

Good, Bad & Ugly: Real Estate Business

(from a bean counters perspective)

Elders Real Estate Group

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Overview

Good, Bad & Ugly

Top Tips for Principals

Planning, operations & financial

“The Good”

**Why be a principal of a
Real Estate business?**

**Why would you want to
run your own business?**

“The Bad”

**Key issues & concerns
with running your own
Real Estate Business!**

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“The Ugly”

Working Capital

Business Cycle

Sales v Rentals v Admin

Principal commitments

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Back Office

Processes & Procedures

Controls

Internal Controls

Structured month end process.

End of month checklist.

Documented procedures and processes.

External bookkeeper.

Trust account procedures.

Bank Reconciliation.

Backup procedures.

Timely preparation of accounts.

Budget.

Standard financial reports pack.



Back Office

Processes & Procedures

Controls

Compliance

What is my real position?

Reports and Checklists

Standard Reports

- 1. P&L for the month (by division)**
- 2. P&L for the YTD (by division)**
- 3. Balance Sheet (as at)**
- 4. Aged Creditors Listing**
- 5. P&L for the month by person
(or payroll summary by person)**
- 6. O/s VPA by salesperson**

Things can change overnight - if you understand your business, you can make the right decisions fast.

Back Office

Processes & Procedures

Controls

Compliance

What is my real position?

Reports and Checklists

Who do I trust?

Financial Responsibility

Can you delegate financial management responsibility?

Director liability.

You need to know what is driving your business?

Ask for help if you need it.

Structure Issues

Income splitting ability

Asset protection

Legal Liability

Need for additional equity holders

Exit Strategy

Tax rates

Capital Gains Tax Discounts

Common Structures

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**Check out the
"bean counter acronyms" @
www.uhyhnbrisbane.com.au**

Tax

Income tax

PAYGI

PAYGW

GST

FBT

Payroll Tax

Income tax

Tax rates

Due Dates

Treatment of losses

PAYG Instalments

Tax timeline

'Double whammy'

Entity v individual

PAYG Withholding

Monthly v Quarterly (\$25k pa)

IAS v BAS

Goods and Services Tax (GST)

10% of net (1/11th of gross)

Pretty much on everything

Monthly v Quarterly

Cash v Non-Cash (\$2m)

Fringe Benefits Tax (FBT)

Motor vehicles

Entertainment

Loans

Gifts / Bonuses

Effective = 46.5%

Payroll Tax (state tax)

Wages, super, benefits paid > \$1m

Directors wages

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Top Tips for Principals (planning & operating)

Tip #1

**Get your legal
structure right**
You will need some advice

Tip #2

What is your exit strategy?

You need to consider your eventual exit strategy, even if it is likely to change.

Tip #3

**Leave enough behind for
working capital.**

**Rule of thumb = 3 months
(probably more in current
economic environment)**

Tip #4

Stop bad habits

Especially in the areas of VPA, consumables, commission rates and procedures.

Tip #5

**Cash and Profit
are very different**

Plan for both!



Where have all the profits gone?

Significant owner drawings

Significant business loan payments

Significant VPA receivable

Capital improvements / new assets

**Balance Sheet unfairly impacting the perceived
performance of the business.**

Tip #6

**Have a vision,
and share it.**

**Are you striving for capital or income growth?
Your staff can be your best advocates.**

Tip #7

**What is your Purple Cow -
why should anyone do
business with you?**

**Understanding and sharing your
competitive advantage makes the
decision making process so much easier.**

Tip #8

**Don't try and do it
all yourself**

**Delegate operational roles
but still be a leader.**

Tip #9

**A business plan is not a
static document
(review, realign and reward)**

Tip #10

Know your business formula.

Know your fixed costs.

