

Sustaining profits across market cycles

2017 Residential Real Estate Benchmarking Report

I bank with Macquarie



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How to get the most out of our benchmarking results

➤ **Click** on a section to read more about the topics that interest you most, including best practice tips.

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Key findings

Benchmarking performance: Insights for sustainable success

Welcome to Macquarie's 2017 Residential Real Estate Benchmarking Report – bringing you insights into the financial performance and business practices of residential real estate agencies around the country.

Industry benchmarking is a uniquely valuable tool for uncovering the drivers of outperformance and identifying industry best practice so you can put it to work in your own business. Macquarie Business Banking has been specialising in the real estate sector for more than 30 years and benchmarking industry performance for over a decade. Much has changed in that time.

Ongoing technological change has reshaped the industry, giving rise to new threats and opportunities. The pace of change has accelerated, with new market entrants challenging long established business models. Across market cycles, we've seen the best performing agencies automate and streamline back office processes, create sustainable cash flow through property management, and leverage technology to become more efficient and productive.

In this report, we combine our research findings with insights and perspectives on the trends shaping the industry's future. We hope you find it valuable.

[Macquarie Business Banking](#)

Benchmarking performance

About the research

Conducted in November 2016, our survey captured the views of 430 business owners and principals from residential real estate and property management businesses across Australia. They included a broad cross-section of businesses of every size and from every state, including both franchisees and independents.

Objectives

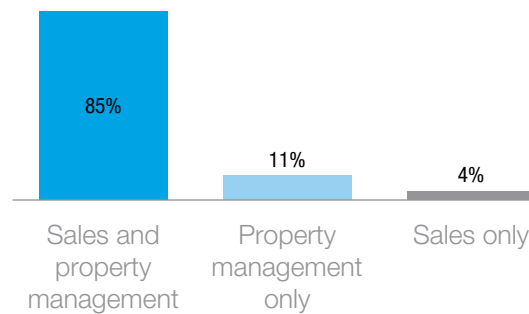
1. Map the trends reshaping the real estate sector
2. Track the performance of agencies across Australia
3. Uncover the unique features that enable agencies to outperform today
4. Establish best practice benchmarks you can use to improve your performance

Benchmarking performance

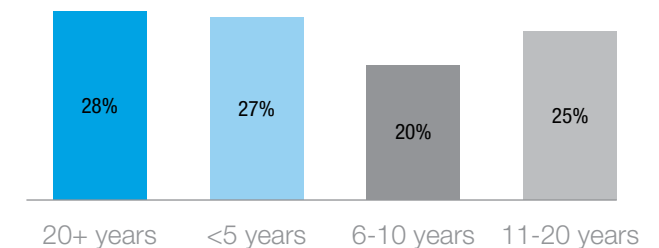
The participants

85% of the businesses in our survey offered sales and property management, although around one in 10 were sales specialists. They were evenly balanced between mature businesses – with one in four more than 20 years old – and newly established start-ups.

Type of business



Age of business



Franchise or Independent

Franchise

Independent

237

2014

164

2014

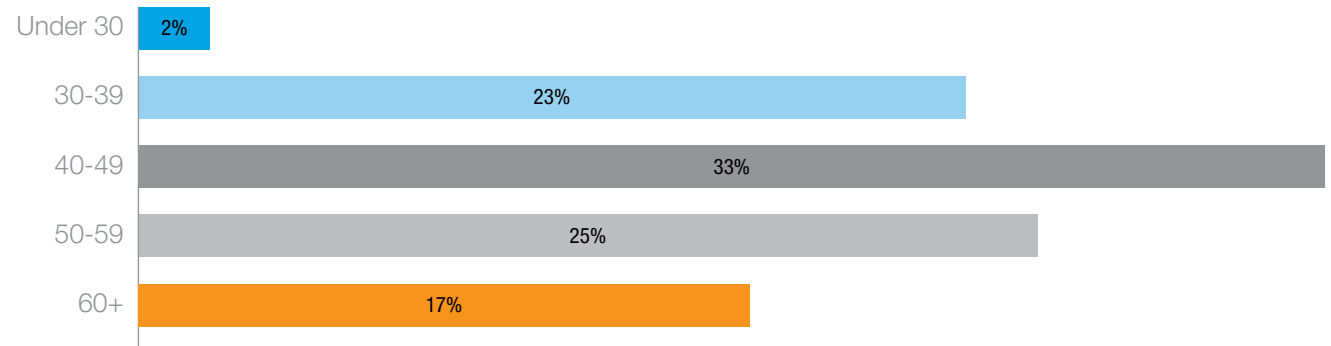
236

2016

194

2016

Age of owners



The trends reshaping real estate

Headwinds gather, despite market strength

In 2017, Australians' longstanding love affair with property was stronger than ever, with owner occupiers and investors driving markets higher. Ongoing population growth has helped to increase demand, while restricted supply kept prices buoyant.

Yet despite strong markets in most locations, there are growing headwinds that could challenge businesses in the future, unless they begin to adapt. That's why it's important to start responding now while business is good and balance sheets are strong.

Three trends reshaping real estate

Commissions under pressure

Despite a booming market, competition for listings and rentals has driven down sale commissions and property management fees.

Technological disruption

Sometimes called the Fourth Industrial Revolution, the integration of digital technologies into everyday aspects of our lives is already impacting real estate, with more change to come.

Rising competition

Powered by digital platforms, new entrants are transforming consumer expectations of value and convenience.

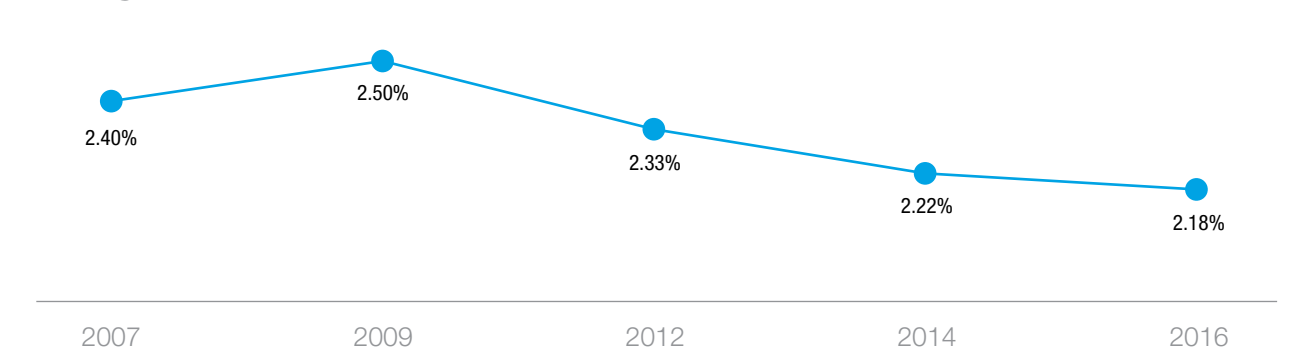
The trends reshaping real estate

Commissions under pressure

Over the past seven years, sales commissions have steadily declined as competition intensifies – falling from a national average of 2.5% in 2009 to 2.18% in 2016. The fall has been even more pronounced in some states, with commissions in South Australia now averaging just 1.97%. Property management commissions have also been negatively impacted by new market entrants offering tiered pricing models and promising a better client experience. Nationally, property management commissions dropped by an average of 0.3 percentage points between 2014 and 2016, with evidence of an even more pronounced decline in the inner metropolitan and premium suburbs of Melbourne and Sydney.

As a result, median profits fell between 2014 and 2016, despite a booming residential property market.

Average commission on sales



Average property management rates

7.30% 2014
7.00% 2016

Profit %

16.8% 2014
15.4% 2016

Profitability is down in 2016

Three trends reshaping real estate

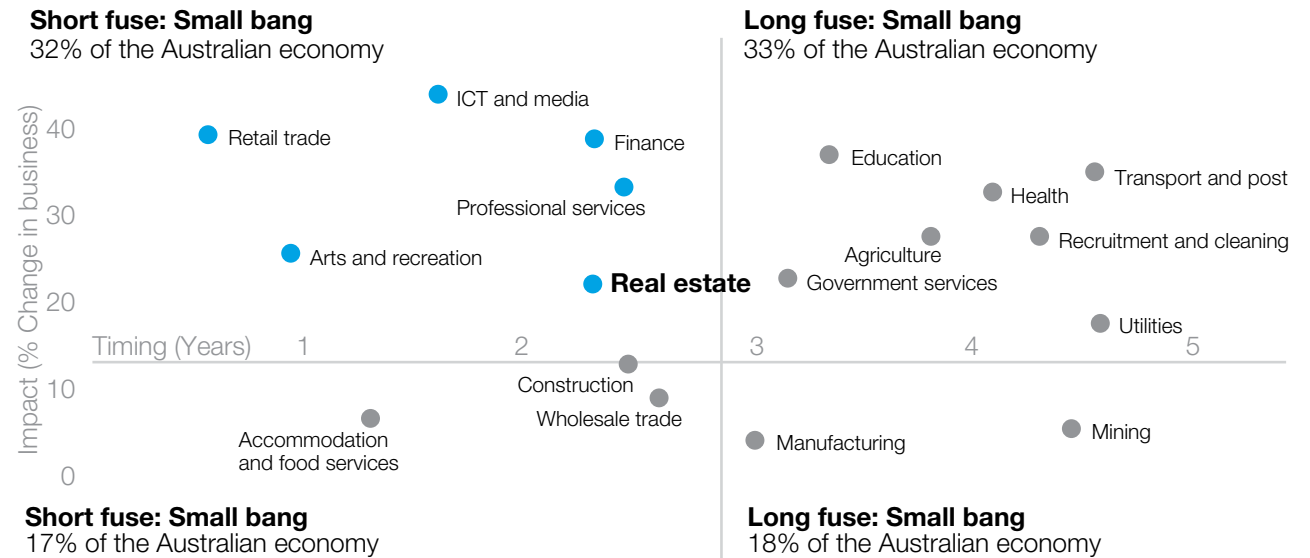
Technological disruption

In an agenda-setting report, analysts from Deloitte sought to identify the industries most likely to be transformed by digital technologies. Their conclusion? Real estate was among the sectors most likely to experience a significant impact (a 'big bang') within a few years' time (a 'short fuse').

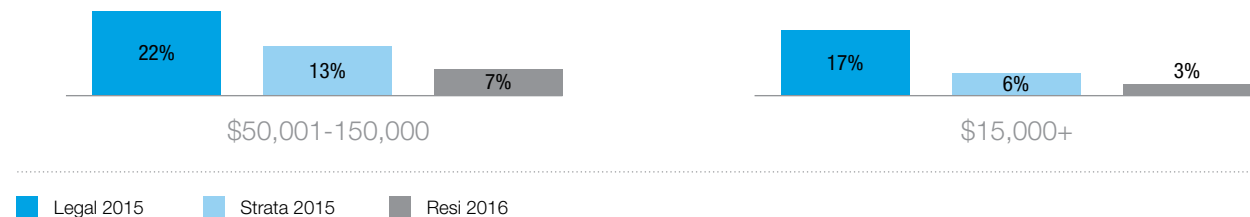
More recently, a study by KPMG and Real Tech Ventures found that global investment in 'proptech' (real estate technology) increased 1,200% between 2012 and 2016, from US\$221 million to US\$2.6 billion – and is forecast to reach US\$20 billion by 2020.

Yet our research suggests real estate agencies have been relatively slow to invest in new technologies compared to other sectors, with only 10% spending \$50,000 or more in the 12 months prior to our survey (less than 2% of average revenue), in contrast with 19% of strata businesses and 39% of law firms. Just 18% of agencies say they are leading the way on innovation which, if an accurate self-assessment, implies discomfort with change faced by the industry.

The impact: short fuse, big bang



Investment in tech



¹ Deloitte, Digital disruption: Short fuse, big bang?, 2012.

² KPMG and Real Ventures, Real Estate Technology Threat or Opportunity?, 2017.

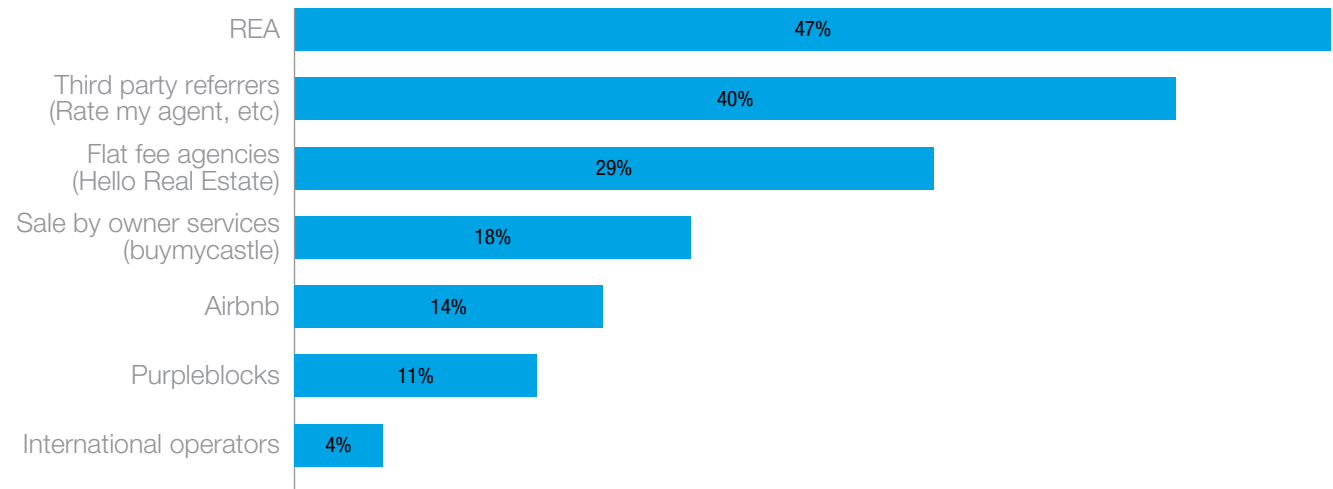
Three trends reshaping real estate

Rising competition

Competition is heating up, with new business model agencies starting to have an impact. Almost half of all firms say REA Group will affect their business in the next three years, while third-party referrers and flat fee agencies are also expected to make their presence felt. Airbnb is also making serious inroads in property management, with 14% of businesses saying it could impact them.

