Over one-half of the brokerage firms we ranked on the REAL Trends 500, and Nation’s Best (formerly Up-and-Comers) list grew their transaction sides from 2014-2018. Of the nearly 903 brokerage firms from which we have these five years of data, 617 of them grew in those five years.

What’s also interesting is that 325 of these firms grew their transaction sides by 30% or more; 219 rose by more than 50% over those five years; 85 firms increased by more than 100%, essentially doubling their business and 25 brokerage firms grew by more than 200% in that same period.

LARGEST SHARE GREW WITHOUT AN ACQUISITION

Examining the 219 firms that grew by more than 50% and given our general knowledge of merger and acquisition activity, we can state that the largest share, perhaps 80% of these fast-growing firms, grew without an acquisition. When we look at the 25 firms that grew more than 200%, we can assert that all but a handful grew without an acquisition.

Total new and existing home sales transaction sides grew 10.9% during the same period. A majority of all 903 brokerage firms on the REAL Trends 500 and Nation’s Best, therefore, built their business faster than the overall market.
When we look at the 25 firms that grew more than 200%, we can assert that all but a handful grew without an acquisition.

Also, each of these different kinds of brokerage firms was represented in the nearly 300 firms that did not grow. We can also infer that while having a national brand name helps recruit, retain, and produce, it is not the most critical factor.

Keller Williams had the most firms ranked highly in this growth examination. Surely, part of this is KW’s focus on recruiting and training as a means of its growth (as opposed to acquisitions, for instance). The study showed that while some brokerage firms grew their transactions through increased productivity per agent, most of the growth was through recruiting.

At this year’s Gathering of Eagles in Denver, postponed until November 9-11, 2020 due to COVID-19, we’re going to recognize the leading growth firms from each of 11 different brands or independent firms.

Based on our discussions and interviews with the 11 firms who will be recognized, we know that the owners and leadership team have a distinct focus on just a few things:

- Recruiting is not just another thing they do; it’s at the top of the list of things that leadership focuses on and invests most of their time and effort.
- It’s a team effort, not just the owner or leader of the firm, but rather the leadership team and, to some extent, their agents are involved.
- Each leading firm has its own story to tell, but many focus on the culture and not the financial aspects of the relationships they’re offering to prospective agents.
BRIGHT FUTURES
We think brokerage has a bright future, therefore, because:
• Families still want to be homeowners.
• Housing consumers are using agents at the highest rate in the last 20 years.
• Leading agents still want to be with a brokerage that has a well-known local or national brand name.
• There are between 70,000 to 100,000 gross new Realtors® each year, with the net number between 30,000 to 50,000, after subtracting for those who depart the industry.

While there are a growing number of low-cost, unbundled brokerage offerings, the reasons for why agents join a brokerage firm is not always based on the financial arrangements such as split or caps or fees. If it were always and only about the financial relationship, virtually all incumbents would have been out of business years ago. There have always been low-cost brokerage firms in the market.

Brokerage firms have been adapting to the challenges in today’s market for the past 40 years. The decline in Gross Margins didn’t start a few years ago; it began 40 years ago when the prohibition against recruiting another brokerage firm’s agents was outlawed. The challenge to Net Margins didn’t start yesterday either; it’s been an ongoing challenge for the same 40 years.

We, therefore, remain bullish on brokerage. 🙆

CLICK HERE to view the REAL Trends 500
The economic effect of this challenge is both uniquely real and surprisingly familiar. It’s called an economic shift. This isn’t the first one, and it certainly won’t be the last. Shift happens. And when it does, you must shift with it. You need to pivot quickly. If you don’t take action, you’re turning your business into a game of chance. And there’s no reason to do that. The actions are simple and highly effective. They’ve been time-tested and proven. You need to pivot. You need to pivot today.

So what do you do?

In 2009, Jay, Dave, and I wrote a book called *SHIFT*. It was written on the heels of what turned out to be the Great Recession, one of the most harrowing financial periods in American history. And, we came through it. We survived. And then, we thrived because we shifted.

