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The Australian residential property market in 2012 is an increasingly challenging landscape for real estate agencies to navigate. The property market is inextricably linked to the Australian economy and, is strongly influenced by economic and financial events and circumstances beyond our borders.

In an atmosphere of financial, economic and political uncertainty, consumer and investor confidence levels are waning and volatile. The equation, however, has not changed for business operators who must build and refine a business model that generates sufficient revenue to meet commitments and deliver a return to owners. The return must be sufficient to meet personal and lifestyle commitments for the owners and must also be enough to warrant the significant investments of time, resources and energy that business ownership dictates.

The result is that businesses must have the ability to adapt quickly and be sufficiently robust to survive, and thrive, in an environment where they are increasingly affected by factors outside their control. The focus therefore has to be on factors that are controllable – elements within and outside of the businesses that principals, owners and managers alike can exert influence over – to better place themselves to generate a return irrespective of what is happening in the broader environment.

Industry benchmarking is a tool your agency can use in both critically analysing current performance and in instituting change. At its base level, it identifies industry trends, topical issues and provides a yardstick to measure your business metrics relative to peers. At a higher level, it can aid in setting business strategy, planning and direction (macro), and support and drive KPI setting and job role structuring (micro).

In an endeavour to provide the most objective and valuable findings and insights, our benchmarking cuts across the industry, encompassing small, medium and large agencies, both independent and franchise, from all states of Australia.

The studies of 2007 and 2009 established themselves as valuable reference tools to agencies in the Australian real estate industry. The 2012 study has built on the foundations set and broadened the scope from the previous studies to enable you to now utilise broader financial metrics in benchmarking your performance.

Some headline findings from this year’s study:

− the industry’s response to a smaller sales revenue pie is a focus on property management with revenue from the rent roll now accounting for 42% of total revenue (36% in 2009) and the average rent roll size increasing from 375 in 2009 to 436 in 2012
− more than a fifth (22%) of all agencies did not make a profit in the financial year. 58% achieved a return above 10% and just 10% of total agencies achieved a return of more than 30%
− almost a third of all agencies (31%) are considering selling all or part of their agency in the next three years with the clear preference of those considering selling being a staged, internal sell-down and exit (38%). Of those considering sale, only 52% have a succession plan in place.

Macquarie Relationship Banking intends the findings to be a valuable point of reference for business owners, management and employees alike. It is hoped that the findings and insights can assist you to position your business now and into the future.

For more information, or to discuss the findings and potential implications for your business, please contact one of our Relationship Managers who will be more than happy to discuss.

Kind regards,

Shaun Bassett, National Head of Residential Real Estate, Macquarie Relationship Banking
This report outlines the key findings from Macquarie Relationship Banking’s Residential Real Estate Benchmarking Survey, undertaken in February 2012.

With the assistance of independent research specialistsCSI Analytics, our 2012 survey was completed by 416 agencies from across Australia. Macquarie Relationship Banking is grateful for the assistance from various franchise and independent groups, and industry bodies that helped promote the survey and support this important research.

**Reporting categories**

Results from participating real estate agencies have been reported by:

- state location
- size of agency.

**Size of agency**

The following terms have been used to describe agencies by size:

- small agency: less than 10 staff
- medium-size agency: 10-19 staff
- large agency: greater than 20 staff

Throughout this report you will find commentary from Macquarie’s specialist real estate team. These comments are based on our market knowledge, wider economic research and general interpretation of the findings in this report.

**Business insights**

Also within this report you will find questions and business insights from Macquarie. These are designed to help you identify strategies you can implement for better business performance.

**Note:** Throughout this report, we have highlighted benchmarks by state location, with the exception of Tasmania and Northern Territory. Due to the small number of respondents from Tasmania and Northern Territory, readers from these states should refer to the benchmarks by size of business and the national average.
Executive summary

2012 has seen an increasingly challenging landscape in the Australian residential property market. For many real estate agencies this has been a learning curve, and those who have adapted swiftly have been the ones to survive and even thrive.

Industry benchmarking can be used to better understand industry trends, your agency performance and opportunities to grow and change. Here we summarise the key statistical findings and insights from the 2012 Residential Real Estate Benchmarking Survey.

Agency revenue, expenses and profitability

There has been an increased focus on property management as a proportion of overall revenue, resulting from a tough sales environment. On average 42% of agency revenue is generated from property management and 55% from sales. Property management revenue has increased from previous surveys, and the outlook from agencies indicates this trend will continue in the future.

As agencies react to the tougher sales environment, we have seen an increased focus on expenses. In considering fixed costs covered by recurring property management commissions, the industry average in 2009 was 48% and has risen to 55% in 2012. This is a positive result as agencies focus on reducing costs, growth and consolidation.

Nationally, 39% of agencies reported an overall increase in profit while 42% reported a decrease. 22% of agencies did not make a profit in the financial year, while 58% achieved a return above 10%, and the best performers (> 30% profit margin) account for just 10% of total agencies.

Sales

In the last 12 months the average agency completed 106 property sales charging an average commission of 2.6%. The number of sales has fallen from an average of 126 in 2009 and 151 in 2007, reflective of lower turnover in the market. Agents have mostly held or improved on commission rates, a positive outcome particularly given tight economic conditions.

Also impacted by weaker economic factors and property markets, the national average for days-on-market was 74 days, up from 67 in 2009. Looking at property sales prices achieved, the majority of sales (61%) were less than $500,000. 31% were then within $500,000 to $1,000,000, and 8% between $1,000,000 and $5,000,000.

Property management

The average rent roll in Australia has grown from 375 in 2009 to 436 in 2012 in terms of properties under management (PUM), demonstrating positive growth across all states. Results have also shown a strong correlation between profitability in agencies and PUM, with larger portfolios seen as profitability increases.

Valuation

The majority (63%) of all business owners believe their sales business has a market value. When looking at how to value their business, the primary two means identified were multiple of profit for the sales business (31%) and percentage of gross sales commissions (33%). Of those that identified multiple of profit as the means to value their sales agencies, the average was 2.5 times. While those that identified gross sales commissions as the means to value their sales agencies, the average was 27%. The average rent roll valuation multiple held steady from previous years, at 2.9 times recurring property management commissions.
Staffing and salaries

The average agency employs 15 staff members, typically split along the lines of 42% sales, 25% property management, 11% owners, 16% administration, 2% marketing and 2% business development. The average top salesperson within offices generated $250,000 in gross sales commissions for the business, down from $323,000 in 2009. While the average business gives away 43% of gross sales commission to the sales agent.

