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REAL ESTATE LICENSE EXAM

BC

STUDY NOTES

REAL ESTATE BROKER COURSE

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MiniCram® Real Estate Exam Study Notes

Real Estate Broker Course

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INTRODUCTION

Dear Reader,

Congratulations on purchasing our ***MiniCram®*** for Ontario Real Estate License Exam preparation. The purpose of this book is to provide you with last minute review of important theory and math concepts for the exam. ***MiniCram®*** has compiled this booklet so that you can focus on key areas of study as well as prepare to overcome the most common mistakes that students make on the actual test day.

How to Use This *MiniCram®*

We understand that you do not have enough time for studying the online content of the official real estate courses. This ***MiniCram®*** booklet is designed in such a way that your review for the exam is fast paced. It is suggested that you go through each topic one by one. However, it is assumed that you have already completed the official course content.

We Want to Hear from You

This book is written by a practicing Real Estate Broker who is also a trained adult trainer. If you have feedback for the author, need more information, or have general comments, please send an email to minicram@outlook.com.

We hope you enjoy your review. Good luck for the exam!

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1.1 The Real Estate Industry

Industry Statistics

- *Real Estate Market*: Currently, there are over 90,000 registrants in Ontario, but a Broker of Record needs to analyze the competition from local perspective.
    - The data from local real estate board or association provides an idea of how many registrants are having a share of total annual transactions.
    - A large number of registrants may be a part of competition, which also means that there is a large pool of salespersons and brokers for hiring.
    - Proper research can help in being realistic about challenges and competition as well as making informed decisions.

- *Market Conditions*: A Broker of Record should look for underserviced communities (*neighbourhoods*), real estate segments (*marker niches*), and competing brokerages.
    - Possible advantages can be determined by understanding service gaps in specific areas.
    - Market conditions should be analyzed according to brokerage's vision because unsuitable conditions, such as an already saturated market, may pose a challenge in attracting consumers.

- *Growth Opportunities*: A Broker of Record should investigate what is happening in the trading area and capitalize on prevailing trends that offer growth potential.
    - A study of age, gender, marital status, income, ethnicity, culture, education, employment, and socio-economic realities helps in understanding consumer behaviour.
    - As all brokerages try to obtain their own share of real estate market, a Broker of Record should carefully consider the skillset, knowledge, affiliations, and resources required to be successful.

Trends in Brokerage Operations

- *Franchises*: A franchise license allows a brokerage to provide services under the franchisor's name, use proprietary knowledge, and trademarks.
    - Newer franchises are widening their appeal by performance-based profit sharing as well as residual income sharing with registrants.
    - Franchises assist brokerages in administrative systems, management functions, and web-enhanced performance tracking and reporting services.

- *Virtual Brokerages*: Virtual brokerages can provide a combination of services without bearing the capital expenses of owing or leasing traditional office space, which lowers occupancy costs.
    - More and more registrants have started working from home due to advances in newer technologies, mobile communication systems, and GPS/location-based services.

- *Sub-Franchises (Sub-Brokerages):* Sub-franchises are not considered branch offices but must be registered with RECO and have a separate Real Estate Trust Account.
    - They cannot use the services of salespersons and brokers registered by the parent brokerage but can have the same address and share the support staff, office space, and storage facilities.
    - The parent brokerage can benefit from association while the sub-brokerage can benefit from combined administrative services.

Trends in Brokerage Layouts

- Brokerages are actively using the open-concept workspace, which has a mix of high-top tables, sofas, and shared workstations instead of traditional cubicles.
- This offers modern environment, comfort, and encourages collaboration to employee registrants.
- Latest technology, equipment, and appliances is often incorporated, which appeals both to the younger generation of registrants and consumers.
- However, a Broker of Record should consider privacy concerns when using the open-concept and arrange private meeting spaces to protect consumer confidentiality.