What *SHIFT* teaches us is as relevant today as it was then. And hopefully, you will pick it up and read it. The prescription that we layout in the book proved to be not only accurate but when taken seriously and implemented, highly effective.

As a way of re-introducing you to what we wrote, Jay and I sat down and put these thoughts together for you. It’s time to pivot.

1. **Wake Up and Pay Attention**

   Make no mistake where we are. Don’t let how you feel about this situation dictate what you do about it. When you’re dealing with less, you must do more. This isn’t a choice—it’s imperative.

   Although it sounds trite, what is still true is that tough times call for tough-minded people. In normal times, rising tides keep all boats afloat. When tides recede, only boats that respond appropriately stay in the game. All others are grounded.
In 1979, musical artist Kenny Loggins’ father was sick and facing uncertain odds. Unwilling to allow his father to slip into complacency, Kenny wrote these heartfelt words to his father, in his famous song “This Is It”:

There’ve been times in my life  
I’ve been wondering why
Still, somehow I believed we’d always survive  
Now, I’m not so sure you’re waiting to hear
One good reason to try  
But what more can I say
What’s left to provide  
You think that maybe it’s over
Only if you want it to be
Are you gonna wait for a sign, your miracle
Stand up and fight
This is it
Make no mistake where you are
This is it
Your back’s to the corner
This is it
Don’t be a fool anymore
This is it

Kenny wrote this song to his father as a way of saying, “Your situation is real. And you need to get up and get after it.” Today, we all face a similar moment. We need to pivot and meet our new reality.

2. Learn to Live on Less
There’s an old saying, “A penny saved is a penny earned.” This applies to dollars too. When a shift happens, it pays to understand that the first dollar you make is the dollar you don’t spend. The way you do this is to lower your expenses.

The real power of this pivot is realizing that reducing your expenses is not a one-time event. Cut expenses every month for the rest of the year. Make it a game. And don’t forget to acknowledge and reward those who help.

Review everything. Review every line every month. And don’t stop until January 2021. You’ll be amazed at what you would have missed each time. You’ll often be encouraged by how once you cut something, the next month, you’ll discover that you can cut even more.

Please remember, financial pivoting isn’t just a business concept—it’s a personal one too. It doesn’t help to lower your business expenses if you don’t keep your personal expenses in check. Why save one dollar when you can save two. Learn to live on less.

3. Double Down on Leads
Dig into your goals and determine how many leads you’re going to need to achieve them. It is an absolute certainty that it will take more leads to accomplish your sales goals today than it did yesterday. This is why you double down.

Think of it this way: The number of people out there you can do business with is never zero. There are still people who need you; you’ll just have to work twice as hard to find them. Even in 2011, the worst year of the Great Recession, the number of sides per agent was nearly the same as in 2019. There’s still a lot of opportunities. There’s just less, so you must pivot and get more.

Dust off your lead generation options. Choose the ones that make the most sense. Time block a minimum of four hours a day for lead generation. And never stop.

4. Lean into the Market of the Moment
To succeed in a market, you must understand it. No two markets are the same, which means a solution for one won’t necessarily work in another. Take a step back, look around, and identify the opportunities your market today has to offer. Every market will explain how you can best work in it and how people can best make it work for them.

Whether it’s the type of property, the price of the property, the financing of the property, the type of seller, or the type of buyer, each market always has its unique combination to unlock. When you’ve talked to enough people, you’ll understand what your market has taken away and, more importantly, what it still has to give.

The market will show you where you need to pivot. Every shift leaves an opening—a reason to stay in the market. Every problem eventually presents a solution—a way to help someone when they need it most. Today isn’t yesterday, and tomorrow isn’t determined. When the desire to do more comes from a place that’s bigger than ourselves, anything is possible. Potential can become a reality. When we pivot, we help others pivot, and together we all have the opportunity to achieve more.

Gary Keller is the founder of Keller Williams International Real Estate.
We’ve reviewed the results from publicly held companies Realogy, Redfin, RE/MAX, and Zillow that have released their year-end numbers as of this writing.