Even if their direct financial impact is still relatively small, these new business model competitors promise to have a profound influence on the market by resetting customer expectations for value, service and convenience, forcing traditional agencies to respond or risk losing their competitive edge.

Which of these competitors do you believe will impact your business in the next three years?



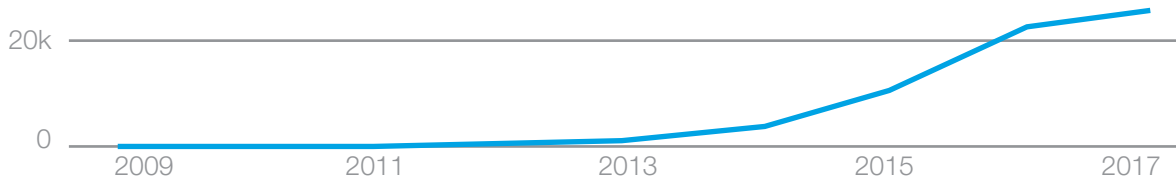
Three trends reshaping real estate

Rising competition

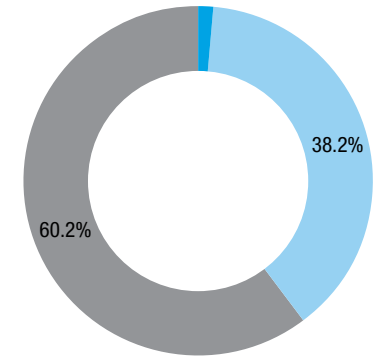
Airbnb penetration

Sydney

Cumulative listed properties of currently active listings

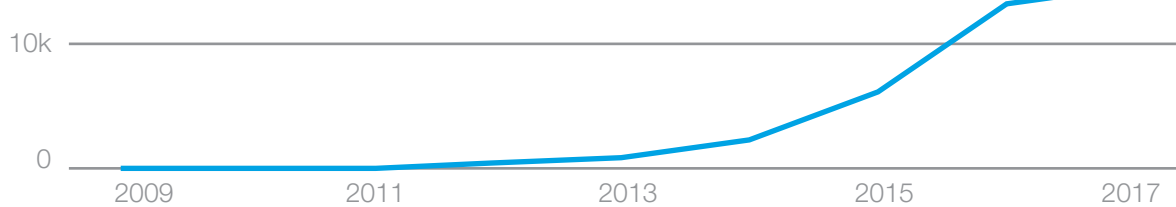


Entire Place
14,044
60.2%

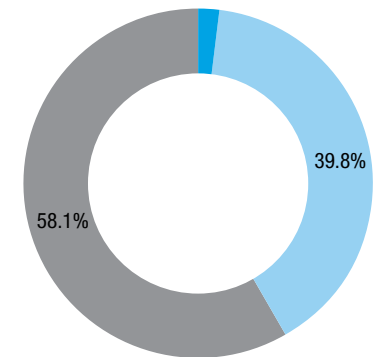


Melbourne

Cumulative listed properties of currently active listings



Entire Place
7,851
58.1%



■ Shared Room
 ■ Private room
 ■ Entire place

The high performers

Focusing on efficiency

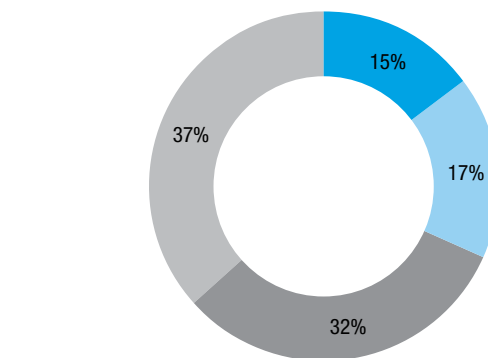
Some businesses are already responding creatively to an evolving market, re-engineering their processes, leveraging new technology, and improving the customer experience to drive higher than usual profits.

In FY2016, around one in three real estate businesses across Australia earned profits of 20% or more. They included businesses of every size in every region.

In general, higher profit businesses didn't have more staff or higher revenues. In fact, on average, higher profit firms (with profits of 20% or more) earned less revenue than their lower profit peers (with profits of 1%–9%) – a median of \$1.8 million, compared to \$2.13 million. Yet they still had higher profits, with a median of \$480,000 or 25%, compared to \$117,600 or 6%. In other words, it's not all about scale.

High profit firms also succeeded by focusing on efficiency and productivity to drive revenue, while keeping costs down.

The high performers



■ Loss/Broke even ■ 1-9% profit
■ 10-19% profit ■ 20%+ profit

Higher profit businesses focus on efficiency and value, rather than volume

	Loss/Broke even	Lower profit 1-9% profit	Medium profit 10-19% profit	Higher profit 20%+ profit
Median staff	6	17	15	14
Median revenue	\$720k	\$2.13m	\$1.92m	\$1.8m
Median profit	\$0	\$117,600	\$231,421	\$480,000
Median margin	0%	6%	13%	25%

The high performers

Achieving best practice

Our analysis suggests you can achieve high profits, regardless of market conditions, by focusing on the fundamentals of good business management. Here are three essential items for every agency's to-do list.

What gets measured gets done

Establish the right KPIs

- Days on market
- Profit per person
- Efficiency and productivity measures
- Client satisfaction

Clarity and competency

Be clear on your goal

- Align the team
- Provide role clarity
- Play to strengths and motives
- Be clear on acceptable standards

Return per property

Establish the right KPIs

- Grow yield per property
- Drive down cost per sale
- Drive down management costs per property

Financial performance

Financial performance

Strong markets have pushed revenues higher

For most agents outside Western Australia, FY2016 was a good year. Across the country, agencies earned median revenues of \$1.67 million, with 59% generating higher revenue than the year before.

That's a healthy result. But it's not quite as healthy as 2014, when 79% of agencies reported growing revenues. It seems that tight markets in some regions, together with intensifying competition, have begun to make growth harder to achieve.

Change in revenue

Decrease	2014 14%	2016 26%
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No change	2014 7%	2016 15%
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Increase	2014 79%	2016 59%
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Financial performance

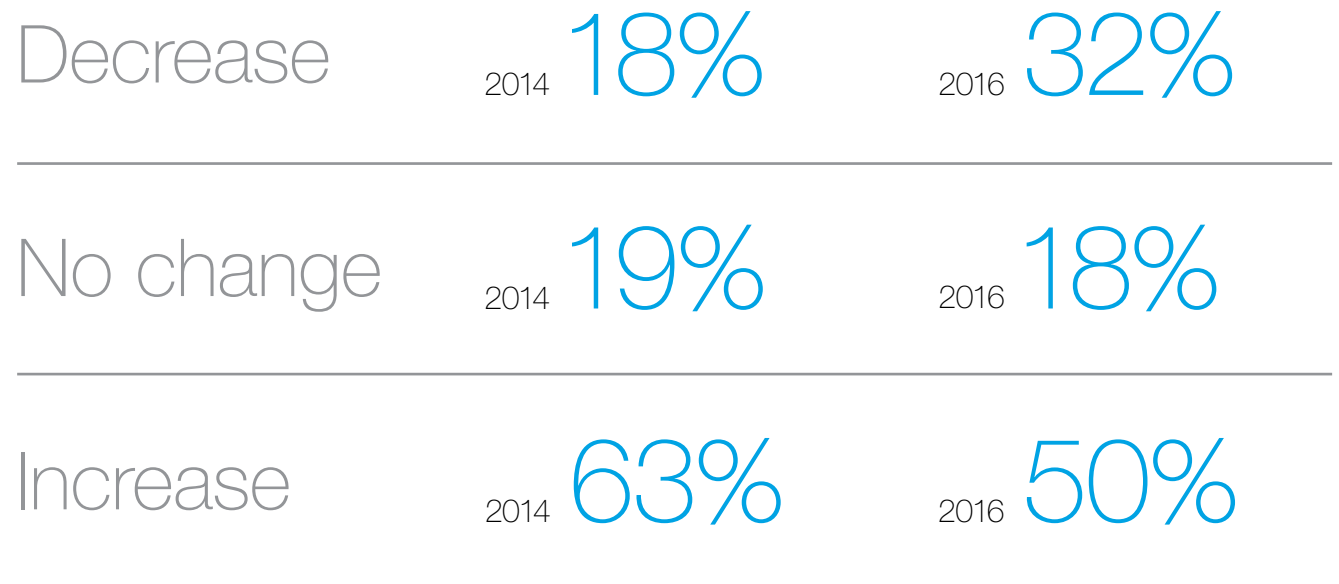
Profits slip

83% of agencies made a profit in FY2016, even without adjusting for principals' remuneration. But while revenues have been rising, average profit margins have slipped.

Across Australia, the average profit margin in FY2016 was 15.4%, down from 16.8% in FY2013. In the year prior to our survey, one in two businesses saw profits fall or stay flat.

These results suggest that many agencies have experienced margin compression, as costs rise while commission rates trend down. And with flat fee and low-cost competitors beginning to make inroads into the market, there are few indications that margins will recover.

Change in profit



Financial performance

Around the country

In a multi-speed market, local conditions have a big impact on financial performance. But strong markets don't automatically mean big profits.

Unsurprisingly, Perth agencies have been doing it tough, with one in five making a loss and 63% seeing profits fall – double the national average. Yet Sydney agencies also reported lower median revenues and slower profit growth than most other markets.

Agencies in Adelaide and regional Victoria were most likely to have seen profits rise. Yet the ACT took the prize for the country's most consistent market, with 100% of the agencies in our sample making a profit in FY2016.

State performance

	NSW	VIC	QLD	WA	SA
Median Revenue	\$1.4m	\$1.8m	\$1.6m	\$2.0m	\$1.0m
Average profit margin	18%	15%	15%	14%	15%
Change in profit versus FY2015	+12.2%	+17.4%	+20.0%	-11.0%	+32.9%

Regional performance

	Sydney	Other NSW	Melbourne	Other VIC	Brisbane	Other QLD	Adelaide	Perth	ACT
Median Revenue	\$1.5m	\$1.3m	\$1.9m	\$1.7m	\$1.6m	\$1.6m	\$1.3m	\$1.7m	\$2.6m
Average profit margin	18%	17%	15%	14%	21%	10%	14%	14%	13%
Change in profit versus FY2015	+14.3%	+8.4%	+18.6%	+13.8%	+16.6%	+22.4%	+36.5%	-16.1	+5.7%

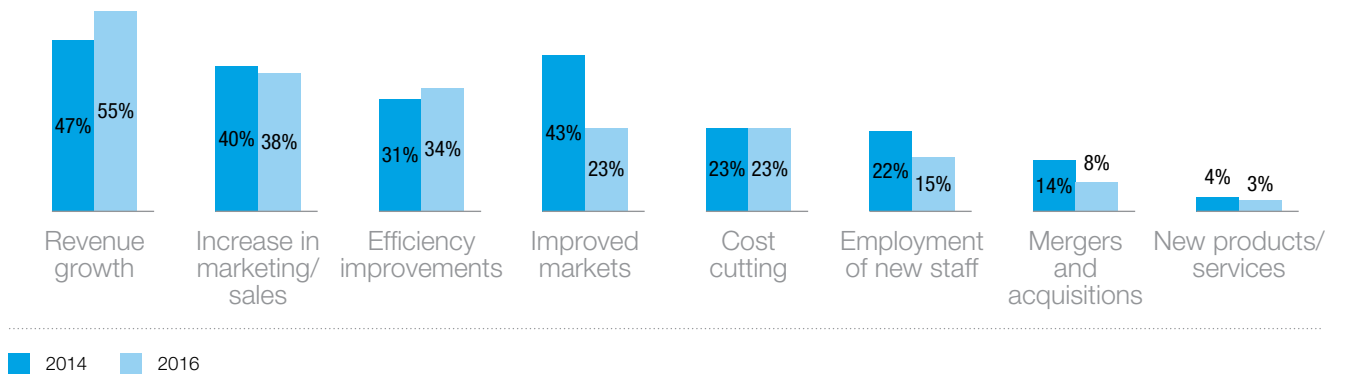
Financial performance

Drivers of revenue and profit growth

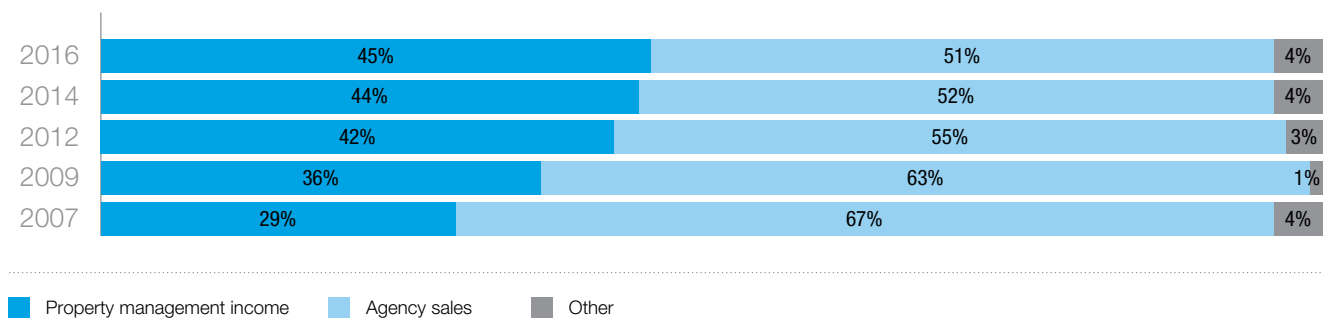
Among the businesses who increased profits in FY2016, 55% said higher revenues boosted their bottom line. Yet revenue increases were not the only driver. One in three reported that efficiency improvements helped to lift margins, including 37% of higher profit businesses.

