

SELL YOUR REAL ESTATE BUSINESS FOR THE BEST POSSIBLE PRICE



THE OLD SAYING GOES THAT PLUMBERS' HOUSES HAVE LEAKY PIPES. SIMILARLY, REAL ESTATE AGENTS OFTEN DO A POOR JOB OF SELLING THEIR OWN BUSINESSES. YOU SHOULD BE PLANNING THE SALE LONG BEFORE YOU DECIDE TO PUT YOUR BUSINESS ON THE MARKET. BY CRAIG WEST.

Over the last five years we have spoken to owners of over 100 different real estate businesses throughout Australia and New Zealand and have learnt several interesting patterns which exist within the industry around the sale of these businesses. Unfortunately, many real estate businesses do not apply the rules and processes they would apply to selling a property to their own business – if they did they would generally get a better result.

As part of our process with clients we prepare a due diligence report which reviews all the documentation and paperwork in relation to the business over the last five years including income tax returns, financial statements, BAS statements, legal agreements, employment contracts and leases etc. Amazingly many clients do not have access to this information either quickly or accurately – this becomes a major problem in the sale of the business. The first rule to achieve an increase in value therefore would be to ensure your house is in order and all the documentation

is available – (both forwards and backwards) – people will pay a premium for businesses that can prove there are no compliance issues outstanding and that they have applied strategic thinking to the future direction and performance of their business (budgets, sales projections, marketing plans etc).

Businesses generally are purchased on a multiple of profit and this is both simple and logical because of the return the new owner can expect to gain from

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spending the money to buy your business, in the same way that rental yields are an important factor in choosing an investment property. However, the capital gain that can be realised out of the investment is also a very important aspect (again like an investment property) and a large part of the investment

decision, therefore, we need to be able to demonstrate that the business can be built and the value can be increased over time. Real estate businesses have traditionally been sold on a multiple of rent roll, however, this is no longer always the case, many of the banks are in fact valuing the business based on profit multiples.

In order to maximise our return therefore we need to clearly demonstrate profitability and efficiency as well as the underlying asset (property management). Importantly now, buyers will also factor in the availability of passive income – financial services revenues from home loans for example, income from referral and contract arrangements with property related services and suppliers will all add significant value to the business – mainly because this income should, and can,

continue without the personal exertion of the purchaser into the future. The other key issue in valuing any business is risk management and there are significant steps we can take to reduce the risk for the purchaser and therefore add value overall to the business. For example, in most real estate businesses our key risk

is that salespeople will leave and set up in competition either moving from Ray White to Raine & Horne to LJ Hooker or, even worse, setting up Craig West Real Estate Road across the road and poaching your clients based on prior relationships they have had with them. The purchaser of the business would certainly view this as high risk and as with any risk equation the price will need to be adjusted accordingly – unfortunately in this case not in our favour. We have had some success in the past in locking in key people within real estate businesses through an employee profit share and equity plan.

In summary, the ability to sell your business for maximum price should be approached on the same basis that you approach a premium property sale for a client and with the same rigour and discipline, to ensure we

achieve the maximum possible result. In ideal terms we would plan for that sale and manage the process over a two year (or longer) period, in many cases the longer the better.

CASE STUDY – ACHIEVING THE BEST PRICE

XYZ Real Estate: A long-term and successful suburban office of a nationally branded network with husband and wife owners, a large property management division managed by their daughter-in-law and five key sales people, all of whom have been with the business over five years.

This business was recently sold using some of the principles outlined in this article, after having carefully prepared an information memorandum including all of the key documentation relating to the business including projections and marketing plans to use in the future.

The business sold based on three core considerations:

1. The rent roll was valued at a multiple of \$3.10 and achieved this reasonably high figure based on excellent documentation, a well maintained IT system which included regular rent reviews and inspection reports and long serving staff who are now engaged in an employee profit share plan.

2. A multiple of profit in the overall business of 4.8 times earnings (or one year's profit) – most businesses in Australia sell for somewhere between 2.5 and 4 times one year's profit as a guide – again this higher figure was achieved for two primary reasons; four of the five salespeople were engaged in an employee equity plan and were therefore minor shareholders of the business and unlikely to leave and secondly, the financial situation of the performance of the business was stable with long-term growth and careful monitoring of efficiency and performance benchmarks.

3. The business had long established passive income revenues of nearly \$300,000 per year – more than enough to cover the fixed overheads going forward and virtually guarantee financial success in the future. ●



Craig West is a strategic accountant who has built a specialist advisory practice focused on small business owners. Craig has written three books on employee incentives, succession planning and asset

protection. www.successionplus.com.au

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