

A middle-aged man with grey hair and glasses, wearing a dark grey suit, a blue shirt, and a patterned tie, stands with his hands in his pockets. He is positioned in front of a modern building with large glass windows and geometric architectural elements. The background is slightly blurred, emphasizing the man.

CHAPTER 3

Owning, Managing and Supervising a Real Estate Office



Capital & Start-up Costs

- Initial expenses
 - Office space
 - Office equipment
 - Insurance
 - Professional fees
 - Office supplies
 - Grand opening
 - Miscellaneous



- Typical fixed expenses
 - Office rent or mortgage
 - Salaries
 - Equipment rental
 - Furniture rental
 - Business (liability) insurance
 - Property insurance
 - **E**rrors & **O**missions insurance
 - Association & MLS fees
 - Annual business tax receipt (formerly occupational lic.)

Fixed Expenses



Variable Expenses

- Typical variable expenses
 - Advertising
 - Sales commissions
 - MLS listing fees
 - Telephone
 - Utilities
 - Office supplies
 - Printing costs
 - Technology



Financial Reserves

- Salaries
- Legal and Accounting fees
- Advertising
- Operating expenses
- Occupancy
- Enough financial reserves to “carry” an office for 1 year

Make realistic evaluations:

- Firm
- Market
- Business potential

Set goals and objectives

- Market share
- Sales volume
- Income
- Expenses and profits



Projecting Income & Expenses

A close-up photograph of typewriter keys, showing various numbers and colors (black, white, red) in a grid pattern. The keys are slightly out of focus, creating a sense of depth.

Projecting Operating Expenses

A simple black L-shaped corner bracket in the top-left corner of the text area.

Size of the office

- How much square footage is needed
 - New licensees – more square footage may be needed
 - Experienced licensees – less square footage may be needed

Marketing methods

- Internet promotion
- Classified ads
- Magazines
- Direct mail

Market conditions

- Is supply and demand in balance
 - Buyers market / sellers market
 - Strong employment market
 - Supply of loanable funds – interest rates

Projecting Operating Expenses



Projecting Operating Expenses

A hand is shown writing in a notebook with a black pen. The background is a blurred office setting with a laptop screen displaying various financial charts, including a bar chart and a line graph. A world map is also visible on the screen. The overall scene suggests a professional or financial context.

Licensee/employee compensation

- Commission splits
- Graduated split
- 50/50 splits with advertising support, etc
- 95/5% splits with little or no support

Staff salaries

- What benefits
- Bonuses

Commissions

- What will be the policy
- Is commission flexible
- Are there transaction fees
- Referral fee percentages
 - Both incoming and outgoing
- Property management – will it be offered and if so, how much
- One stop shopping
 - Title, mortgage services, etc.

Projecting Income Sources



Making Projections



Scope of company operations

- Seller & buyer representation
- Residential listings
- Sales
- Rentals
- Property Management

Making Projections

Market Area and General Market Conditions

- What geographical area will you serve
- Interest rates – low or high
- Strength of local economy
- Strength of regional economy





Making Projections

Sales Associates

- How many
- How many support staff
- Number of sales to break even
- How much profit would you like to make



Franchise vs Independent Firms

Franchise advantages

- National referral network
- Formal training programs
- National name recognition
- Advertising assistance
- Management/sales training programs
- Legal assistance

Franchise disadvantages

- Loss of control, operational freedom
- Franchise fees
- Start-up costs, higher overhead
- Loss of local personality



Franchise vs Independent Firms

Independent advantages

- Lower overhead
- Increased operational freedom
- Local personality
- Reduced start-up fees
- No franchise fees

Independent disadvantages

- Advertising costs
- Name recognition
- Training
- Legal costs

Cash accounting

- Single entry or checkbook method
- Income is recorded when received
- Expenses are recorded when paid
- “Fall-through” transactions do not appear on the books

Accrual accounting

- Includes accounts payable and receivables
- Income is recorded at “date of contract”
- Expenses are recorded when debt is incurred
- “Fall-through” transactions must be accounted for