We’ve also looked at sales results for eXp, Compass, and other national firms such as Keller Williams, from which we have year-end sales data.

Here are some high-level thoughts:

Redfin and Zillow are growing their top-line revenue numbers mainly through adding the dollar value of the homes they’re buying to their revenues. Not all of the growth comes from this source, but a significant part of it does. While they’re growing their top-line revenues, they also see material increases in their operating losses. Their statements appear to prepare their investors for more years of such performance.

Realogy and RE/MAX continue to experience flat growth on their top lines and mixed results on their earnings, which were mostly down in 2019 from the prior year. Both indicated that they’re beginning to see some future growth potential from internal restructuring. Both are struggling to reignite agent growth and productivity in their United States operations.

Keller Williams reported that its agent count was relatively flat but that its aggregate sales in terms of units and volume were up more than the market for 2019 over 2018, which may indicate a slight change in sole focus on recruiting to a balanced approach in recruiting and productivity. They also showcased the increased involvement of their agents on their Keller Cloud platform.

Compass and eXp both showed material growth in their agents, transactions, and sales volume comparing 2019 to 2018.

WHAT DO THESE RESULTS MEAN TO YOU?

There are a few surprises. We know that Zillow and Redfin are focused on broadening the services they offer. They are aware that their iBuyer programs are where they’re placing some big bets. What’s surprising is how these programs are negatively impacting their financial results and, unless corrected, will likely be reduced somewhat.

Most brokerage firms are aware that incumbents, like some Realogy brands, RE/MAX, and even Keller Williams, are not growing their agent counts or total transactional volumes as they once did. The question is: What will they do to reignite growth in this area? And, how might that differ from their past strategies and tactics?

It’s no surprise that eXp and Compass are growing far faster than most of their competitors in terms of agents, transactions, and sales volume. While Compass had a significant growth year, a material portion was due to acquisitions made mid-year 2018 and early 2019. What will their organic growth look like absent other large brokerage acquisitions? While eXp had a solid growth year, their agent growth in 2019 was slightly less than their agent growth in 2018. What will it look like for 2020, and can they get back to their growth rates of 2017-2018?
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CORONAVIRUS DISEASE 2019

HOUSING IMPACT AND CHANGING PRACTICES

COVID-19 is sweeping the nation. Things are changing rapidly, and there’s no doubt the real estate market will be impacted, as will current practices. Here’s what we found.

By Tracey C. Velt, editor-in-chief

There’s no doubt that the coronavirus disease 2019 (COVID-19) is on everyone’s mind. And, it will impact housing, if only to make real estate professionals more deliberate in their interactions with others. REAL Trends spoke to brokers from around the country to see how this pandemic is impacting their markets. Mind you: A lot can change even in a day.

Right now, most real estate markets have not seen a significant impact from the virus. April numbers may be down slightly, but the true impact will be felt in May. According to Florida-based broker Dewey Mitchell, “So far we have not experienced any noticeable impact from the virus. Our numbers are up year over year. Admittedly, we are expecting the fallout from the events of recent days.” Ohio-based broker Mark Meinhardt says, “Houses under $500,000 are still a hot commodity here in Cincinnati. I know of one deal this week for $1.6 million, which is very high for our market, where the buyer backed out as his stock portfolio dropped. Not much other negative at this point. It’s still early.”

A less-traditional brokerage firm, House Buyers of America, believes that the spring season will be a success despite the fears. “Business owners and home shoppers can see a global outbreak like coronavirus as a significant threat that brings fears of a market slowdown with it,” said Nick Ron, CEO of House Buyers of America. “If anything, we see the opposite—and nothing but opportunity ahead. The spring market is off to a white-hot start. We’re seeing an increase in bidding wars and larger numbers of aggressive offers to beat out the competition. Many sellers are removing home inspection contingencies to drive faster sales.”

“BUSINESS OWNERS and home shoppers can see a global outbreak like coronavirus as a significant threat that brings fears of a market slowdown with it. If anything, we see the opposite—and nothing but opportunity ahead.”

