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Real Estate/Business Brokerage Offices

SIC: 6531**NAICS:** 531210**Number of Businesses / Units:**

Unavailable

*Real Estate: 212, 977**Business Brokerage: 3,453*

This industry comprises establishments primarily engaged in acting as agents and/or brokers in one or more of the following: (1) selling real estate for others; (2) buying real estate for others; and (3) renting real estate for others.

Rules of Thumb

50 percent of annual gross commissions; may require earnout

2 times SDE; may require earnout

General Information

"As the brokerages get larger and the earnings grow, the multiples will increase."

"No value if it doesn't make money!"

Expert Ratings

▶ Competition	2.2	(1=Lot of : 4= Not Much)
▶ Amount of Risk	2.8	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2.8	(1=Down : 4= Up)
▶ Location & Facilities	2.5	(1=Poor : 4= Excellent)
▶ Marketability	2	(1=Low : 4= High)
▶ Industry Trend	1	(1=Declining : 4= Growing)
▶ Ease of Replication	2	(1=Easy : 4= Difficult)

Expert Comments

"RE brokerages are going to be soft for the next year or so. Business brokerages may sell easier."

Pricing Tips

"Time in the market and number of listings."

"Must factor out owners personal production. Smaller brokerages (under \$1M in gross commissions) are about 1x SDE."

"The last 3 months has seen a sharp upsurge in the number of real estate agencies requiring valuations or considering selling. This is not surprising given the media focus on the downturn in the housing market and major residential firms reporting a 15% decline in sales in the last quarter.

"Things change and the slowdown is evident. As with all professional practices the valuation of real estate agencies presents problems not experienced with other types of businesses. Generally they will have low tangible assets. Licensing requirements impose a barrier to entry. Their reliance is upon the salespeople to produce the revenue -- but cannot be sold in a sale. And it is likely that there is a high level of personal goodwill arising from the owner/licensee's experience, skills and relationships that is not readily transferable.

"In appraising a real estate office asset-based, earnings-based and market-based approaches should all be considered. But whatever methods are used there will be a significant amount of subjectivity involved in arriving at an opinion. Setting up a new office can be expensive but most of the cost will be in fixtures and fittings, computers and software. Liquidation value is likely to be well below book value.

"A credible valuation will involve careful analysis of the agency -- its history, profitability, location, assets and facilities, services, competition, staffing systems, databases and branding.

"Real estate businesses can be very profitable. Those who have been in the industry for many years know that the sun always shines again -- that after every bust there is always a boom."

"Easy to replicate small offices."

Source: *Biz News* May 2006, a publication of Clyth MacLeod Ltd., Auckland, New Zealand

Questions

"Do they produce? What are your splits? Do you have non-competes?"

"Will the owner be available?"

Benchmarks

"Less good for Long & Foster, though. To compound the hurt, the brokerage now gets to keep only 28 cents for every dollar in sales commission -- the rest goes to the agent -- down from 40 cents two decades ago. Foster estimates he will squeak out a pretax net of \$30 million this year on revenue of \$1 billion."
Source: *Forbes*, November 27, 2006

"Need to get to about \$1million in gross commissions."

Expenses as a Percentage of Sales

▶ Cost Of Goods	65% (commission payout)
▶ Payroll/Labor Costs	10%
▶ Occupancy Costs	5%
▶ Profit (pretax)	15%

Industry Trend

"Indications RE will be soft. However that may mean more brokers get listings. Business brokers should be strong."

"Growing, but may still see a decline in the short run."

Advantages

- ▶ "Great business to be in. No inventory. Labor costs low."
- ▶ "No inventory, no accounts receivable."

Disadvantages

- ▶ "Competitive. No hard assets. Easy to replicate small ones."
- ▶ "Can you herd cats?"

Additional Resources

Trade Publications

- ▶ Value of a Real Estate Brokerage Firm published by the National Association of Realtors

Associations

- ▶ [National Association of Realtors](#)
- ▶ [International Business Brokers Association](#)

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