

## Mergers and Acquisitions: Part Two – Five Succession Options

by Wayne Einhorn and Norma Rawlings

*This is article # 2 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 five succession options to assist anyone looking to buy or sell a real estate brokerage.*

Many brokers want to retire. They have been working hard for the past 30 plus years and are ready to slow down a notch and take up new pursuits. Other brokers need to retire. They don't have the cash flow required to last through next winter. As a result, there is a generational opportunity to acquire real estate brokerages right now.

North America's average age of a broker is 59. Although there are some 40-year-olds, there are more 70 and 75-year-olds. It's those people at the other end of the rainbow who are seeking to sell. In addition, due to the difficult 2023 market, there is a whole new group of people that are economically motivated to sell or make a move due to the Real Estate Winter which we discussed in Part One. Although the brokers who want to sell come in all shapes and sizes, there tend to be five types of succession that we see on a regular basis.

### Option # 1: Internal Succession

One of our clients spends half of his year on Marco Island and half of his year in his home state, which is fabulous if you can arrange to do that. He's in his sixties and so he's brought in a couple of his younger agents as owners. This is the first type of succession, whereby a broker permits between one and four younger agents to buy into the business and take a minority position to try out ownership. He found people internally to take a piece, have them operate for a while, and then they take a bigger piece. The plan is for them to manage the business and free him up to sell and do what he loves to do, but not be the point person.

Obviously brokers work really hard. 80 hour weeks are not unusual, especially rolling into a market like what we're dealing with right now. This gentleman wants his younger owners to manage, allowing him to enjoy Marco Island and focus on selling the rest of the year. We have helped other brokers paper similar transactions to help the sales associates move into ownership roles. What is essential about those transactions is you must structure them in a way where if it doesn't work out, you can unravel it without a lot of difficulty.



### Option # 2: Third Party Brokerage buyer

Another of our clients has a wife in financial services who has sold her book of business and is retiring. He is 63-years-old and he wants to get out of managing his brokerage entirely in the next two years. We are currently helping him sell his firm to another broker in his home state who is looking to expand. This is the second type of succession, whereby another broker buys you out. In these cases, the purchasing broker wants to create synergies and spread the cost of staff over more agents, thus reducing expenses per agent and making the brokerage more profitable.

The trend right now is bigger is better, so the more agents you have, the stronger you are. Also the same number of people can often manage more agents than they are now, creating efficiencies that result in higher cash flow and higher returns if done right. The other benefit is that this broker is happy to stay on as the "elder statesman" for a number of years and take his payout over a number of years. This often increases the amount the buyer is willing to pay because the buyer can pay the seller out from profits.



### Option # 3: Family Succession

What's wonderful about the real estate brokerage industry is you can work until you die. Nonetheless, most people don't want to be working 80-hour weeks once you get into your sixties, seventies and eighties. We have people in their eighties and nineties who are still running their brokerage, but again, they are typically looking to pass the reins to the next generation and slow down. This is the third type of succession, whereby parents or aunts and uncles pass down ownership of their business to the younger generation.

Running a brokerage is hard work and sometimes children who grow up enjoying the fruits of their parents' labor have no interest in continuing the family business. There are others, though, who want to maintain and continue the brokerage to continue to support the lifestyle it has enabled. In these cases, it is critically important that the children receive coaching to help them understand all the ins and outs of running a brokerage successfully. The things parents or older relatives do naturally and learned along the way to grow the business took them a lot of time and experience to master.

You want to arm the next generation with the skills needed to manage such a large and complicated business. Even though the children have likely been in the business for over a decade, the skills to position them for success as broker/owners are different than merely showing up and learning under their parents. So many brokerages fail in the second generation if the children don't have the skills to succeed. Family succession is very common in the real estate industry.

### Option # 4: Merger

Another two current clients are successful brokers of 50 and 70 agent shops who are in the same city and are merging to create economies of scale and to relieve one of the brokers of record of his management responsibilities. Another one of the brokers is retiring and taking a buyout from the rest of the group. This is the fourth type of succession, the merger. We have an almost identical situation in another jurisdiction with a 120 and 180 agent shop looking to merge with one broker looking to sell half of her share to the other in the merger to free up some cash to buy a farm and slow down a bit and keep the other half of her share in the merged business to benefit from the future growth.

Merger works out well when brokerages are of similar values and the owners of each have compatible desires and plans. The synergies of merging are typically reduced expenses and increased profits as a result. It sometimes also vaults that brokerage to number one in its marketplace, which can be used as a recruiting tool and increases the value of the merged brokerage.



### Option # 5: Management Installation and Hold

The final type of succession is more unusual. It occurs when a broker wants to step back from the business and slow down or retire but doesn't want to relinquish ownership. As a result, the broker installs a professional manager to run the business. This sometimes suits when the children are too young to take over the brokerage. This permits the owners to step back and wait to determine whether the children want to take the business over when they are old enough. It also permits the parents to determine when the children are capable of taking over the business.

Another example of this is where a broker wants to take a sabbatical for a year or two but wants to come back to his or her business thereafter. Finally, if a business is providing a significant amount of cash, many people want to keep the cash flowing without having to work the 80-hour weeks. With a good manager in place, this is often possible.

The above five options are all available to brokers looking to step back from their business and slow down. There are many buyers out there interested in acquiring real estate brokerages coupled with many sellers looking to dispose of the businesses they have built. Hence the market is primed for multiple transactions to occur over the next few years. There is a generational opportunity to acquire and dispose of real estate brokerages right now.



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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.