MERGERS & ACQUISITIONS

IN REAL ESTATE BROKERAGE

by Tami Bonnell, Co-Chair, EXIT Realty Corp. International

Today's real estate market is equally primed for those real estate broker/owners who want their company to be acquired by another and for those wishing to acquire an existing company.

As a 40+ year veteran of the real estate industry, I was instrumental in building three major brands before joining EXIT Realty and have successfully negotiated scores of mergers and acquisitions. In this white paper, we will examine the reasons for both acquiring and being acquired and best practices to help ensure a successful outcome for everyone involved.

According to the National Association of REALTORS® 2021 Profile of Real Estate Firms, "80% of real estate firms had a single office, typically with 3 full-time real estate licensees," causing many broker/owners to lament:

- Their lack of inventory
- Their relevance in the market
- Their ability to stay current with technology

three operation in an area, leaving a great many companies available for acquisition. The larger the brokerage, the more likely stock and cash-up-front may be paid. In other instances, the acquiring company may buy a book of business but offer no up-front money, only payment over time. Some may offer management a contract, employment or a vested interest in the newly merged operation.

According to Crunchbase, $21 billion was invested in the real estate technology space in 2021. While it's important for companies to be high tech, relationships matter most so it's equally important to be high touch. Even with advances in artificial intelligence and artificial valuation models, I believe that most of the business will continue to be transacted by real estate professionals. Technology will not replace real estate agents, but real estate agents who do not use technology effectively will be replaced by those who do. Many smaller companies can't afford the technology, are afraid of it, or don't want the responsibility of keeping abreast of the latest innovations. Now is the time to make a move.

> 80% OF REAL ESTATE FIRMS HAD A SINGLE OFFICE, TYPICALLY WITH 3 FULL-TIME REAL ESTATE LICENSEES.

Owners of larger operations often share these concerns, and in addition:

- The industry's population is aging. Older adults are projected to outnumber children under age 18 for the first time in U.S. history by 2034, according to Census Bureau projections, and according to NAR's 2022 Member Snapshot, the typical REALTOR® is 56 years old.
- Many broker/owners do not have a solid exit strategy which adequately prepares them for retirement.

Large, publicly traded real estate companies sometimes acquire market share by buying the number one, two or

The key reasons for wanting to sell an existing brokerage or wanting to merge with another operation are:

- The brokerage isn't making enough money, or the margin is reducing
- Leadership struggles
- Teams are taking control of the brokerage
- Partnership or health issues

In my experience, a tremendous number of brokers are suffering burnout post-COVID and they don't want to go back to the way things were prior to the pandemic's market of controlled chaos. They stopped meeting with people live, leading and training face-to-face. Now with the market shift they have to get back into the habit of prospecting and teaching their agents how to prospect. The majority of the broker/owners facing these issues simply want to retire, or shift focus by staying on after their business is acquired and working in a different capacity. They care about their people and want to ensure their agents and staff will be well-treated. Regardless of the size of the companies involved and whether they are acquiring or being acquired, there are some important considerations:

1. The business philosophies of the leadership on both sides should agree.
2. The merging of companies is similar to the blending of families; it is important to take the good qualities from both, so everyone has a sense of belonging.
3. Good communication. Stay connected and help everyone understand that it will take time to blend.

The number one reason a merger or acquisition fails is inattention to the people involved. The human element is the most important part of the equation. Oftentimes, the acquiring company not only buys the business but also "buys" its leader so similar business ethics, values and philosophies are key. According to NAR, "Of the REALTORS® who worked for a firm that was bought or merged, 25% left voluntarily". You can improve that number if you pay attention to the culture and ensure your business philosophies match. Failure occurs when the newly merged leadership doesn't pay attention to the agents (old or new) and the result is an empty building when agents leave.

> THE HUMAN ELEMENT IS THE MOST IMPORTANT PART OF THE EQUATION

THE TOP 10 REASONS FOR YOU TO ACQUIRE A COMPANY:

1. To become more profitable
2. To add a team of new agents
3. To gain market share
4. To form a partnership with a talented owner or manager
5. To gain a presence in a prime location
6. To inject new life and energy into your brokerage
7. To reduce overhead by consolidating resources
8. To add outstanding facilities or services
9. To increase visibility through marketing, social media, etc.
10. To add a niche or specialty. Examples of niches include:

- luxury homes
- acreage
- commercial and investment property
- investor business
- condos
- waterfront or resort property
- property management
- the opportunity for new construction
- international business
- ethnic markets
- REO's and short sales

The second most common reason for failure is a lack of communication. This can be overcome by identifying a couple of key people on both sides who are the "pied pipers", the respected influencers. Management should share their plans in advance with these leaders including the reasons why the merger or acquisition is taking place and its benefits. Enlisting their support and cooperation will bolster efforts to keep everyone connected, involved and positive about the change.