This year's report also confirmed once again that property management has become a key source of revenue. It now accounts for an average of 45% of gross revenues, up from 29% in 2007. Nonetheless that figure was almost unchanged from two years before, despite a sizeable increase in the average number of properties under management. Similarly, revenue derived from 'Other' activities (that is, activities other than sales or property management) remained unchanged at 4%, suggesting that a lack of diversification is still a potential risk for the industry.

Reasons for increase in profit



Sources of revenue



Financial performance

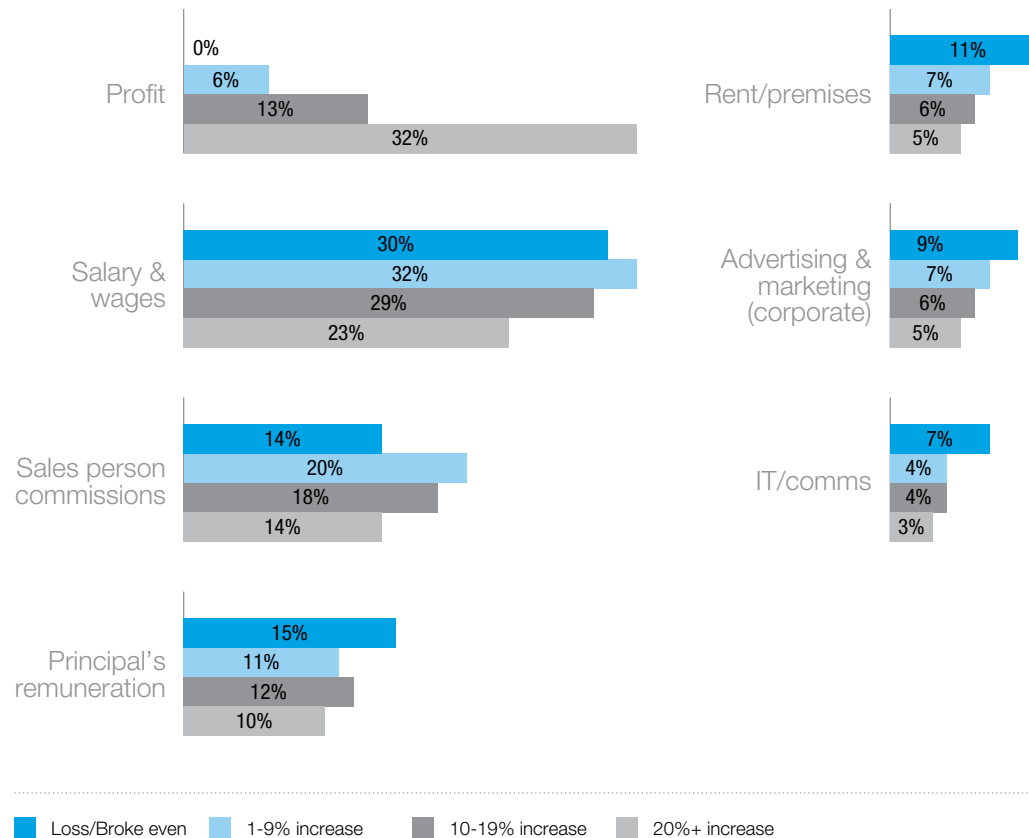
Expenses

Our research shows a significant degree of variation in expenses across agencies, suggesting that there's still scope for some businesses to cut costs by operating more efficiently. For example, overall remuneration costs (including both salaries and commissions) ranged from 37% of revenue among higher profit firms to 52% among their lower profit peers.

In comparison, premises are a relatively small expense for most firms. At a time when many agents are asking whether they should cut costs by dispensing with bricks and mortars premises, this suggests that the way you use human capital is still much more important than how you employ physical capital. In other words, the best way to control costs and boost productivity is to ensure you're getting the most out of your people.

The benefits of efficiency can be significant. Our research shows that, on average, the principals of higher profit residential real estate businesses received a total return of 42% of revenue (profit plus principals' remuneration).

Top seven expenses as a proportion of revenue



Financial performance

Best Practice



1.

Growing the property management business: almost two in three higher profit agencies (64%) said expanding their rent rolls was a key driver of higher and more sustainable profits.

2.

Maximising productivity: by working to keep quality staff (57%) and developing skills with targeted training (32%), higher profit agencies made the most of their investment in exceptional people. Our experience also suggests that high performers are more likely to set and track key performance indicators (KPIs) and managed process efficiency tightly.

3.

Creating stronger client relationships: higher profit businesses were more likely than other agencies to focus on developing client relationships (49%) and excellent customer service (35%).

Sales

Sales

Around the country

Victorian agencies led the nation with the highest number of sales per agency, with a median of 127. But businesses in New South Wales outperformed when it came to sales by auction, with 43% of sales made under the hammer. That contrasts with just 4% in Western Australia, where markets were more subdued.

Nationally, the proportion of sales by auction has continued to creep higher, up 3% since 2014 to 26%. That's helped to drive average days on market down, with two thirds of properties selling within two months. In New South Wales, 41% sold in less than 30 days.

Median sales by state

	NSW	VIC	QLD	WA	SA
	55	127	95	73	97

Auction versus private treaty by state

	NSW	VIC	QLD	WA	SA
Private treaty	57%	68%	88%	96%	84.5%
Auction	43%	32%	12%	4%	15.5%

Auction versus private treaty by region

	Sydney	Other NSW	Melbourne	Other VIC	Brisbane	Other QLD	Adelaide	Perth	ACT
Private treaty	46%	75%	60%	90%	88.5%	87%	82%	96%	57%
Auction	54%	25%	40%	10%	11.5%	13%	18%	4%	43%

Sales

Around the country

Average days on market by state

	NSW	VIC	QLD	WA	SA
Less than 30 days	41%	26%	16%	4%	12.5%
31-60 days	45%	55%	46%	25%	56%
61-90 days	8%	14%	26%	48%	19%
Over 90 days	6%	5%	12%	23%	12.5%

Average days on market by region

	Sydney	Other NSW	Melbourne	Other VIC	Brisbane	Other QLD	Adelaide	Perth	ACT
Less than 30 days	49.28%	25.64%	32.86%	8.00%	22.73%	13.04%	14.29%	4.84%	0.00%
31-60 days	43.48%	48.72%	57.14%	48.00%	59.09%	39.13%	64.29%	30.65%	56.25%
61-90 days	4.35%	15.38%	7.14%	32.00%	18.18%	30.43%	14.29%	50.00%	31.25%
Over 90 days	2.90%	10.26%	1.43%	12.00%	0.00%	17.39%	7.14%	12.90%	12.50%
Can't say	0.00%	0.00%	1.43%	0.00%	0.00%	0.00%	0.00%	1.61%	0.00%

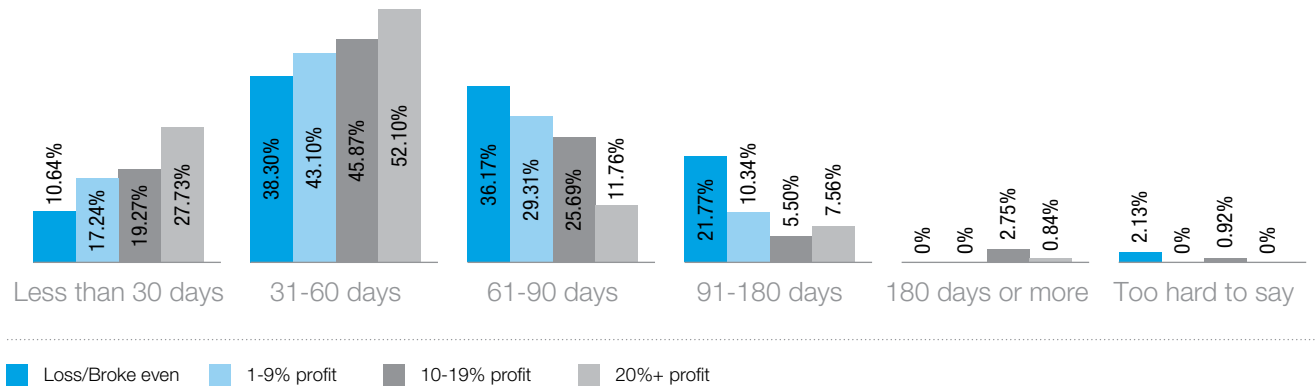
Sales

Days on market

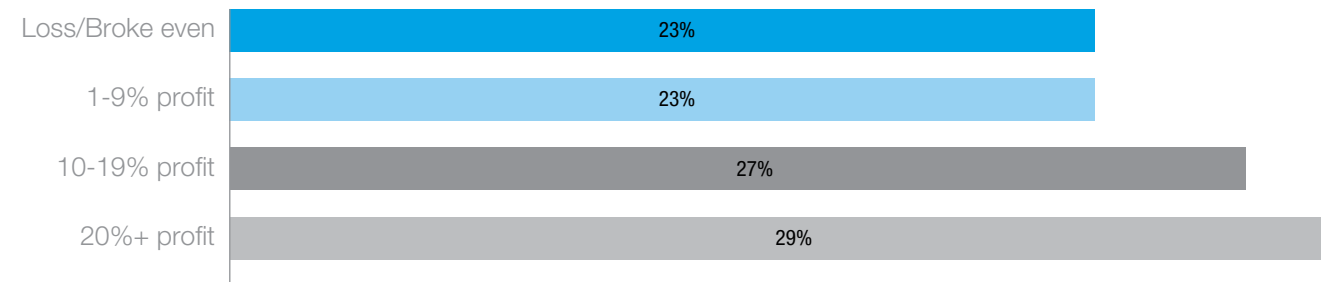
Average days on market were one of the strongest predictors of profitability. Fewer days on market mean more productive sales staff, better cash flow and lower costs per sale.

Higher profit firms were exceptionally efficient at turning over properties quickly, with one in four averaging less than 30 days, and 80% averaging 60 days or less. One factor in their success was the high proportion of sales made at auction, often driven by hot local property markets – an average of 29%, six percentage points more than those making 1–9% profit.

Average days on market by profitability



Proportion of auctions by profitability



Sales

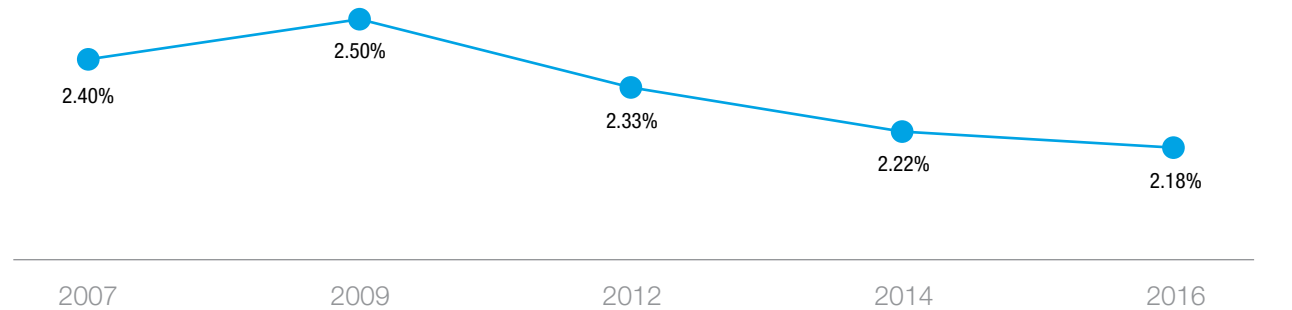
Commissions

In a highly competitive market, sales commissions have continued to come under pressure. The national average in 2016 was 2.18%, down from a high of 2.5% in 2009.

But there were big differences between states. Commissions ranged from a low of just 1.97% in South Australia, to a high of 2.6% in Queensland. Much of the national fall was driven by Western Australia, where 75% of agencies have dropped their commissions since FY2015.