– Nick Ron, CEO
House Buyers of America
OFFICE GHOST TOWNS
Where it has seemed to impact brokerages is in their offices. “Our offices are like ghost towns. No one is coming in,” says California-based broker Marian Benton. Same for Pennsylvania-based Jack Fry, “We did allow our duty agents to work remotely and not have to come into our office. We’re still doing our continuing education class, which is a large group. We’re watching what our local government is posting and following its suggestions.”

However, in harder-hit areas like Seattle, the impacts on the market are already being felt. According to Washington-based broker Kim Piper, “We see impacts on the industry and marketplace in our Seattle market, but not in the balance of the State. Since we already have scarce inventory and so little affordable housing, we don’t believe that the COVID-19 issues will impact activity in the long run, but what we’re seeing is a pause, as if everyone is holding their breath and waiting for what’s going to happen next.”

She notes that she’s seen reports from listing brokers that vulnerable or anxious sellers are delaying bringing homes to market or canceling listings because they don’t want strangers in their home, or they’re asking for virtual showings only. “We’ve had a couple of reports that listings have been delayed because sellers were downsizing and moving into assisted living or communal retirement communities. Now, with the fear of the virus, they’re electing to wait. Buyers are still anxious to purchase. And, with the interest rate reduction, they’re even more eager.”

PREPARATION IS KEY
Any broker who’s been through the downturn of 2007-2009, knows the value of being prepared. Piper is actively developing an emergency plan should the market be impacted further. “We’re working on scenarios to adapt and respond if our workforce becomes unable or unwilling to staff our offices. We may be closing or limiting access to our offices. We will maximize the use of our already-robust paperless, virtual full-service offering to our 10 locations and still fully support the agents in the field,” says Piper. “We use fully paperless transaction management, review, and oversight system. We haven’t processed a commission check in years, escrow wires funds, and we distribute to agents via EFT. Meetings, workshops, and training us on video and available live or via our internal intranet later. The systems that we put into place during the downturn, and have since improved and perfected, so that we could financially survive and ultimately thrive are invaluable now!”

Showing Time set up a new website to show showing activity and the impacts of the coronavirus. The site will be updated daily. “As you know, we track and report on buyer activity across the U.S. and release a Showing Index around the 20th of each month, but due to requests from our customers, we will begin reporting weekly results in 100 key U.S. markets to provide relevant information on the impact of the coronavirus,” according to Showing Time. To visit the website CLICK HERE

For now, brokers would be smart to implement plans ensuring the safety of their agents, employees, and consumers. The National Association of Realtors recently released coronavirus guidance regarding fair housing, open houses, showing properties, and more. The Appraisal Foundation also released advice based on the virus’ impact on appraisers.

REAL Trends wants to hear from you during this national crisis. Please email Editor in Chief of Content Tracey Velt with an update on how your market is faring during this crisis. How do you see real estate changing because of COVID-19? Email: Tvelt@realtrends.com.
There are two parts to the real estate sales business. Part one is Doing the Business—listing, selling, and closing. Part two is Generating the Business—this is where many sales associates struggle and is a primary reason they’re spending billions of dollars annually buying leads. There is a better way.

Let’s look at the science. Research shows that most people would prefer to work with a real estate professional who they know, like, and trust versus an online stranger. However, they know, on average, 12 real estate professionals. The challenge (and opportunity) is simple: As a leader, how do you help your associates win this battle to become the Agent of Choice? We have found the one thing that will do it is FLOW—frequency of interaction.

Increasing FLOW through face-to-face, voice-to-voice, mail, email, text, and social media positions your associates as Top of Mind and the Agents of Choice. FLOW is the oxygen of their business. Cut it off, and their business dies. Increase it, and their business thrives. If you have a struggling associate, help them increase their flow. Flow Fixes Everything!

There are two types of FLOW:

1. Live flow (face-to-face and voice-to-voice). This is primarily the responsibility of the sales associate. We recommend they be in live flow with at least 50 people a week. These are not 50 sales calls. They are 50 live interviews where the associate simply asks about FORD (family, occupation, recreation, and dreams) and listens for changes that might affect their real estate or the real estate of their friends (referrals).