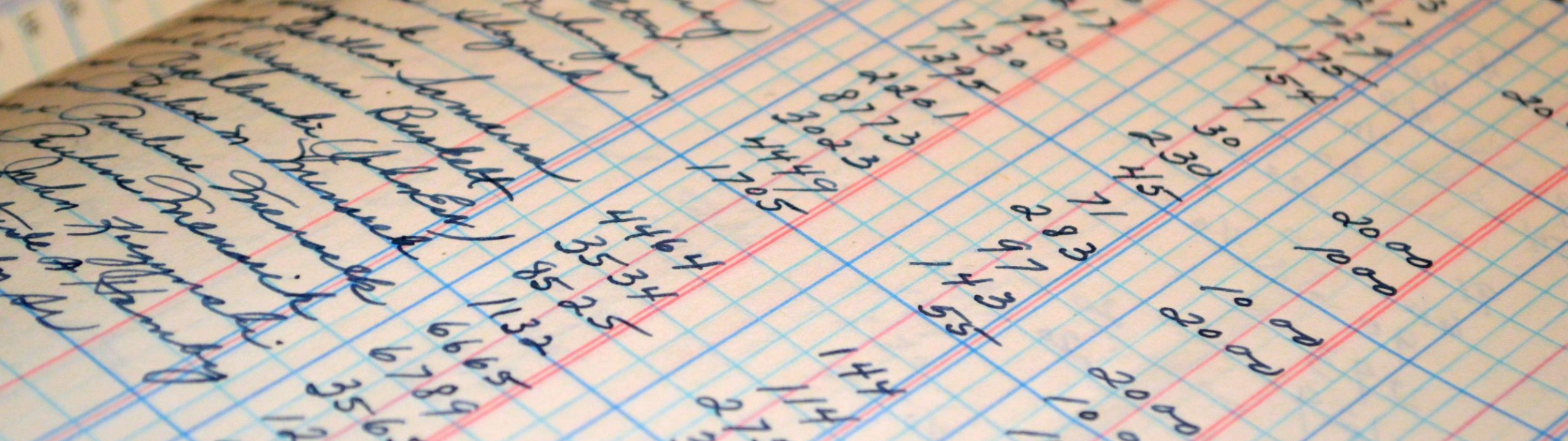


Tax Considerations

Cash vs Accrual Method Example

	Cash Method	Accrual Method
Gross Income	\$750,000	\$925,000
- <u>Expenses</u>	<u>-600,000</u>	<u>-650,000</u>
Net Income	150,000	275,000

This brokerage had written contracts totaling \$925,000 of which \$750,000 had closed by year end. Expenses of \$650,000 were incurred, of which \$600,000 were paid by year end. Income reported depends on the accounting method used.



Tax Considerations

Simultaneous accounting

- Computer program that records both income and cash accounting methods after entering data once

Employees vs Independent Contractors

	Employee	Independent Contractor
Hours	Set times	Voluntary
Salary	Fixed salary, bonuses	Commission
Income	Fixed or variable	Commission
Expense Account	Optional	Not allowed
Policies	Strictly follows	Per contract
Retirement	Optional	Not allowed
Insurance	Optional	Not allowed
Unemployment	Employer required	Not allowed
Workers Compensation	Employer required	Not allowed
Meetings	Attendance required	Voluntary attendance



Independent Contractor Agreements

A close-up photograph of a person's hands signing a document in a black folder. The document is white with a blue header that reads "Contract of Choice" and "Independent Contractor Agreement". The person is holding a black pen and is in the process of signing. The background is a wooden desk.

- Tax considerations
- Non-compete clauses
- Written understanding of company policies
- **To Maintain licensees as Independent Contractors Brokers cannot:**
 - Reimburse licensees expenses
 - Offer health insurance
 - Require attendance at meetings



Employees vs Independent Contractors

Bookkeeping IRS Categories

- **Independent contractors**
 - Signed Independent contract required
 - Not signed – IRS may treat sales persons as employees
 - Compensation is based on production, not hours worked
 - IRS Form 1099 income reporting
- **Employees**
 - Signed contract not required
 - IRS Form W-2 income reporting
- Both forms must be given to independent contractors and employees by Jan 31 each year

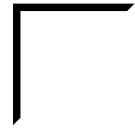
- Must have recruiting goals
- Broker hiring a new recruit
 - similar to sales associates getting a listing
- Screen applicants personality traits
 - Ego and drive
 - Empathy
 - Work well with others
 - New recruit
 - Top producer



