Interested in Selling Your Property Management Company?

My name is Brad Larsen. I am the owner and founder of RentWerx covering San Antonio & Austin. You are being sent this letter to express my interest in purchasing residential property management companies - specifically yours! We currently manage over 1,000 residential homes in the region and are ready for growth!

WHY SELL TO RENTWERX? I want to be able to answer that question right from the start. There are lots of reasons TO sell, but the big questions are to WHOM, and for HOW MUCH?

My intent with this letter is to clearly explain those reasons to sell to RentWerx in a few paragraphs. I am also keenly aware that now may not be the right time for you to consider this option, but this may change someday in the future as everyone eventually wants to sell their business - and we want you to consider us in that conversation. OR – you may know someone else that may be interested and pass along our information because we pay a referral fee.

We Can Pay More! In making this bold statement, I want to explain how valuable your business really is with recurring revenue, sales opportunities, and capital value. Your business is valuable to any purchaser, but more valuable to a strategic buyer like RentWerx because we are already a longtime established business in this market. Your business in this region would fall directly in line with our existing operations for a streamlined integration meaning fewer losses from disrupted service. We already have the systems and people to manage your clients from day one and want to position this with your clients as a merger. This makes your business worth more to us at RentWerx, and we are ready to compensate you well for this opportunity.

What are management companies selling for these days? The difficult thing about pricing a business is that there are nearly zero public comparable sales to reference. Take for example in selling a home – you can do comparable sales all day long to get it down to near an exact scientific formula of "x" per square foot. I wish it worked like that in businesses, but it just is not that simple. To answer this question as accurately as possible, I have seen management companies sell for 1-1.5x of their gross revenue, or 3-5x of their profit. There are always exceptions to that and how this is determined depends on some simple concepts – how much is the seller willing to offer, and how much is the buyer willing to accept? This we can tackle together to find a solution that can work for everyone!

How will we determine the valuation of your company? Let me break this down into some of what we will look for in determining a possible sales price and be as up front with this information as possible.

1) **Gross Revenue:** I have seen this used as the old standby for reference to a buyer or seller valuation of a business and is different in a lot of industries. In our industry, I have typically seen a 1 times up to a 1.5 times multiple based on the last 12 months of gross revenue. Meaning, in the last 12 months, how much money did the business bring in – then take that figure multiplied by 1.25 (for example) to get a potential value of that business. This is not a concrete multiple, only a rough guide.

2) **Profit:** There are so many terms flying around for this very important figure that it often gets confusing. Some will call this EBITDA, Seller's Discretionary Earnings, Gross Margins, Dividends or all sorts of things. I consider it to be the amount of money left over that the owner of the business controls after all

expenses are paid. This includes adding back in any owner benefits such as salary, car payments, subscriptions, MLS dues, or trips to Vegas! Typically, a purchaser will look at the last 12 months of this compiled figure just as the gross revenue. I have seen companies reference the "profit" as described above and then applying a multiple of 3 times to as high as 5 times of that number for a sales price.

3) **Price Per Unit:** One thing unique to our industry as that some purchasers have broken the compilation of using Gross Revenue & Profit into an easy-to-understand figure applied to the number of homes under management. I have seen this figure range from $1,000 per unit, to as high as $5,000 per unit depending on their situation, earnings, and intrinsic value which I will tackle next.

4) **Intrinsic Opportunities:** Considering all of the hard figures associated with Gross Revenue and Profits, there are other some things more important than black & white numbers on paper.

    a. Staffing: As we work together to explore your business, we have a checklist of questions we will want to go over. The biggest expense in a management company is the staffing. We will review this together and see if there are opportunities to retain staff or consolidate operations where applicable to streamline the business going forward. Saying this in a different way – if we can do the job with 1 or 2 less employees, yet provide an exceptional level of service, it offers an important piece of the valuation that is not readily quantifiable.

    b. Location: Although we are already locally formed and based in the San Antonio & Austin region, having an opportunity to broaden our presence can be excellent for business. Multiple office locations often help to solidify operations and could be a big part of a valuation.

    c. Office Space: If there is an ownership stake in the office that the business is based out of, the purchasing or acquiring rights to that space could be an extreme value to us. This may have a significant impact on the level of pricing because it could be tied into more of a hard asset such as an office building.

    d. Sales: An overlooked piece of a property management company is the opportunity to capture and increase real estate home sales. Leads are dependent upon the number of people a business can make an impression upon. The more impressions, equals more leads, equaling more sales. A property management company has interactions with owners, applicants, tenants, and vendors – all of which can refer or employ the services of a real estate agent under the organization. This is difficult to quantify yet very valuable and should play a piece in the valuation.