Looking at property managers, those with greater than three years experience had an average salary of $58,068 and those with less experience an average salary of $45,182. This highlights the delineation between the earning power of more and less experienced property managers.

Marketing and advertising

Agencies identified repeat business (28%) and referral or word of mouth (22%) as their greatest source of new business enquiries. While the most frequently used forms of advertising were their own company websites, real estate websites and direct mail. Agencies are focusing on recovering advertising costs, with 72% being paid by the vendor on average, though only 33% is paid up front by the vendor. If advertising is not paid up front, this impacts cashflow and can flow on to impact profit.

Growth and succession

Sales, business development and marketing were identified highest (63%) in a list of factors for business focus in the coming 12 months, followed by cashflow management (51%) and monitoring plans and performance (48%). Though the focus on cashflow management increased for break-even or loss-making agencies (63%).

31% of agencies are considering selling all or part of their business in the next three years. This may be all or only part of their agency, with 38% of agencies who are considering selling advising their preference would be for a staged, internal sell-down and exit. Of those considering sale, only 52% have a succession plan in place.

Economy

Almost half (49%) of agencies feel the residential housing market will remain stable. 30% of the industry appears slightly optimistic, anticipating steady growth or high growth, outweighing the downside sentiment of 19% anticipating a slight or significant decline.
Agency revenue, expenses and profitability

Please estimate the current percentage breakdown of your total agency revenue

Property management income as a proportion of overall revenue has strengthened since 2009, continuing a trend we have seen since our first benchmarking report in 2007.

More than half (53%) of agencies reported that sales commissions either stayed the same or decreased from the prior 12-month period.

A tough sales environment in many markets is considered to be a contributing factor in the change, though not the sole reason. We believe there has also been a deliberate shift as agencies across an increasingly broad scope adopt and resource growth strategies (either organically or via acquisition) within their property management business.

The outlook from agencies completing the survey suggests this trend will continue in the future. The recurring, contracted nature of property management income has proved itself somewhat resilient to tight economic periods and subsequently makes it an increasingly attractive source of revenue in the tough sales environment.

With only 30% of agencies anticipating growth of any nature in the residential housing market within the next 12 months, it would follow that agencies target rent roll growth as a means to increase revenue.
Nationally, 47% of agencies reported an overall increase in revenue. There is some disparity by states though, most notably between NSW and the rest of the country. The comparatively high level of NSW agencies experiencing an increase can largely be attributed to sales revenue growth, as 44% of NSW agencies versus 32% nationally reported an increase in sales commissions over the same period.

Key areas contributing to revenue increases for those that had seen increases:
- 78% cited property management revenue growth
- 60% attributed an increase in sales revenue
- 39% of respondents identified both.

This tells a compelling story about the value of property management as a very real driver of revenue and business growth.

In terms of the scope of revenue increases or decreases, results show the largest portion of agencies (16%) experienced revenue decreases of between 10-19% from the prior year, with the second highest portion (15%) being agencies that experienced a 10-19% increase from prior year. Only 12% of agencies experienced growth in revenue beyond 30%.

It seems what has come before dictates the outlook, as 75% of agents that had experienced an increase in revenue anticipated higher revenue in the next 12 months, compared to those that experienced stable levels of revenue (53% anticipated a positive outlook for revenue) and those that experienced decreased revenue (49% anticipated a positive outlook).
Expenses have come under increased scrutiny as the sales environment has tightened in the past few years and are a major area of interest and focus for principals. While there is little variance of a material nature by state amongst agencies, a difference does appear when we break this down by size of business and size of profit amongst a few key cost areas for agencies.

**Salespersons commissions**
- As a percentage of total expenses increase with business size reflecting larger ‘sales engines’ as a proportion of staffing base
- Sales and sales support staff account for 39% of staffing numbers in agencies with less than 10 staff, and account for 50% of staffing numbers in agencies with more than 10 staff.

**Net advertising cost (cost less vendor recovery)**
- We note an inverse relationship to the size of the business, with costs decreasing as size increases
- As a percentage of business expenses, it accounts for:
  - small agency - 10%
  - medium agency - 8%
  - large agency - 6%.

**IT/comms and rent and premises costs are lower as a percentage for larger sized agencies:**
- 8% combined for large agencies versus 14% combined for small agencies.

This reflects the benefits of scale larger agencies can enjoy.
With advertising costs not recovered coming straight off the bottom line the larger the sales business and the larger the advertising budget, the more critical it becomes to ensure costs are recovered from vendors. Off the back of this, larger agencies are generally more highly systemised when it comes to charging and collecting vendor advertising and are often better placed to resource for this vital function within a business.

**Business insights**

It is noted that irrespective of size, state or profitability, the proportion spent on training staff within agencies remains the same. An interesting question to contemplate is whether training in larger agencies focuses more on collecting vendor advertising than in smaller agencies.

It is as important to the bottom line of your agency that sales agents receive training in collecting vendor advertising as they do in winning listings and negotiating on sales.
The results are positive and support what we have been seeing in the market during the period, which is a combination of agencies reducing costs where possible, aggressive organic growth strategies within property management departments and significant acquisition and consolidation activity within the industry.

The industry’s response to what have been tighter economic times and a more challenging sales environment since 2009 has been to build more resilient agencies that are less susceptible to sales market downturns.

Increasing the fixed-cost coverage ratio (FCCR) reduces the reliance on sales income to cover expenses within a business.

The results are positive and support what we have been seeing in the market during the period, which is a combination of agencies reducing costs where possible, aggressive organic growth strategies within property management departments and significant acquisition and consolidation activity within the industry.

The industry’s response to what have been tighter economic times and a more challenging sales environment since 2009 has been to build more resilient agencies that are less susceptible to sales market downturns.
In which of the following ranges did your profit margin (excluding Director’s remuneration) fall for the year?

