

# Maximising value

**D**espite statisticians declaring we are officially out of recession, many businesses are still finding it tough and most of the estate agents I speak to are no exception.

The level of residential transactions in both 2008 and in 2009 was pretty much half that of 2006 or 2007. Recent figures from the Office of National Statistics reveal a low for the first quarter of 2009, but almost double that volume by the end of that year.

Even so, this only amounted to some two-thirds of the residential transactions for 2006 or 2007. This reduction, combined with lower transaction prices and commissions on sale, has put agents under pressure.

So is now a good time to buy into an estate agency business or take over a competitor at a bargain price? Or are there good reasons to sell?

Agents who rely on sales, whether residential or commercial, are certainly likely to have struggled and revenues may well have fallen to below the level required to cover ongoing costs.

Such loss-making businesses are likely to be up for sale if the owner is unable, or unwilling, to fund losses. If the business is realistically priced at a level significantly below what would have been expected just a couple of years ago, it can appear attractive. Add in the potential availability of prime locations which 'just never come up', and buyers may consider the opportunity too good to miss.

Most mergers or acquisitions rely on some form of borrowing, often from a bank. Although the availability of credit is nothing like we had become used to, I know several bank managers who have large lending targets and will make funds available at reasonable rates.

The main change is in the amount of evidence required to demonstrate that the deal is viable and that repayments can be afforded, without the bank needing to rely on its security. I have seen a number of deals part-funded by raising cash through other means or by share swaps.

I am often asked what to look for

## Is now the time to buy or sell? Gary Haselton advises

when considering purchasing a business, and I think the most important thing is to know what you are getting into.

Carry out proper due diligence and do not rely on vague reassurances made by the vendor. Issues to be considered include:

- How solid are the business cashflows? What is the make-up of revenue and how is this affected by market conditions, both current and anticipated? How do these compare with the current and future costs?
- If the business is losing money, why? And are those conditions likely to continue? Can you identify the reason?
- Do you have the skills and resources to turn a loss maker into a profitable business? Will you be able to fund losses until a return to profit? For example, could offices be closed and costs reduced without a significant reduction in revenue?

### What about selling?

Agents who have a substantial lettings book, or have managed to exploit other revenue opportunities, may have better cashflows and be profitable. In the current climate, such businesses may still command a higher asking price as they can demonstrate their ability to weather a downturn, and are well placed to expand into the sales market when it starts to pick up.

Whilst loss makers may have no real choice in the matter, those that are profitable may still choose to sell out because current tax rules offer some incentive. At the time of writing (pre-Budget) Capital Gain Tax rate is as low as 10%, but a rise seems inevitable as it looks out of step with income tax at 50%. In any case, further tax hikes are very much on the agenda after the election, whichever party is in power.

Smart agents are going beyond simple cost cutting and are taking a fresh look at every aspect of their business; asking why things are done the way they are and seeking to identify better ways of

operating. Of course, this should always be an ongoing process, but when things are going well, time never seems to be available and inefficiencies creep in. By doing this now, agents are likely to end up with a better long-term business – and it may help them attract a better price when they decide to sell.

The trick is to focus on increasing the value and marketability of your business and to minimise potentially adverse effects in the sales process, including tax.

Think about simplifying the structure of your business: consider separating companies that would not be part of the sale and remove any private assets not used in the business. If you have any understandings or informal contracts in place, formalise them now so they can be transferred to the new owners. Try to conclude any litigation as quickly as possible. Tackle profitability by tidying up your balance sheet and improving your debt recovery, for example by ensuring you get your selling fee direct from the vendor's solicitor.

If you are making losses which you cannot afford to fund, then it makes sense to try and stabilise the business to allow time for it to be marketed properly while it still has some value, and difficult decisions are not made for you by other interested parties.

Those who can still achieve a decent sales price may wish to consider taking action now under the current tax regime – we all suspect that this is going to become harsher, no matter what the result of the election.

If you are not currently considering selling, then I recommend taking the opportunity to work on, rather than in, the business to maximise its future value. ■

Gary Haselton is a principal at Shipleys LLP and specialises in business consulting and commercial problem solving. This includes starting up in business, selling businesses, financing and tax planning. His clients include a number of property firms. [www.shipleys.com](http://www.shipleys.com)