whereas Darryl Kent Real Estate serviced urban areas. In addition to the geographic difference, big cultural differences divided the new group as well. Think of it as country mouse meeting city mouse. The suburban and rural team had traditional family customers and values whereas Darryl's agents were primarily gay. Family Trust was a suburban company that touted family values and had very traditional employees and agents and customers. In fact, their logo was a man, a woman, and three kids standing together and the name of the company was Family Trust. Darryl Kent had 300 agents, 230 who were openly gay in the early 1990's, at a

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time when that was not the norm and not a part of the mainstream thinking.

Einhorn's job was to integrate the two cultures to create a WIN-WIN situation and that is what he did. By implementing strategies to bring both companies together, the two companies were successfully combined. As 1992 unfolded, the economy deteriorated further and the Darryl Kent acquisition was cited at a board meeting as the sole reason for Family Trust's survival during a time when home values had plummeted by more than 30 percent and sales volumes were off by more than 40 percent. The transition and integration strategies that were learned from that transaction are what underpins the successful transactions that we assist with today.

We are happiest when our clients succeed. Succeeding requires the understanding of each party's objectives along with the process for achieving those objectives. We have a ten-step process that guides a potential buyer or seller through a transaction, bringing our expertise and experience to bear to minimize the risk of anything going wrong.

Horror stories abound when brokers try to sell or buy brokerages themselves. We have heard of deals where money changes hands and the next week most of the agents leave. In other instances, buyers overpay and soon realize their cash flow is negative, or sellers undervalue and realize they left cash on the table after the deal.

Other avoidable mistakes include incorrect deal structure that leaves too little or too much working capital in the business or inappropriate financing mechanisms. We have heard of brokers sharing confidential information without an NDA and it being spread far and wide. All of these examples can be avoided with the right advice. This is no time to experiment with a FSBO.

As an interesting footnote, although we have heard many horror stories when brokers employ a "do it yourself" strategy, we have never had a negative experience on one of the transactions that we have been hired to lead.

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STEP ONE

PREPARE FOR BUYING AND SELLING

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Prepare for Buying and Selling

Ideally, turning your mind to selling your brokerage a couple of years ahead of time is prudent. You have toiled and sweat your whole life to get to this point. You want to best position it for sale. This permits you to best position your business to maximize the price you will secure. It also allows you to make decisions with the goal of making the transition as seamless as possible, including for example increasing the odds that your agents will stay with you during any earn out period.

In a residential real estate transaction, it is customary that a seller would contact a real estate agent approximately 90 days ahead of closing. In contrast, to maximize proceeds and have a smooth transaction, in a real estate brokerage transaction this preparation period is ideally one to two years. Unlike a seller staging a house in a few weeks, preparing to sell your brokerage will take a couple of years.

Your objective is to make the opportunity as attractive as possible to the potential buyer. Most buyers will want to see three years of financial statements. Many brokers split income with family members and write off expenses that are not critical to the business itself. Hence if you can focus your mind on what you would want to see if you were the buyer and use that perspective to cleanup your income statement and balance sheet ahead of time, it will maximize the price you can secure for your business.

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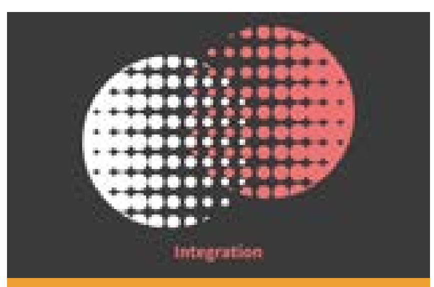
Einhorn indicates that "dirty data" often causes potential buyers to walk away from a transaction. If you are still keeping receipts secured by rubber bands in shoe boxes, now is the time to upgrade your accounting system. Your objective is to make the financial statements easy to understand and focus on the core business you are seeking to sell.

We previously worked with a broker in Miami who owned Miami Heat tickets through his brokerage. He sometimes brought customers with him but more often than not brought his wife and kids. Ownership of these tickets should ideally be removed from the business before sale and transferred to the individual broker's name, and any expense from the tickets should be removed from the brokerage expense. This is an example of preparing for sale.

Another of our Toronto-area brokers owns her building in her brokerage name. Ideally in preparation for sale, the building's ownership should be changed so that it is owned by the broker personally or in another corporation rather than being owned by the brokerage itself.



The most likely buyer for your business is one of your competitors, although children, top agents, and local businesspeople may also be interested. Given the potential pool of buyers, the best way to prepare to sell your brokerage is to get to know your competitors personally ahead of time. When choosing which competitors to meet, use what Einhorn calls the

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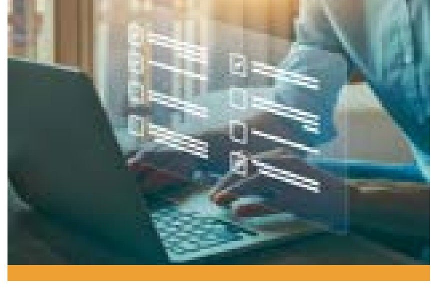
"Sunday dinner" test. If you would sit down to Sunday dinner with the person to whom you are considering selling your business, that is a good test for potential fit.

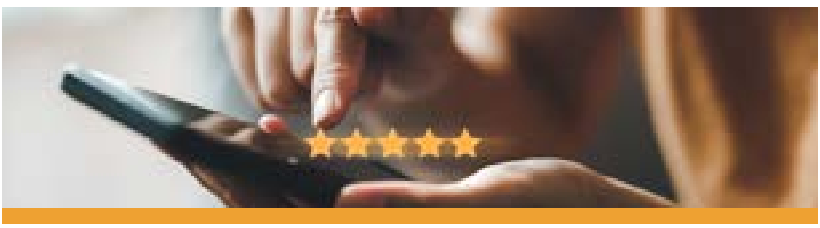
Talk with a professional who is familiar with the buying and selling of real estate brokerages. Tell them about the possibility you will be selling your brokerage in a couple of years. Together, look at your business structure with the objective of giving the buyer the option of buying the shares of your company versus an asset sale.



There are advantages to a buyer of purchasing a going concern and walking in on closing to a stable, operating business. It is a more seamless transition. Einhorn indicates that this avoids the need to re-sign all agents to new independent contractor deals, have the agents change their signs and business cards, have their sellers sign new listing contracts and possibly enter new leases for premises. It may therefore increase the likelihood of keeping more of the existing agents.

Obviously, these decisions have other implications, but when positioning your business for sale, consider options to increase the attractiveness of your business to a buyer. The above are a few ways you can prepare for a potential sale ahead of time.

In residential real estate, we get in the mindset that you can prepare a house for sale in a period of a few weeks. You meet with realtors and choose one; you stage your house and remove all clutter; you paint where needed and perhaps upgrade the bathroom or kitchen as required; and you remove anything distracting from the premises. That whole process may take a month or two.



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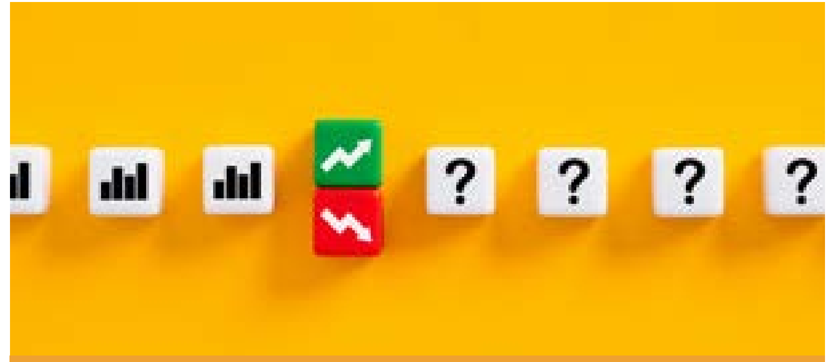
In contrast, preparing a business for sale takes one to two years. The timelines are much longer because the fundamental items you need to accomplish are much larger and must be done so they hit your balance sheet and income statement for the last year end. If you are thinking of selling a business, make sure you prepare well in advance.