- More than a fifth (23%) of all agencies did not make a profit in the financial year. This is before principals have remunerated themselves.
- 58% achieved a return above 10%.
- The best performers (> 30% profit margin) account for just 10% of total agencies.

Qld and WA agencies far exceed the average in terms of loss-making agencies in the period. They are also the two states which faced arguably the toughest sales markets in the period, excepting some regional centres that benefited from resources sector strength. Supporting this:

- 56% and 49% respectively of Qld and WA agencies reported declines in gross sales commissions against a national average of 46%.
- 46% and 45% respectively of Qld and WA agencies reported declines in agency revenue against a national average of 40%.

Qld experienced a well documented period of natural disasters (including the Brisbane floods) in early 2011, which had a direct impact on the sales market and agencies.

Vic also experienced a high number of agencies recording declines in agency revenue and gross sales commissions (46% and 52% respectively), yet at 6% had well below the average number (15%) of agencies recording a loss for the period. While it could be speculated that this is attributable to a higher revenue base and corresponding profit base as a starting point, what is known for certain is that agencies in Vic have rent rolls that are 35% larger, by properties under management, than the national average.

SA has outperformed its peers at 24% of agencies completing the survey reporting profit margins greater than 30%. The sample size (substantially fewer agencies in SA completed the survey than other states) has played a small part in skewing the results. Anecdotally, we have not found SA agencies to be substantially more profitable than like-sized agencies in other states.
In terms of the direction of profit margins, 39% of agencies increased profits during the period from the prior year, while 42% saw a decline (19% cited no change).

While the percentage of agencies that saw a decline in profit margin was closely aligned to the percentage that saw a decline in revenue (40%), there was a disparity in those that had increased revenue (47%) to the number that had seen a resultant profit increase (39%). The ‘swing’ factor here is expenses, highlighting the need for cost controls irrespective of the direction of movement in revenue.

Principals seem cautiously optimistic when asked about future expectations around profitability:
- 60% anticipate increased profitability
- 18% anticipate a decline in profitability.

**Business insights**
- In the absence of increased sales revenue, what measurements do you have in place for cost control/managing expenses within your business?
- Do you have a growth (organic or via acquisition) strategy in place for your property management revenue?
- Outside of increasing properties under management, are you looking at fee charging within your property management division? Your property management staff work hard to provide a variety of services to tenants and landlords, are you charging for this?
Macquarie Relationship Banking

Profit margin by size

- Small agencies - 52% generate a return of greater than 10%
- Medium agencies - 57% generate a return of greater than 10%
- Large agencies - 75% of a return of greater than 10%.

The greater the size, the fewer the loss making businesses, the higher the proportion of businesses generating a return greater than 10%.

A number of contributing factors have been identified for the relationship between size and return. Examining survey data from large agencies, the following is evident:

- size and scale brings benefits of lowering the impact on margins for fixed expense items such as IT and occupancy
- they demonstrate a greater effectiveness in collecting vendor advertising
- they have larger sales teams
- their rent rolls are on average just under two and a half times (239%) larger than the national average.

It is important to understand that size does not necessarily result in larger profit margins and absolute dollars falling out the bottom.

The findings demonstrate large agencies that have participated:

- are generally good at cost controls (ie net advertising cost)
- maintain balanced revenue lines (sales and property management)
- have a clear focus on building and or retaining large rent rolls.

Further, more than half (54%) of respondents to the survey were agencies in operation for more than 10 years and have largely benefited from staged growth over a long period of time.
If your profit increased for the year on prior year, which of the following were the largest contributing factors?

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>50%</td>
</tr>
<tr>
<td>Efficiency improvements</td>
<td>45%</td>
</tr>
<tr>
<td>Increase in marketing and sales</td>
<td>40%</td>
</tr>
<tr>
<td>Cost cutting</td>
<td>36%</td>
</tr>
<tr>
<td>Employment of new staff</td>
<td>23%</td>
</tr>
<tr>
<td>Merger or acquisition</td>
<td>15%</td>
</tr>
<tr>
<td>Improved market</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
<tr>
<td>New products or services</td>
<td>9%</td>
</tr>
</tbody>
</table>

Agencies experiencing profit increases were asked to identify factors they considered as significant contributors.

Revenue growth by states was strongest in NSW and SA (55% each) and weakest in WA (25%). The somewhat strongly aligned increase in marketing and sales activity was also strongest in NSW and SA (55% and 36% respectively) and weakest in WA (25%).

WA agencies led the charge in becoming more efficient and in controlling costs within their agencies in light of weak revenue growth, with 50% (the highest amongst peers) and 40% (second highest amongst peers) identifying efficiency improvements and cost cutting, respectively, as significant contributors.

Qld agencies were highest, at 45%, in identifying cost cutting as a principle contributor, reflecting what has been a tough environment to increase or maintain sales revenue levels.

Qld agencies led the way in the consolidation stakes, with 23% of agencies identifying merger with or acquisition of another real estate agency as a significant contributor. Not surprisingly, 29% of large agencies identified this as a significant factor for them – twice the average.

Large agencies again far exceeded the average for revenue growth at 71%, but also led the way for efficiency improvements (50%) and cost cutting (43%) against small and medium-sized agencies.

Medium-sized agencies were strongest amongst their peers in increasing marketing and sales activity at 48%. This potentially reflects an investment in building market share and competing against larger peers in an increasingly tough sales environment.

Small agencies showed particularly strong numbers against peers in new products and services (14%), demonstrating a willingness to adapt to a tougher sales environment by seeking alternative income streams.

While WA was highest in attributing efficiency improvements as a key factor, there was very little disparity across all states. This supports what we have seen in agencies across the industry, which is a focus and investment in systems and processes to drive back-office efficiency.
If your profit decreased for the year on prior year, which of the following were the largest contributing factors?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deteriorating market conditions</td>
<td>86%</td>
</tr>
<tr>
<td>Cost increases</td>
<td>33%</td>
</tr>
<tr>
<td>Increased competition</td>
<td>19%</td>
</tr>
<tr>
<td>Loss of key staff</td>
<td>18%</td>
</tr>
<tr>
<td>Unexpected capital expenditure</td>
<td>9%</td>
</tr>
<tr>
<td>Changes to compliance and regulation</td>
<td>4%</td>
</tr>
</tbody>
</table>

Deteriorating market conditions dominate the responses given by agents when asked to identify the key contributors to declining profits. Agencies operating in what we have identified as arguably the toughest markets nationally during the reported period – WA and Qld – identified deteriorating market conditions as significant (96% and 94% respectively).