5) **Terms:** I saved the best for last because this is where all sales get decided. The "price" is possibly an easy number to determine, but it's the Terms that define the deal. It's very common to get paid LESS for an all cash up front transaction versus an owner financed deal. To a seller – cash equals all the money up front at closing. The seller is not that concerned where the buyer gets the money which could come from financing, private funding, or even Wall Street. Where the seller can make more is if they were to allow a form of owner financing to carry a debt over several years. This is where the seller can make more and decrease their tax burden. It's my opinion that if we can agree to acceptable terms, the price can increase tremendously compared to an all-cash structured deal.

We can minimize the dreaded holdback! In every sales transaction for businesses, there is almost always a built-in hold back – sometimes called a claw back. That dreaded portion of the agreement is always a bit scary and handled differently by some organizations. In my experience, there will be a 10% to even 20% fall out of clients during this transition. When homeowners get wind of a management company transition, they see it as the prompt to sell their home, self-manage their home, or even change management companies for fear of negative consequences from organizational change. Although I feel those are unfounded fears, I do know you can't convince a homeowner to NOT sell in this record hot sales market. So, fallout will be inherent.

What I will tell you is that some acquirers of businesses like yours are professional purchasers of companies - with legal teams full of attorneys well versed in sneaking in the little things into contracts that will not become apparent until later after you have sold. They love to use Old English in legal speak to hide their intentions. "*Here ye, hear ye – consider this herewith and forthright referencing said letter to the primary principle that failing to comply with all written terms and conditions will trigger mediation via jury trial in New York state*."

These holdbacks are designed to "re-trade" in a purchase agreement to favor the buyer. The purchaser will make minimal effort in retention of your current clients all to trigger the large holdback clause. What good is it if they pay you a million dollars for your business….but then design a holdback to screw you out of half of that because of the fallout that <u>they</u> allowed!?!?

It's my intent to minimize any holdback concerns by creating a partnership merger where your clients will rest assured that RentWerx is already here, already local, and ready to provide them exceptional service.

**** Be very leery of an all-cash buyer with giant legal teams to disguise the holdbacks! ****

We Are Local and Veteran Owned! To tie into the conversation of a holdback, your current owners want to work with veterans, and they want to work with someone local who has been in this region for over 20 years selling and managing homes. Texans and people who invest in Texas demand this. I spent 10 years in the US Army as an Infantry Officer and have been a Texas Real Estate Broker since 2003. This experience set the tone to help us build RentWerx, and we know this will help retain your homeowners during this transition.

<u>We Can Offer Flexible Terms!</u>

Scenario ONE = All Cash Up Front: All sellers would love to see cash up front, until you dig into some of the details this will entail. If we can come to an acceptable price, we can work out this scenario possibly involving bank financing already approved with Enterprise Bank. We are open to an all cash up front discussion, but it will entail a few things to consider:

1) Capital Gains Tax - The seller of the business will be responsible to pay their entire amount of capital gains tax in one year. Meaning - this could push them into a higher tax bracket and a higher taxed income percentage possibly costing them a significantly greater amount of federal tax that is due.

2) Holdbacks – In an all cash up front scenario, the usual holdbacks tend to be higher than any other term because of the threat of a non-compete or mass exit of accounts as a side effect of the transition. I have seen terms up to 25%, or more, of the sales price held back for up to 6-12 months.

3) Influence – In an all cash up front transaction, the seller is typically encouraged to cut all ties with the business and sail into the sunset. Occasionally, that seller can become an employee of the company for a short duration – but with minimal if any say so in the direction of the company (also affecting their hold back). I am open to all scenarios and would prefer the seller to remain in and around the business in some capacity for a host of positive reasons.

4) Less Money – Here is the kicker, an all up front cash offer is typically lower than an owner financing offer. That amount may vary, but it could be as much as 5% up to 20% lower than an offer with terms.