Average commissions have been falling

Average commission on sales



Average sales commission by state

NSW	VIC	QLD	WA	SA
2.00%	2.03%	2.60%	2.30%	1.97%

Average sales commission by region

	Capital cities	Regional	Sydney	Other NSW	Melbourne	Other VIC	Brisbane	Other QLD	Adelaide	Perth	ACT
Median	2.0%	2.5%	1.8%	2.2%	1.9%	2.2%	2.5%	2.6%	1.8%	2.2%	1.9%

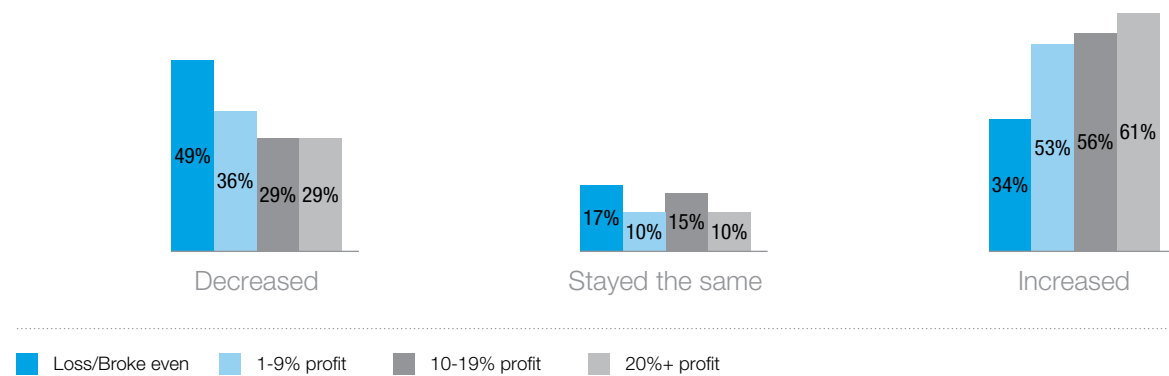
Sales

Attracting higher commissions

Outside Western Australia, a small majority of agencies earned higher gross sales commissions in FY2016 than in FY2015. But even in a strong market, not every agency is able to drive commission revenue higher.

The most profitable businesses were also the most likely to have lifted commission income, reflecting their ability to deliver a premium and charge for it.

Change in commission from FY2015 to FY2016



Sales

Best Practice



Drive down days on Market

- Sale process
- Vendor management
- VPA and staging costs
- Buyer management
- Database management

Focus on productivity

- Revenue per staff member
- Profit per staff member
- Time invested versus return
- Role clarity
 - leverage strengths
- Activity ratios:
 - Appraisals versus listings
 - Listings versus sales
 - Days on market

Lift commission income

- Deliver a premium and charge for it
- Use technology to improve the customer experience
- Stay customer focused
- Deliver expertise and insights
- Create a clear market differentiation
- Focus on high value listings

Property management

Property management

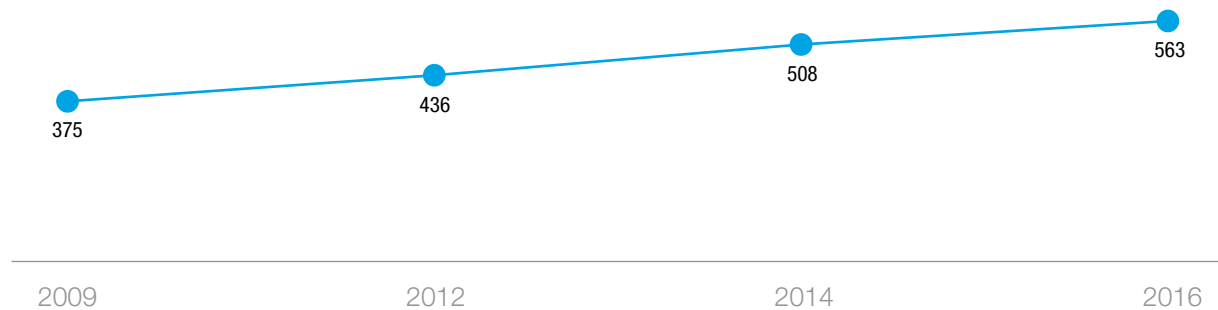
Properties under management have surged

Rent rolls have risen steadily as the number of investment properties across the country grows. At the end of 2016, agencies managed an average of 563 properties each, up from just 375 seven years earlier.

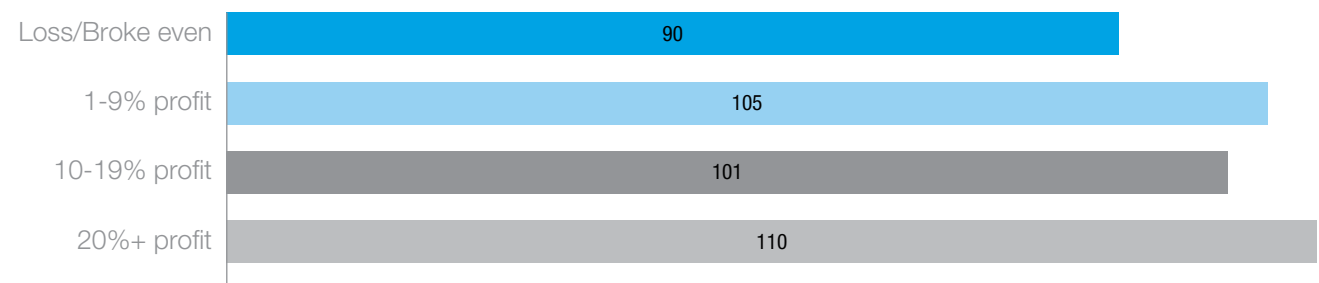
But that doesn't mean productivity is soaring. The average number of properties managed per property management FTE hasn't shifted since 2014. Then it was 103, now it's 101. And while property managers at higher profit firms are slightly more productive (about 10% more than the average), the difference is relatively modest.

Given the ready availability and affordability of new digital management tools, that suggests that most agencies have yet to realise the potential to re-engineer their processes for greater efficiency.

Average number of properties managed



Median number of properties per full time property manager

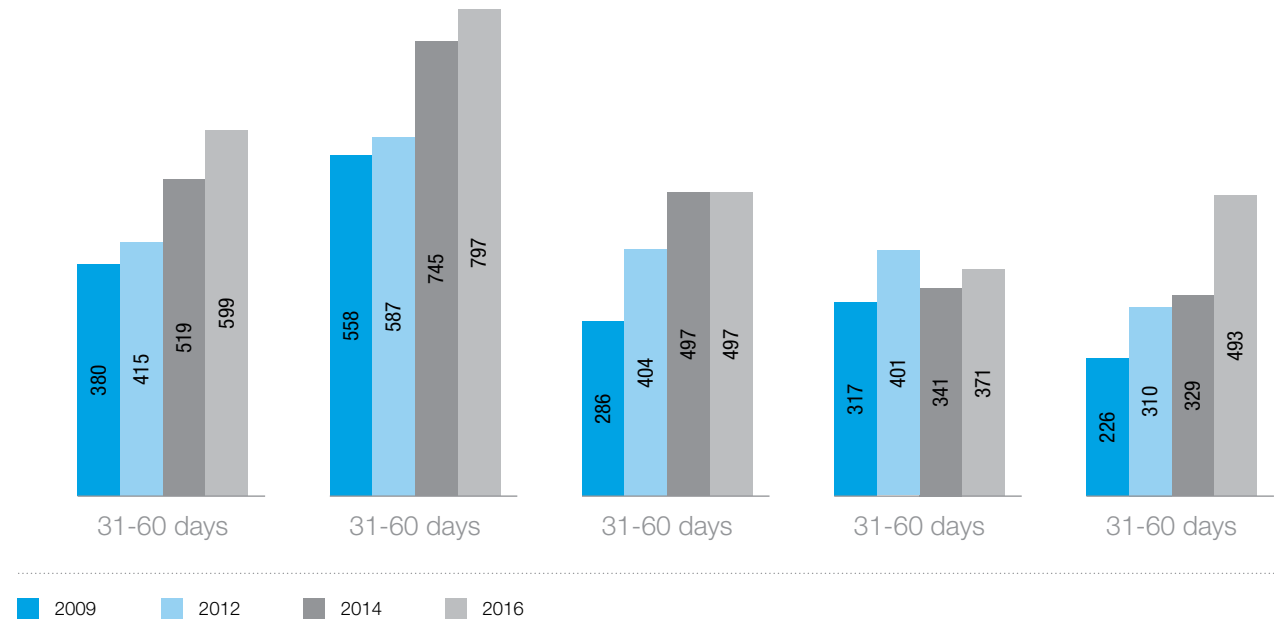


Property management

Around the country

Looking beyond the national average, there are wide differences in local markets. Melbourne agencies manage by far the highest median number of properties, followed by Sydney and regional New South Wales. Perth and Brisbane are at the other end of the scale, with fewer property managers per agency and sparser rental markets.

Median properties managed per agency



Property management

Commission edge lower

On average, property management commissions have edged lower over the last few years, falling from 7.3% in 2014 to 7% in 2016. But again, there are large differences between regions.

The Sydney market is by far the most competitive, with an average commission rate of just 5.5%. Agencies in areas like Perth and regional Queensland, where there are fewer properties managed per agency, make up the difference by charging more – an average of 8.5% in Perth.

Average property management commission rates

2014 7.3% 2016 7.0%

Property management commission rates by state, 2016

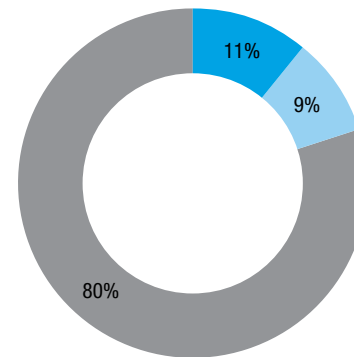
NSW	VIC	QLD	WA	SA
5.9%	6.2%	7.6%	8.7%	7.7%

Property management

Who's buying rent rolls?

For most agencies, property management has become a vital source of reliable income, without the ups and downs of sales. And with many national markets tightening, agencies across the country are looking to futureproof their businesses by building out their property management portfolios. That's seen one in five agencies buy a rent roll in the past two years, with a median multiple of 2.8 times annual commission income. However, there were marked differences in multiples paid in different states, with New South Wales businesses valuing rent rolls most highly at an average of 3.3 times recurring income.

Rent roll acquisitions



■ Yes – in the past 12 months
 ■ Yes – in the past 1-2 years
 ■ No – not in the past 2 years

Median multiple paid

2.8%

Retention sum as a percentage of purchase price

20%

Average multiple paid by state

NSW	VIC	QLD	WA	SA
3.3	2.6	2.8	2.4	2.3

Property management

Buying a rent roll

Seven best practice tips for buying a rent roll

1.

Look for quality properties commanding higher rents and the highest management fees as this impacts the value of your rent roll.

2.

Consider the cost of servicing the portfolio. What's the age of the properties, how far are they from your office, are they apartments or houses?

3.

Review and compare key quality metrics such as vacancy rates, arrears and recent rental increases. Ensure all bonds are up to date and repairs have been regularly carried out.

4.

Don't forget ancillary fees. A rent roll with the right mix of properties can deliver an extra 20% or more in revenue each year from ancillary services.

5.

Negotiate an appropriate retention sum and period to allow for landlords leaving after the change in ownership.

6.

Put people and resources in place before the transition. One popular option is to hire in the existing property manager from the agency selling the roll – not only do they already know the portfolio, but this strategy can reduce the risk of poaching after the sale.

7.

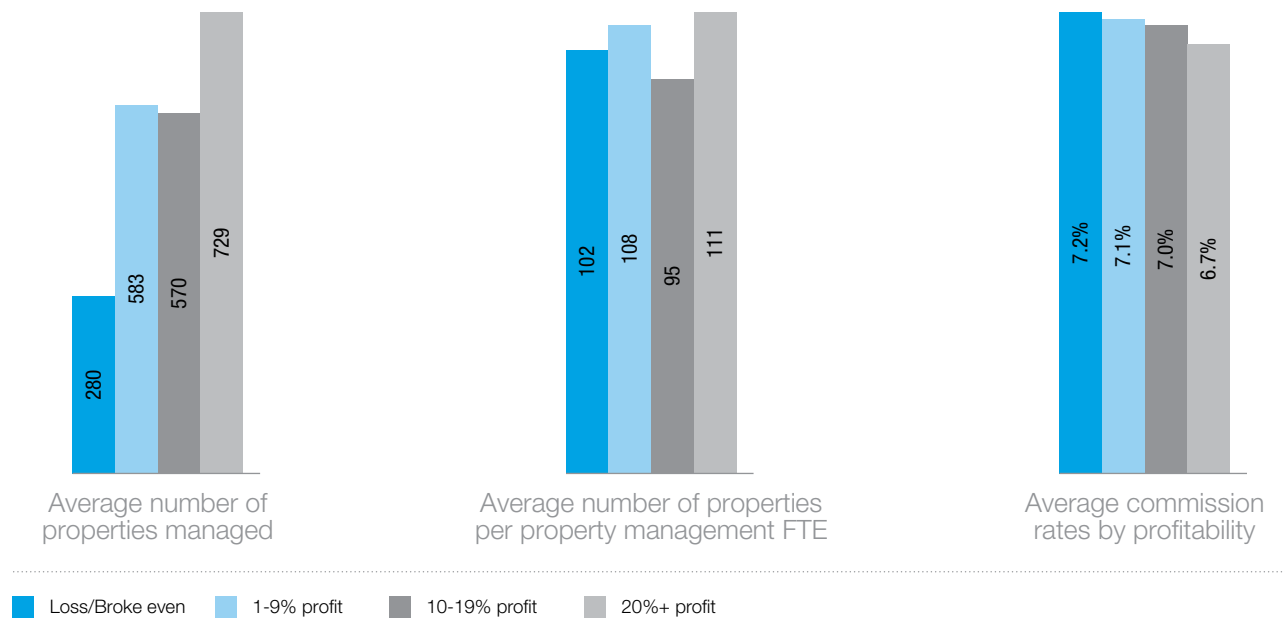
Be ready to contact every landlord and tenant in person to begin building a relationship and prevent drop off.

Property management

The outperformers

Scale and efficiency are critical when it comes property management. Higher profit businesses tend to manage more properties overall, and more per property management FTE – allowing them to generate strong revenues, even with lower average commission rates. Yet our research also suggests you can be highly profitable with a small rent roll, provided you focus on managing it efficiently.