2. Auto-flow (mailings and emails). Auto-flow consists of three valuable touches per month that are designed to keep your associates top of the mind, especially when they get busy or are on vacation. Unfortunately, most associates are not organized to create and run auto-flow. They are more than willing to pay for it. They just don’t have time to set it up and run it. This is where you come in.

RESULTS WITH AUTO-FLOW

WIN THE RACE TO BE TOP OF MIND

By Larry Kendall, author of Ninja Selling and Chairman Emeritus of The Group, Inc.
Setting up and running an auto-flow system is the one thing that will most improve your results, your recruiting, and your retention. Here’s how:

- **Results.** Helping your associates to become the *agents of choice* will dramatically increase their production—as much as 40% to 50% in many cases. Here are the results of a 1,000 associate 14-office firm that implemented auto-flow five years ago:
  - Market: Up +8%
  - Auto-flow associates: Up +65%
  - Auto-flow associates earned 58.9% more than non-auto-flow associates
  - No. 1, No. 2, No. 4 offices in profitability were No. 1, No. 2, No. 3 in auto-flow participation
  - Auto-flow works!

- **Recruiting.** With these results, top-producing associates are attracted to your company. You are offering them a valuable service that is time-consuming for them to set up and run on their own. They know they need auto-flow, and you have just become their solution.

- **Retention.** Once an associate is set up on auto-flow, their results improve, and it is nearly impossible for them to leave. Very few firms offer this service, and most associates don’t have the time or organization to set it up on their own. You have a competitive advantage.

Challenges are setting up and running an effective auto-flow system. Here are the biggest three.

1. **Creating valuable content.** This tends to be the most straightforward challenge to solve as most reasonably sized companies have created an abundance of newsletters, market reports, events, etc. Often the frustration is getting their associates to use these pieces. Auto-flow is the answer. Set it up for them, and they will use it—and pay for it.

2. **No database.** It’s amazing how many sales associates don’t have a database. A study by Efficiency by Design found that 60% of associates don’t have a database (CRM). The 40% who do earn 251% more! Hire an intern if necessary, to help your people set up their database.

3. **Associate resistance to sharing their database with the company.** Show the benefits and invite everyone to participate in your auto-flow system. The early adopters will take you up on it. Don’t be discouraged if this is only 10% or less of your company. They will get results, word will spread, and others will join over time.

Company leaders face many decisions today on where to invest their time and money. We have found that implementing an excellent auto-flow system is the one thing that will give you the highest return on your investment.
As the world comes to grips with the impact of COVID-19, so too has the residential real estate industry, with showings off as much as 45 percent in some North American markets vs. the pace from two weeks ago, according to data obtained by ShowingTime.

Data aggregated from the five million showings scheduled through ShowingTime’s systems each month reveals that buyer interest – which has been higher for the past seven months compared with 2019 – remains intact, but showings have plateaued as more states issue statements asking residents to shelter in place to slow the spread of the virus.

“ShowingTime is dedicated to helping our clients and the communities they serve ease the burden brought on by the pandemic by giving them accurate, reliable data that they can use to help with their home buying and selling decisions,” said ShowingTime President Michael Lane. “We are committed to working with our clients to help them do their jobs in a safe, productive manner.”

To monitor daily showing traffic vs. the same period in 2019, ShowingTime has posted charts on its website that shows buyer activity across North America, along with traffic in individual states, to provide insight on the pandemic’s impact. The data points in the charts represent a rolling weekly average in 100 markets that each record tens of thousands of appointments each month.

“If we look at the magnitude of the slowdown across different price ranges, homes in the $300K range saw 35-45 percent declines in showing traffic over the last two weeks, while homes above $500K are still being shown, but the temporary declines are in the 50-60 percent range,” ShowingTime Chief Analytics Officer Daniil Cherkasskiy.