One of our clients had stopped recruiting nine months earlier and as a result, she had lost agents year over year. In preparing for sale, we recommended she ramp back up her recruiting efforts to increase the value of her brokerage. She did and spending the time a year in advance to recruit new agents increased the value of her business by $250,000 because she recruited 13 net new agents during that time period.

We worked on a transaction recently in California for a fellow named Joe. He came to us wanting to exit his business. We counselled him to enroll in coaching and begin preparation for sale. In the twelve months thereafter, he removed his discretionary personal expenses from the income statement; he focused on direct EBITDA generating activities; he recruited five new agents; he put a General Manager in place; and he removed all unnecessary expenses, closing one or his five offices that was not needed. These actions permitted him to generate a sale price more than double the price he was initially prepared to sell for. Joe's preparation in the 18 months before he sold dramatically increased his profits from sale of his brokerage. That is the intent of preparing for sale.



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STEP TWO

BUILD RELATIONSHIPS / FIND A BUYER OR SELLER

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Build Relationships / Find a Buyer or Seller

When you are considering selling your brokerage, the first thought is “who will buy it?” In our experience, there are five main types of potential buyers.

First, and most commonly, we look to a third party to buy our brokerage. The most likely candidate is our competitor in our local market. That person is well positioned to both understand the value of what we are selling and to have the ability to create synergy between his shop and yours.

For this reason, it is prudent to create relationships with your competitors long before you are thinking of selling. Calling and asking to have coffee with someone who sells houses for a competing brand may seem like a strange pursuit, but we can always learn from our competitors. More importantly, it will create a relationship that you can call upon when you are ready to sell.

A woman named Mary who was running a successful business in New York reached out to us to advise she wanted to sell. Her children were enjoying the fruits of her labour but were not interested in running the business, having seen how hard their mother had worked all those years. We suggested that Mary reach

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out to the five closest offices to hers to have coffee and create a relationship. Within three months of doing that, she had two offers to purchase her business from two of those five closest offices. The value to those close competitors was obvious.

The second potential buyer source is to look within your family and extended family. Ideally you are seeking a younger family member who is already involved in the business. It is often the case that of three children, one of them may be heavily involved in your brokerage. He or she may have a realtor's license and may be selling houses or may be helping you run the shop. That person, with coaching and grooming and experience, is often the ideal buyer. You will ideally want to finance their purchase in a way that is not unfair to their siblings, but that child is well positioned to want to carry on the family business and the family name.

Einhorn has worked personally with countless second and third generation family succession plans with great success. What he typically does is immediately enrol the child or grandchild into coaching with peers. Oftentimes the older generation has a successful way of operating that is more based on gut feel instead of systems and processes. By enrolling the new generation in a coaching program, they can learn and develop a set of systems and processes to successfully grow and run the business themselves.

Brokers are typically so busy running the business they don't have time to mentor the second and third generation. They also rely upon their gut and their relationships built up over the years, coupled with their experience. The younger generation doesn't have those resources to call upon. A coaching program where they can interact with peers to their parents or grandparents gives them business

skills and abilities of their own along with their own network to allow them to become confident in their own abilities as opposed to always feeling like they are the second fiddle to you.

The third potential purchaser is a management buyout, or MBO. This happens when you approach your management to get together as a group or an individual to purchase your brokerage. Typically, management doesn't have the money to purchase your brokerage outright but if they are motivated and have some personal resources upon which to draw, and you are prepared to finance the bulk of the purchase price, they are good buyers. They already run the business with you and you obviously trust them given their tenure and performance under you.

We recently worked with Jeremy in New Jersey on just this sort of transaction. He didn't have children nor did any of his competitors want to purchase. Yet he did have a longstanding competent manager of the business who ran it successfully along with two high performing salespeople. He approached the three of them and met with them to discuss them buying a minority interest in his brokerage as a first step. They bought 20% to start. The manager soon realized ownership was not for him and exited, but the two high performing agents loved ownership and eventually purchased another 29%. They are currently discussing purchasing the whole brokerage over the next five years as Jeremy looks to ease into retirement. Rawlings believes that incremental ownership transfer permits you to determine who is suitable for ownership and who is not so you can adjust as you go along. It is often the most seamless transition of all.

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The fourth option for sale is to merge your brokerage into another similar-sized brokerage and let them run it while you continue to realize the fruits of your labours. Alternatively you could split management responsibilities and become partners. This gives you another competent owner with whom to share the obligations of running a brokerage.

As you know better than anyone, those obligations can be severe and stressful. By having someone to shoulder those responsibilities, it may make continued ownership more palatable and manageable. We were dealing with two brokerages in British Columbia, both of which had a few offices and over 200 agents. We facilitated a meeting where the concept of merger was discussed and agreed upon. They merged shops and shared responsibilities, with one owner taking on more responsibility than the other. The one with less responsibility wanted to spend more time in Florida. The merged shop has enabled both to save on expenses while having a fellow owner to shoulder responsibilities. So far, so good.

The fifth option is operational succession. This is where a manager is put in place without ownership to run it for you indefinitely or to buy time to find a purchaser. A large shop on the west coast had almost 1,000 agents run by two owners and their wives. One of the wives died young and at that point, the other

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three decided they no longer wanted to run the brokerage. Their children were too young to take it over. They hired a top flight general manager to run the shop and retired to the south. The manager agreed to a 10-year tenure to give the owners time to determine if any of their children wanted to take the business over, or alternatively to find another buyer during that decade.

It is seven years later and everything is working well. The manager has grown the shop to over 1,000 agents and one of the children seems inclined to buy the business, failing which the manager has identified two potential purchasers to approach. That is an example of operational succession.

Those are the five sorts of potential purchasers we have come upon over the years. All of them require being in a relationship with them before selling. Hence whether your competitor is your ultimate buyer or your child, you need to reach out to them. If you are putting together a management buyout, again you must have trust in the people you are approaching. A merger requires a relationship ahead of time to establish common ground, and an operational buyout requires finding an excellent manager, again based on relationships. Everything you do to prepare for sale involves first creating a relationship.

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STEP THREE

UNDERSTAND THE MINEFIELD THAT IS MERGERS AND ACQUISITIONS

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Understand the Minefield that is Mergers and Acquisitions

A true merger is rare where two equal companies exchange shares in each other and amalgamate. What generally happens instead is that one company acquires another. We still call it a merger but it is actually an acquisition. One broker typically sells to another. The purpose of using the word “merger” is to appeal to the ego of the Seller. The transaction occurs when the lines between ego and economics meet. Einhorn prefers to call this some “combination” of two businesses to remove any objections to the terms “merger and acquisition”.

If you were to call up 10 competing brokers and ask them flat out if they wanted to sell, they would tell you “no”, likely in somewhat colorful language. Einhorn recommends instead that you call them up and arrange to meet them for coffee to get to know them and to determine if you could work together in some manner that would be advantageous for both of you. Meeting your competitors and knowing them ahead of time makes it easier to determine who might be a good fit as a buyer when you are ready to sell.