1.2 Opening a New Brokerage

Key Considerations

- *Preliminary Research*: Due diligence in research about location, target market, operational structure, etc. helps build a solid foundation for the brokerage.
    - It prepares the brokerage for threats and/or weaknesses and identifies any factors that may affect the success.
    - The aspects that are considered include results of feasibility study, type of brokerage service, ownership options, franchise options, business model, location, leasing or buying office space, and office layout requirements.

- *Self-Assessment:* Strengths and weaknesses should be assessed to identify necessary skillset, knowledge, connections or affiliations, and resources to establish and operate the brokerage.
    - Additionally, the specific skills, knowledge, and market share of salespersons and brokers in their trading area needs to be assessed.

Competitive Advantage

- *Market Position*: The '*positioning theory'* states that positioning of a product or service in consumer's mind is more critical than the product or service itself.
    - As such, a Broker of Record should try to acquire high visibility, target a specific geographic area, and assess the competition to identify the unserviced market niche.

- *Alliances and Affiliations*: Alliances such as franchise rights, online lead generation systems, licensing agreements, etc. should be investigated to increase opportunities.

- *Market Niches*: Competitive strategies can be limited in *homogeneous* market where consumer needs are mostly similar.

    - But a brokerage may gain competitive advantage by identifying viable trading areas in a *heterogeneous* market where consumers have different needs and wants.

- *Brand Loyalty*: Consumers often seek a known name brand, which provides a level of consumer confidence due to continuous ad campaigns and several brokerages using the same name.

- *Synergism*: *Synergism* refers to complementary market activities, such as land ownership and development, which provides competitive advantage.
    - For example, a brokerage may offer appraisal and mortgage financing services in addition to sale/resales and leasing of residential and commercial properties.

Feasibility Studies

- A feasibility study identifies the most optimal options and the resources needed to operate the brokerage efficiently.
- Its scope is influenced by overall objectives and external factors such as current economic conditions and political environment.
- The study relies on information that is already available from local listing service, economic development office, municipality, and local *Chamber of Commerce*.
- Additional sources of data include *Statistics Canada, Canada Mortgage and Housing Corporation,* and *Federal Economic Development Agency*.
- The study can also identify possible solutions for logistical issues and business problems in order to gain competitive advantage and develop a business plan.

Business Models

- The selection of a business model for a brokerage is associated with experience and vision of the Broker of Record.
    - The process involves study of market position of the competitors, their business models, and identifying service gaps and opportunities.

- *Full-Service Brokerage*: This model provides end-to-end services to consumers wherein the consumers rely on the guidance and expertise of the brokerage.
    - These activities include researching properties, providing opinions, listing for sale, showing properties, conducting open houses, negotiating terms of offers, preparing agreements, and completing sales documentation.

    - *Benefits*: It provides one-stop solution for all consumer needs and attracts more consumers, increases market share, and provides more control to the brokerage in the transaction.
    - *Challenges*: The brokerage needs to recruit the sales and administration staff who have the necessary skills, knowledge, and experience to address consumer needs and ensure completion of sale.

- *Limited-Service Brokerage*: The brokerage provides a base package of services at a reduced cost to those consumers who can complete parts of transaction on their own.

    - *Benefits*: The brokerage can establish a market niche, lower service costs, and guaranteed income for services which are not based on completion of sale.

    - *Challenges*: The brokerage is responsible to verify all information and the clients must understand the limitations of the service as any misunderstanding may lead to litigation and/or damaged reputation.

- *A'-La-Carte Brokerage*: The brokerage offers selected services (such as only listing the property, providing signage, etc.) to consumers while they perform certain parts of the transaction themselves.

    - *Benefits*: The brokerage can gain competitive advantage, has the flexibility to add new services on demand, and guaranteed income for services which are not based on completion of sale.
    - *Challenges*: This model lacks consistent consumer experience, more work is involved in invoicing and recordkeeping, and the services offered may be misunderstood by consumers.

Sole Proprietorship

- A sole proprietorship business is owned by one person wherein there is no legal distinction between the business and the owner.

- *Benefits*: Quick registration process with minimum paperwork, very low legal and accounting fees, free from several legislations.
    - Tax advantages may exist, business losses may be applied against personal income, and the fiscal year may be set as different from personal.

