

The Real Estate Winter: Four M&A Action Items

by Wayne Einhorn and Norma Rawlings

This is article #1 in a series of four articles on Mergers and Acquisitions in the Real Estate Brokerage Industry. In this article, Wayne Einhorn and Norma Rawlings describe four essential merger and acquisition strategies items to assist anyone looking to buy or sell a real estate brokerage.

The current market is what we at BrokerVMA call the Real Estate Winter. In Canada and the United States, the market has obviously been compromised. There's a change in interest rates and a change in the volume of transactions. Interest rates are up and transactions are down.

From the activity in our coaching business at ICC Real Estate Broker Coaching as well as our mergers and acquisition business at BrokerVMA, we predict that it is going to be a long Real Estate Winter because we don't think you're going to see a big Spring market. We think it's going to be a long extended barren winter. This brings us to the first action item:

1 Forecast Cash Flow: With all of our ICC Coaching clients, we've done some significant cash flow forecasting work to make sure that we have enough for this Real Estate Winter. What we have forecast is to ensure enough cash to survive the more difficult market.

Based on our work, we know going into the Real Estate Winter that 80% of brokerages are not currently profitable because they were plus or minus 5% on the profitability line last year. Some anecdotal information shows us that companies that had less than a 20% margin in 2022 will not be profitable in 2023. That means that those companies have to be well-financed and able to move through and survive or they will fail.

Typically brokers don't forecast cash flow. As an industry we generally don't forecast cash. The lack of cash forecasting often drives how mergers and acquisitions happen in this market.

2 Foster Relationships: Opportunities will migrate to relationships. So whenever there's a merger and acquisition opportunity it will migrate to where that person already has a relationship.



All trends thus far show that we're going to have a busier 2023 than 2022 in mergers and acquisitions. There are two factors at play. The first is the desire of current brokers to retire, which we've seen for the last number of years, and that is accelerating. We expect that will continue to accelerate for the foreseeable future. The second piece, which is new, is the challenging market.

People who are not sitting on cash and who are not expecting that they may have a very difficult next eight to twelve months are finding themselves in distress. They will find they need to sell or need to bring in a money partner of some kind to weather the storm. If you have the relationship, you will get the call.

3 Open Yourself to Opportunities: We predict that there are going to be three Waves of opportunities. There are going to be three Waves of mergers and acquisitions opportunities and three Waves of brokers getting into difficulties.

Wave One occurred in January of 2023. People were starting to realize, hey, cash in the bank is down, transactions are down, interest is up, and cash flow is down. During the Spring market, we are seeing a little uptick in most of the markets.



We review between 50 and 70 sets of financial statements every month. Right now, we're looking at all the monthly financials for all of our ICC coaching clients. We are also looking at the dozens of BrokerVMA valuation and transaction clients financials, but with them it is more historical, whereas the coaching clients, we get up to the minute.

We saw a little uptick each month from January through April, but it won't be enough of an uptick to take a lot of the companies that are underwater back to break even. For those folks who are not well financed, they're going to move to the Second Wave. They're hoping the Spring market will save them and when it doesn't, it will impact them psychologically as well as practically. When the Spring market doesn't deliver, that'll give us Wave Two, being the Fall 2023 market.