Property management



Property management

Maximising the value of your rent roll

The benefits of a healthy rent roll are clear when you compare agencies' property management income to their ongoing expenses. Agencies cover up to 70% of their fixed costs out of property management income, or up to as much as 90% in South Australia.

As well as providing cash flow, rent rolls are the key element of your business's value. Protecting and enhancing this value can have a big impact on your personal wealth.

And property management can also be a powerful source of new sales, with businesses relying on their rent rolls for a median of 17% of new listings.

Median recurring property management income by state

National	NSW	VIC	QLD	WA	SA
70%	70%	50%	75%	70%	90%

Median sales from rent rolls, nationally and by state

National	NSW	VIC	QLD	WA	SA
17%	20%	15%	15%	15%	16%

Property management

Best Practice



Focus on quality

- Type of property, location and age
- Cultural alignment of landlords
- Arrears and maintenance record
- Deliver a premium and charge for it
- Use technology to improve the customer experience

Get the platform right

- Be clear on your end goal
- Select cloud-based SAAS (software as a service) operating system and software that suit your business needs
- Define and then build – refining with scale is hard
- Changing platforms requires focus, commitment and strong leadership

Get ready for a changing market

- Growing volatility, uncertainty, complexity and ambiguity (VUCA)
- Record high proportion of investors in market
- Interest only loans
- Financial regulation
- New entrants – platform technologies

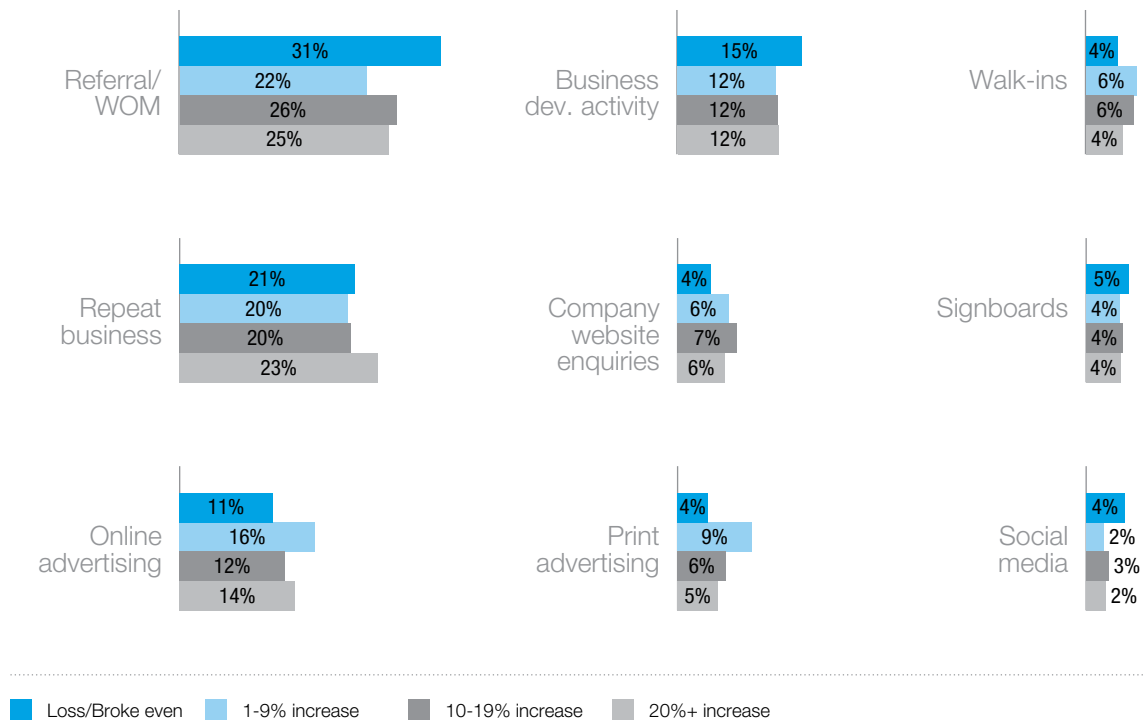
Marketing and advertising

Marketing and advertising

How high profit agencies win business

Referrals are a key source of new business for every agency. Yet high profit agencies are also skilled at generating repeat business from satisfied customers. That helps them generate more revenue at lower cost, since it can be much less expensive to keep an existing customer than to attract someone new – which is why client experience at every point of interaction with your business is so important.

Sources of new business enquiries by profitability



Marketing and advertising

What are the most effective ways to drive sales?

It's no surprise that online advertising is now the number one tool for driving sales. But when we asked agencies for their top three methods of generating enquiries, we found the sales tools of choice depended on location.

While realestate.com.au is popular elsewhere around the nation, agencies on the west coast unsurprisingly prefer reiwa.com.au. Western Australian agencies are also more likely to rely on web searches than businesses in other states. In Victoria, the Weekly Review has helped to sustain interest in local newspaper ads, which have become less popular in other states. And both New South Wales and Western Australian businesses are unusually likely to favour social media.

It's also striking how many agencies continue to spend money on sales tools which they admit only generate a small number of enquiries.

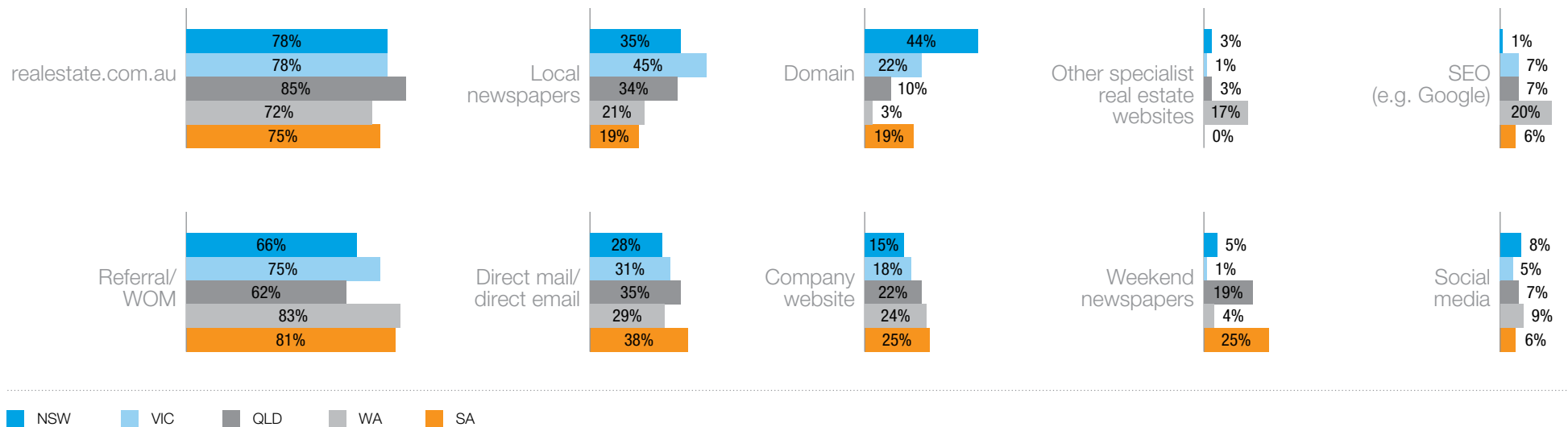
Methods of generating enquiries by state

	NSW	VIC	QLD	WA	SA
Online	94%	92%	96%	99%	94%
Referrals	66%	80%	68%	83%	81%
Print	46%	53%	53%	31%	38%
Other	35%	33%	38%	40%	44%

Marketing and advertising

What are the most effective ways to drive sales?

Sources of new business enquiries by profitability



Marketing and advertising

Best practice



Five strategies for driving repeat business

1.

Work your database:

A strong customer relationship management system is the key to building the great relationships that drive repeat business – but only if you put it to work.

2.

Treat every contact as a potential client: With your system in place, record and rate every contact – from the neighbours who drop in to an open house to the tenants who might be saving to buy.

3.

Create a contact strategy: Use your database to contact prospects in a systematic way. Rank them in order of value, then use automated reminders to ensure you contact them regularly in person.

4.

Ask the right questions: Talk to your current landlords and vendors about the decision-making process they went through before listing their property. How did they choose their agents and narrow down their choices?

5.

Stay in touch: Keep in regular contact with every client. These can be electronically generated by sales CRM systems, helping you stay top of mind when it matters.

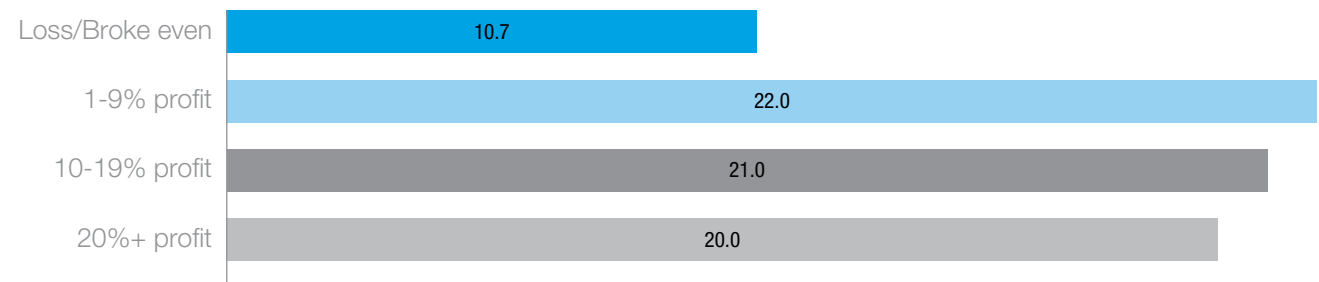
People

People

Getting staffing levels right

The average agency has around 19 staff, with around 7.5 FTEs in sales and six in property management. But while it's no surprise that larger agencies tend to have higher revenue, bigger isn't always better. In fact, higher profit agencies tend to have slightly fewer people than their lower profit competitors. Instead, they leverage best practice systems, technology and processes to generate greater productivity.

Average number of staff by profitability



Average number of staff by role: higher and lower profit businesses

	Loss/ Broke even	1-9% profit	10-19% profit	20%+ profit
Principals / Business owners	1.5	1.7	1.9	1.8
Sales staff	3.3	6.6	6.7	5.0
Sales support	1.2	2.2	2.2	2.0
Property management	3.1	6.2	5.8	6.2
Accounts payable and accounts receivable	0.4	0.9	0.9	1.0
Other administration	0.6	2.3	1.6	2.1
Business Development Manager	0.2	0.8	0.5	0.4

People

Salaries for property managers

Salaries for experienced property managers have been creeping upwards. 61% of managers with three years' experience now earn \$60,000 or more, up from 53% in 2014. But not all agencies are paying a premium.

High profit businesses tend to be very successful at keeping a lid on costs by hiring experienced property managers for less.

Salaries have edged higher

Remuneration of property management staff by profitability

Earn \$60k+
3 years+

2014 53%

2016 61%

Earn \$60k+
Under 3 years

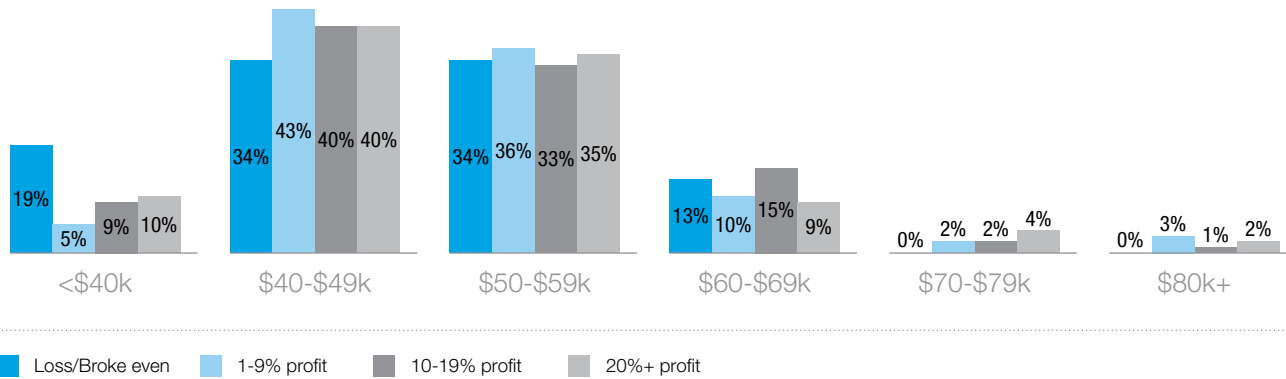
2014 21%

2016 15%

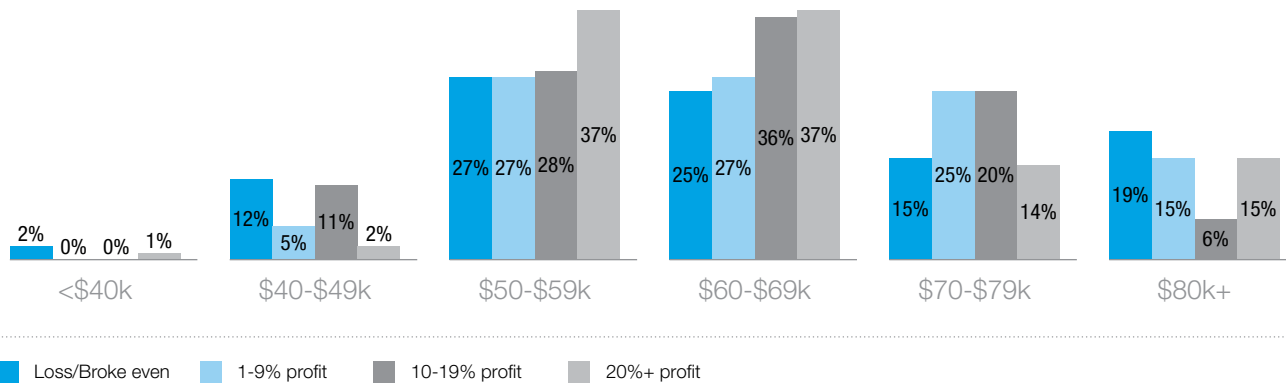
People

Salaries for property managers

Under 3 years' experience



3+ years' experience



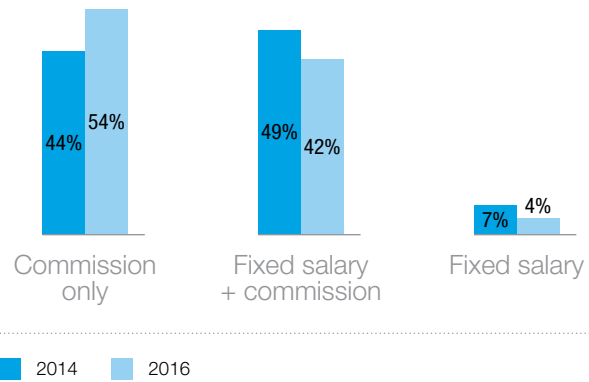
People

Salaries for salespeople

Agencies are looking to get more value from their investment in sales people, with a big jump in the number paid on commission only. 54% of salespeople now work for commission alone, up from 44% in 2014. At the same time, commission splits have risen to a median of 50%.