- *Challenges*: Unlimited liability of owner as creditors may sue the owner and seize personal assets.
    - The legal liability of business is also personal liability, but insurance coverage may mitigate the risk.
    - Growth prospects are limited by personal capital resources and individual borrowing power.

Partnership

- *General Partnership*: Under the Common Law, a *General Partnership* exists when two or more persons or entities pool their financial resources in a business.
    - Legally, the partners must demonstrate that they have contributed money, property, effort, expertise, and skills.

- *Limited Partnership*: Under the *Limited Partnerships Act,* there must be at least one *General Partner* who manages the operation and is responsible for all legal and financial affairs of the *Limited Partners*.
    - Limited Partners must be passive investors and their liability is limited to the capital invested, and therefore, have lesser exposure to risk.

- *Benefits*: Partnerships have increased capital resources and higher borrowing power, they are easy to form with lower start-up cost, and skills and knowledge of partners may be utilized.

- *Challenges*: In *General Partnership*, each partner has *joint and several liability* for the debts of the business, partners can bind other partners in contracts/agreements, and incompetence of one or more partners can have negative consequences.

Corporation

- A corporation is a business entity established by *Articles of Incorporation* under the provincial *Business Corporations Act*.
    - Corporations may have share capital and are capable of merging and creating subsidiary companies.

- *Benefits*: It provides a legal distinction between the business operation and its owners (shareholders) as they are not generally responsible for debts of the corporation (exceptions apply).

- *Challenges*: The incorporation process is more time-consuming and expensive due to the expenses incurred in name search, incorporation fee, and filing corporate documents.
    - Lenders may require personal guarantees from shareholders.
    - The cost of ongoing maintenance of legal and financial records may be high.

Independent vs. Franchise

- *Start-up Cost*: While similar as independent brokerage, there may be an initial franchise fee and legal costs for obtaining professional advice.
    - Ongoing costs include renewal fee and monthly assessments for each salesperson/broker.
    - There may be additional costs to comply with franchisor standards such as signage, office layout modifications, advertising, and office supplies.

- *Branding and Market Presence*: Independent brokerages may need to hire marketing professionals to develop brand strategy and meet goals.
    - A franchise already has established brand presence, recognition, and marketing strategies.

- *Decision Making*: Independent brokerages have freedom and can save time in selection of location, branding material, and supplies.
    - A franchisor may add clauses to the agreement that requires approval of location, advertising, and marketing material.

- *Training*: An independent brokerage may develop its own training program whereas a franchisor may provide various training programs.

- *Recruiting*: An independent brokerage must develop its own recruitment plan according to its vision and goals whereas a franchise brokerage may take advantage of pre-determined plans for hiring salespersons and brokers.

- *Operations*: Independent brokerages are free to decide on their operations whereas a franchise brokerage may have to comply with expectations of the franchisor.
    - The franchisor may require monthly reports, which needs additional bookkeeping.

REBBA Requirements for Franchising

- A franchisee must qualify for operation as stand-alone brokerage and must have a Broker of Record.
- Each office is identified as '*Independently Owned and Operated'* in all advertising.
- The *franchisee's* name must include the *franchisor's* corporation name.
- All records must be maintained in Ontario and the Real Estate Trust Account must also be in Ontario.
- The registrar must receive copies of all franchise agreements, amendments, side agreements, and/or guarantees.

Benefits and Challenges of Franchise Brokerage

- *Benefits*: The brokerage may enter the market with an established brand which has local, national, and international recognition.
    - Franchisors provide support for operations, training, and development of promotional materials and ad campaigns.
    - Franchisor may negotiate better terms for bulk buying of software, equipment, and other services.
    - The franchisor may provide protection of trading area and help in affiliations and alliances.
    - The franchisor may help in being up to date by regular contact with government, trade associations, and regulators.

- *Challenges*: The initial cost of purchasing a franchise, renewal costs, and ongoing royalties for services, administration, and advertising may be high.
    - The brokerage depends on the franchisor for services and products, which may not be current or complaint.

