



How to Prepare a Business Plan

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By David Murphy, SIOR, CCIM

In this uncertain commercial real estate environment, successful brokers need to create a road map of where they are and where they want to go.

I frequently have the opportunity to mentor aspiring brokers trying to break into the commercial real estate field. When I ask a new agent what his or her goals are, too often I hear, “To make a lot of money,” or “To be the best agent in the market.” Unfortunately, new agents fail to take the extra step of quantifying what “a lot of money” or “being the best” agent means to them. Fewer contemplate why they want to achieve these goals and whether these aspirations square with their inner motivations. Unfortunately, even experienced agents spend most of their time reacting to calls, putting out fires, and doing the same things they have done in the past that made them successful without giving thought to what direction they are heading in. When they fail to gain market share, they blame it on the market or on luck. In reality, they never had a concrete strategy in place to improve their business.

Why Create A Business Plan?

If you are reading this, you are likely a successful commercial real estate practitioner. Your experience and knowledge of the market will ensure that you receive your fair share of business. Do not rest on your laurels. Your competitors are evolving and becoming more proficient every day. To reach your full potential, you must have a road map

“It’s not the plan that’s important, it’s the planning” – Graeme Edwards

that tells you where you have been, where you are, and what direction you are heading in.

It has likely been drilled into you by now that most people spend more time and energy planning their family vacation than in writing down their business and life goals. Regardless of how busy you are, you owe it to yourself to take some time away from the office to establish your plan of attack for the coming year. This article will establish a framework to think about your business. This is not about the finished product. I am not recommending the need to generate a 30-page business plan unless you are looking for investor financing or a bank loan. Instead I encourage you to prepare a brief, concise outline that makes you think about your current career and how you can position yourself to succeed in the coming year. Additionally, make sure this is clear: it is the process of preparing the business plan, not the end result, that will make the difference in your career.

As perennially one of the top industrial brokers in Florida over the past 14 years, I am a strong believer in preparing a plan for the upcoming business year. As I look back on business plans from previous years, I notice that in many cases what I was doing at the end of the year was dramatically different than what I had planned. Typically, the market shifted or new opportunities emerged that required me to alter course. However, my overarching goals and my systematic

STRATEGIC ANALYSIS

INTERNAL

STRENGTHS

build; enhance

WEAKNESSES

resolve; reduce

EXTERNAL

OPPORTUNITIES

exploit; expand

THREATS

avoid; thwart



approach to achieving them led me in directions I had not even considered when I began my journey.

Over the years, I have scaled down my business plan to succinctly cover only the most important aspects of my business as follows:

1. Summarize the previous year's success and failures
2. Describe your goals and objectives for the coming year and five years out
3. Review your current book of business
4. Determine your market focus for the upcoming year
5. Derive the potential gross income in your market specialty
6. Review your market space, including competition, threats and opportunities
7. Prepare a sales plan to achieve your market share goal that is consistent with your long range objectives

Let's review each of these steps in greater detail.

Summarize the Previous Year's Success and Failures

The first step in the process is to identify what went right, and what didn't, in the previous year. I am very candid with myself about my failures, and attempt to learn from them to improve in the coming year. Failure is a reality in the commercial business, but the lessons learned from these events can make you stronger. I spend less time reflecting on my successes in the past year. The reality is that the market and my competition are constantly evolving, and what I did to succeed in the current year will likely be outdated next year. It is important to write out your success and failures, not just internalize them. Once you summarize what worked and what did not work last year, you are ready to turn your attention to your aspirations for the coming year.

Describe your goals and objectives for the upcoming year and five years out

It is personal preference, but I like to start by reviewing where I would like my career to be five years from now, and then work backwards. As an example, if your goal is to gross \$3,000,000 in commission five years from now and you are currently grossing \$1,500,000 annually, you are not going to make that leap in one year. Instead, you would need to look at the incremental steps necessary to meet your commission objective. These steps could include increasing your geography, working on more multi-market opportunities, and adding members to your team. In more extreme cases, it may result in changing your specialty, switching firms, or changing your focus from landlord leasing to tenant representation or investment sales. This is entirely dependent upon your market, your market share potential, and the audacity of your goals. You pick the immediate and long-range goals, and then the following steps should help you prepare a roadmap to get there.

Review Your Current Book of Business

Before you can select a market focus for the coming year, it makes sense to review how you generated income in the previous year. Take a look at the deals you completed last year, and place them into categories such as tenant-representation, landlord representation, seller representation, buyer representation, investment sales, consulting, etc. For each category, determine the total number of transactions, the square footage per trans-

action, the total commission generated, and the average commission generated per transaction. Now reflect on the amount of time you spent in each segment. If you spent most of your time representing buyers of industrial buildings last year, but this only translated into 10 percent of your income, then maybe this was not the most effective use of your time.

Determine Your Market Focus for the Upcoming Year

As a former hockey player turned commercial broker, I love Wayne Gretzky's quote, "Skate to where the puck is going, not to where it is." I specialize in industrial real estate, so my focus would be on determining what segments of the Orlando industrial market I want to compete in. This is very market specific. In a relatively small industrial market like Orlando, you can specialize in multiple aspects, such as tenant representation and building sales. In a major market, your objective may be to establish yourself as the dominant landlord representative in a specific submarket. Other brokers may be more corporate services-based, and their market segment may be a representation of call center clients or food distributors on a national or regional basis. The idea is to pick the focus that that will allow you to achieve your short-term and long range goal. Remember, you need to be energized and enthusiastic about your business. If you do not like representing landlords, you are not going to take a significant amount of market share in this segment.

Derive the Potential Gross Income in My Specialty

This is where grandiose thoughts intersect with reality. You need to determine if your niche can support your income goals. A simple way to do this using an office tenant representation broker as an example is illustrated in the Figure 1.