If you don’t have a relationship when your competitor is in trouble, you are out of the game before it starts. The key is to have established some trust between the two of you before the person is in need of selling.

We created a successful strategy with a broker client with offices in northern Illinois and Wisconsin. We would have lunch with or book an appointment with the prospective acquisition target. At the meeting, we would present them with a press release talking about how two companies merged and how it was the logical next step for a broker with such a successful career. The transactions were actually outright purchases but the seller was enamored with the idea that they were portrayed in such a successful light. It was the appeal to their ego that made the transaction work. There is an old adage that if you don’t care you gets the credit, you can accomplish pretty much anything.

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Now that we have outlined that most mergers are actually acquisitions, let's discuss how to avoid the most common minefields. The first one that leaps to mind is confidentiality. We have heard horror stories of confidential information being disclosed far and wide to the detriment of the broker looking to sell. This can be easily avoided by hiring someone who knows the process.

Our process is beyond simply executing a few NDAs. There is a common misconception among brokers that once an NDA is signed, they can discuss the proposed transaction with others so long as they swear those others to secrecy. Rawlings loves repeating that a famous general once said that any three people can keep a secret…as long as two are dead.

We have a ten-step process that walks a buyer and a seller through a transaction from conception through to post-closing analysis. We have witnessed brokers who felt halfway through an acquisition transaction that they "had to" tell their three best agents about the pending deal.

Inevitably, this need to tell those three morphs into everyone hearing rumors about what is about to happen and the broker losing control of the transition process and the message. Losing control always results in a less than optimal closing and loss of money. Communication in a merger is critical and you must control the message or risk the deal going south.

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Another pitfall is acting like a FSBO with your brokerage. Any seasoned real estate professional knows that someone trying to sell their own property will always receive less and have significant heartache and headaches compared to if they had hired a professional and run a professional process. The same is true, albeit magnified, for a broker looking to sell. The process of selling a brokerage is much more complicated and riskier than selling a house. There are multiple agents, staff, premises, contracts, franchise obligations, litigation risk, and public relations decisions to be made, all of which benefit from an experienced advisor.

Undervaluing your brokerage, or conversely overvaluing your brokerage, are both risks if you don't have help. Our process begins with a written valuation to enable the broker owner to understand what his or her business is worth. The valuation needs to be performed by experienced, designated professionals who know the real estate brokerage industry intimately. Not only do your professionals have to stand up to the acid test of the buyer or seller, but also their attorneys and accountants that offer their views during the transaction. By starting with a valuation showing all the metrics that go into determining value, a broker can decide to take a year and prepare their brokerage for sale using those metrics rather than be subject to the current value. It educates the seller or buyer on how a brokerage is valued. Rawlings reminds that the valuation must also be fair because it will be relied upon by both the buyer and the seller.

Oversimplifying the valuation process is another potential pitfall. Sometimes brokers think putting a value on each agent is the way to value a brokerage. Others allocate a "rule of thumb" earnings multiple. A professional will consider both of those metrics along with about ten other metrics to reach a comprehensive valuation that is well thought out, supportable, and full of robust analysis.

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There is not one metric that determines value. It is an amalgam of many different inputs and analyses put together to form a whole. Even small brokerages require a proper valuation. In our experience, the cost of valuation is almost always recovered many times over in the acquisition or sale process. This knowledge is critical to a successful transaction.

Share sale versus asset sale is a complicated decision involving multiple factors and operational considerations not to mention legal implications and tax issues. Share sales are often more beneficial from a tax point of view but may be impossible due to litigation risk. Conversely, asset sales often require all agents to re-sign all contracts, sometimes making them far more unwieldy. These decisions require a knowledgeable professional providing advice.

Working capital is a hugely misunderstood concept. Many times, brokers assume they can remove all the cash from the business on closing. Most brokers think that the broker's portion of the pending transactions are the property of the seller. In a share sale, this is usually not the case. If a multiple of earnings was used to determine value, the broker's portion of the pending transactions has already been accounted for in the valuation. In addition, the business must have sufficient working capital to meet the obligations for the ongoing operation of the business.

A good interview question for your advisor is to ask them the working capital calculation for a brokerage on closing. Usually, you need to take the broker's portion of the pending closings plus collectable current accounts receivable as your first input. Then deduct the current accounts payable. Next, determine the required working capital. The difference between the monies coming in and the monies going out for the period of time that it will take for the brokerage to have it's own cash to pay expenses is your working capital. This will give you the cash required in the bank on closing. The amount will fluctuate significantly depending on the time of year you are closing and the market activity at that time of year.

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The final potential minefield is transition. Everyone thinks that once the sale is negotiated, the hard work is done. In fact, it has only just begun. The mechanics of transferring over all or as many agents as possible takes significant planning, organization, and experience. As a simple example, you need new signs and business cards on closing, but cannot afford to tip off your local community ahead of time. We have had a 100% success rate with our transitions, even going so far as to have the signs and business cards printed ten states away to ensure no one leaked the news of a big transaction. A similar example is changing over banking. Your banker is a member of the local community so you want to ensure that all communication that would tip anyone's hand that a large transaction is pending happens after the announcement is made. These are just a few examples of things to consider in the transition.

You will likely only sell one brokerage in your lifetime, whereas a good advisor will have counselled hundreds of people in that same transaction. The For Sale By Owner example is 100% true here. Most owners have worked their entire life to build the company that they are selling. You have worked weekends, taken out mortgages and bank loans, charged up your personal credit cards and prioritized the business success over personal time. Hence utilizing the experienced counsel of an advisor on sale is prudent and guarantees that the asset you toiled, sweat and bled over will secure maximum value for you and your family.

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STEP FOUR

VALUE A REAL ESTATE BROKERAGE

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Value a Real Estate Brokerage

The main principle underlying valuation is Fair Market Value, defined as the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts. Just like appraising a house, your obligation is to appraise the house or real property based on the highest and best use. The question on everyone's mind is: how do you determine fair market value for a brokerage?

Rawlings has often said "I will pay any price so long as I can set the payment terms." One million dollars is likely affordable if you have 100 years to pay.

"My price, your terms." "My terms, your price."

The first step in valuing a brokerage is determining the proper approach to value. There are three methods to value a brokerage. The first step is to determine whether the brokerage is a going concern. A going concern business is one that is functioning, even if it doesn't make money. A brokerage in receivership, in bankruptcy, or that is losing money and should be broken up into separate assets, is not a going concern.

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If it is not a going concern, then you utilize the Liquidation Method to value the brokerage. You are merely looking at liquidation value, which is basically the value of each individual asset, agent, contract, customer, and any other part of the business that can be separated out and sold.

The second is the Percentage of Gross Margin Method. This only applies to brokerages where they don't earn a profit but have some intrinsic or underlying value. In this case, the gross margin is calculated rather than the EBITDA and a percentage of the gross margin is used to value that income stream. This amount is paid by the purchaser as compensation for taking in that gross income stream.

Einhorn was invited as an expert witness to opine on the validity of a 185-page valuation report on a broker in the Northwest, provided by another company. In this valuation, after an exhaustive analysis, the company posited that the brokerage was worthless because it did not have any EBITDA yet it had a gross margin of $1.2 million generated by close to 100 agents. In his letter to the Court, Einhorn gave his expert opinion that the method of valuation was incorrect. Common sense provides that any organization generating consistent revenues of $100,000 per month cannot be worth nothing. This is an excellent example of the time to utilize the Percentage of Gross Margin Method.