Agencies in these two markets have also reported at half the average on increased competition (9% and 8% respectively) as a contributing factor, perhaps as a result of the number of competitors exiting these markets as economic and market conditions claim them.

Across the states there was otherwise nominal variance in identified factors by agencies.

There is very little variation by business size, with one observation being that larger agencies were less likely to attribute declining profitability to deteriorating market conditions as opposed to all other businesses (78% versus the average of 86%).

When asked about the best future strategies for increasing profits, the following proportion of respondents identified:

- 72% - rent roll growth and/ or acquisition
- 55% - retaining quality staff
- 35% - developing relationships with clients
- 34% - keeping costs as low as possible
- 32% - excellent customer service.
What was the total number of property sales completed by your office in the last 12 months?

- 106 property sales completed on average by each business in the last 12 months
- This has fallen from an average of 126 in 2009 and 151 in 2007
- Numbers are reflective of lower turnover in the market and continues the trend seen from 2007, which was the height of the property cycle.

From 2009 to 2012, agencies have shown a similar decline irrespective of size and all states have shown a similar decline with the exception of Vic, which has shown only a nominal decline.

As we noted back in 2009, we have seen that Vic offices still sell a larger number of properties on average than their peers. This is attributable to a larger average size of agency than other states and, in part, by larger rent rolls than peers.
What is your average commission rate percentage (including GST) charged to your vendors on the sale of a property?

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2009</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>2.6</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>NSW</td>
<td>2.4</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>Vic</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Qld</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>WA</td>
<td>3.0</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>SA</td>
<td>2.4</td>
<td>2.2</td>
<td></td>
</tr>
</tbody>
</table>

Qld agencies have responded strongly to an economic environment and market which has stifled sales and profit numbers by protecting, and in fact increasing, their average commission rates to 2.8% from 2.6% in 2009. This was the highest increase among the states.

While NSW and Vic agencies remained unchanged and WA agencies showed a nominal decrease, Qld had a noticeable increase and SA a notable decrease.

The average nationally sits at 2.6%, up from 2.5% from 2009.

The differences by state reflect the different dynamics at play, including different regulations around charging, making it difficult to make direct comparisons.

Some context:
- Vic agencies sell more properties, with fewer days-on-market than other states and pay their sales people a lower split than their interstate peers, so can somewhat afford to charge lower commission rates
- NSW agencies have the highest average sales prices and pay lower salesperson commission rates than any other state except Vic. This compensates somewhat for their relatively low commission rate
- Qld agencies pay more away in commissions to agents (47%) than other states (national average 43%)
- WA agencies build some of their vendor advertising into their commission rate, which makes it somewhat inflated relative to rates in other states. The decrease noted above from 2009 is reflective of some agents moving back to a separation of vendor-paid advertising from commission rates.

It is noted that agents are increasingly coming under pressure to negotiate on commission rates in their respective markets; SA is a case in point. Accordingly, a slight decline is not unexpected.

In this context, any agency holding or improving average commission rates is a very positive outcome, particularly in light of a tight economic environment.
On a state-by-state basis, all agencies reflect increased days-on-market from 2009, pointing strongly at economic and resultant residential property market factors.
What proportion of your agency sales fell into the following ranges in terms of prices achieved?

<table>
<thead>
<tr>
<th>Range</th>
<th>National</th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>WA</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than $5,000,000</td>
<td>8%</td>
<td>13%</td>
<td>8%</td>
<td>2%</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>$1,000,000–$4,999,999</td>
<td>31%</td>
<td>37%</td>
<td>36%</td>
<td>21%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>$500,000–$999,999</td>
<td>61%</td>
<td>50%</td>
<td>56%</td>
<td>76%</td>
<td>64%</td>
<td>69%</td>
</tr>
<tr>
<td>Less than $500,000</td>
<td>28%</td>
<td>36%</td>
<td>56%</td>
<td>13%</td>
<td>28%</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Properties over $5m were .02% of the total so do not appear on the chart

- Majority of agency sales were less than $500,000 and in line with 2009 (61% for both)
- $500,000 - $1,000,000 sales also comparable (31% in 2012 and 30% in 2009)
- As were the results for sales of $1,000,000 - $5,000,000 (8% in 2012 and 9% in 2009).

Qld outperformed its peers in terms of sub-$500,000 property, meaning more property must be sold to exact the same return. This is somewhat mitigated by Qld agencies charging the second highest commission rates to vendors in the country (behind WA agencies).

NSW sells higher value properties than the rest of the country, offsetting the relatively low properties sold per business per annum – 81 versus national average of 106.

In 2009, the FHOG was credited for the volume of sales in the sub-$500,000 category. While the FHOG has been scaled back somewhat, the percentages of sales in this category have not changed. It should be noted though that the activity has scaled back given we are working off a lower base – that is, 106 sales per agency on average per annum versus 126 in 2009.
What percentage of your agency sales have been to first home owners in the last 12 months?

As discussed previously, we can see here the decreased activity by first home owners since 2009. A combination of a scaled back FHOG and lower consumer confidence resulting from economic uncertainty are thought to have contributed to this.

What percentage of your agency sales were distressed sales in the last 12 months?

Agents report distressed sales accounting for 13% of sales, while in 2009 83% of agents claimed that distressed sales accounted for less than 10% of all sales.

Qld, having experienced their period of natural disasters in first half of 2011, has seen a higher portion of distressed sales than all other states by some margin – one fifth of all sales reported.
What is your average proportion of private treaty versus auction listings within your agency?

