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Management Tips

Merger-happy broker offers tips for growing through acquisitions

Broker Merle Whitehead qualifies as an expert in the art of the deal.

Whitehead, president and chief executive officer of RealtyUSA of Amherst, NY, has completed three dozen mergers over the past 15 years, turning his company into one of the nation's largest brokerages.

The latest coup came when Whitehead outmaneuvered a number of other companies interested in buying Gallinger/GMAC Real Estate of Syracuse, NY.

The deal added 241 agents to RealtyUSA's roster, which now boasts 57 offices, 1,700 agents, and 300 employees. Even before the latest acquisition, RealtyUSA ranked as the nation's 43rd-largest brokerage, based on sales volume of $2.7 billion in 2004, according to *Realtor Magazine*.

Gallinger wasn't an easy target, Whitehead says. GMAC hoped to renew its deal with Gallinger, while franchisor Cendant and some of its franchisees also were wooing the company.

"It was sort of like the pretty girl who everybody wanted to date," Whitehead says. "The thing here was convincing them that we were the best partner."

Whitehead cautions that every merger is unique, but he offers these general rules for profitable mergers.

Merger Tip 1: Be an aggressive suitor. Whitehead knew Gallinger's franchise agreement with GMAC was ending in 2005, so he began courting Gallinger/GMAC Real Estate president and chief executive officer John Osta two years before the agreement expired.

"John and I became friends," Whitehead says. "We golfed together, spent a lot of time together."

The courtship was time consuming, Whitehead says, requiring the busy broker to travel the 150 miles between Buffalo and Syracuse for face time with his target.

You have to be willing to "get in your car and drive three and a half hours for a round of golf," Whitehead says.

That sort of commitment will set you apart as someone who's truly interested in making a merger work.

Merger Tip 2: Think strategically Acquisitions offer different types of benefits. If you're buying a rival, your goal is to maintain the combined companies' market share while cutting overhead.

In the case of the Gallinger deal, RealtyUSA was aiming for geographic expansion. While the company had offices in surrounding areas such as Auburn and the Finger Lakes, it had a gap in Syracuse.

The Gallinger deal complemented RealtyUSA's existing network, Whitehead says.

Merger Tip 3: Your track record is key. Whitehead prides himself on his history of smooth mergers. To persuade Osta to sign on with RealtyUSA rather than another bidder, Whitehead made sure Osta talked to some of

RealtyUSA's past merger targets.

"Nothing's more credible than getting someone on the phone with [past merger targets]," Whitehead says. "The testimonials really helped me compete."

The converse can be true, too. A botched merger in your past can make future targets reluctant to sell out to you.

Merger Tip 4: Be flexible. Gallinger/GMAC Real Estate had a coveted network of offices and agents, but it also had some assets that didn't fit so neatly into a deal. For instance, the company owned vacant lots it had bought in subdivisions, and it also owned some of its sales offices.

Often, the big national brokers want just the business but none of the real property the business owns, Whitehead says. By agreeing to buy real estate as part of the deal, RealtyUSA gained an edge.

RealtyUSA's deals don't fit any particular pattern. Sometimes it buys small firms, sometimes it buys bigger companies such as Gallinger. Some brokers it buys outright, and with others it buys only a partial stake.

Merger Tip 5: Think about what your target wants. Osta is in his 60s and was looking for an exit strategy, Whitehead says. Still, Osta isn't ready for an immediate exit, and RealtyUSA took that into account when proposing the merger. Osta and his chief operating officer, Mark Re, continue to run the Syracuse company, now known as Gallinger RealtyUSA.

This is just an example of a larger point: Don't be overly aggressive with your acquisition target. Without the full support of your target company, the merger will soon run awry.

Merger Tip 6: Bring in trusted advisers. Whitehead turns to his certified public accountant for help with valuing target companies.

Negotiating for a company is much like negotiating the sale of a house, Whitehead says. The seller stresses his good qualities, while the would-be buyer looks for holes in those claims that might bring down the price.

"Like any good seller, they're always trying to tell you they're prettier than they are," Whitehead says.

Aside from the price, there are endless technical details, such as whether you'll pay cash or a contingency based on future earnings, and whether the new entity will be an S corporation, a C corporation, or a limited liability company.

Merger Tip 7: Woo the target's agents. Too often, a merger results in an exodus of agents from the target company — leading the buyer to wonder what he paid all that money for if not the broker's agents.

Agents often focus on the downside of the merger, such as the uncertainty new ownership brings. Whitehead advises communicating how the deal helps agents. And he suggests not changing compensation plans immediately, lest you scare away agents before they get a chance to know you.

In the case of the Gallinger deal, RealtyUSA was helped by its reputation as an even-handed acquirer.

"We haven't lost an agent," Whitehead says.

Keeping things that way requires hard work, he says. Be sure everyone in your organization knows that everyone is on the same team now. You and the newly absorbed company are no longer "we" and "they."

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Real Estate Broker's Insider is published monthly by Alexander Communications Group, Inc.