The third method of valuation is the Discounted Cash Flow Method, often called the EBITDA Multiple Method. This is the most common method of valuation when the brokerage is profitable. By far and away the most common method to value real estate brokerages is the Income Method. This method values the anticipated future income stream of the brokerage. It looks at Earnings Before Interest, Taxes, Depreciation, and Amortization, called EBITDA. In these appraisals, you either capitalize earnings or discount future cash flow. Typically, multiples of EBITDA range from 2 to 5 in the real estate brokerage marketplace although less or more is possible in exceptional circumstances.

Typically a purchaser will buy a profitable brokerage based on a multiple of EBITDA, which means earnings before interest, tax, depreciation and amortization. The prospective buyer is looking at the unlevered cash earnings that your business is generating. That person wants to know what the business will produce when you are gone, and one of the best predictors of that is what the business has thrown off in cash over the past three years. The buyer wants to buy your book of business, agents, customer list and goodwill.

We adjust EBITDA for anything that doesn't repeat year over year. For example, this could include owner's discretionary expenses run through the business, normalizing owner's compensation, commission receivable adjustments, a large software purchase, and replacing the selling owner with new management. It is also important to bring the owner's commission treatment in line with the other agents' treatment to properly value the income stream from the owner.

In essence, whether using the Discounted Cash Flow Method or the Percentage of Gross Margin Method, valuing a real estate brokerage requires analyzing the likelihood of the agents staying with the company after sale. Hence the number of agents, how sticky those agents are to the business, the recruiting success of the brokerage, the agent attrition rates, and the productivity of agents are all factors. Furthermore, the state of the real estate market will impact value because in high times, brokerages are worth more because more people are selling more houses for more money, whereas in times of correction brokerages will be worth less because there is less volume and thus less income. Given how quickly the market

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can change, the last twelve months of operating results are the most relevant in any valuation and the last three years will provide a trend.

Over the past two decades, there has been a large delta in multiples paid for profitable brokerages. Previous to the great recession in 2008, multiples climbed to a staggering 10 times EBITDA. The recession kicked that back down to single digits. More recently, two large acquiring companies of brokerages, Anywhere, previously called Realogy, and Home Services of America, owned by Warren Buffett's company, were actively buying brokerages between 2016 and 2018 and regularly paying a premium multiple. In addition, Compass entered the market and wrote large cheques to real estate teams and broker owners that were based on market share acquisition rather than profitability. Peerage Realty Partners also bought part ownership of brokerages in that same time period. Things have calmed down considerably since then, and multiples are back down.

Generally a buyer will pay between two to five times EBITDA, but when large players are buying, multiples often hit greater heights. These sorts of market conditions drive prices up or down.

There are numerous other factors that will increase or decrease the price someone is willing to pay for your business. Low margins will decrease the price because it increases the risk of earning enough to make the purchase worthwhile. Typically the larger your market, the larger the potential buyer pool is that may be interested in it. Selling a brokerage in a small town will typically generate less interest than one in a larger metropolitan area.

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Another factor is your brand awareness in your location. Does everyone know your name? Further, are you concentrated in a specific area or property type. If you are the premiere realty company in a certain area, this will generally increase the price. Similarly, if you specialize in beachfront property, that focus will typically increase the price. If you are an industry leader, sitting on association boards with some prominence will typically increase the price. Finally, a buyer will want your culture to meld well with the buyer's culture, and if the cultures fit, that will also increase the price.

Sellers always want top dollar. When setting a price, Einhorn recommends you consider if you were to go to the bank and borrow the amount you want as a purchase price, would the business be able to pay it back over the ensuing five years? If not, the price is too high. In essence, the buyer is buying a projected future income stream. Keep that in mind during negotiations.

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STEP FIVE

MATCH THE RIGHT BUYER AND SELLER

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Match the Right Buyer and Seller

As previously discussed, there are five types of transactions:

1. Sale to a third party;
2. Management Succession;
3. Generational family Succession;
4. Merger; and
5. Management buyout.

Once you determine the type of transaction you will be entering into, there are a few additional considerations to ensure you are a match with your buyer or seller.

First of all, you want their work ethic to accord with yours. Hard working people want to sell to other hard-working people. Your staff and agents

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were attracted to you, so the more similar the buyer is to you, the better. Secondly, consider whether the seller has the capital to run and grow your business. You want the business to succeed. If the buyer plans to use the working capital for things other than running the business, that is a red flag. You want someone who can afford to purchase your business.

Thirdly, look at their leadership and management abilities along with their team. You want to know that the buyer can manage your shop without neglecting anyone or anything important. Fourth, consider demographics. Does the buyer fit with your existing clientele. Will your current group of agents relate to them? The most critical predictor of success is that the person buying your business is compatible with you and the business you have built.

The buyer of your brokerage is someone you are going to have a relationship with for a period of time after closing. As a result, trust, common values, and a shared vision between the two of you are critical. This makes brokerage sale different from purchase and sale of a house where there is minimal if any interaction after closing.

When buying or selling a business, the closing date marks the beginning of a temporary partnership between the buyer and seller. There is a transition period after the sale where both parties work together as partners. The first and most critical transaction is the transition of your agents from your shop to the buyer's shop. This transfer of relationships can make or break a purchase.

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Think about managing staff, your approach to expenses, how you treat your agents, what conventions you attend, your training and recruitment practices, and other such business decisions when you consider to whom you want to sell. If you have a similar set of values and approach to the business, these decisions should not cause a lot of conflict.

The focus on a win-win transaction means that transparency and trust are essential factors in this partnership. Sellers must accurately value their business and provide full due diligence to avoid misunderstandings or conflicts on closing. If the buyer discovers after closing that the business is not how it was represented, however innocent those misrepresentations may have been, it will erode the trust between the parties.

On the other hand, if a seller is ill-advised and undervalues the brokerage, the seller will feel resentment towards the buyer. This speaks to the need for transparency and trust throughout the buying and selling process.

We are dealing with a potential deal right now whereby we have two potential buyers. The first buyer wants to merge with the target brokerage and the other wants to buy it outright. The first decision as the seller is to determine your objectives. In this case, one of the partners is older and wants to retire whereas the other partner is younger but doesn't want to manage anymore. In this case, the merger option makes the most sense provided that all of the younger partners buy out the partner who wishes to retire as part of the merger.

Before you enter into any sort of transaction, we have mentioned that you need a relationship. Focus throughout your career on building relationships with other brokers so that when the time comes for you to sell or for them to sell, you are one of the first calls and both of you are starting from a high trust position when you start the conversation. Assuming you already have the relationship, the next step in matching the right buyer and seller is having a conversation on mutual objectives.

Many brokers are in their 60s, 70s and 80s and are looking to transition all or part of their business to the next generation. These sellers will have some common objectives, such as selling to someone who will continue their legacy and for a fair value. They may also have differing agendas. Some may want to stay in a sales or reduced management role after closing; others may want to continue to mentor and train the next generation; others might take on recruiting responsibilities. Understanding the seller's objectives and being able to fashion a role for the seller, if desired, will enhance the attractiveness of your offer as a buyer.

The next step is to look at avoidable mistakes between a buyer and seller in this part of your process. The first mistake is not to take minutes of each meeting you have with the prospective buyer or seller. It is good practice to keep notes during meetings and even publish minutes of the meeting to ensure everyone stays on the same page as you progress.

