

Tips for Vendors

Maximising Your Price and Minimising Stress

When listing your management rights for sale it is important to appreciate that much of the information you provide will ultimately inform buyer offers and support a bank finance application. The more accurate and complete the information provided from the outset the more confident a buyer can be and the less chance of challenges as the process unfolds.

The maxim in valuation has always been certainty = value, so it stands to reason that accurate and detailed listing information will attract the most appealing offers.

In our business we use the listing information to pre-qualify buyers so any errors or omissions can have a material impact on the validity of that process. Ideally, here's what buyers, banks and finance brokers like to see.

Information Memorandum

Prepared in a professional and concise fashion by a well-regarded and experienced management rights broker. It's imperative that information about agreement terms, letting pool composition, BC salary, reside on site provisions and exclusive use areas be accurate. Professional brokers will usually also include some background information regarding the property, the geographic location and key business drivers.

Covid 19

Buyers and lenders will want to understand any impact on trade related to Covid 19. A summary of the situation and strategies being employed by management will be well regarded. If you are seeing no real impact explain why.

Vendors should be encouraged to complete the current industry standard Covid questionnaire.

Financial Statements

Listings should always be supported by an industry accountant prepared special purpose profit and loss report reflecting the last 12 months trade. The report should include commentary and assumptions and should include specific comment around "once only" events. Ideally vendors should be encouraged to provide more than one accounting period P and L statements. This is particularly the case when once in a lifetime events such as Covid 19 have impacted trading periods.

Buyers, valuers and banks are keen to ascertain the sustainable net profit rather than focus on a single accounting period. The capacity to demonstrate that extraordinary events are a "blip on the radar" in an otherwise strong and profitable business will be well received and help to sustain value. A well-researched cash flow forecast with assumptions is always a strong positive.

Agreement Terms and Gallery Vie

Copies of current agreements and any deeds of variation should be readily available. This is particularly true in respect of calculating total agreement terms. We would also suggest that vendors give consideration to ensuring their agreements are Gallery Vie friendly.

Letting Appointments

Make sure all are current and reflect authorisation to render the charges that are reflected as income in your P and L. If in doubt get them updated as part of the sale process. If you have the old form 20A and are not updating ensure the forms have assignment authorisations.



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Operational Manuals, Newsletters, Marketing Plans, Processes and Compliance

These types of documents fall into the “nice to have” category. Having said that we note that managers who have well documented business practices tend to have more successful businesses and hence attract stronger offers when the time comes to sell.

Having the capacity to show a buyer that all processes and plans are documented gives a level of comfort to both buyers and lenders and, in our experience, drives higher demand for the subject asset.

New buyers are understandably apprehensive so showing them they are taking over a well oiled machine provides a degree of certainty that will often be reflected in a strong price. Likewise, reassuring a buyer that comprehensive training and some degree of short term mentoring will be available are great strategies in attracting interest in your business.

Body Corporate

Strong relationships with bodies corporate are seen as a major positive by buyers, their advisors and lenders. If you have evidence that the BC loves you and, more importantly, loves the idea of management rights in their scheme, give some thought to using this information to your advantage. As a minimum, let your agent know.

Pre-Qualified Buyers

We go through a detailed process to pre-qualify buyers. This is not a finance pre-approval process (there’s no such thing as a pre-approval and beware anyone who says they have one). The pre-qualification process is a detailed analysis of the proposed transaction and in-depth discussions and fact finding with the buyer. The subject transaction is workshopped with lenders and only after we have a high degree of confidence do we confirm pre-qualification. The process is time consuming and requires a well-resourced finance broker team to undertake. It’s also critical that we can appropriately review lender responses to ensure there’s a reasonable chance that the bank will do what they say.

Importantly, pre-qualification is not a simple calculation of equity = maximum purchase price.

A caveat. Bank credit policies change rapidly and buyers don’t always tell us the full story. While we dig deep there’s always a risk of a left field surprise. Ideally, we hold pre-qualifications under a range of bank policies and in need we can shift from one bank to another. Put simply, a pre-qualification is not a guarantee of finance approval, it’s just the closest we can get.

As a vendor we believe you have every right to request formal finance pre-qualification confirmation from prospective buyers. We are happy to assist buyers on a fee free basis.

In closing we think it’s important for vendors to understand that times have changed. The premise that says “I bought this way, I’m selling this way” simply no longer cuts it. The game has moved on and sophisticated vendors continue to achieve strong multiples by moving with it.

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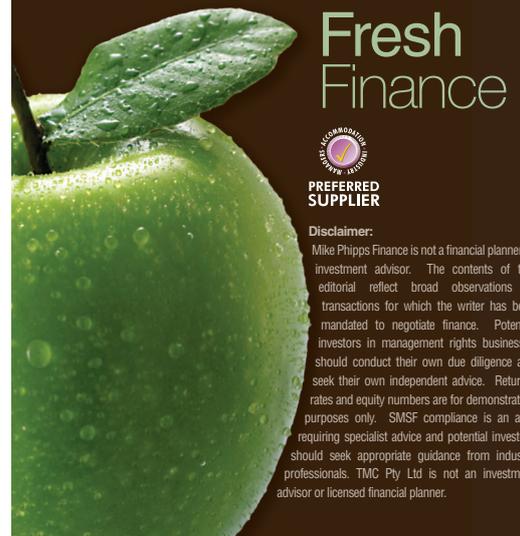
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Vendor Checklist



Letting Appointments in order

Gallery Vie compliance reviewed

Special purpose accountants report prepared

Historical financial reports available

Cash flow forecast prepared

Covid 19 Checklist completed

Agreements available

Deeds of Variation available

Non-Competition Deed available (NRAS units)

Inventory List available

Note : Historical financial reports and cash flow forecasts are generally specific to businesses impacted by Covid 19. These reports serve to demonstrate the sustainable business performance net of any negative Covid impact.

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