

What's My Rent Roll Worth?

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As a broker every day I am asked by principals how rent rolls are valued. The perception is that all rent rolls are valued the same. For example, if a rent roll sells somewhere in Victoria for say \$3.00 per dollar of management income, then all rent rolls are worth the same value.

The most common question I hear is, '*Are rent rolls still selling for three times the management income?*' My response can sometimes be devastating to a principal because what they want to hear and what the reality is can be completely different.

When it comes to the sale of a rent roll, the seller and the buyer often have competing views of what they want to achieve.

The seller typically wants:

- Maximum price
- Quick sale
- No retention period

The buyer typically wants:

- Lowest price
- All the time in the world to negotiate the sale
- Longest retention possible especially for multiple landlords

When considering the above, a detailed assessment of the rent roll, education of both the buyer and seller are necessary in addition to skilled negotiations to achieve the best possible result for the seller. So what should principals be aware of when considering the potential value of their rent roll?

From my perspective the following four points are key factors which can affect the value of a rent roll. These factors are the main reasons for variances of values between one rent roll and another.

1. Rent Roll Demographics

- Average weekly rent
- Average management fee %
- Average annual management income per property
- Other income (e.g. advertising, relet fees, statement fees, administration fees etc.)
- Multiple property owners
- Geographic spread of properties
- Property types (e.g. commercial/residential, house, flat, townhouse, factory etc.)

- Rent Roll condition (e.g. arrears, bonds, fixed term tenancies, vacancy rate etc.)
- Landlord Management Agreements

2. Property Portfolio Location

Where a rent roll is located can also be important with regard to:

- Number of agents in the area – with and without property management departments
- Number of agents looking to buy a rent roll
- Number of properties in the area
- Desirability of location
- Recent rent roll sale price

An example would be where a rent roll is generating a very high annual income and is situated in inner city Melbourne this would more than likely achieve over \$3.00 per dollar of management income. Should the same rent roll be located in the outer suburbs or a country town where there might only be two, three or four real estate agents in the area, the value can be totally dependent on the last rent roll sale in the area or what someone is prepared to pay.

3. Today's buyer will affect the value in the future

In property, if houses are not selling in an area for a period of time and then one house is sold well below market value, consider how this will affect the next sale. More than likely the next sale will suffer too, particularly in areas where turnover is low.

This very same concept applies to rent roll values as well. We often see buyers who want a bargain and are only prepared to purchase a "fire sale" rent roll. In the inner suburbs this does not have such an impact as the turnover of rent rolls can generally withstand one or two selling below market value. However, in the outer suburbs and regional towns this does have a big impact on future sales. A buyer will always refer back to the last sale when making the decision to put in their offer. What principals do not understand is that if they buy a rent roll at below market value then they cannot expect to achieve a premium price for their own rent roll when they may choose to sell.

I often hear comments like, *'I only want to pay two times the management income or less when purchasing a rent roll but when the time comes for me to sell, I expect to sell for three or more times!'* The problem here is that if all agents had the same attitude, the values of rent rolls would NEVER increase.

4. Motivation of seller is critical

Brokers sometimes come across a seller of a rent roll who applies obstacles that will hinder them reaching their goal.

Recently I had a call from a principal stating, I need to sell my rent roll – I've had enough! The documentation was executed and the business profile prepared and marketing commenced.

After only a few weeks a formal offer was received at nearly the asking price. The reason for the quick response was that there were a large number of real estate agents in the area and a rent roll had not changed hands for some time which in turn created buyer urgency. There were other offers also received from other buyers. However, the process stopped when the seller withdrew the rent roll from sale.

The seller was not committed to selling and appeared to be simply testing the market place to see if the asking price could be achieved. Once satisfied with the "test", the seller chose to continue working the rent roll with a view to sell later in the year.

Where does this leave the principal who may really want to sell later in the year? Chances are that it will be a challenge to sell easily as they may not see the seller as being committed to a sale yet again.

The agents who made formal offers on the rent roll when it was listed for sale have strongly indicated that if the rent roll comes on the market again they won't be wasting their time in the future.

For principals this highlights that when considering selling your agency and/or rent roll a number of items must first be addressed.

1. Seek advice from your accountant and understand taxation matters if a sale resulted.
2. Ask yourself – Am I a motivated seller?
3. Define the reason/s for selling – financial, personal, pursuing other opportunities
4. Consider options and make decisions for possible outcomes i.e. If I can't sell the agency am I prepared to sell the rent roll to another agency and close down the office? The true value is in the rent roll and this option may need to be considered depending on the reason for sale and the timeframe required.
5. Will I be able to provide all the details to the broker required to sell the business and/or rent roll? If I am not capable of doing this – is there a staff member I can trust to complete this for me?"
6. Consider: "Am I prepared for the sale of my business to become common knowledge in the local market place? No matter how many times a broker explains the importance of potential buyers adhering to the signed confidentiality agreement, this cannot be guaranteed. People love to gossip and this can lead to the seller

perhaps losing some staff, listings or managements. It may not happen but it can, so being prepared for it is an advantage.

7. Speak to your solicitor about your own personal circumstances and understand obligations as an employer and a business owner if selling or buying a business or part of a business.

If the seller is prepared mentally and emotionally for the sale process then he/she is more likely to achieve the result they want – **a sale!**

I know from experience in selling rent rolls over the years that these vital considerations and planning will assist you and could mean the difference between a good decision and a bad decision, financially.