THE TOP 10 REASONS FOR YOUR COMPANY TO BE ACQUIRED:

1. You're not making enough money and/or you're not getting a satisfactory return on your invested time.

2. You want to return to selling. Many people open a real estate brokerage because they think it is the next logical step in their career when their true love is listing and selling real estate. A good salesperson isn't necessarily a good business person.

3. You want to start a new career.

4. You are tired of the managerial hassles.

5. Partnership disputes.

6. You want access to better resources.

7. Personal or legal problems.

8. Loss of agents. You're sick of the revolving door.

9. Burnout. You're a real estate veteran who has lived through more than one recession and you don't want to build again.

10. You want to retire.

In preparation for acquiring a company, make it known that you are focused on growth. Ask your Dirty Dozen (a close sphere of professionals who work in the real estate industry but who do not hold a real estate license, such as appraisers, home inspectors, mortgage professionals, etc.), "I plan on building my company. Who do you know who has a good reputation and who shares our business values and ethics?" Ask them to make the initial introduction. Likewise, if yours is the company ready to be acquired, your Dirty Dozen may know of brokerages in your community that may be a good fit.

When a possible candidate is identified, thorough homework on the company and its leadership is key. Google them, friend them on Facebook and connect with them on LinkedIn to gain insight before meeting face-to-face. The insight you gain may include common ground, history, culture, or business philosophies. It also might include insight into someone's strengths and weaknesses. Maybe you're someone who is detail oriented, and the person you're researching is great with people. Don't be afraid of someone being stronger in an area than you because you can blend your talents. The purpose of a merger or acquisition is to build with an eye to creating a more saleable entity or one that can be scaled, and the only way you can scale is by replacing yourself with people and systems.

The first meeting:

Choose a neutral place to meet and determine who the participants will be. Be careful not to overwhelm the other side by having too many people present from your side. Prepare a mutual non-disclosure/confidentiality agreement for all parties to sign.

The purpose of this meeting is to determine the level of interest of all parties. When you're acquiring another company, always acknowledge the hard work of its leadership regardless of their level of success. Show humility. Assuming you've done enough homework ahead of time, you will know by the end of this meeting if there is a connection.

In subsequent discussions, examine motivation and priorities. Do the leaders want to work part-time or retire immediately? Do they want to stay on and manage? Do they want to teach? Is it more important to them to receive money over time (which typically from a tax perspective is a better option) or are they struggling financially and need an immediate infusion of cash? Use phrases like, "Help me to understand" and "Tell me more" and ask questions like, "If this merger proceeds, where do you see yourself in one, three and five years?" and "How important is that to you on a scale of 1 to 10?" Delve deep to find out the reasons behind the reasons.

Here are three case studies:

1. We acquired a company that was affiliated with another brand (they were on a month-to-month contract and they approached us). They had been in business for 30 years and the owners enjoyed an excellent partnership. Our early discussions emphasized money and how they wanted their agents to be treated. As our relationship progressed, I discovered they wanted to simply list and sell real estate to select clients and they wanted to take summers off because they owned waterfront property and hadn't been able to fully enjoy it. In addition, they wanted to be role models for their people; to coach and impact them in a positive way like visiting grandparents rather than parents.

   Initially, they talked only about business; they didn't discuss anything personal. Armed now with deeper insight about what was really important to them, we were able to create a way forward, so they could continue to be involved in the brokerage and positively influence the lives of their people.

2. A broker/owner wanted a very high dollar amount up-front for her business to be acquired and presented us with an attitude of "You can't afford me". I completed extensive homework and discovered that the owner enjoyed working with investors and her clientele, but felt overwhelmed by the responsibility of managing agents; she wanted her freedom. I got to know her over several meetings and eventually when she was comfortable with me, I asked her to tell me what was most important to her. As Zig Ziglar famously said, "You can have everything in life you want, if you will just help other people get what they want." Her most important motivation, her "why", was her child and she confessed that she felt like she was dropping the ball as a parent. She simply wanted to be home when her child got off the bus at least one day a week. Focusing on this new priority, we forged an agreement where she was to make the money she wanted but over a period of time rather than up front. The discovery of what was most important to her precipitated the successful completion of the acquisition.