**Make the right decisions
based on the right information.**

BUSINESS FORMULA

Sales	X
x Gross Margin %	40%
<hr/>	
= Gross Profit	Y
- Net Fixed Commitments (\$100k)	
<hr/>	
= Net Profit (see note)	Z

Note:

- Fixed Costs**
- + Owner Remuneration**
- Director Sales**
- Rental Income**
- = Net Fixed Costs**

BUSINESS FORMULA

**Knowing each component of the formula
is a good start!**

**If Fixed Costs increase, how many more
properties do you need to sell?**

**Or, for property management, how many
more properties do you need to list?**

Tip #11

Know your cash and profit breakeven

What do you need to live on?

What is the impact of increasing your costs?

Profit formula

= **your business expressed in numbers**

Breakeven

= **the point that you start to make profits**

Cash Breakeven

= **the point that you earn enough profit to meet all your cash commitments (eg. owners drawings and loan repayments)**

Reduce Risk/Breakeven

Reduce Fixed Costs

Increase Volume of Transactions
(staff and/or sales)

Decrease Ave Rate of Commissions
(consider impact on staff)

Increase principal sales

Focus on incremental profits per person

Changes to the business model

Cash and profit breakeven

Tip #12

Think before you spend
- Explore the alternatives.

Fix the real problem.

Fixed Costs

If Fixed Costs increase, how many more properties do you need to sell?

Fixed costs in your business are the equivalent of the machine in a manufacturing business.
(Squeeze more sales through the machine)
(Squeeze more rental properties through the machine)

What are your average fixed costs per month?

Higher fixed costs = Higher Breakeven Point
Higher fixed costs = Greater Business Risk

Tip #13

**Recover all
VPA upfront**

Principals set the standard

VPA Recoveries

Recovered VPA is money in the bank

Cost of VPA = \$ owing x Overdraft Interest Rate

Are you satisfied with your return on investment?

Do you really recover 100% of VPA upfront?

What about on principal sales?

Do you recover from salespeople?

Review O/s balance weekly by salesperson.

Tip #14

**Review Profit & Loss
by salesperson.**

**At the very least know the incremental
profit per person.**

Commission Structures

What are the variables?

How many is too many?

Number of sales per month.

Staff Mix is key.

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Tip #15

Staff mix is key!

Have a target staff mix.

Tip #16

Focus on the “Average Rate of Commission”

Deviations from the standard commission structure can cause headaches down the track.

Changing Commissions

#1 Do your homework!

#2 Break commission structures down into individual parts.

#3 Pick your fights.

#4 Setup standard structures with performance variables.

#5 Transparency shows you mean it.

#6 Don't forget about consumable allowances.

#7 Average number of properties to be sold.

#8 Rome wasn't built in a day- work towards to ideal!

#9 One size does not fit all!

#10 To borrow the slogan of Nike ... Just do it!

Tip #17

**Put cash aside for future
cash commitments
(such as GST & Tax)**

**Or, at the very least know
your tax timeline.**

Tip #18

**Implement a standard
financial reporting
regime**

Including Profit by division.

Standard Reports

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business, you can make the right decisions fast.**

Tip #19

Implement a structured month-end process

**As principal, you need to know
certain things are being done.**

Tip #20

Build good relationships with your advisers

**Find advisers that make you comfortable
enough to ask those stupid questions.**

**One discussion a year with
your accountant is not enough!**

#1 Mistake

Driven by sales not profit

**Yes, you need to keep feeding the machine
– but it is a very short-term strategy
if you have to buy work.**

Still uncertain economic times.

**Reduce the risk in your business by
focusing on breakeven point.**

**Strive for continuous improvement by
removing “Waste”.**

7 Deadly Wastes

- 1. Overproduction**
- 2. Waiting**
- 3. Transporting**
- 4. Inappropriate Processing**
- 5. Unnecessary Inventory**
- 6. Unnecessary Motions**
- 7. Defects**



Still uncertain economic times.

**Reduce the risk in your business by
focusing on breakeven point.**

**Strive for continuous improvement by
removing “Waste”.**

Profit not sales is what really matters.

Questions / Discussion?

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