High profit agencies tend to have lower average commission splits than other businesses, while still rewarding their best sales people well. 57% of sales staff at high profit businesses earn \$100,000 or more.

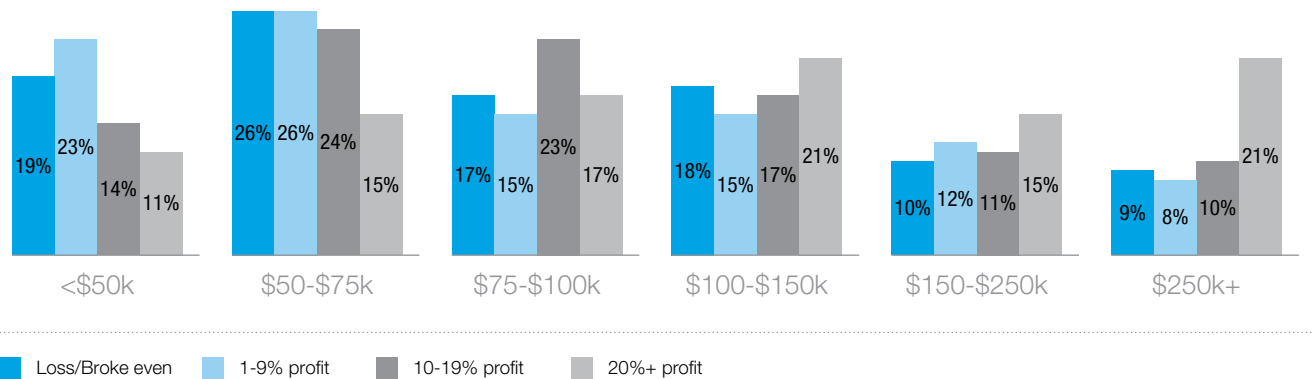
Remuneration method: Sales staff



Average commission splits by profitability

Profitability	Average Commission Split (%)
Loss/Broke even	45%
1-9% profit	46%
10-19% profit	48%
20%+ profit	45%

Salary bands by profitability



People

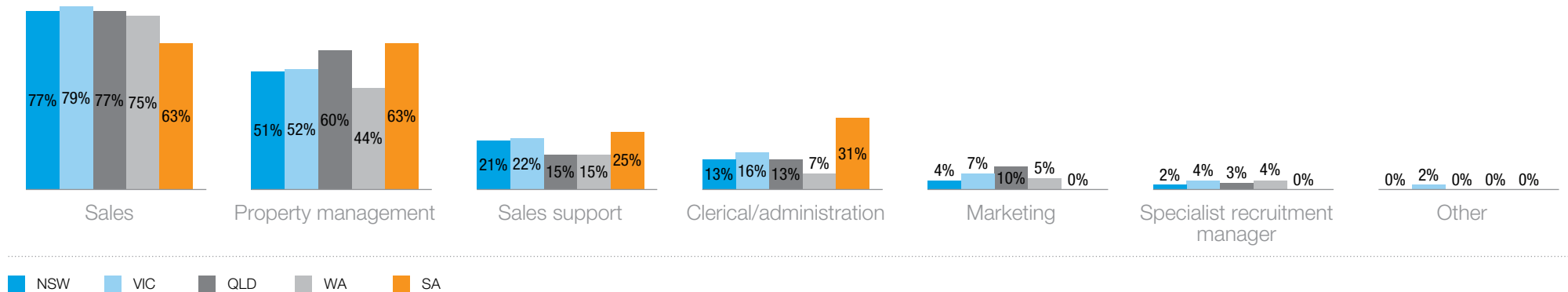
Who's hiring?

Around three in four agencies are looking to add staff over the next 12 months, slightly down on 2014 (74% versus 78%). Sales staff are in demand around the country, although Queensland and South Australian businesses are also especially keen to pick up more property managers. Victorian firms are most likely to hire, with 83% of businesses posting job ads in 2017.

Hiring in the next 12 months by state and job role

	NSW	VIC	QLD	WA	SA
	71%	83%	76%	69%	64%

What areas of your business will you be recruiting for?

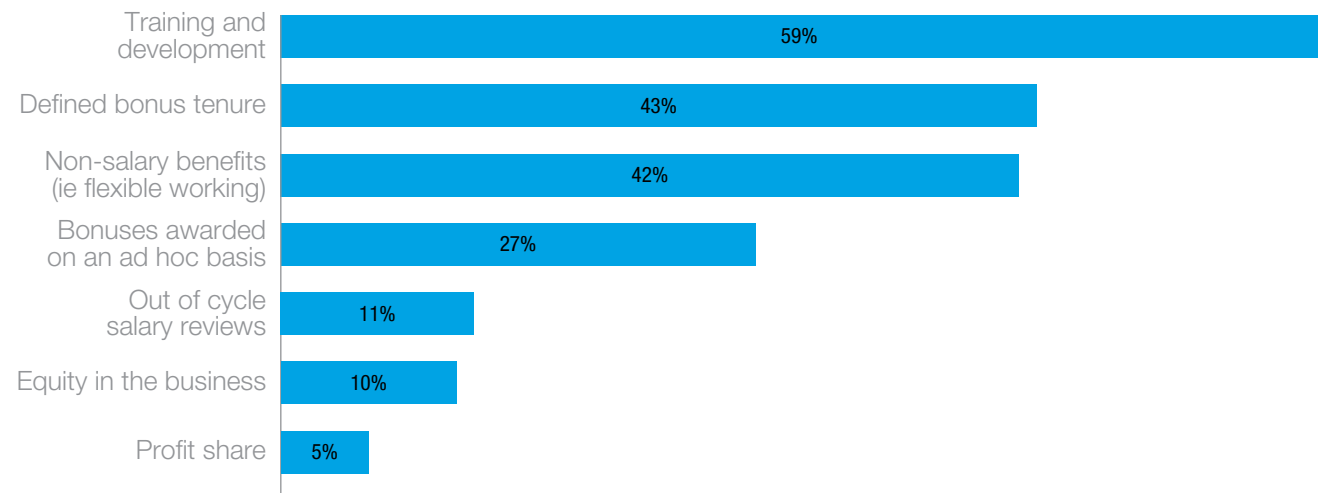


People

Attracting and keeping great staff

Training and development is the number one strategy for keeping staff, followed by a clearly defined bonus structure. Yet fewer than half of all real estate businesses offer non-salary benefits like flexible working, so many could do more to keep their staff productive and engaged.

Staff retention methods



People management

Best practice



Best practice tips: strategies for attracting, developing and keeping high performers

Salaries and commissions consume around \$4.40 in every \$10 the average agency makes. So anything you can do to get more value from your salary spend will boost the sustainability of your business.

High profit firms use a range of strategies to find, motivate and manage high quality staff. Here are some of the most effective.

Focus on the right KPIs

- Profit per employee
- Yield per property
- Remuneration based on profit growth, not just revenue
- Long term incentives
- Customer service incentives

Lead with the right metrics

- Understand the cost of doing business
- Make the difficult decisions
- Build a cohesive team that understand the risks
- Lead in your communities
- Build value in personal and business brands
- Prioritise client experience

Define your culture

- Who you recruit
- How you lead them
- What behaviour you expect

Operations and technology

Operations and technology

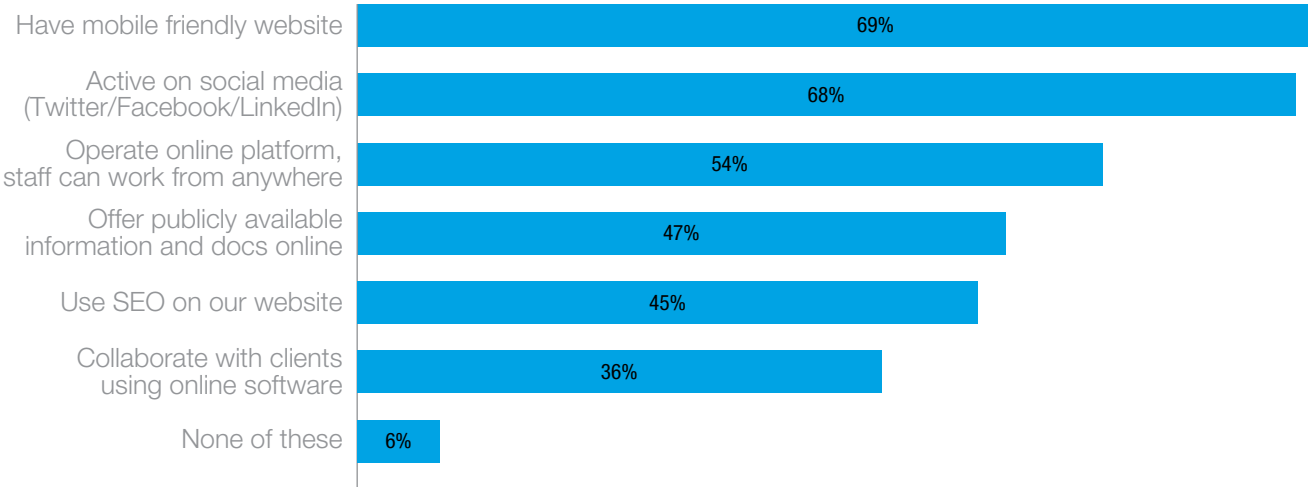
How innovative is your business?

As digital solutions become increasingly accessible and affordable, they offer significant opportunities for businesses responding to a market impacted by margin compression and low-cost market entrants. Yet while real estate agencies have been quick to adopt online sales tools, many have been slower to reap the benefits of integrated digital platforms.

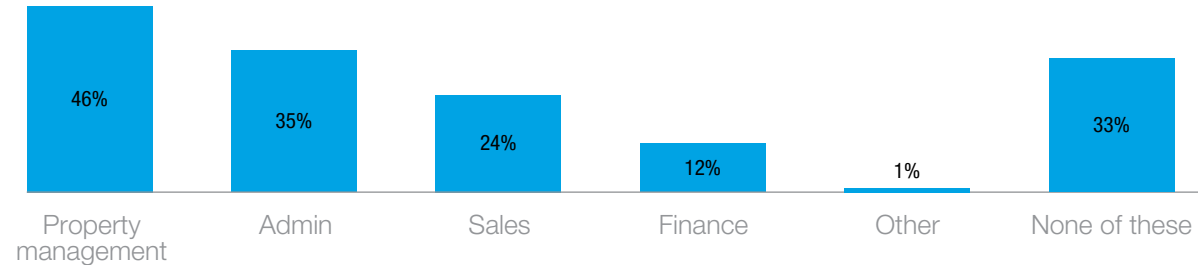
In our 2016 survey, more than two thirds of respondents said they had mobile-friendly websites and were active on social media, but less than half were offering online forms or leveraging search engine optimisation (SEO).

As a result, most agencies still have unrealised potential to reduce costs and boost productivity by putting technology to work. And many seem prepared to do so, with 46% saying they would like to automate property management activities, and another 35% expressing an interest in automating administration.

Current use of technology



Areas to automate



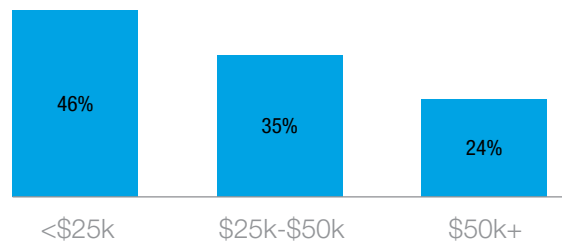
Operations and technology

Should you be investing more?