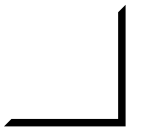
Recruitment & Selection



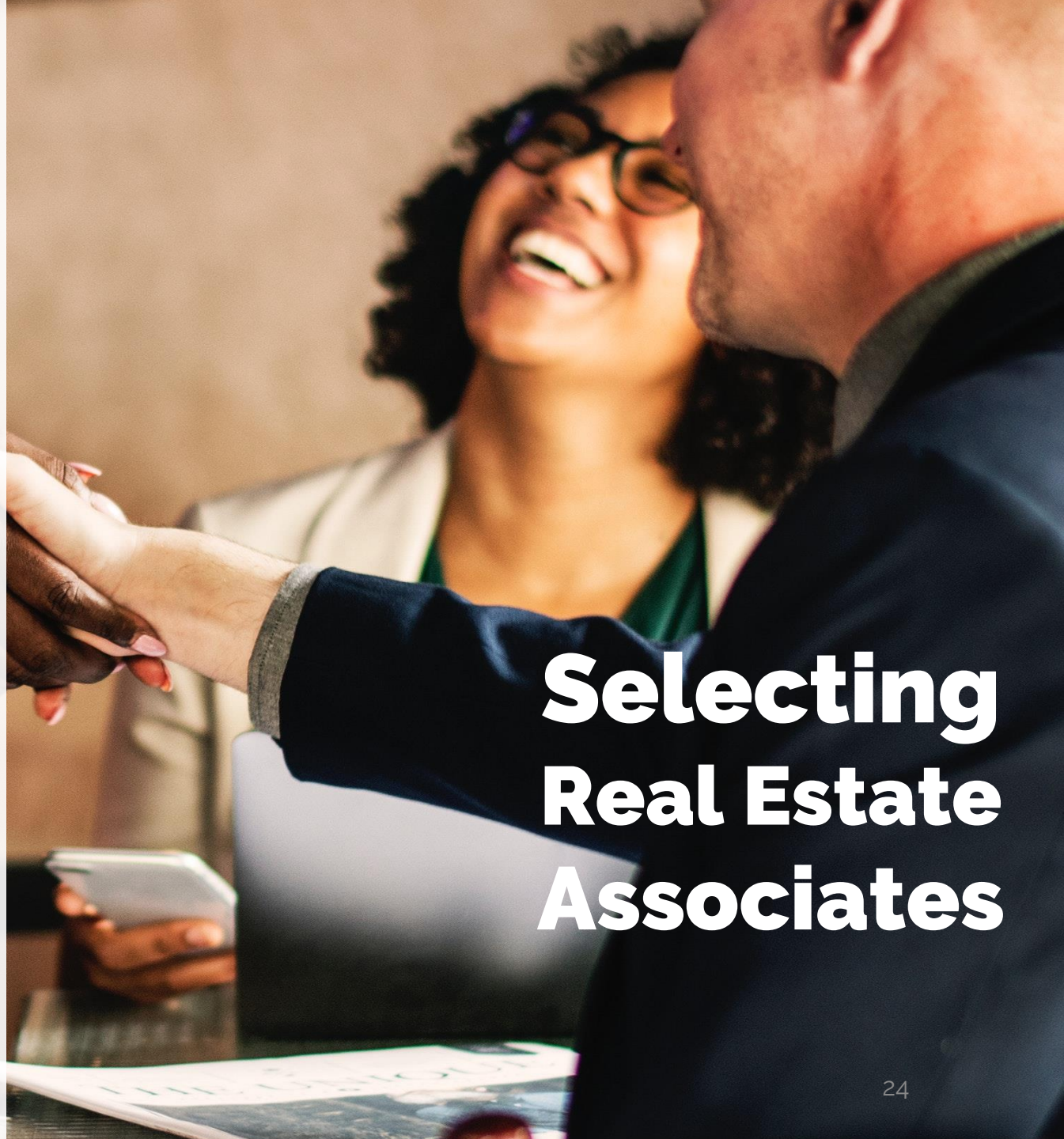
Recruiting Sources



- Media advertising
- Career nights
- Pre-licensing schools
- Support personnel
- Personal contacts
- Referrals from associates
- Recruiting website
- Email recruiting