The onset of the COVID-19 pandemic follows a February that marked the seventh consecutive month of nationwide growth in buyer activity with the nation’s 14.8 percent rise, according to the latest ShowingTime Showing Index® report. The West Region saw the most notable gain, with a 25.2 percent year-over-year increase in traffic, followed closely by the South’s 21.4 percent increase. The Northeast’s 13.4 percent increase and the Midwest’s 9.9 percent uptick rounded out the regional improvement in buyer activity.

“As communities continue to respond to COVID-19, we will continue seeing expected declines in showing activity in most markets, particularly in those that felt the greatest impact in the 2008 housing crash,” said Cherkasskiy. “Whether or not these drops will be sustained will become clearer as additional data are made available. We will continue to monitor the situation and provide the latest data on our website.”

– Daniil Cherkasskiy
ShowingTime
Chief Analytics Officer
The ShowingTime Showing Index tracks the average number of buyer showings on active residential properties on a monthly basis, a highly reliable indicator of current and future demand trends.

Methodology: The ShowingTime Showing Index® measures showing traffic per residential property for sale by agents and brokers utilizing ShowingTime solutions for property-access management. A higher number means that an average home receives more buyer visits in a given month. All index values are scaled relative to initial index value set to 100 for January 2014.

The ShowingTime Showing Index, the first of its kind in the residential real estate industry, is compiled using data from property showings scheduled across the country on listings using ShowingTime products and services, providing a benchmark to track buyer demand. ShowingTime facilitates more than five million showings each month.

Released monthly, the Showing Index tracks the average number of appointments received on active listings during the month. Local MLS indices are also available for select markets and are distributed to MLS and association leadership.

To view the full report, CLICK HERE.

ABOUT SHOWINGTIME
ShowingTime is the residential real estate industry’s leading showing management and market stats technology provider, with more than 1.2 million active listings subscribed to its services. Its showing products and services simplify the appointment scheduling process for real estate professionals, buyers and sellers, resulting in more showings, more feedback and more efficient sales. Its MarketStats division provides interactive tools and easy-to-read market reports for MLSs, associations, brokers and other real estate companies, as well as a recruiting tool for brokers. ShowingTime products are used in 370 MLSs representing nearly one million real estate professionals across the U.S. and Canada. For more information, contact us at research@showingtime.com.
Knight Frank has recently released its 2020 Wealth Report, which covers a wide range of perspectives and analyses of global residential and commercial real estate, wealth movement and worldwide investment. I’ve reported on some of their findings in the past, but something new in this edition was the introduction of the City Wellbeing Index, gauging the quality of life in the world’s major cities.

They understand that there is no universally accepted way to measure well-being, so they developed an index to measure the cities that enable their residents to achieve a higher level of well-being. The eight elements of their Index were green space, crime, annual hours of sunshine, traffic congestion, quality of health care, happiness, work-life balance, and governance.

Around the world, there is a growing focus on wellness as a measure of national performance: Something that has, in the past, been assessed in purely economic terms (GDP). Of the 40 global cities that they measured, European cities dominated the top positions. Oslo took the top spot, followed by Zurich, Helsinki, Vienna, and Madrid. For cities outside of Europe, Sydney was No. 7, Montreal was No. 9, Singapore was No. 10, Dubai was No. 15, New York was No. 21, and Miami was No. 23.

In the green space category, Oslo led with 68% of public space in the city comprising parks and gardens with Singapore second with 47%. Dubai led the annual hours of sunshine with 3,509 hours, followed by Los Angeles with 3,254 hours.

Work-Life balance looked at hours worked per day of vacation time. Moscow had the lowest ratio, with 51 hours worked for each vacation day, followed by Paris with 55 hours worked.

Last year, two countries that I’ve recently visited decided to announce plans to measure and improve the well-being of their people, namely New Zealand and Iceland. New Zealand government budgeted $10 billion in funding in its first well-being budget while the Iceland premier stated her focus would be on well-being rather than economic growth. Singapore-based sustainability design firm Pomeroy Studio was quoted as saying, “There is a wealth of literature that shows a correlation between urban greenery and health and well-being as it can reduce temperatures, absorb water and provide other benefits all leading to greater opportunities to live longer more meaningful lives. Well-being for man and nature can be an important driver of real estate value.”