<table>
<thead>
<tr>
<th></th>
<th>2012 Private treaty</th>
<th>2012 Auction</th>
<th>2009 Private treaty</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>81%</td>
<td>19%</td>
<td>32%</td>
</tr>
<tr>
<td>NSW</td>
<td>74%</td>
<td>26%</td>
<td>4%</td>
</tr>
<tr>
<td>Vic</td>
<td>65%</td>
<td>32%</td>
<td>11%</td>
</tr>
<tr>
<td>Qld</td>
<td>56%</td>
<td>32%</td>
<td>14%</td>
</tr>
<tr>
<td>WA</td>
<td>89%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>SA</td>
<td>96%</td>
<td>4%</td>
<td>14%</td>
</tr>
<tr>
<td>Small</td>
<td>90%</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Medium</td>
<td>87%</td>
<td>13%</td>
<td>19%</td>
</tr>
<tr>
<td>Large</td>
<td>81%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Private treaty continues to be more prevalently used by agencies (81%) versus the alternative in auction (19%), with little variance seen, either by business size or by state, since 2009.

Vic continues its reign as the auction capital of Australia, with 32% of properties listed via auction. NSW is next strongest at 26%, having improved from 22% in 2009.

There is also a distinct correlation of auction versus private treaty by business size, with large agencies listing 28% of properties via auction versus 19% and 13% for medium and small agencies, respectively.

Auction is thought by a good portion of agents to be a better control mechanism for days-on-market versus private treaty. Supporting this, Vic and NSW agencies – the highest auction listers by a margin – enjoy the best days-on-market at 58 and 65 respectively, and ahead of the next best at 79 days-on-market.
What movement in gross sales commission did you experience in the last 12 months from the prior 12 months?

Gross sales commission movements are somewhat aligned to total revenue movements discussed earlier in this report.

- NSW at 44% experienced a higher proportion of agencies reporting increased sales commissions than all others (33%)
- Qld at 23% experienced a lower proportion of agencies reporting increased sales commissions than all other states
- These states also sit top and bottom for proportion of agencies that have experienced sales commissions decreasing, albeit with Qld on top and NSW on the bottom.

Interestingly, large agencies have reported fewer increases and more decreases in revenue than medium and small agencies, respectively.
What range represents the change you anticipate in gross sales commissions in the next 12 months?

<table>
<thead>
<tr>
<th></th>
<th>5%</th>
<th>5%</th>
<th>1%</th>
<th>9%</th>
<th>9%</th>
<th>4%</th>
<th>4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>9%</td>
<td>10%</td>
<td>16%</td>
<td>14%</td>
<td>18%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>NSW</td>
<td>6%</td>
<td>9%</td>
<td>16%</td>
<td>10%</td>
<td>23%</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Vic</td>
<td>1%</td>
<td>5%</td>
<td>6%</td>
<td>17%</td>
<td>9%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Qld</td>
<td>4%</td>
<td>9%</td>
<td>9%</td>
<td>17%</td>
<td>13%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>WA</td>
<td>4%</td>
<td>10%</td>
<td>9%</td>
<td>19%</td>
<td>23%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>SA</td>
<td>9%</td>
<td>11%</td>
<td>9%</td>
<td>13%</td>
<td>19%</td>
<td>6%</td>
<td>13%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Too hard to say</th>
<th>Decrease 20%+</th>
<th>Decrease 10–19%</th>
<th>Decrease &lt;10%</th>
<th>Stay the same</th>
<th>Increase &lt;10%</th>
<th>Increase 10–19%</th>
<th>Increase 20–29%</th>
<th>Increase 30%+</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>5%</td>
<td>1%</td>
<td>3%</td>
<td>4%</td>
<td>2%</td>
<td>4%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>NSW</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>8%</td>
<td>2%</td>
<td>9%</td>
<td>9%</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td>Vic</td>
<td>16%</td>
<td>20%</td>
<td>9%</td>
<td>3%</td>
<td>17%</td>
<td>2%</td>
<td>9%</td>
<td>13%</td>
<td>26%</td>
</tr>
<tr>
<td>Qld</td>
<td>14%</td>
<td>10%</td>
<td>15%</td>
<td>11%</td>
<td>23%</td>
<td>13%</td>
<td>17%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>WA</td>
<td>5%</td>
<td>19%</td>
<td>6%</td>
<td>3%</td>
<td>13%</td>
<td>19%</td>
<td>6%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>SA</td>
<td>12%</td>
<td>19%</td>
<td>13%</td>
<td>13%</td>
<td>19%</td>
<td>6%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Agencies are cautiously optimistic about the anticipated change in gross commissions in the coming 12 months. There is a balance of growth and decline predicted:

- 54% as an average anticipate growth
- 25% as an average anticipate decline.

16% of agencies anticipate the same level of sales commissions and 5% determined it was too hard to tell.
The average rent roll in Australia has grown from 375 in 2009 to 436 in 2012 in terms of properties under management (PUM), with agencies across all states having demonstrated positive growth.

- Rent rolls in large agencies now tip over the 1000 mark with an average of 1,043 PUM.
- Qld agencies showed the most dramatic growth (286 to 404 PUM), which moves them ahead of WA agencies in average size.
- Qld agencies identified the strongest among the states with merger and acquisition as a leading driver of profit growth. This supports what has been seen in this market with high levels of consolidation activity.

There is a distinct difference in average sizes of PUM between metro and regional agencies in all states.

<table>
<thead>
<tr>
<th></th>
<th>Metropolitan</th>
<th>Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>486</td>
<td>267</td>
</tr>
<tr>
<td>Vic</td>
<td>661</td>
<td>363</td>
</tr>
<tr>
<td>Qld</td>
<td>423</td>
<td>383</td>
</tr>
<tr>
<td>WA</td>
<td>409</td>
<td>380</td>
</tr>
<tr>
<td>SA</td>
<td>320</td>
<td>248</td>
</tr>
</tbody>
</table>
The average sizes of rent rolls are smaller in regional areas, with the delineation between metro and regional most prominent in Vic.

Our results also show a correlation between profitability in agencies and PUM, with:

- agencies generating 20% plus in profit managing on average 558 properties
- agencies generating 10-19% profit managing on average 449 properties
- agencies generating 1-9% in profit managing on average 439 properties
- agencies operating at a break-even or loss managing on average 285 properties.

7% of agencies surveyed indicated they managed holiday rentals, which comprise 21% of their total PUM.