Office Location

- The population, real estate activity, and competition must be analyzed before selecting a location for the brokerage.
- Key factors include affordability, accessibility (must comply with *Accessibility for Ontarians with Disabilities Act),* parking facilities, signage and exposure, neighbourhood, presence of competitor, and available space.
- While a main floor location has certain marketing advantages due to high visibility and easy access, the acquisition cost may be high.

Office Layout Considerations

- *Budget*: The cost of providing facilities must be evaluated against operating costs.
- *Clientele*: The demographics of the client base that the brokerage wants to attract must be considered.
- *Salespersons' Profiles*: The type of salespersons and brokers that the brokerage wants to attract and hire should be considered.
- *Brokerage Size*: The office space and layout are determined by the number of salespersons and brokers that the brokerage plans to hire.

1.3 Acquiring an Existing Brokerage

Key Considerations

- The reputation of the brokerage, the services it offers, and its year-over-year growth should be evaluated.
- The number of salespersons, brokers, and administrative staff as well as their length of service, and their specific skills, and cost of retaining.
- Whether the market share of the brokerage has increased or decreased over the years.
- The database of former clients should be checked to see viability.
- The office location should assure good visibility.
- The assets and liabilities and any underlying issues should be determined.
- If the brokerage is a franchise, the purchase may involve transfer costs.

Share vs. Asset Purchase

- *Purchasing Shares*: The seller sells his/her shares in the brokerage and completely transfers interest in the brokerage.
    - The buyer assumes full ownership, but also takes on the liabilities (including tax liability), unless negotiated.
    - Liabilities may include existing loans, contractual agreements (lease of premises, equipment lease, maintenance contracts, etc.) and responsibility for accounts payable.
    - Unknown liabilities may be discovered later involving employee claims, legal liabilities, and/or environmental responsibilities.

- *Purchasing Assets*: Assets are purchased to avoid future liabilities of the existing brokerage.
    - The buyer can negotiate precisely what is being acquired.
    - Business risks involving any legal or tax liabilities may be eliminated effectively.
    - The new owner can start the brokerage operation without any worry for past history.
    - Conveying costs are usually higher than share purchase due to a complex valuation process and negotiations.

Valuation of Existing Brokerage

- *Key Considerations*: The value of the real property (land and improvements), chattels, and staff must be evaluated with a focus on monetary issues.
    - If the property is leased, the lease terms, including renewal options, should be evaluated.
    - If the equipment is leased, the lease terms as well as buyout options should be considered.
    - The skillset, experience, and reputation of the salespersons and brokers should be checked to see whether or not they will be retained.
    - If the seller is interested in financing the sale (*Seller Take Back*), it may provide an income stream to the seller broker.
    - A seamless transition can be achieved if the current owner remains in the management position after the sale.

- *Valuation by Net Operating Income*: This method is used in share purchase.
    - The challenge involves establishing a realistic *Cap Rate* based on sale of comparable brokerages, which is often difficult to obtain.

- A minor change in *Cap Rate* can significantly affect the value.

Value = Net Operating Income ÷ Cap Rate

- *Valuation per Broker/Salesperson*: The value of the brokerage is determined on the basis of registrants.
  - The final price is based on each individual registrant's past earning history, experience level, contractual agreement, and current listing inventory.
  - *'Earn Out'* payment arrangement is used where instalments of balance payment are based on actual performance after closing.
  - In this case, the old owner may remain with the brokerage for some time to overcome transition problems.

- *Valuation by Asset Analysis*: This method is used in asset purchase wherein each asset is individually scrutinized and then negotiated.
  - A lease may represent value over and above the rental amount.
  - The value for the real property is based on the market value but *depreciation* is considered for inventory such as furniture and equipment.
  - The value of existing *listing inventory* may be considered, and it depends on the ability to assign the agreements to the new Broker of Record.
  - Value may also arise from goodwill, which is an intangible asset, and depends on brokerage's market share, image, and experienced salespersons/brokers.

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