> AS DEMONSTRATED IN THE THIRD CASE STUDY, THERE ARE MAKE-OR-BREAK CONVERSATIONS WHICH MUST BE HELD BEFORE NEGOTIATIONS CAN PROGRESS AND A SUCCESSFUL MERGER OR ACQUISITION COMPLETED

3. A broker who owned a company of 27 agents wanted the opportunity to retire over three to five years and she assumed her son would take over the business. Over several meetings during which we explored the possibility of acquiring her company, she eventually trusted me enough to reveal that she was conflicted about pursuing our negotiations. She confessed that she had never discussed with her son his stepping into a leadership role and she felt that by continuing our discussions she would hurt his feelings and she was afraid to raise the issue with him. I encouraged her to put our negotiations on hold until she spoke with her son because regardless of whether her company was acquired by us or not, she owed it to herself and her son to clear the air. She agreed and enjoyed what she later told me was the best conversation she'd ever had with her son. She discovered he had no interest in the real estate industry; he wanted to go to school for something else entirely. He didn't want to hurt her feelings, so he had never mentioned it to her! With that weight lifted, she and her agents joined us.

OFTEN THE EXISTING ASSOCIATES ARE THE ONES WHO BECOME DISGRUNTLED AND YOUR COMPETITORS WILL BE WATCHING FOR THEIR DISSENTION.

As demonstrated in the third case study, there are make-or-break conversations which must be held before negotiations can progress and a successful merger or acquisition completed. They include conversations with:

- Spouse or significant other
- Family
- Partner, silent partner or investor
- Employees

Everyone in the negotiation should be encouraged to report back the results of these conversations. I was involved in a situation where a broker/owner forgot a commitment to his family that he wouldn't sell the business for at least five years. His family reminded him of his commitment while I was en route to close the deal. Look under every rock to avoid surprises.

Listen to your gut. Sometimes we are so competitive that we will take a deal just because we can, not because it's a good deal. If your gut is telling you it isn't a good match and you pursue it anyway, you will regret it later. It is better to walk away early. Sometimes if they're ready to say yes too quickly, there is something problematic that you haven't uncovered.

Negotiating a mutually beneficial arrangement is the best way forward. Once a deal has been forged, taking care of the details during the transition is key.

- Establish your transition team. Members might include your personal assistant or your office manager, as well as the leaders on both sides. Over communicate with them and when you give them a job to do, trust them to do it.

- Make a list of the pros and cons of the merger or acquisition so that the transition team speaks with one voice and knows how to address each point if it is raised by the agents.

- Identify the key influencers on both sides and stay closely connected with them. Your focus should be on their needs, not yours.

- Create a good compensation program that is fair to both sides. NAR says, "Of the REALTORS® who stayed on to work for a new consolidated firm, 76% say compensation remained the same, compared with 12% who say it increased."

- Post the times you will be available for in-person meetings. Reassure everyone and reinforce the reasons behind the merger or acquisition.

- Create a suggestion box and/or email address like ideas@yourdomain.com so people can submit their ideas. They want to feel heard and understood.

- Work closely with the new agents but never forget your existing associates. Often the existing associates are the ones who become disgruntled and your competitors will be watching for their dissention. Ask for some time to settle into new routines. "It's going to take time for us to merge and make it work. We're going to take best practices from both companies and there might be a few changes because we're going to adjust according to what's best for the majority. However, we don't want to rock the boat and change everything overnight."

- The true assets of any real estate company are its agents. It's vitally important to take care of the details. Complete all the requisite paperwork and have their new business cards and signs already printed so they can "flip a switch" and begin operating under the new entity immediately.

In conclusion, take advantage of your momentum. If you are in acquisition mode then build from the excitement and energy generated by one merger or acquisition to initiate another. Like when we're selling property, we become better at it the more we sell. Even if you are not planning a second merger or acquisition immediately, recognize the opportunity to attract new agents who truly want to be part of something better.

Visit **ebooks.realtor.org** for additional resources.

MERGERS & ACQUISITIONS - EXPERIENCE THE

EXIT DIFFERENCE

EXIT Realty's business model known as the EXIT Formula provides an opportunity for earning money over time that is unique in the real estate industry and is therefore an ideal option for those Broker/Owners considering a merger or acquisition.