Vic continues to be the leader in terms of rent roll size. This is attributed to Vic being comparatively less franchised than other states, with a higher proportion of independents and local boutique franchises, who have had a long-term focus on property management. It is not uncommon to see rent rolls in excess of 2,000 PUM; there are numerous rent rolls of more than 4,000 PUM, including a small, but growing, number greater than 5,000 PUM.

Large agencies have shown strong growth in PUM, which supports what we have seen with larger agencies in the market being best placed to take advantage of opportunities to acquire as participants exit the industry.

Out of necessity as much as desire, they also tend to have highly refined and heavily resourced business development programs given that the larger the business, the more managements they need to bring in just to meet natural attrition (owners moving back in, investors selling), let alone grow. Natural attrition rates show little variance across business sizes in our experience.
How many properties are managed per full-time property manager or equivalent property management staff member (excluding business development managers) within your agency?

Properties managed per full-time equivalent property management staff member is well-accepted as a measure of relative efficiency in property management.

The average business across the country manages 99 properties per full-time equivalent property management staff member. As a measure of efficiency, NSW is most efficient in managing properties across the states at 118, with Qld agencies lowest on this scale at 81.

Large agencies benefit from their size and scale in managing 135 properties per full-time equivalent property management staff member – roughly 65% more properties managed with same head count than small agencies and 35% more than medium agencies.

Note: In the survey we asked agencies to measure this differently to what they have historically done.

Historically, agencies measured as total PUM divided by the number of full-time property managers. This tends to only capture staff with a portfolio of managements and not other roles that support the management of properties (ie letting clerks, administration and junior property managers).

To better measure this benchmark of efficiency, agencies were asked to calculate the number of properties managed per ‘full-time property manager or equivalent property management staff member (excluding business development managers)’ with instructions to measure full-time equivalent for part-time, casual and shared resource staff. Off the back of this, we have not compared results from 2009 against these findings.
On average, agencies across all states – except Vic agencies, which stayed at 2009 levels – have shown growth in average property management commission rates, with the national average moving up substantially in the period to 7.6%.

WA has shown strongest growth and remains the highest across all states for average commission rates. It should be noted, however, that there has been for some time an increasing trend by WA agencies to offer ‘all-inclusive’ commission rates, which roll other property management fees (ie letting fees, statement fees etc.) into their ‘commission’ rate.

SA agents are a clear second in average commission rates and have demonstrated strong growth since 2009.

As they have done on average commission rates for property sales, Qld agencies have responded strongly to an economic environment and market that has stifled free cashflow and profit margins within their agencies by increasing their property management commission rates.

At the lower end of the scale, while NSW agencies have amongst the lowest commission rates, they manage properties more efficiently than their peers (properties managed per FTE), benefit from higher average rents than all other states and enjoy higher multiples on exit of their business.

Vic agencies sit at the low end of the scale but benefit from larger average rent rolls and manage them more efficiently (properties managed per FTE) than all other states except NSW. Like NSW, Vic agencies benefit from higher average rents than most other centres.

Those that manage holiday rentals advised the average commission rate across their holiday portfolios was 13.7%.
What is your primary intention with your property management business over the next two years?

<table>
<thead>
<tr>
<th></th>
<th>Sell</th>
<th>Grow organically only</th>
<th>Acquisition and organic growth</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>59%</td>
<td>59%</td>
<td>61%</td>
<td>43%</td>
</tr>
<tr>
<td>NSW</td>
<td>59%</td>
<td>59%</td>
<td>61%</td>
<td>43%</td>
</tr>
<tr>
<td>Vic</td>
<td>60%</td>
<td>60%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>Qld</td>
<td>60%</td>
<td>60%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>WA</td>
<td>61%</td>
<td>61%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>SA</td>
<td>61%</td>
<td>61%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>Small</td>
<td>58%</td>
<td>58%</td>
<td>54%</td>
<td>54%</td>
</tr>
<tr>
<td>Medium</td>
<td>58%</td>
<td>58%</td>
<td>54%</td>
<td>54%</td>
</tr>
<tr>
<td>Large</td>
<td>55%</td>
<td>55%</td>
<td>54%</td>
<td>54%</td>
</tr>
</tbody>
</table>

A little more than a third of agencies’ primary intention is to grow through a combination of acquisition and organic growth (38%).

WA agencies are by far the most aggressive among their peers, with the primary intention of 48% being to grow through acquisition as well as organic growth.

Only 3% of agencies’ primary intention over the next two years is the sale of their rent roll.

Overall, the industry is less aggressive in their intentions around acquisition from 2009 levels. NSW and Vic, in particular, are showing considerably less intention to grow through acquisition. Alongside Qld (34%) and large (45%) agencies, WA agencies (48%) are the only ones demonstrating an increased intention to acquire since this intention was last measured in 2009.

Smaller agencies show more of an intention to sell at 7% (not a primary intention in large agencies) than counterparts. We also note that agencies that broke even or made a loss in a profit sense showed more intention to sell than their peers at 5% (average 3%).
Nationally, the average business generates 16% of sales from its rent roll. This is in line with 2009 findings.

Qld agencies are the most effective at converting sales from their rent rolls (19%), followed by small agencies (17%), WA agencies (16%) and NSW and medium sized agencies (15%). Large agencies (13%) come in just ahead of Vic and SA agencies (12%).

More than half (56%) of agencies rely on less than 10% of their total sales numbers coming from their rent roll, up from 48% of agencies in 2009.

Only 4% of agencies reported more than 60% of their total sales are sourced from rent rolls. Qld and small agencies feature in this regard as 7% of agencies report that revenue from the sale of properties on their rent roll accounted for more than 60% of their total sales revenue.
Estimate the total proportion of your property management income that comes from the following:

- Property management commissions: 78%
- Letting fees: 16%
- Other ancillary fees: 6%

The highest level of letting fees relative to total property management income are in SA (21%) and Vic (20%) agencies, with the lowest recorded in NSW and Qld, both at 14% of total.

There are no discernible differences in agencies by size or profitability with respect to the composition.
Do you consider your sales business (excluding rent roll value) to have a market value? How would you calculate the value of your sales business?

63% of all business owners believe their sales business has a market value. This is in line with 2009 survey findings. Vic principals (86%) believe overwhelmingly and beyond all others that there is an attributable value to their sales agencies, with SA agencies at the other end of the spectrum (43%). Two thirds (67%) of NSW principals believe their agencies have a market value, as do 57% of WA principals and 51% of Qld principals.