GDP does not measure the wellness of countries, but those with larger GDPs can afford better healthcare. We expect wellness to remain high on the urban agenda in most major cities over the next few years.
REAL Trends has been the trusted leader in valuation services for over 32 years. Our team has performed over 3,500 valuations for brokerage firms of all sizes across the country.

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www.realtrends.com | 303-741-1000
There are two recognized approaches to valuing a residential realty firm. They are:

- The Income Approach (EBITDA)
- The Gross Margin or Company Revenue Approach

The **Income Approach** is the most widely used by buyers and sellers. It’s also recognized in most legal jurisdictions and by professional valuation organizations throughout the United States.

The **Gross Margin or Company Revenue Approach** is used when a firm has little earnings performance or is a small firm (less than $2 million in gross revenues). It’s also used when the owner contributes a material portion of the revenues or income of the firm.

While there have been other approaches used at various times in the past 30 years, these two approaches are used by nearly all buyers, whether they’re national, regional, or local, and without regard to the size of the brokerage.

**THE INCOME APPROACH**

The **Income Approach** is the most commonly used approach to valuing a residential real estate services business, including realty, mortgage, title, and escrow services. It’s sometimes referred to as the EBITDA (earnings before interest, taxes, depreciation, and amortization) approach. In this report, we’ll refer to it as the **Income Approach**.

The **Income Approach** first determines the income from the business over a certain period and then applies a multiple of that income to determine value.

The most common period used for calculating EBITDA is the most current twelve (12) months of the company’s operations.

**Items included in income for this approach include:**

- Profit before income taxes;
- Depreciation;
- Operating interest expense (interest on business operating accounts and not interest on buildings or personal assets owned by the owner and carried on the balance sheet of the company);
- Amortization;
- Owner’s compensation and benefits;
- Non-recurring expenses.

**Items deducted from the income and considered chargebacks are:**

- Comparable costs of management (see definitions in Appendix);
- Non-recurring income;
- Interest or dividend income;
- Owner’s commission contribution to revenue net of any commission paid to the owner.

The items are deducted from the income to determine the EBITDA of the firm for a determined period. In the past, this has been either the most current 12 months of results or an average of the last two to three years of these results.

A multiple is then calculated against this income to determine the value of the firm. The multiples vary according to market conditions, location, and size of the firm and other factors that will be discussed further.
EXAMPLE – THE INCOME APPROACH:
A firm has the following results based on the most current 12 months profit and loss statements.

<table>
<thead>
<tr>
<th>INCOME ITEMS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income before taxes</td>
<td>$100,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>Amortization</td>
<td>$  2,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$  5,000</td>
</tr>
<tr>
<td>Owners and compensation and benefits</td>
<td>$150,000</td>
</tr>
<tr>
<td>Non-recurring expense</td>
<td>$  5,000</td>
</tr>
<tr>
<td><strong>Total Income Items</strong></td>
<td><strong>$272,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHARGEBACKS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparable cost of management</td>
<td>$125,000</td>
</tr>
<tr>
<td>Owner’s contribution to revenue</td>
<td>$  50,000</td>
</tr>
<tr>
<td>Non-recurring income</td>
<td>$     0</td>
</tr>
<tr>
<td><strong>Total Charge Back Items</strong></td>
<td><strong>$175,000</strong></td>
</tr>
<tr>
<td><strong>Firm Income</strong></td>
<td><strong>$ 97,000</strong></td>
</tr>
</tbody>
</table>

**MULTIPLE FOR VALUATION**
The next step is to determine the multiple to apply against this income. For this example, we use a “3” multiple. The income of the firm is multiplied times the “multiple” to arrive at a proposed valuation. For our example, this results in the following:

<table>
<thead>
<tr>
<th>Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Times the multiple (by example only)</td>
<td><strong>3</strong></td>
</tr>
<tr>
<td><strong>Equals Total Value of Firm</strong></td>
<td><strong>$291,000</strong></td>
</tr>
</tbody>
</table>

Once this value is determined, other factors may affect the outcome. Such factors as the terms of the transaction, the relationship of the sellers with the buyers going forward with the firm after a sale, and non-compete agreements may affect the final value.