The second mistake is to progress too far down the buy/sell process without engaging a professional. Although brokers are understandably reluctant to spend money, the key decisions to be made and structure to be created in the buy/sell transaction require expertise that the broker does not have. More than once, we have been engaged after the buyer and seller have unknowingly entered into a deal that is not mutually beneficial and thus is stalled. The transaction becomes impossible to fix because expectations have been set that are not amenable to both parties. A good professional can help you avoid these sorts of deal structure problems.

The overarching principle in matching a buyer and seller is shared values. Einhorn always says that if you wouldn't want to have Sunday dinner with the buyer or seller, don't sell your business to them. When you think about it, the relationships in your life that cause you the most grief are relationships with people who have incongruent values to you. Hence to ensure a smooth transaction, and also to maximize the chances that you can retain as many agents as possible in the transition, you need to choose someone who views the world similarly to yourself.

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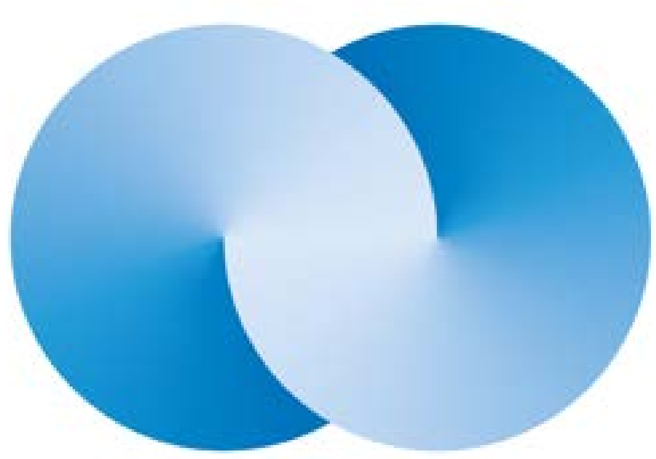
When buying or selling a business, there is a partnership established between the buyer and seller from the moment you begin the conversation through the transition period and closing through to the post-closing operations and final payout. This makes trust crucial in maintaining a successful partnership. To maintain that trust, truthfulness and transparency must govern all due diligence and disclosure representations. If the deal is not win-win, it will fail.

Choosing someone who shares your values coupled with hiring a competent professional advisor will help you enter into a successful transaction. Your buyer/ seller and your advisor can help you resolve any conflicts that arise.



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STEP SIX

STRUCTURE THE DEAL

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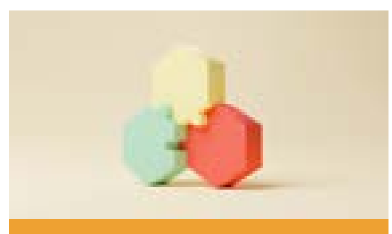
Structure the Deal

There are as many deal structures as there are snowflakes. Although there are similarities between various deals, there is room for a lot of creativity in each deal. That being said, there are a handful of typical deal structures when dealing with brokerages.



Most sellers want 100% of their purchase price up front. This is possible but it will decrease the total price someone is willing to pay. Further, your tax burden will likely be much higher and there may not be as many potential purchasers. In direct contrast, most buyers want 100% of the purchase price paid via earn out. This decreases the risk that upon closing everyone leaves and the buyer is left with nothing of value. Few sellers will agree to this model.

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In our experience, the following five deal structures are a common starting point for discussions:

1. All cash up front at a discounted price;
2. No cash up front at a higher price with a payout over time;
3. Some cash down, perhaps 25% or 50%, with the amount of the remainder fixed and paid over a fixed time period. The money not paid up-front functions like a loan or a note and is a debt;
4. Some cash down, perhaps 25% to 50%, with the amount of the remainder fixed and paid out over a variable time period depending on brokerage performance. This permits the buyer to ensure that the brokerage performs as expected and gives the buyer comfort that the remaining balance will be paid out as the business can afford it; and
5. Some cash down, perhaps 25% to 50%, with the amount of the remainder variable within a fixed time period. The remainder will be based on certain performance metrics. This structure insulates the purchaser from risk and is generally used for a lower quality, higher risk brokerage purchase.

When setting the earn-out amount, you can set a ceiling and a floor for that number. The obvious downside of an earn-out is the uncertainty for the seller, whereas the obvious downside of the initial payment is the uncertainty for the buyer. If your buyer fails and the business falters, you either have to step back in and rebuild or walk away from potentially a sizeable amount of money. As a result, the earn-out over time is often accompanied by the seller staying on at the company until paid in full, thus ensuring the continued success of the company during the earnout period. If there is a default in payment, most good agreements will permit the seller to step back in and control the company until the default is cured.

Prior to negotiations, we enter into a Non-Disclosure Agreement to protect the confidentiality of each party. Once we reach the Deal Terms stage, typically details are outlined in a Letter of Intent. That Letter of Intent may cover whether this is a share or asset sale, price, the initial deposit, the terms of remaining payout, amount paid on closing, closing date, management roles and responsibilities,

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triggers on payment of remaining purchase price, role of the seller after closing, mutual communication, conditions to firming up the deal along with due diligence period, seller's covenants and buyer's covenants, events of termination, payment of expenses, exclusivity clauses, working capital on closing, and confirmation that the Letter of Intent or Deal Terms is not a binding legal agreement.

A well written LOI will minimize legal fees and any potential for conflict between the buyer and seller. Good LOIs provide attorneys with a template upon which they can base the legal agreement, dramatically reducing their cost.

Once Deal Terms are signed by all parties, the parties typically roll into Due Diligence. This can include review of franchise agreements, review of agent's compensation plans, review of leases, review of all contracts, meetings together to discuss the vision for the brokerage going forward, audit of the financial reporting previously provided, proof of the amount in the bank account, regulatory approval, and all manner of further investigations appropriate to the deal.

When you move to preparing the legal agreement, you should consider the three D's plus B: divorce, disability, death and bankruptcy. The legal agreement should cover what happens if any of those events occur prior to closing or after closing during the payout period. Otherwise, there will be confusion should any of these events occur.

Other considerations when putting together the legal agreement are what happens if the buyer doesn't want the brokerage after closing; Errors and Omissions insurance (often called a "nose" or "tail" policy) to protect the seller against claims from after the sale and the buyer from claims prior to the sale; stop loss provisions in the earn-out contract; and a mechanism for resolving disputes that arise from the sale and the earn out. All of these can be included in the legal contract that results from those Deal Terms.

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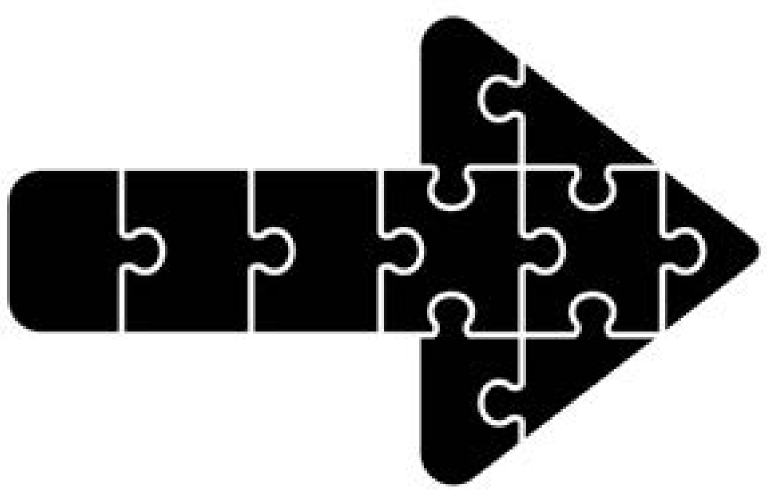

Finally, deal fatigue is the number one killer of transactions. The transaction should close within 60 days of signing, 90 days at the latest. The longer it drags on, the less likely you will be able to close the deal and the more likely word will leak out. In moving to closing, a critical component is mutual communication. Many a deal has been derailed because people found out ahead of time and scuppered it.