Of those that felt their sales business had a market value, the two predominant means identified by which the industry valued their sales agencies were:

- multiple of profit for the sales business (31%)
- percentage of gross sales commissions (33%).

The balance of responses was spread among a number of other valuation rationales, with none that attracted significant endorsement.
What profit multiple do you think your business is worth?

<table>
<thead>
<tr>
<th>If multiple of profit</th>
<th>2009</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1.5 times profit</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>1.5 - 1.9 times profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2+ times profit</td>
<td>76%</td>
<td></td>
</tr>
</tbody>
</table>

What percentage of gross sales commissions do you think your business if worth?

<table>
<thead>
<tr>
<th>If % gross of sales commissions</th>
<th>2009</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-19%</td>
<td>45%</td>
<td>46%</td>
</tr>
<tr>
<td>20+%</td>
<td>3%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Of those that identified multiple of profit as the means to value their sales agencies, the average was 2.5 times, though there was significant variance in what principals were reporting.

Of those that identified gross sales commissions as the means to value their sales agencies, the average was 27%, again noting there was a significant variance in responses.

It must be noted that there are a number of qualitative and quantitative factors that can play a part in determining the value of a sales business; consequently, simply adopting an ‘industry average’ will be inadequate in most instances. Some of the factors that can impact on sales business value include:

- principal/ owners/ directors remaining or exiting and length of time they will remain in business
- market share considerations including size, history and stability of same
- sales momentum
- absolute profitability of the business.

Empirically, we have found that agencies, irrespective of which method is adopted, will, as a secondary tool, utilise the alternative as a sanity check – the two figures should not vary too greatly.

Lastly, these averages sit higher, albeit not markedly, than market evidence. So again, averages should be treated with caution if looking to adopt for your own purposes.
Please estimate the perceived value for rent rolls in your area (as a multiple of recurring management commission – not including letting fees)

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>2.9</td>
<td>3.1</td>
</tr>
<tr>
<td>NSW</td>
<td>2.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Vic</td>
<td>2.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Qld</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>WA</td>
<td>2.4</td>
<td>2.5</td>
</tr>
<tr>
<td>SA</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Small</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Medium</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Large</td>
<td>3.1</td>
<td>3.1</td>
</tr>
</tbody>
</table>

The average rent roll valuation multiple as indicated by the respondents was 2.9 times recurring property management commissions.

NSW and Vic agencies remain highest in the market (as in 2009) at 3.1 and 2.9 times respectively, though Vic multiples have shown a slight decrease since 2009.

Qld has experienced more of a decrease than any other states (though not significant), which supports what has been seen in this market, with an increased incidence of agencies being sold under less than ideal circumstances such as financial pressures.

Notably, there is a disparity in most states between metropolitan and regional. Most significant was NSW (3.4 times metropolitan, 2.6 times regional), followed by Qld (2.8 times metropolitan, 2.4 times regional), WA (2.8 times metropolitan, 2.5 times regional) and Vic (3 times metropolitan, 2.8 times regional). This is generally reflective of relative levels of income per property and supply-and-demand factors (ie less liquidity for the rent roll assets in regional versus metropolitan).

The higher multiples in NSW and Vic relative to other states is reflective of what we have seen traditionally, in that rent rolls sell for a higher value than their interstate counterparts. While there are a number of quantitative factors that play into rent roll values being higher within these markets (ie higher average rents), there is also strong underlying demand and good liquidity, with a greater level of able and willing buyers.

**Business insights**

Factors to consider that affect the value of a rent roll:
- location and size of the rent roll
- the average management commission rate
- the average rental income per property
- average vacancy and arrears
- landlord concentration risk
- building concentration risk
- level of add on’s (eg letting and statement fees)
- property management staff retention
- clean paperwork (eg agreements, reviews, inspections).
The typical business is composed of 15 staff members (including business owners). 42% of all staff are sales (sales and sales support), a quarter (25%) are property management, 11% are owners, with the remaining staff fulfilling clerical/administration roles (16%), marketing (2%) and business development (2%).

- 85% of agencies have sales staff and 62% have sales support staff
- 90% of agencies have property management staff
- 28% of agencies have dedicated business development staff.

We note that in 2009 our survey did not include ‘business development’ staff and ‘business owners’ as response options; however, given their function within a business (ie business development being a sales role and the ‘selling principal’ predominating in small to medium sized agencies) it is thought they were included by respondents in ‘sales’, thus accounting for the shift since 2009.
What was the gross sales commission earned by your top sales person in the prior 12 months?

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>$322,647</td>
<td>$361,124</td>
</tr>
<tr>
<td>NSW</td>
<td>$250,235</td>
<td>$267,492</td>
</tr>
<tr>
<td>Vic</td>
<td>$327,169</td>
<td>$371,051</td>
</tr>
<tr>
<td>Qld</td>
<td>$261,820</td>
<td>$255,490</td>
</tr>
<tr>
<td>WA</td>
<td>$266,656</td>
<td>$266,156</td>
</tr>
<tr>
<td>SA</td>
<td>$163,506</td>
<td>$161,429</td>
</tr>
<tr>
<td>Small</td>
<td>$280,387</td>
<td>$280,387</td>
</tr>
<tr>
<td>Medium</td>
<td>$360,663</td>
<td>$390,810</td>
</tr>
<tr>
<td>Large</td>
<td>$552,661</td>
<td>$552,661</td>
</tr>
</tbody>
</table>

The average top salesperson within real estate offices generated $250,000 in gross sales commissions for the business in a 12-month period. This is down from $323,000 in 2009.

The average top salesperson within large agencies generates $391,000 in gross sales commissions per annum (down from $552,000 in 2009). This drop from 2009 is reflected in agencies relative to their size.

In terms of states, NSW top agents generated more than any other states ($267,000), though this is only just ahead of SA top agents at $266,000. SA top agents are the only agents by business type (by state or size) not to drop from 2009 levels.

Vic top agents have shown the most dramatic drop, halved from 2009 levels to rest at $157,000.