Let's say you are a Broker/Owner with EXIT Realty and you personally recruit Mary into your brokerage as a salesperson. This is a process known as sponsoring at EXIT. As Mary's transactions close, EXIT Realty Corp. International pays you an amount equivalent to 10% of Mary's gross production as a special bonus for helping to grow the company. Sponsoring can be done in any EXIT office right across the continent and it continues for as long as the agent recruited stays and produces business. This is single-level residual income and these bonuses are over and above your commission to a maximum of $10,000 per year per agent recruited and they do not affect Mary's commission whatsoever. Because this is single-level, when Mary recruits agents into EXIT, you have no connection to those recruits. There is no downline. That's why EXIT can pay such a large bonus. If you decide to take a break from selling real estate or when it comes time for you to retire, your sponsoring bonuses continue at a rate of 7%. Should something happen to you, your sponsoring bonuses convert to a 5% beneficiary residual to help provide a financial legacy for those left behind.

All Associates with EXIT Realty have the benefit of introducing potential salespeople to management and if they are hired and close transactions, earn the same 10/7/5 residual income paid by EXIT Realty Corp. International. This is a tremendous benefit to agent recruiting and retention, helping to fill the gaps between closings. The Broker/Owner of a company being acquired by EXIT is in a position to earn residual income based on the production of the agents coming on board with EXIT during the acquisition, providing for income to be paid over time rather than up front.

The EXIT Formula provides freedom for both the leader who is acquiring the company and the leader whose company is being acquired. The acquisition can take place with little or no money down yet the earnings potential for the Broker/Owner whose company is being acquired is unlimited.

In addition to the EXIT Formula of single-level residual income, EXIT builds long-term technology that is by EXIT, for EXIT. This ensures our tools always reflect the substance and spirit of the EXIT Formula and keep the needs of our real estate professionals and their clients in mind. As a result, each solution is custom engineered to help EXIT associates realize and exceed their goals, day in and day out. This belief is why EXIT Realty has invested millions of dollars in building and owning its own technology, creating three key benefits of scalability, business continuity and infinite gain. Read more about EXIT's people-first technology philosophy **here**.

Broker/Owners considering selling or merging their brokerage want to ensure their agents have the opportunity to thrive. At EXIT Realty, we believe that by working first to strengthen each agent the team becomes more productive and successful. We don't believe more is better, we believe better is better. We do this in five simple ways:

1. We provide the tools for each agent, rookie or veteran, to become thoroughly trained in successful real estate sales.
2. We help each agent brand themselves, then show them how to market their brand to the community to get more leads.
3. We seek out the latest technology tools available in real estate, then teach each agent how to use them.
4. We have built a team that is supportive and fun. We enjoy and encourage each other much like a good family.
5. We then expose our agents to a plan to make over 100%, to build their own business with passive residual income to create financial security, which is unique in real estate today. This is the EXIT Formula.

There has never been a better time or a better model to facilitate the mutually beneficial merger or acquisition of a real estate brokerage. You owe it to yourself to take a closer look. Contact us for a confidential conversation.

YOUR TRUSTED

REAL ESTATE

INDUSTRY SOURCE

TAMI BONNELL, CO-CHAIR
EXIT REALTY CORP. INTERNATIONAL

EXIT Realty Corp. International's Co-Chair, Tami Bonnell, is an internationally renowned leader in the real estate industry and was instrumental in building three major brands. Among her many achievements, she was recognized by real estate trend-watcher, Stefan Swanepoel, as one of the 50 most powerful and influential people in residential real estate and among the top 10 women leaders.

Tami has been a featured speaker at the National Association of REALTORS'® convention to the Top 500 Power Brokers, The National Women's Council of REALTORS®, Inman News Connect Conference and the RISMedia's Leadership Conference. She was named to the Women in the Housing & Real Estate Ecosystem's (NAWRB) Diversity & Inclusion Leadership Council and was honored by STEMconnector® as one of its 100 Corporate Women Leaders in STEM (science, technology, engineering and math).

Tami is a 40-plus-year veteran of the real estate industry and joined EXIT Realty in 1999. She was appointed Chief Executive Officer in 2012, and Co-Chair in 2021.

She is a wife, mother and grandmother. In her spare time, she is a martial artist, coach, judge and referee.

For more information and to view Tami's blog and playlist please visit:
https://tamibonnell.com
http://bit.ly/tamiblog
http://bit.ly/tamiplaylist

TAMI BONNELL, CO-CHAIR
EXIT Realty Corp. International
tbonnell@exitrealty.com
877-253-3948

EXIT
joinexitrealty.com