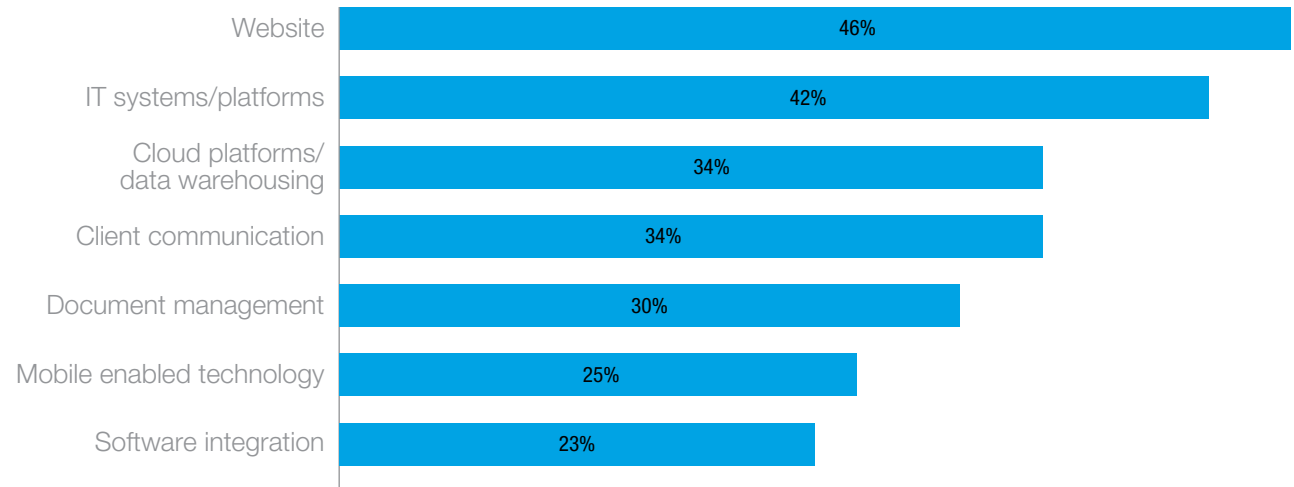
Despite preparedness to invest in automation, few agencies have been investing large amounts in technology. 63% invested just \$25,000 or less over the past 12 months, with most planning a similar spend over the year ahead.

The most popular areas for investment are websites and IT platforms. Only around one in four plans to put money into mobile technologies, integration and client portals, despite the potential for automation and easier collaboration.

Investment in technology – last 12 months



Top seven technology investment areas



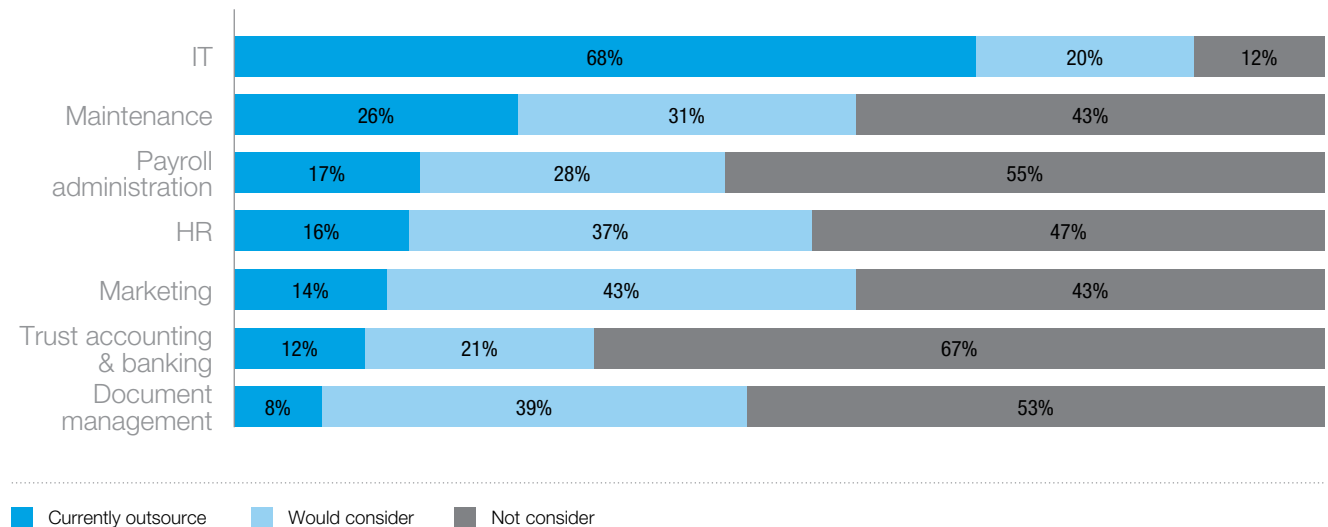
Operations and technology

Outsourcing

Outsourcing represents another significant opportunity for real estate agencies to realise new efficiencies and liberate resources to focus on high value-added areas where they have a competitive edge. Yet while agencies are keen users of IT outsourcing, with 68% of firms already practicing it and another 20% considering it, only a small number make use of other outsourcing services. From property maintenance to payroll, most businesses still keep most functions in-house – even though many are open to doing more.

Overall, our research shows there is significant potential to improve productivity and client experience by leveraging new technology, automation and outsourcing services.

Businesses currently outsourcing and considering outsourcing



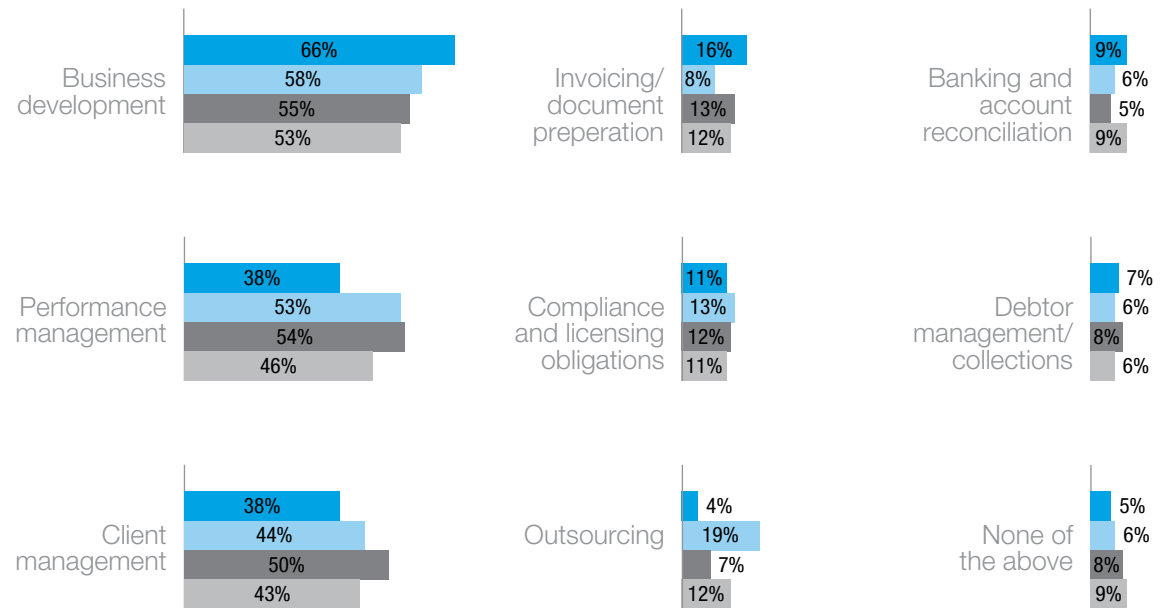
Outsourcing and technology

Maximising productivity

Most agencies know they could be more efficient in key areas, although there are revealing differences in their areas of focus.

The more profitable a business is, the more likely it is to be focused on improving business development. In contrast, most higher profit businesses seem to believe that their performance management and client management are already fairly efficient, underpinning a high-quality client experience. However, higher profit businesses are among the most likely to see banking and account reconciliation as key focus areas where efficiency can have a significant impact.

Areas requiring efficiency improvements



Loss/Broke even 1-9% increase 10-19% increase 20%+ increase

Operations and technology

Best practice



Re-engineering your processes from the ground up can help create the platform for outstanding customer service, liberating your staff from low value activities to focus on improving the customer experience and winning new business.

Productivity/Cost

Know your current state & determine your future state

Re-direct capacity

Be clear with staff about the aim & manage through the process

Focus on execution once the decision has been made

Service and CX

For the buyer/For the seller

For the landlord/For the tenant

Trust/Transparency/Time

Value, Advice, Insights

First class experience

Revenue growth

Win more business more quickly/cheaply

Build distribution channels

Reverse fee decline

Virtual prospecting – go digital, leverage data
[#digitalandsocialmarketing!](#)

Outlook

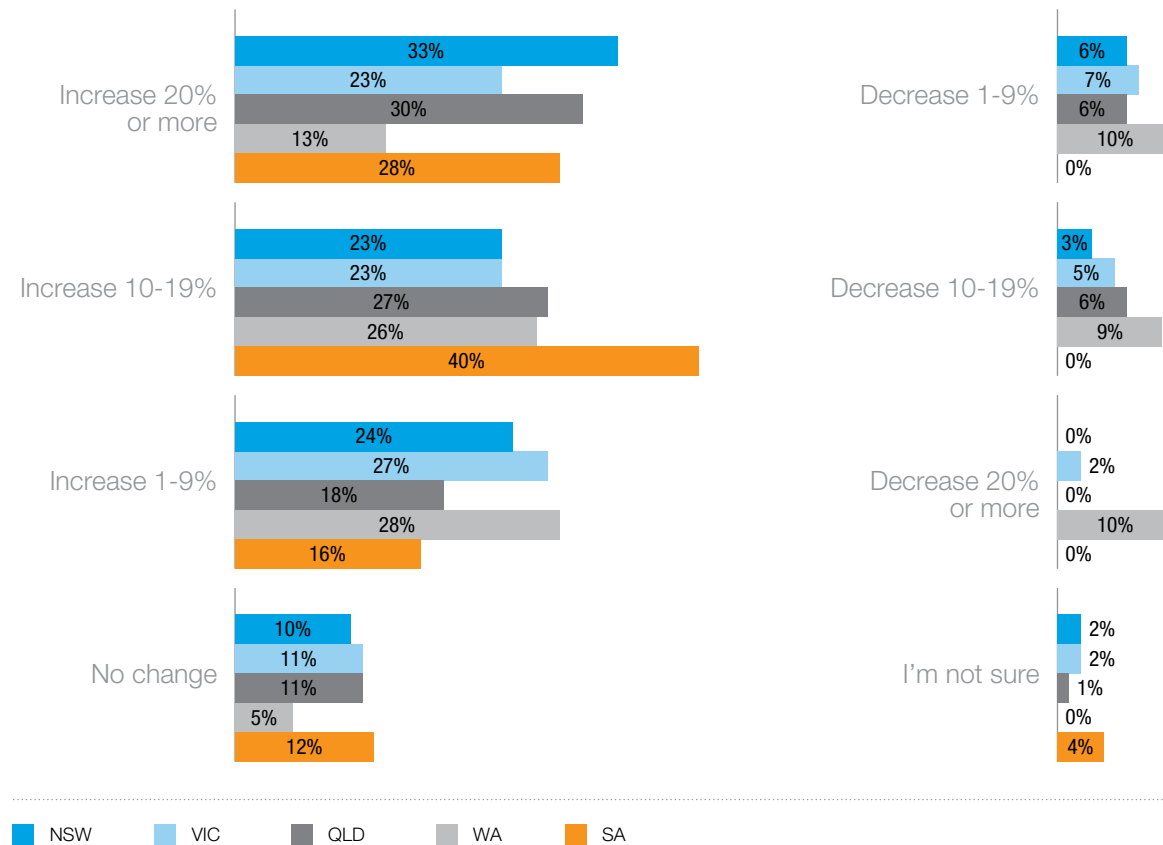
Outlook

Optimism reigns

Across the country, most agencies were optimistic about FY2017, Western Australia aside. Even there, 66% expected revenues to increase, while 70% said their profits were set to rise.

East coast businesses were especially confident, with a majority in New South Wales, Victoria and Queensland expecting markets to continue growing in 2017.