Scenario TWO = Owner Financing: Another fantastic option to consider would be to allow us to work out terms to owner finance a portion of the purchase price. Typically, we would come to an agreement on price and terms – which would always be a higher than a cash deal.

1) Structure – In the scenario of owner financing, we would agree to a cash down payment around 10% to 20% of the sales price. The remaining balance would entail the seller carrying a note from the buyer. The way I like to structure those types of terms are in a 10 or 15 year amortization schedule, paid over 36 months (flexible) with a balloon payment of the remaining balance due the final month.

2) Capital Gains Tax - The seller of the business would be able to break up their capital gains tax burden over several years not getting hit with a significant amount all at once as in a cash deal. This may also give the seller time to locate and close on tax avoidance strategies such as a 1031 Exchange or an Opportunity Zone purchase. ***Discuss these with your individual CPA***

3) Earn Interest - In an owner financing scenario, the seller will earn additional income by an interest-bearing note that pays out significant amounts of interest over the life of the loan. If the interest rate were 5% amortized over 10 years (example), that amount can be very profitable and another way to earn a higher return from your business instead of a cash deal. With zero effort, a seller can earn much more than they would with an all-cash buyout.

4) Holdbacks – In an owner financing scenario, there will still be a holdback period. This is negotiable and is usually not as stringent because of the seller carrying the note and still being in the business as a financier. I think of looking at this design in an agreement as you are doing the buyer a favor by allowing for owner financing – that favor should be returned and equalized by offering a minimal hold back in the agreement. As with an all-cash deal, that hold back amount is held in escrow from an attorney's office and distributed at the end of the hold back period based upon losses.

5) More Money! – In almost every case, an owner financing structured deal will always earn the seller more money. More money in sales price, more money saved in taxes and more money earned charging interest. All of these add up to a potentially fantastic opportunity for both buyer and seller.

We Will Minimize Losses! Every buyer's intent is to minimize losses, this goes without saying. Where the difference becomes important is what kind of buyer do they come across as to your client owners? Is the buyer local? Are they based out of a state not Texas friendly? Are they a giant conglomerate of operations spread out over 10 different states? We are local. We are veteran owned. We have a great reputation. We are involved in the national & local NARPM chapters, and we have all the personal and company credentials to back that up.

We Cover the San Austin Corridor! If you have not noticed it yet – San Antonio and Austin are practically growing into one large mega metro. The gaps in between the two markets are quickly starting to fill in with emerging secondary markets of new homes and businesses. Working with RentWerx expands the opportunity for your owner clients to look outside of just one market and become part of the bigger metro with one property management company to handle all their management and sales needs.

One Question to Ask Yourself – "What Are YOU Going to Do After the Sale?" – Maybe I should have started with this question? Because, well – it's hugely important. This will often dictate how we would want to structure a deal to best facilitate your new future. Perhaps you need the money to start a new venture and you want to cash out? Perhaps you are more flexible with your time and financial needs offering a scenario to maximize your total return? Let us explore this together to come up with a scenario tailored for you.

Referrals for Other PMC's: Being very realistic, I understand this letter may have been thrown aside because your intuition to sell or not sell is near instantaneous. However, maybe you know another management company owner interested and you could pass along this letter! **We happily pay finder's fees!**

It has been my hope that you learned something from this letter and would be open to a conversation one day to explore the opportunities we could put together. I know there are lots of purchasers right now for management companies and leads for a buyer to purchase these companies can come as easy as a Facebook post indicating you want to sell. However, not all buyers are created equal - and I would only ask to give a local company the first shot at working with you.

You can reach me directly at 210.385.4424 or email me to Brad@RentWerx.com.

Thank you and take care!

Brad Larsen

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BIO: Brad Larsen was born and raised in Iowa – his parents were both schoolteachers. He graduated from the New Mexico Military Institute in Roswell, NM and was commissioned as a Lieutenant in the US Army Infantry. He then graduated from Morningside College in Sioux City, Iowa. Brad was able to earn a baseball scholarship for both schools as a shortstop. After serving on active duty, Brad left the military as a Captain and moved to San Antonio in 2003 to pursue his interests in real estate. He then went on to form RentWerx Property Management now managing over 1,000 homes in San Antonio and Austin. Brad is also the podcast host for the Property Management Mastermind Podcast Show, founder of the Property Management Mastermind Conference, and a NARPM Certified Instructor.