



Chapter 1

An agent's perception of riches

After reading this chapter, you will be able to:

- estimate the potential income and expenses an agent will likely experience when employed by a broker; and
- evaluate competing brokerage firms for suitability with an agent's professional goals and expectations

net operating income (NOI) (employment) **sales goal**

Learning Objectives

Key Terms

Consider an individual who receives an original salesperson license from the **California Bureau of Real Estate (CalBRE)**. The newly licensed agent contacts a real estate broker in response to an advertisement soliciting agents to join the broker's office. The agent interviews the broker, and others, in an effort to find a suitable office environment to work in.

Eventually, the agent selects the office they feel is most able to provide the training and guidance they need to earn a living in real estate sales.

During an *agent interview*, the broker addresses the question of earnings. The agent is told the employment relationship with the broker will be under an *independent contractor (IC) agreement* with workers' compensation coverage provided by the broker. [See **RPI** Form 506]

No income tax withholding or employer contributions exist, such as for:

- social security;
- Medicare; or
- unemployment insurance.

The employing broker avoids agent deceptions

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AGENT'S INCOME DATA SHEET

NOTE: This form is used by an agent or broker when analyzing the income and expenses they are likely to experience while employed by a broker, to estimate their entry or change-of-office costs and their anticipated annual gross income and expenses resulting from the employment.

DATE: _____, 20____
 Brokerage office: _____

ANNUAL INCOME AND EXPENSES:

1.	Gross Brokerage Fees [See instructions at line 11.4].....	\$ _____	_____ %
1.1	Franchise fee disbursement (_____ % of § 1.) (-) \$ _____		
a.	Subtotal.....	\$ _____	
1.2	Broker retains _____ % of □ \$1., or □ \$1.1a.....	\$ _____	
2.	Gross Fees due Agent	\$ _____	_____ %
3.	Transaction Deductions by Broker:		
3.1	Less:		
a.	E & O premium (\$ _____ per closing) \$ _____		
b.	Prior client promotion (_____ % of fee).....	\$ _____	
c.	Listing/Transaction coordinator.....	\$ _____	
d.	Other.....	\$ _____	
3.2	Total charges withheld.....	(-)\$ _____	_____ %
4.	Office Expenses:		
4.1	Equipment rent.....	\$ _____	
4.2	Forms & manuals.....	\$ _____	
4.3	Desk space and parking charges.....	\$ _____	
4.4	Membership:		
a.	Trade association.....	\$ _____	
b.	MLS fees.....	\$ _____	
c.	Affiliations.....	\$ _____	
4.5	Supplies/software updates.....	\$ _____	
4.6	Postage/delivering services.....	\$ _____	
4.7	Library/subscriptions.....	\$ _____	
4.8	Photocopies.....	\$ _____	
4.9	Equipment use charge.....	\$ _____	
4.10	Total office expenses.....	(-)\$ _____	_____ %
5.	Agent's Business Expenses:		
5.1	Telephone:		
a.	Home/office.....	\$ _____	
b.	cell phone.....	\$ _____	
5.2	Auto:		
a.	Gas/oil.....	\$ _____	
b.	Repairs and maintenance/carwash.....	\$ _____	
c.	Insurance.....	\$ _____	
d.	Loan/lease payment.....	\$ _____	
e.	Registration.....	\$ _____	
5.3	Printing:		
a.	Farm letters.....	\$ _____	
b.	Postage.....	\$ _____	
5.4	Licensing fees and education.....	\$ _____	
5.5	Internet service.....	\$ _____	
5.6	Legal and accounting.....	\$ _____	

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SAMPLE

Further, the broker explains the agent needs cash reserves or income from other sources to meet their living and business expenses for six to nine months. Several months will pass before income will be forthcoming from closings in which the agent will have participated. The brokerage office does not make monthly advances against future fees.

To assist the agent in an analysis of potential earnings, an **income and expense data worksheet** is prepared by the agent. The agent enters the approximations made by the broker for the various expenses a typical agent may experience during their first year with the brokerage office. [See Form 504 accompanying this chapter]

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5.7	Marketing sessions.....	\$ _____	
5.8	Travel/hotel.....	\$ _____	
5.9	Entertainment.....	\$ _____	
5.10	Insurance (business and health).....	\$ _____	
5.11	Total Business Expenses.....	(-) \$ _____	_____ %
6. Marketing and Sales Expenses:			
6.1	Printing flyers/mailer for listings.....	\$ _____	
6.2	Property ads:		
	a. Newspaper/magazine.....	\$ _____	
	b. TV/radio/web.....	\$ _____	
6.3	Postage (marketing).....	\$ _____	
6.4	Property preparation.....	\$ _____	
6.5	Open house (food/drinks).....	\$ _____	
6.6	Gifts on closing.....	\$ _____	
6.7	Transactional expenses.....	\$ _____	
6.8	Total marketing and sales expenses.....	(-) \$ _____	_____ %
7. Agent's Net Income:			
7.1	Income, SS & medicare taxes.....	(-) \$ _____	_____ %
8. Agent's Net Income:			
		\$ _____	_____ %
9. Other Income Sources:			
9.1	Draw/Advance.....	\$ _____	
9.2	Other.....	\$ _____	
9.3	Other.....	\$ _____	
10. Cost-of-Entry/Change-of-Office Analysis:			
10.1	Marketing course.....	\$ _____	
10.2	Lock boxes.....	\$ _____	
10.3	Open house signs.....	\$ _____	
10.4	Stationary/cards.....	\$ _____	
10.5	Computer/programs/printer.....	\$ _____	
10.6	Office furniture.....	\$ _____	
10.7	Photocopier.....	\$ _____	
10.8	Phone/fax equipment.....	\$ _____	
10.9	Phone installation.....	\$ _____	
10.10	Camera/printer.....	\$ _____	
10.11	Vehicle.....	\$ _____	
10.12	Other.....	\$ _____	
10.13	Other.....	\$ _____	
10.14	Total Entry/Relocation Costs:	\$ _____	
11. Gross Brokerage Fee Projection/Forecast:			
11.1	Annual after-tax income desired by agent.....	\$ _____	
11.2	Divide by percentage of after-tax income at \$8.....	\$ _____	
11.3	Annual gross Brokerage Fees needed to earn the desired after-tax income at \$11.3.....	\$ _____	
11.4	Analyze the source of Gross Brokerage Fees at \$11.3 by setting the price of the typical transaction Agent will close, the dollar amount Broker will receive as the Gross Brokerage Fee on the typical transaction, and the number of typical transactions Agent must close within one year to attain the Gross Brokerage Fees set as the goal at \$11.3.		