We participated in the "perfect" transaction: a willing seller; a knowledgeable, well-financed and motivated buyer; and a pristine brokerage with years of documented profitability and success. The transaction was a simple one: an agreed-upon premium multiple; 1/3 of the purchase price in cash with a 60-day closing; and a well-secured note guaranteeing the seller the remainder. What could possibly go wrong?

In the 60 days prior to the planned closing, the Seller had a tragic family event that understandably delayed closing. It was about 120 days instead of 60. In the days after the original closing date, the Seller came up with four additional issues that could not be resolved and the deal died. Through no fault of either party, the delay killed the deal. This is an example of how critically important moving expeditiously to close a purchase and sale is.

The structure of the deal is always unique to the individual buyer and seller. The above templates can provide examples for discussion about the ideal deal structure for you. It is key to determine which structure works for you and to have your advisor help you to paper a WIN-WIN transaction.

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STEP SEVEN

AVOID DUE DILIGENCE MISTAKES

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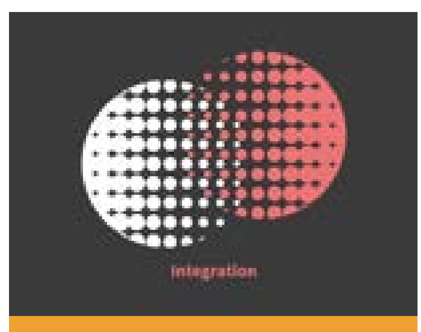
Avoid Due Diligence Mistakes

The first mistake that is common in the buying and selling process is not having an effective Due Diligence List. This is always where we start the due diligence process, with a long list of things we want. Any Mergers and Acquisitions expert worth their salt will have a standard list for purchase of real estate brokerages.



The next common mistake is not choosing the right timeline for due diligence. Sometimes people think they can rush the due diligence process. Inevitably they will need to either request an extension or they will miss something. Alternatively taking too long for due diligence risks confidentiality and killing the deal.

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The buyer will want to see your incorporation documents along with by-laws and resolutions of your company if the transaction is structured as a share purchase agreement. When looking at your company, the buyer will want to know what debt is registered against it. They will also need copies of any contracts that they are assuming and any employees for whom they are taking responsibility.

The buyer will be interested in investigating all aspects of your business during the due diligence period. Three years' of financial results will be needed including tax returns, accountant-prepared financial statements if available, and the results from your bookkeeping system. Those results must be clear and capable of back up. The buyer will want to know what assets are owned by the company that is being purchased.

Any outstanding litigation or threat of litigation will need to be disclosed. Regulatory complaints will also need to be disclosed. Insurance policies to protect against past or future claims will be analyzed. Any customer service surveys, press releases and other material information will be needed.

The buyer will want to see all of your company processes. How you pay your agents will be analyzed with a view to determining how the buyer's method will impact your people. Your buyer needs to know what software you use for keeping client lists, preparing accounting records, communicating across the organization and generating media.

Your strategic plan will be relevant, as will your day-to-day responsibilities. You will need to produce all of your contracts including insurance, leases, independent contractor documents, policy manuals and records. The less dependent the business is on you, and the more robust your systems, and the more capable your people, the easier the transition and the more attractive the purchase will be. Your business processes, software, applications, website, and method of day-to-day functioning must be clear to the buyer.

In a large mid-western city, there were two brokers that were do-it-yourselfers. They hired an inexperienced advisor who was unfamiliar with the real estate brokerage model and the due diligence process. On the surface, the business looked great and a deal was struck for a purchase price of $1.2 million. Any prudent due diligence process would have uncovered the weaknesses in the financial statements of the business. The business was worth a fraction of the purchase price. In defense of the seller, the seller did not know what they did not know. The deal closed and trust was completely eroded between the two parties. The buyer was unable to make payments to the seller because the business produced not nearly enough EBITDA. We were retained to re-negotiate the terms of the deal and all of it could have been avoided had the two parties used someone capable with expertise at buying and selling brokerages.

Due diligence is critically important. You want to investigate the business you are buying. If selling, you want to provide to the prospective buyer everything he or she will need to assess whether the deal should proceed. This requires a lot of time from both parties, and is the time for all the hard discussions to occur to ensure that everything is transparent and WIN-WIN upon closing.

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STEP EIGHT

CHECKLIST FOR TRANSITION

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Checklist for Transition

The often overlooked and most important step is the transition. In the vast majority of transactions, the value is in the people. If the agents don't move over, the value is lost. Einhorn heard a speaker once say that the agents move the money so in a sale, the broker has to move the agents.

When the buyer and seller are discussing the transition, together you will want to discuss goals for the next two years. The cultural fit of the two companies will be top of mind. Keeping agents and employees will be the subject of a detailed plan and you'll need to appoint someone who is managing the new and existing agents. You'll want to fully flush out the role of the seller after closing, and you'll require a robust communications plan for post-sale including having business cards, realty signs, and other written and online material ready to roll out immediately upon closing to ensure a seamless transition.

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In the ideal transition, nothing changes on closing date. The agents don't have to make any decisions. Everything is status quo. There are no new contracts to sign; no new premises in which to move; no new bosses in place; no new procedures or paperwork or hoops to overcome. Everything looks and feels like it did the day before. The only change is the announcement that there is an exciting ownership shift.

Generally, that is achievable in a going concern share sale. The buyer purchases the shares and takes over the business as it was the day before. However, that is not often possible in an asset sale that was not a going concern, or in a brand conversion, or in a situation where there have to be changes made on closing. There are seven key steps to ensuring the success of your transition plan.

First, you must keep the deal confidential until closing. The moment you tell one person, you have told every person. Secrets are juicy and thus impossible not to share. And if you don't control the message, you risk losing agents because they won't know your vision for the new firm and will substitute their own fears and anxiety, making them vulnerable to being poached before the deal closes.

Do not tell anyone other than your professional advisors about the sale until it is closed. As Rawlings has said earlier, a secret can be kept by three people… if two of them are dead. You do not want news of the sale to leak out before it closes. Tell no one until you tell everyone. You need a clear communications policy and plan immediately after closing to announce the sale to your existing agents, your new agents, the press, the industry, and any other stakeholders. You want your stakeholders to hear from you and the buyer about the sale, not through rumor and gossip. Also, Einhorn and Rawlings agree you should make the announcement ideally on a Tuesday, and never after end of day Wednesday. You want to be able to stay ahead of any problems, challenges or concerns well before the weekend.

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Second, you should have a closing day with a large event, whether it be a luncheon or a dinner or a meeting with food. That is when you make the announcement, all as an exciting change that will help your agents make more money in the same environment in which they are now. The agenda and message at the event are key. Your agents hate change. You need to present the change as a good thing to them. This takes effort and planning.

We once did a transaction. The seller wanted to do the announcement event on a dinner boat cruise. When we questioned the cost, the seller pointed out that on a boat cruise, the agents were held “captive” for four hours so no one can leave while we deliver our message and communicate all the benefits of the sale. This strategy was a success. We retained 88 out of 88 agents.

Third, you need to understand what your agents most value about your business and leave those assets in place. Despite the change in ownership, you want the new arrangement to look as close as possible to the old. This reassures your agents that they will continue to succeed as they have in the past. Your agents have chosen your shop for a reason. They have many options. By keeping most everything the same for the transition, you reduce the need for your agents to make any decisions, consider any alternatives, and ponder options. Business continues as usual, with everything in place to which they are accustomed.