THE GROSS MARGIN OR COMPANY REVENUE APPROACH
The Gross Margin or Company Revenue Approach is used mostly for firms that have little or no earnings or are small firms to medium-sized companies or where the owner contributes a material portion of the revenues of the firm.

The Gross Margin or Company Revenue Approach examines the company’s revenue for the firm over a period, most often the last 12 months of operations.

Gross Margin or Company Revenue is the sum of revenue that is retained by the firm after payment of all costs related to sales. Such costs as commissions to the firm’s sales associates, referral fees to outside sources, co-brokerage fees to outside brokerage firms, and franchise fees are deducted from Gross Revenues to determine the Company Revenue figure.

Once the Gross Margin or Company Revenue figure is determined, a percentage is applied against the figure to determine value.

EXAMPLE – THE GROSS MARGIN OR COMPANY REVENUE APPROACH:
A firm has the following results:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross commission revenues or fees</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Minus cost of agent commissions</td>
<td>-$ 700,000</td>
</tr>
<tr>
<td><strong>Equals Gross Margin/Company Revenue</strong></td>
<td><strong>$ 300,000</strong></td>
</tr>
</tbody>
</table>

The final step is to use a percentage of the company Revenue to determine value. For this example, we will use 30%.

<table>
<thead>
<tr>
<th>Percentage applied (30%)</th>
<th>.30</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equals Total Value of Firm</strong></td>
<td><strong>$ 90,000</strong></td>
</tr>
</tbody>
</table>

The percentage used in each case varies widely. It is based on factors such as the location and size of the firm, the position of the selling owners after the close, synergy opportunities to the buyers, and the terms of the transaction.

COMPOSITION OF THE DEAL: CASH VERSUS EARN-OUT
It is important to comment here that all cash transactions at the Fair Value are virtually non-existent in the residential brokerage industry. Most residential brokerage company mergers or acquisitions are based on a percentage of the Fair Value in cash at closing with the remainder often in an earn-out or contingent payments over a period after closing.

Want to download the free e-book for more information? **CLICK HERE.**
These are among the toughest times a brokerage will ever have. This wasn’t an oncoming recession like most of the past 40 years—this is a precipitous decline in housing sales activity. No one saw this coming and most are not prepared.

REAL Trends has served the brokerage industry as The Trusted Source for 34 years. We’ve lived through many of the ups and downs of the housing market. We have advised companies of all kinds, sizes, and regions as to how to plan for these events—how to get to the other side.

We’ve also helped hundreds of firms that decided it may be time to exit. Despite what many think right now, there are investors and purchasers with capital who are interested in residential brokerage firms as businesses with solid futures. We do not represent these investors or purchasers but are aware of them, what their goals are, and how they approach investing in brokerage firms.

We would like to extend an invitation to leaders of brokerage firms who would like to have a confidential, no-cost conversation with us about their options, whether that be ways to get through this challenging time, or investigate a potential exit.

Our best wishes to you that you, your family, and your team are safe and healthy.

Steve Murray Scott Wright
President Vice President

THIS WASN’T AN ONCOMING RECESSION LIKE MOST OF THE PAST 40 YEARS—THIS IS A PRECIPITOUS DECLINE IN HOUSING SALES ACTIVITY. NO ONE SAW THIS COMING AND MOST ARE NOT PREPARED.

ONLINE RESOURCES

REAL Trends produces a host of online resources that allow you to see how other brokers are making business changes to minimize the loss caused by COVID-19.

Visit the REAL Trends blog at realtrends.com/blog or listen to our podcasts on Google Play and iTunes for a special series of conversations with brokerage leaders and their thoughts on best business practices.

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