Based upon Figure 1, the gross potential fees for an office tenant representative broker in this hypothetical market would be \$13.6 million. Assuming a one year goal of generating \$2 million in gross fees, this broker would need a market share of approximately 14.71 percent. If you run these calculations, and realize you would need something north of a 30 percent market share to achieve your objectives, you may want to re-consider your target market. One of the biggest mistakes I see when I review business plans is underestimating the competition in the market. If a broker determines she will need a 50 percent market share to reach her goal for the coming year, she will need to completely dominate her market to even come close to this objective—it is not going to happen. Likewise, if I see this report and the broker determines he will only need a 5 percent market share to reach his objective, his target market may be too large to compete in effectively. He may need to segment further to ensure he can take a lead role in his defined target market.

Review Your Market Space

This is the opportunity to review your competition and to determine any emerging trends or potential threats looming that can impact you revenue goals. Are economic trends emerging that could create new streams of business? What are your competitors in the market doing, who is increasing their presence in the market, and who is vulnerable? Prepare a SWOT analysis (strengths, weakness, opportunities, and threats) of your business plan as it relates to events occurring in the market.

Figure 1

Category	Units of Comparison	Notes
Total SF in Target Market	20,000,000	Square footage of leased office space. (This can be determined for tenant rep brokers by reducing the overall office inventory by the percentage of product that is owner-occupied.)
Square Feet of GROSS Annual Absorption	4,000,000	(Assumes an average lease term of five years, with approximately 20% of the lease terms rolling annually). This number would increase in years with significant positive net absorption, and decrease in years with negative net absorption
Estimated Amount of Square Feet Handled by Brokers	3,400,000	Determined by multiplying the gross annual absorption by the estimated percentage of deals represented by brokers (85% in this example)
Average Lease Term	5 years	Varies by market segment
Current Average Lease Rate	\$20 PSF Full Service	Average lease rate in your target submarket
Gross Aggregate Leasing Volume	\$340,000,000	3.4MM square feet x \$20 x 5 years
Average Tenant Rep Fee	4% on gross aggregate lease value	This is an estimate. Note that fees are always negotiable. (If the renewal rate is different from the "new deal rate", you can determine the renewal probability and apply separate fees to new deals and renewals.)
Total Gross Fees Generated in the Target Market	\$13,600,000	Total gross leasing volume x Average Tenant Rep Fee

Strengths: Some clients view commercial brokers as commodities. Why would someone hire you? One of my strengths is my appraisal background as a Florida Certified General Appraiser, which has given me a great amount of competency when determining asking prices for industrial buildings that I list for sale. You need to have something that differentiates you from your competition. If you think your strengths are the company you work for or "good client service," it is time to go back to the lab and come up with some other attributes. If you want significant market share, you need to stand out in a good way.

Weaknesses: This is where you need an honest assessment of your weaknesses. It can sometimes be hard to receive feedback from your peers or clients regarding perceived deficiencies in your client service. If you are invited to compete in a "bake off" for an assignment and do not win the business, take the time to interview the client to determine why you were not selected. You probably spent a lot of time preparing for the presentation; you need to get something out of it. I try not to lose many pitches, but I always learn something from these post-selection interviews when I am not selected. If you work for a firm, you can receive this feedback from your manager. If you own your own business, it can be a little more difficult to receive honest feedback from your associates, but make the effort anyway. We all have weaknesses. Understand yours and reduce their impact on your business.

Opportunities: In a down market, many people see the threats, but successful agents realize there will always be opportunities. Working on bank-owned real estate and pursuing business in the alternative energy field are examples of opportunities brokers have gravitated toward to generate new business.

Threats: A double-dip recession and new competitors entering the market are examples of threats that you should consider when preparing your plan. There is a lot of money to be made in commercial real estate, and therefore it will always attract entrepreneurial and aggressive individuals and firms. These firms may include familiar real estate companies that increase their footprint in your market

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While you need to keep an eye on new threats, I believe it is best to focus on what you are doing in your market rather than worrying too much about your competition. If you are striving to be the best broker you can be, you are effectively minimizing the impact of your competition. Worrying about what deals your competitors are doing can take focus away from your objectives. If you select your market focus correctly, there should be a big pie of potential commission dollars to be earned. Your main concern needs to be earning your targeted marketed share, and since you will be creating a target market share that is reaching yet realistic, there will still be plenty of commission dollars left over for the bad guys.

Prepare a sales plan to achieve your income and market share goal that is consistent with your long-range objectives.

With your target market selected, you need to establish a system to succeed in your area of focus. In the old days, sales trainers recommended backing into a prospecting plan based upon your sales goal for the year. For example, if your goal was to earn \$1,000,000 gross this year, and each deal generated an average fee of \$50,000, you would need to complete 20 transactions. Then, to arrive at the number of cold calls you would need to make each day, you would determine how many calls generated a meeting, and how many meetings were required to win the business. While effective in theory, this strategy also had the potential of creating strung-out brokers dealing with massive amounts of rejection daily.

In practice, some form of prospecting remains a vital component of our business. We are living in an era of social media and "do not call" lists. How you prepare your sales plan (which basically outlines how you will find, win, and execute your business) cannot be the same system you used in the past. It is your job to determine how you establish your market segment, your brand in the market, and your sales plan that synchs with your income and market share goals.

Summary

If you can determine what has made you the most money in the past and where the opportunities for future growth lie, you are already halfway there. Incorporate written goals that are energizing and inspiring into a concrete plan of action, you will have a roadmap that will point you in the direction of success and fulfillment in our business. There are many opinions on what constitutes an effective business plan. I have shared with you what works for me, and I am hopeful that you can take something out of this article that helps you plan your business for great success in the coming years. ☺