Fourth, the more seamless you can make the transition, the better. In an asset sale, this is more challenging. Ideally you don’t want anyone to have to sign a

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new contract. Ideally, you don't want anyone to have to move premises on the actual closing date, unless you can spin the move as a positive for the agents. You as the buyer need to have signs in place on closing; business cards in place on closing; marketing material on closing. If the agents have to do this on their own, they might move.

Fifth, you want to grandfather agents' plans for at least the first year after closing. One of the things agents are driven by is the amount of commission they can make. If they are insecure or uncertain about their split or their ability to earn a living, they become anxious and vulnerable to moving companies. Reassuring the agents that they will make the same money is critical.

Sixth is a structured follow-up plan with a series of planned meetings booked into the future to gauge customer satisfaction. The more detailed the plan, the more reassuring to the agents. This ensures you don't miss anything that is of concern to the agents. It also ensures that there are ongoing eyes on whether the agents are happy and what is going on at the agent level. It keeps the new buyer on point with the seller's original plans, and permits both to focus on keeping agents happy.

Seventh, communicate, communicate, communicate. Before the closing, secrecy is key. After the announcement, transparency is key. Be available 24/7 to your agents and staff. Be proactive in your communication. Repeat yourself so people know your vision and plan. Listen to your agents and your staff and be open to any concerns or problems that arise. Mediate problems. Enrol champions in your cause to promote your messaging. You should appoint people to specific agents, to keep you in touch with them on a regular basis to ensure they are happy; to ensure any challenges are met and overcome; to make it clear to them that you are on their side and want them to succeed. We call it the BVMA Ambassador Strategy. Someone needs to be talking to your agents on a regular basis to ensure they are happy.

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By having a detailed Checklist for Transition, you will avoid many common pitfalls of ownership change. It will keep you on message, on track, and reminded daily of the need to keep your agents happy and execute the plan you created together.

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STEP NINE

CLOSE THE DEAL

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Close the Deal

Assuming that your Transition Plan is solid and in place, you need to turn your mind to Closing and Post-Closing activities.

Closing involves legal paperwork, the signing of share purchase or asset purchase agreements, banking transition, communication strategy implementation, accounting and final tax returns. In the midst of this, you also need to keep your eye on the agents and transitioning them. It is critically important, despite everything that is going on and how busy you are in this time, that you never lose sight of your agents and their happiness with the change.

One common thread of successful brokers is that they always put the agents first. Often times on Closing, they forget that the agents make the business. They focus on the Closing rather than the agents.

Closing a real estate brokerage is typically a one-time event for most brokers.

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Hence it is sometimes overwhelming in its complexity and it sometimes intimidates the business owner. Experienced professionals can help share the load that inevitably comes with Closing, freeing up the Seller to focus on agent retention and happiness.

Having your professional advisors on board to assist you is critical throughout the process, culminating in a successful Close. At this juncture, your Chartered Professional Accountant becomes an important team member. Your CPA will help you with the financial reporting requirements on Closing; the pre and post-Closing deliveries; transitioning the accounting software to the new owner; creating adjusting entries to deal with any unrecoverable accounts and changes in ownership; and removal of excess cash based on the working capital calculation. After Closing, the CPA will prepare your final tax return.

Your lawyer or attorney will also be a significant team member on Closing. Attorneys prepare the Closing documents; arrange to remove any security registrations of the old owner; register security obligations of the new owner; assist in severance and employee obligations; prepare initial resolutions approving the purchase and sale; and generally act as a counselor on any Closing snafus or challenges. In addition, if there are more than one partner, they will prepare the Shareholders Agreement and Partnership documents to show how disputes are dealt with going forward. Obviously, at this juncture, an attorney who has experience in business purchase and sale is far more desirable than one who typically processes real estate transactions.

Many buyers and sellers want to attend the bank before Closing. We recommend that you do your banking transition the day of Closing because you don't want your banker to mention to anyone about the sale. On Closing, you will need to remove the Seller's

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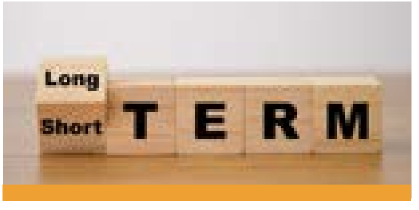
signature from all bank accounts and add the Buyer's signature. There may be credit facilities both personal and corporate that need to be guaranteed and signed for. The bank will want to understand your flow of funds, your trust obligations and requirements, your foreign currency issues if any, and the pattern of your day to day needs from a banking perspective. This should all be put in place with the assistance of both the Buyer and Seller given the Seller's intimacy with what is needed from a banking point of view. You will also want to arrange for corporate credit cards and lines of credit as required to run your newly expanded business.

In your Transition Plan, we focused on communication and how integral it is to the process. Confidentiality is key. On Closing, you continue to implement your Transition Plan Communication Strategy. The ongoing communication strategy is likely the most important component of your Closing because it directly impacts your agents and your business value is derived from moving your agents over to the new owner.

First, you need to hold your event to make the announcement and communicate the value to the agents on the change of ownership. This happens on Closing. Communicate the value to the agents of the reason for the change in ownership and reassure them that things will remain largely the same for them and getting better.



We recommend you map out a 12-Prong Communication Strategy including meetings, phone calls, events, social media, emails, and all manner of communication with your agents, all stakeholders, your customers, and the public. Your advisor will typically have a template for this and help you plan and implement. It cannot be overstated how important ongoing targeted communication is to the success of your transition.

Upon closing, the buyer will have grown the business in one fell swoop. Often the hard work required to successfully transition ownership is underestimated. Assume you will be working 50 to 60-hour weeks for the first four months after Closing to ensure that you keep the value and the agents with you. The first four months after Closing is the critical time frame. You will be needed on site and fully engaged during that time frame. If you can keep the agents happy for that time

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period, you are well positioned to keep them happy long term.

Upon closing for the seller, you will have money in the bank and the buyer will own your business. An initial feeling of relief may give way to some regret and an adjustment to your daily routine and practices now that you no longer own what you built. Many sellers grieve the sale once the initial euphoria wears off. The reality that you no longer own the business will occasion yet another chapter in your life. Be prepared to embrace the changes while recognizing that feeling a little nostalgic about your business is normal.

STEP TEN

POSITION FOR LONG TERM SUCCESS

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Position for Long Term Success

Long term success looks vastly different for the buyer and seller. The seller will need to determine what is the next chapter of their life. Their only job, and it is a big one, is to ensure that the agents transition successfully to the buyer. Thereafter they can move on with their next challenge or endeavour.

One of the most gratifying parts of our job is watching owners who have exited enjoy years of retirement success based on the proceeds received from the sale of their brokerage. Many continue to sell real estate or be involved in the industry. The freedom that comes from having capital in the bank from the fruits of your labour, along with not being tethered to the business on a daily basis is beyond description. In addition, they have the satisfaction of knowing that they built something of value that continues to thrive and survive. Their legacy continues after they have retired.

On the other hand, the buyer faces a different strategy for long term success. The

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first and most important task is ensuring the agents transition and are content under the new ownership. This is a major endeavour and requires all hands-on deck for the first four to six months. This will involve both the seller and the buyer. For the first six months after Closing, you are focusing solely on transition.