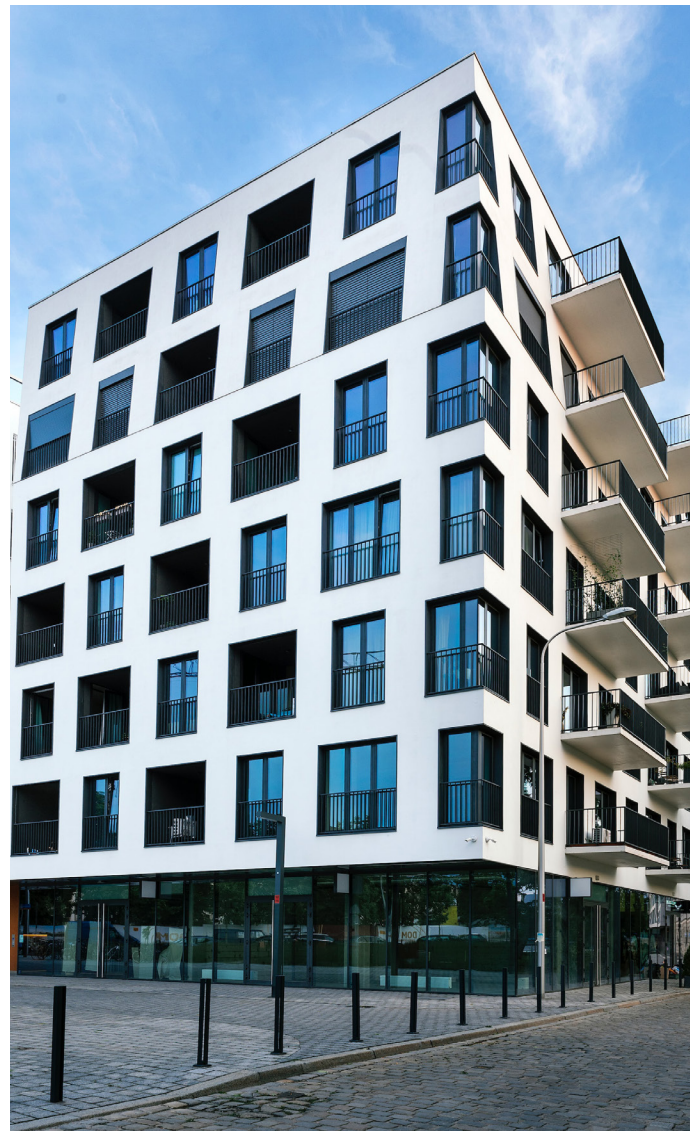
Wave three will happen toward the end of the year and into early 2024. Each Wave is prefaced on constrained cash flow and insufficient volume in the Spring and Fall markets to restock the coffers. If there is not enough cash cushion going into Winter 2023/2024, brokers will have to bring on money partners, merge, sell or infuse more personal cash into their brokerages to survive.

At BrokerVMA, recession is driving opportunities for our customers. There are so many opportunities to grow your business and to grow your market share through acquisition.

4 Understand the Market: We have actually had five recessions since 2008 but none of them have impacted real estate. The last recession was in 2021 and it was the best year we ever had in real estate. In contrast to the past, this market is a real estate recession.

If you look back historically, generally real estate recessions last two years. We gauge that this real estate recession began in the Spring of 2022, so we predict that we will emerge from it in the Spring of 2024. That is our predicted timing of it.


The hope is that you can use the above action items to plan your next year. If you do your cash flow planning, and begin or continue fostering relationships, that will position you to succeed. When you are open to opportunities, you can enter into discussions about buying brokerages and merging with competitors to improve



your business. Knowing the expected timing of the opportunities will help you plan your approach.

We at BrokerVMA expect the Real Estate Winter coupled with the Four Action Items will drive mergers and acquisitions activity between now and the Spring of 2024. Hopefully with the above information you can position yourself to take advantage of the Real Estate Market to the benefit of your business.



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Wayne Einhorn is an internationally renowned speaker, C-Suite executive, Performance Architect, and board member who has been involved at all levels in the real estate business for thirty-five years.

Wayne started his first business venture at the age of sixteen and progressed to the real estate and mortgage industry at age nineteen.

From selling to leading large companies to brokerage ownership to consulting, Wayne's unique approach to the business has kept him at the top of the industry throughout his career. After selling his successful multi-office brokerage firm, Wayne pursued his lifelong dream of completing his MBA at the prestigious Richard Ivey School of Business at the University of Western Ontario.

He has also assisted hundreds of brokers through the valuation, merger and acquisition process and has co-authored a best-selling book called "Are You Undervaluing your Brokerage."



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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.