- Divide average production per sale into budget to determine how many sales are needed
- Number of associates needed to cover budget
- Space limitation considerations
- Hire full-time associates only
- Hire part-time associates
- Sales manager
- Training manager
- Assistants, licensed or unlicensed
- Allow teams and rules



Selecting Real Estate Associates



Compensation of Sales Associates

- Salary
- 100% commission/transaction fee
- Commission split
- Commission with bonus
- Graduated commissions
- Selling agent bonus split



Associate Training

- Firm history
- Internal organization
- Associates
 - Obligations
 - Benefits
- Operating Procedures
- Training
 - Technical (contracts, etc.)
 - Sales – interaction with customers

Americans with Disabilities Act



- Federal Law designed to remove barriers for disabled individuals
- Includes employment and accessibility
- Reasonable accommodations must be made for disabled employees
- Broker office is a:
 - Public accommodation
 - Commercial facility
 - Must comply with ADA

- Supervision
- Monitor sales activities
- Evaluates performance
- Assists sales associates with problems
- Supervises advertising
- Ensures compliance with rules and regulations
- Monitors listings
- Conducts sales meetings


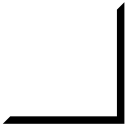


Sales Manager Responsibilities



Sales Meetings

- Review new listings and sales
- Review price changes
- Recognize associates accomplishments
- Review office productivity
- Review market changes
- Maintain open lines of communication
- Provide feedback to agents from management
- Provide feedback to management from agents

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- Listing and Sales techniques – preferred forms
 - Disclosure requirements
 - Law and rule changes
 - Industry trends
 - Required Continuing Education courses
- 



Ongoing Education

Policy & Procedures Manual



- Sales Associates responsibilities
- Job descriptions
- Office procedures listing and sales policies
- Listing and sales policies
- Customer representation
- Do Not Call laws
- Personal assistants
- Code of Ethics
- Company objectives
- Compensation

Personal Assistants



Licensed Personal Assistants

- Can be paid commission/transaction-based fee or salary
 - Paid commission/transaction-based fee – broker must pay
 - Paid salary – either broker or hiring licensee may pay

Unlicensed Personal Assistants

- Can be paid salary only
 - Either broker or hiring licensee may pay

Unlicensed Personal Assistants



Activities Unlicensed Personal Assistants May Perform Listed in a November, 2018 FREC Meeting

- Answer the phone and forward calls
- Submit listings and changes to any multiple listing service
- Follow up on loan commitments after a contract has been negotiated and generally secure status reports on the loan progress
- Assemble documents for closing
- Secure documents (public information) from courthouse, utility district, etc.

Unlicensed Personal Assistants



Activities Unlicensed Personal Assistants May Perform Listed in a November, 2018 FREC Meeting

- Have keys made for company listings
- Write ads for approval of licensee and supervision broker, and place advertising (newspaper ads, etc.); prepare flyers and promotional information for approval by licensee and supervising broker
- Receive, record and deposit earnest money, security deposits, and advance rents
- Type contract forms for approval by license and supervising broker

Unlicensed Personal Assistants



Activities Unlicensed Personal Assistants May Perform Listed in a November, 2018 FREC Meeting

- Monitor licenses and personnel files
- Compute commission checks
- Place signs on property
- Order items of repair as directed by the licensee
- Prepare flyers and promotional information for approval by licensee and supervising broker
- Act as a courier service to deliver documents

Unlicensed Personal Assistants



Activities Unlicensed Personal Assistants May Perform Listed in a November, 2018 FREC Meeting

- Place routine telephone calls on late rent payments
- Schedule appointments for license to show listed property
- Be at an open house for:
 - a) security purposes
 - b) hand out materials (brochures)
- Answer questions concerning a listing from which the answer must be obtained from licensed employer-approved printed information and is objective in nature (not subjective comments)

Unlicensed Personal Assistants



Activities Unlicensed Personal Assistants May Perform Listed in a November, 2018 FREC Meeting

- Gather information for a CMA
- Gather information for an appraisal
- Hand out objective, written information on a listing or rental. The broker shall foster the education



Coffee Break

15 Minutes