Once the first six months after Closing is over, you then want to re-cast the budget and create a strategic plan. Your coach or advisor can help you craft a new plan. You often need a new operational structure in place because with scale comes a more complicated business. At that point, it is timely to create a new long-term vision for the business, setting new goals for the next five years. You will have a sense of the stability and size of the larger business at that point and can create a vision in keeping with that larger company.

Transparent communication is once again important so that your staff and agents can become energized by your vision. Communicate, communicate, communicate...then communicate some more. Once integration is well in hand, you can also determine your next acquisition target.

At this point as the buyer, it is a great time to congratulate yourself for making the move, buying the new brokerage, and now realizing the success of the larger, more powerful, higher-ranking brokerage you have created. If this has been done properly, you should be seeing increased EBITDA and wealth accumulation due to the risk you took and the work you have done.

Long term success comes through risk-taking, planning, and communicating. There is no better feeling than looking back and feeling gratified that you either sold your business well or bought your business well. By working through the plan you have created, you will be able to enjoy the fruits of your labour.

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CONCLUSION:

KEY NEXT STEPS AND ACTION ITEMS

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If you are considering selling your business, the first step is to have Broker VMA Inc., or someone like them prepare a business valuation of your brokerage. A specialty advisor is worth their weight in gold during this process. This will enable you to organize your financial information in such a way to determine the approximate range of value of your business. It will also force you to gather up and organize your documents.

Choosing your specialty advisor is easier than you think. There is a list of qualifications that are critical to evaluating the strength of the advisor.

- First, real estate brokerage experience is essential. Asking a generic business broker, CPA or attorney to help you is not prudent. The real estate brokerage business is a unique business that requires specialization.
- Second, you want someone with a professional designation or post-graduate degree. You need someone who has the sophistication to deal with any problems that arise. That person must also deal intelligently with your attorney and accountant and with the attorneys and accountants of the other party. You don't want a lightweight.

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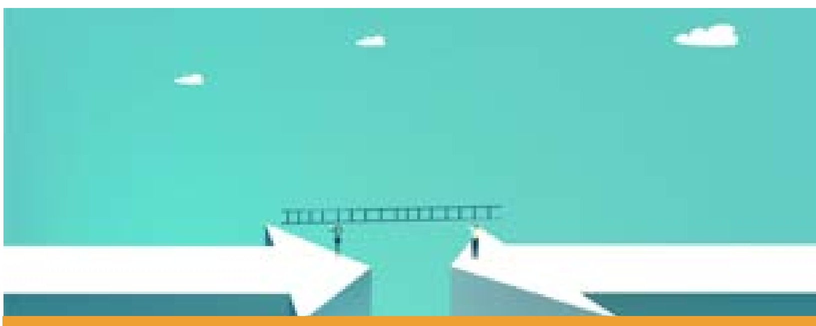
- Third, you want someone who has a track record of success in the buying and selling of brokerages and who can bring that extensive experience to bear on your transaction.
- Fourth, from time to time we hear brokers trying to save costs. This is no time to consider cut-rate commissions or a FSBO mentality. You are buying or selling a significant asset and want to ensure you receive fair market value for it and that the transaction has the best chance of closing. Typically, business brokers take 10% of the purchase price. In the real estate brokerage business, anywhere from 2 to 5% is the target.

Secondly, your advisor will prepare a Non-Disclosure Agreement ("NDA") to be vetted by your lawyer in your jurisdiction. Before sharing any information of a confidential nature with anyone, you need to know your secrets are protected. You want to maintain strict confidentiality of all information during due diligence with serious penalties for breach. The NDA helps you determine if a buyer is actually interested.

Third, gather all your due diligence material in one spot. This will take time. Specialty advisors will have robust lists of all the items you'll need to gather. If you don't have certain items, you may need to create them or buy them. One of the biggest cost drivers of professional fees is when due diligence material comes in willy-nilly rather than as one large comprehensive package. The requirement of continuous follow up dramatically increases costs. A good professional firm will give you a complete list of due diligence material. Organizing this material ahead of time will streamline the process and reduce costs.

Fourth, identify potential buyers and approach them with a view to gauging their interest in your company. As discussed above, the most important test is the "Sunday dinner" or values test. We also call this the cultural fit. You and your buyer should be compatible in many ways to conclude a successful transaction.



Fifth, have your advisor create a Letter of Intent and Deal Terms to paper the transaction. Papering the transaction launches the parties into the due diligence period. 30 days for due diligence is a good target with another 30 days to close. As discussed above, you don't want a transaction taking more than 90 days to close. Move through due diligence with the help of your advisor, your accountant and your lawyer/attorney.

Sixth, have your advisor help you close the transaction. Upon closing, you will have money in the bank and the buyer will own your business. An initial feeling of relief may give way to some regret and an adjustment to your daily routine and practices now that you no longer own what you built. Many sellers grieve the sale once the initial euphoria wears off. The reality that you no longer own the business will occasion yet another chapter in your life. Be prepared to embrace the changes while recognizing that feeling a little nostalgic about your business is normal.

That, in a nutshell, is how to sell your real estate brokerage business. In the preceding chapters, we have done our best to give the reader a front to back view of how to sell a brokerage business. Every deal is unique. Nonetheless, understanding the process takes away stress and permits you to avoid making costly mistakes.

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From our first transaction 35 years ago to the one we closed last week, it is gratifying to see the evolution of how brokerages are transacting and the accrued benefits to owners. Buying and selling brokerages is now a common occurrence, with vast wealth being transferred from one owner to another with qualified professionals to help guide the transaction.

We would love to talk with you about your plans to buy or sell your brokerage. Our website at brokervma.com has numerous resources to assist you in your journey, and we offer complimentary calls to answer your preliminary questions. It has been a privilege sharing with you what we know in the hope that it will help you. We hope you found the book valuable and enlightening. Armed with the information we have provided, we wish you all the best with the purchase or sale of your brokerage.

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Conquer the World of Real Estate Mergers & Acquisitions!

Join Einhorn and Rawlings as they take you step-by-step through the transformative journey of buying and selling brokerages. With 50 years of combined industry knowledge, they empower brokers to navigate this pivotal process to a success outcome.

Starting with Einhorn's groundbreaking 300-agent transaction in 1992 coupled with both authors' MBAs and Rawlings' legal expertise, their guidance covers every facet of these transactions. As they unveil the art of successful mergers and acquisitions you are taken from the initial meeting to the post-closing celebration.

This indispensable resource will help you sell your brokerage profitably or alternatively grow your existing brokerage through successful acquisition. Learn their proven methodologies and avoid potential problems by leveraging their extensive experience.

This book is your key to reaping the benefits of the successful purchase or sale of a real estate brokerage.

"As the owner of multiple brokerages, I have relied on the principles outlined in this book to grow through acquisitions and also to divest. I would recommend this book to anyone who wants to be successful in the high stakes game of brokerage acquisitions." Dino Melchior, Melchior Management, Broker Owner / Investor

"We knew our brokerage had grown steadily over the years. Wayne and Norma valued it for us. We are now able to determine the best course of action that will have the most payback in future. Their insight, knowledge and expertise has been so important as we map out our decisions going forward." Carol Anstey, Re/Max Realty Professionals Ltd., Deer Lake, Newfoundland

"Over a 20-year period, we used these steps to grow our brokerage both organically and through acquisition, and ultimately sell it and retire. We couldn't have had a better journey from beginning to end. Buying and selling brokerages is one of the most important functions of the broker. You owe it to yourself to read this book and learn how the Masters do it so you can too." Ron and Kathie Rouse, Happily Retired Broker / Owner