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The agent uses the worksheet to further analyze income, expenses, cash reserves and the sales goal they determine are necessary to provide an acceptable after-tax income for personal living expenses.

As a prerequisite to an agent's use of an *income and expense data worksheet*, the agent needs to collect income data during an interview with a prospective broker, including:

- the *price range* of property the agent is most likely to list and sell;
- the *number of sales* the agent is likely close in that price range during the first year;

Data
underlying
an income
analysis

- the *gross broker fees* generated by the number of sales during the first year; and
- the *share of the gross broker fees* the agent will receive under the fee-sharing schedule offered by the broker.

The likely *gross fees* the broker is to receive and the agent's share of those fees are entered on the worksheet as a result of the interview. [See Form 504 §§1 and 2]

sales goal

The amount of after-tax income agents and brokers intend to earn as a result of their real estate licensing activities.

Ultimately, the **sales goal** set by the agent is reflected in the amount of after-tax income the agent seeks for themselves. [See Form 504 §11]

Until the worksheet is filled out accurately, projecting fees to be received by the agent, estimating expenses to be incurred and attempting to set sales volume goals or probable after-tax earnings is an uneducated guess.

The agent's personal role

The volume of real estate sales closed by new agents during their first year in the business is a "numbers game." Only a low percentage of all sales efforts come to fruition in the form of fees received from closings. Thus, the type of person attracted to real estate sales needs to have an innate curiosity and enthusiasm for estimating and forecasting income and expenses if they are to succeed.

A prospective agent who is discouraged or daunted by the exercise of completing a worksheet is unlikely to be a prime candidate for employment in the real estate business.

The broker steps forward, with information

Brokers, by experience, tend to be more organized than agents. Brokers who employ agents are also better able to anticipate the income and expenses an agent will incur than recently licensed agents. It is the broker who is best able to draw a conclusion about an agent's future with the broker's office, not an agent new to the world of real estate sales or who has been languishing in another office due to inadequate or nonexistent planning and organization.

A broker's primary objective when hiring agents is to increase the gross broker fees received by the office without a disproportionate increase in operating expenses. For the broker to make hiring a productive endeavor, the broker needs to organize an agent selection and evaluation plan to avoid the *turnover of agents* who remain with the office for only a short period of time.

Long-term employment of agents contributes to a favorable industry-wide reputation for the broker, and provides a return to the broker for the time and energy invested with each agent during the employment process and the agent's start-up period. Energy, money, time and enthusiasm all wane fast when the turnover of talented agents in an office is due to the failure of unrealistic expectations held by the agents.

A broker's full disclosure — upfront and prior to employment — covering the agent's likely income and expenses, and why the fee sharing and expense allocations are reasonable, leads to a realistic expectation of income by the agent.

Monthly and quarterly sales goals may then be set at levels designed to meet projected earnings if the agent is employed by the broker.

To control the agent's interview and get long-term results, the broker needs to initiate the income and expense discussion, not wait until the prospective agent takes charge by raising the question of earnings. Earning a living is the crux of entering the profession.

To be ready for an interview with a prospective agent, the broker needs to prepare a worksheet by estimating the expenses the agent is most likely to incur. Also, the broker needs to estimate the initial *cash investment* the prospective agent is required to make to cover one-time, nonrecurring expenditures and the carrying costs for a period of time necessary to get a proper start in real estate sales. [See Form 504 §10]

Once the operating expenses, nonrecurring costs and carrying costs to be incurred by the typical agent have been established — based on the broker's history with their present agents — what remains is the difficult task of anticipating an agent's **gross fees** from sales that will most likely close during the first year of employment.

A couple of approaches for estimating future fees are apparent. For one, the broker may project a range of gross broker fee amounts, varying from the earnings generated by a high producer to those of a low producer during their first year with the office. The various gross broker fee projections — ranging from low, medium to high — may be entered on separate copies of the income and expense worksheet. The agent's expenses estimated for the first year are included in the worksheets.

Thus, the prospective *agent's after-tax* income can be calculated based on various levels of sales.

Another approach for the interview is to discuss the range of gross broker fees an agent can generate, without the broker first entering a projection of fees on the income and expense worksheet handed to the agent. Thus, the agent is left to enter and calculate the income they either believe they can produce or want to produce to attain the after-tax income they seek.

Reviewed by the broker and the prospective agent under either approach, or a combination of approaches, the worksheet becomes both a **budget and a sales goal** for the agent. With an open-minded review of the pros and cons of income sharing and expense allocation, the broker encourages the agent to set attainable production goals.

Estimating the initial cash investment

Forecasting gross fees to set expectations, and goals