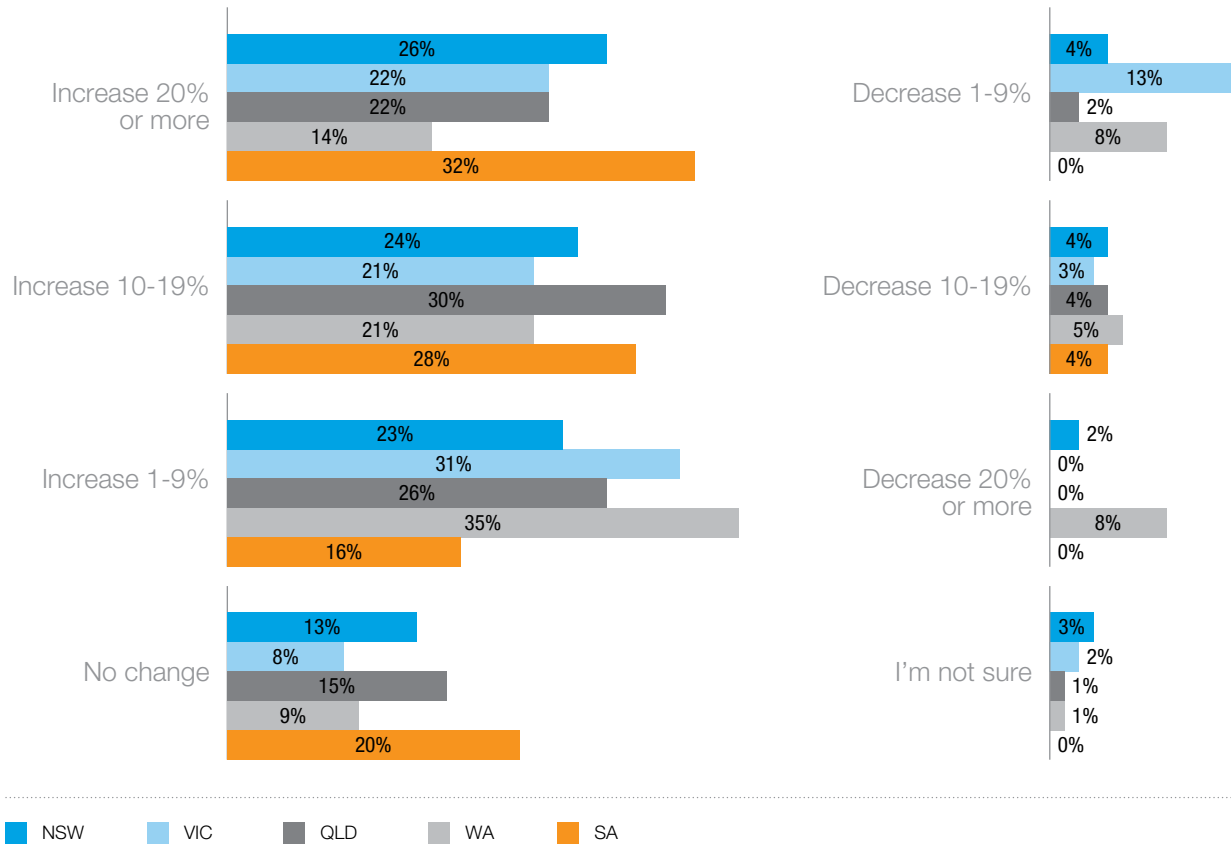
Expected change in revenue in FY2017



Outlook

Optimism reigns

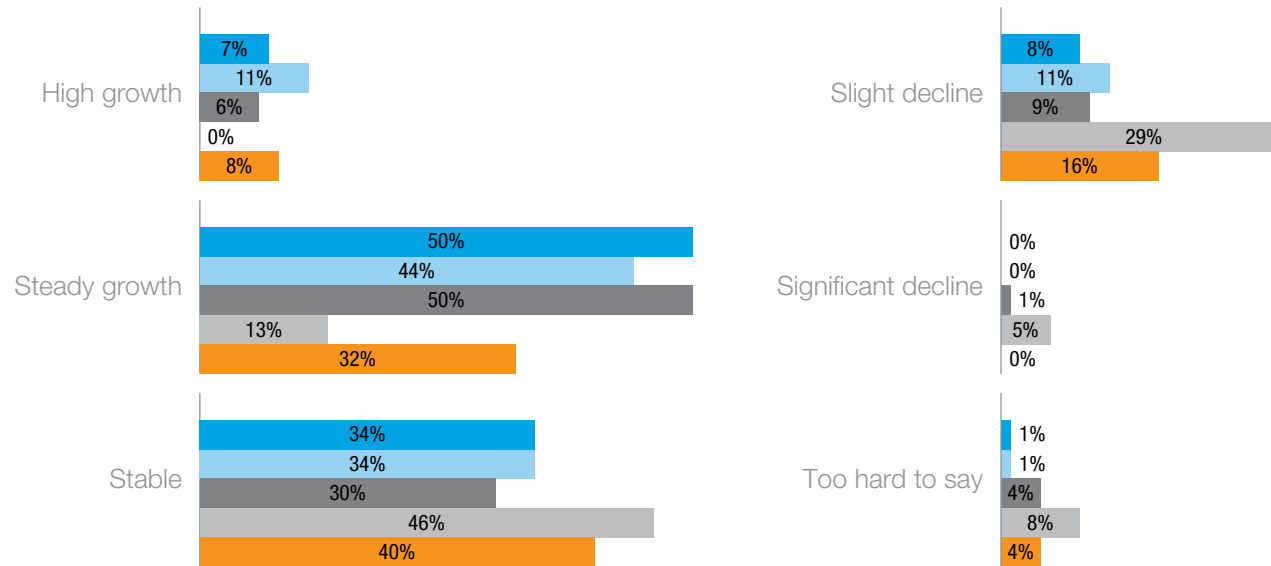
Expected change in profit in FY2017



Outlook

Optimism reigns

State outlook



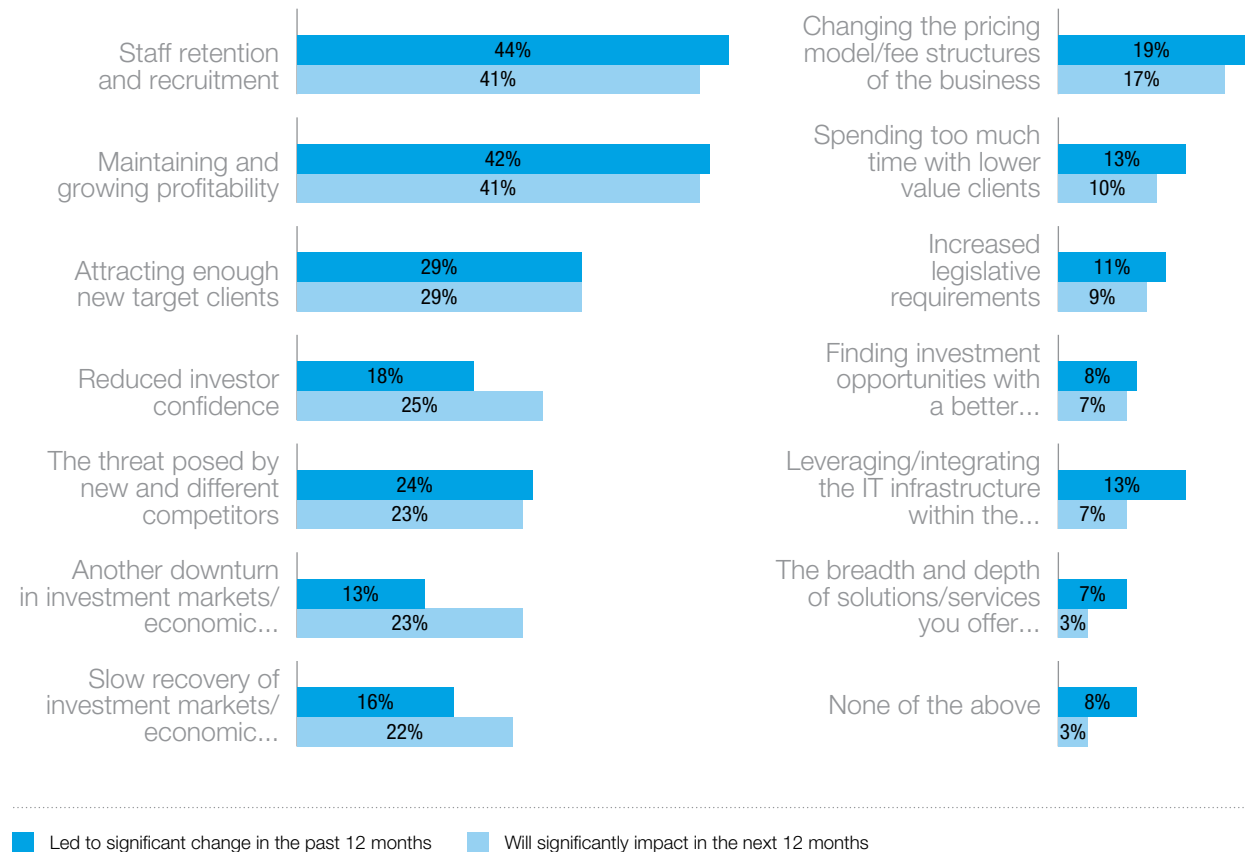
■ NSW
 ■ VIC
 ■ QLD
 ■ WA
 ■ SA

Outlook

What could impact your business?

Few agencies saw new risks emerging in 2017. Most were focused on their core business, with staffing issues and profitability at front of mind. However, around one in four were concerned that investor confidence could decline – something that has proved prescient, given the ongoing impact of new restrictions on investor borrowing.

Factors with significant impact: past 12 months versus coming 12 months



Outlook

Buying and selling

Around one in four business owners plan to sell all or part of their agency in the next three years, up from 19% in 2014. An internal sale remains the most popular option, favoured by 58% of potential sellers.

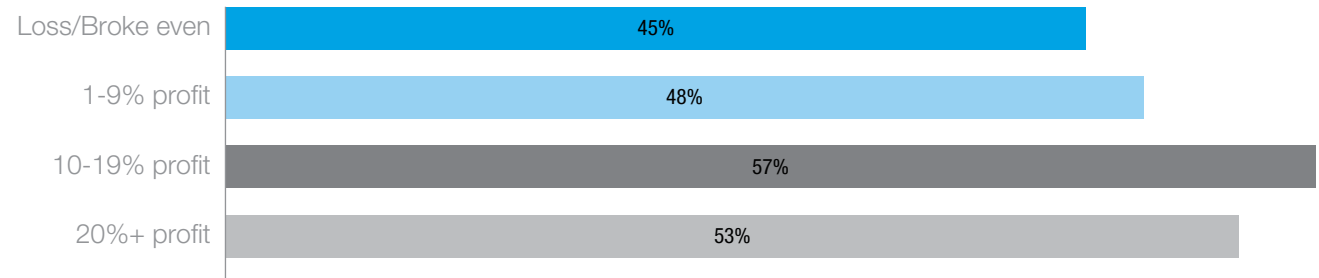
53% of businesses have a plan for the future in place, with more profitable businesses most likely to have a documented plan. Yet that leaves almost half of all agencies without an effective plan in place.

And our survey reveals an even larger planning gap. Only 39% of businesses with more than one principal has a buy-sell agreement in place. That could be challenging if a principal needs to leave the business unexpectedly due to illness, injury or family problems.

Business owners intending to sell



Succession planning: loss by profitability



Best practice

Creating an effective succession plan



1.

Start planning early and set a timeframe. Make sure your personal and business goals are in sync.

2.

Identify your successor – whether a co-owner, employee or external party.

3.

Identify the talent within your firm and develop their skills and make them feel valued.

4.

Know what it's worth – get a realistic, independent valuation of your business.

5.

Watch out for tax implications – get advice on maximising after-tax payments from the sale of your business.

6.

Decide on your future role. If you're not ready to let go completely, define your role and make sure you're rewarded.

Outlook

Focus areas for FY2017

In 2017, Australia's most profitable real estate agencies will focus on upskilling staff, building strong client relationships and focusing on the basics of good business practice.

What will your priorities be?

Best practice: Building stronger client relationships

1.

What insights are you providing to your clients on the state of the property market?

2.

What value do your interactions add to your database if someone is not actively transacting?

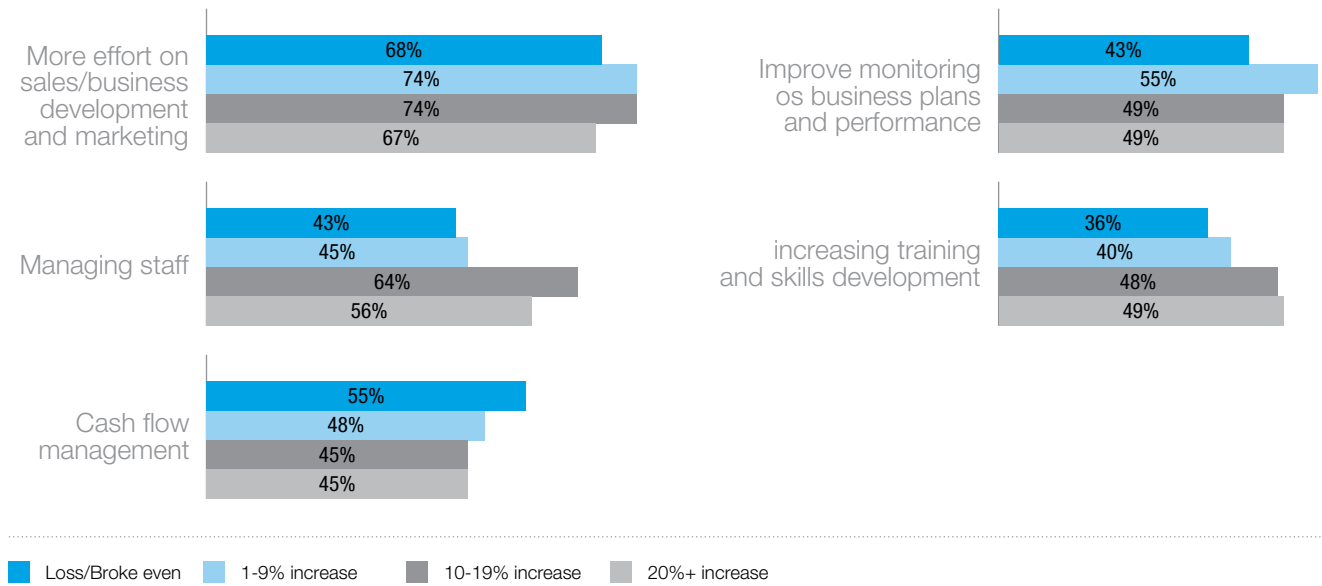
3.

Are you and your team considered the experts your clients will need if the market changes?

4.

How will you make them money or save them from making a loss? How can you explain that better?

Top five focus areas by profitability



Key take-outs

Overall, our research shows a sector in good shape with strong prospects for the future. However, it also reveals emerging threats from technological change and new business model competitors which, while not heavily impacting profitability today, could lead to significant change in the near future. That suggests many agencies could be doing more to create a sustainable platform for future success.

Ready to learn more?

If you'd like to learn more about putting our best practice insights to work in your business, contact me or your Residential Real Estate Relationship Manager.

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