We note there is some correlation between profitability of an agency and average gross sales commissions generated by top salespersons. Within break-even or loss-making agencies, the top salesperson generated $186,000 on average, while in agencies generating profits of greater than 20%, the agents are generating $252,000 in gross sales commissions.
What proportion of your sales staff fit within each salary band?

- 16% of all sales people nationally are earning less than $50,000 pa
- 24% are earning between $50-75,000 pa
- 26% are earning between $75-100,000 pa
- 34% are earning in excess of $100,000 pa
- 4% are earning between $250,000 and $350,000
- 3% are earning between $350,000 and $500,000
- At the top end, the top 2% of agents are earning in excess of $500,000 pa.

43% of sales staff nationally are on commission only, 50% are fixed salary plus commission and 7% are on fixed salary only.

There is a higher proportion of sales staff on commission only within Qld and WA agencies (61% and 60% respectively) and large agencies (53%) than their counterparts.

NSW and SA agencies had the highest proportion of sales people on fixed salary plus commission (72% and 70% respectively).
The average business nationally gives away 43% of gross sales commission to the agent. There is very little variance across business sizes, albeit it increases with size as the general school of thought is that larger sales agencies will pay more to attract and retain better sales agents.

The lowest amongst states were Vic agencies (37%) and NSW agencies (41%). The highest were Qld (47%) and WA (48%).

Little variation is noted from 2009.

Though Vic and NSW agencies pay away a lower percentage, we note that they do charge the lowest commission rates among their peers.

While Qld and WA pay away more as a commission rate than other states, these agencies charge the highest commission rates to vendors.
What proportion of your property management staff fit within each salary band?

<table>
<thead>
<tr>
<th>Salary Band</th>
<th>Less than three years experience</th>
<th>Greater than three years experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>$80,000+</td>
<td>5%</td>
<td>22%</td>
</tr>
<tr>
<td>$70,000 - $79,999</td>
<td>6%</td>
<td>32%</td>
</tr>
<tr>
<td>$60,000 - $69,999</td>
<td>23%</td>
<td>37%</td>
</tr>
<tr>
<td>$50,000 - $59,999</td>
<td>37%</td>
<td>33%</td>
</tr>
<tr>
<td>$40,000 - $49,999</td>
<td>22%</td>
<td>12%</td>
</tr>
<tr>
<td>Less than $40,000</td>
<td>8%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Average = $45,182 Average = $58,068

- 72% of property managers with more than three years experience earn more than $50,000. This compares to 30% of property managers with less than three years experience that earn more than $50,000.

- While property managers with less than three years experience have their earning capacity capped at $69,999, 17% of property managers with more than three years experience earn in excess of $70,000, including 5% who earn more than $80,000.

The average salary for a property manager with less than three years experience is $45,182 while the average for a property manager with greater than three years experience is $58,068.

With the benefit of experience, property managers can demand higher salaries. There is a clear delineation between the earning power of an experienced property manager and one relatively inexperienced in the role.
Marketing and advertising

Where do the majority of your new business sales enquiries come from?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repeat business</td>
<td>28%</td>
</tr>
<tr>
<td>Online advertising</td>
<td>17%</td>
</tr>
<tr>
<td>Referral or word of mouth</td>
<td>22%</td>
</tr>
<tr>
<td>Walk ins</td>
<td>6%</td>
</tr>
<tr>
<td>Business development activity</td>
<td>7%</td>
</tr>
<tr>
<td>Company website enquiries</td>
<td>10%</td>
</tr>
<tr>
<td>Print advertising</td>
<td>8%</td>
</tr>
</tbody>
</table>

Agencies identified repeat business (28%) and referral or word of mouth (22%) as their greatest source of new business enquiries.

In terms of the forms of advertising employed by agencies:

- 93% identified they had a company website
- 78% used specialist real estate internet sites
- 77% used direct mail
- 74% local newspapers
- 42% other print advertising
- 42% search engines (i.e., Google)
- 39% yellow pages.

Sourcing of new enquiries from repeat business and referral or word of mouth are closely related. They both stem from a quality level of customer service and result from a good client experience. As discussed later in the report (Growth and succession) the elements of customer service that agencies perceive as the greatest success factors generally do not come at a cost: responding quickly, face to face contact and email contact.

Print advertising is still widely used in the industry and potentially one of the most expensive forms of sourcing new business. It is interesting to note it is ranked by only 8% of agencies as the major contributor to new business enquiries.
Nationally, 72% of advertising is recovered from the vendor.

- SA agencies (94%) are a stand-out for collecting the cost of advertising from their vendors, improving from their already strong position in 2009
- Qld agencies have also responded well to tighter economic times, improving to 73% of advertising costs paid by the vendor
- While WA agencies have shown strong improvement since 2009, they are coming off the lowest base. This is partially attributable to the practise of some advertising costs being factored in to their higher-than-average commission rates
- NSW and Vic agencies have had slight declines, albeit Vic agencies are still more effective at ensuring advertising is paid by vendors than any other state excepting SA.

There is a relationship between tighter economic times and the collection of advertising; tighter economic times lead to an agency being more diligent around collecting vendor advertising.

As identified earlier in the report, there is a strong correlation between net advertising cost and business size. Larger agencies are more effective at collecting vendor advertising. Again, this is thought to be a factor of increased systemisation and dedicated resources.
What percentage of your advertising costs is paid up front by the vendor?

The average real estate business collects 33% of advertising up front from the vendor.

Qld agencies are a standout in this regard and have improved from their strong position in 2009 to collect 48% of vendor advertising up front. There is a strong culture of collecting up front within Qld agencies, with 70% billing the vendor up front versus a national average of 53%.

While SA agencies are most effective at collecting advertising from vendors, they are least effective at collecting it up front.

Vic agencies have shown strong improvement in collecting advertising up front from vendors, while NSW agencies have suffered a dramatic drop off in collecting up front.

As they are in collecting advertising from vendors, larger agencies are more effective at collecting up front. Whilst likely attributable to strong systems, again it is worth asking the question of these agencies as to whether they target this area in training programs for sales staff. We do note that 66% of large agencies (versus an average of 53%) bill vendors up front.

Nationally 72% of advertising costs are recovered from the vendor. Only 33% of that is collected up front. Non collection of advertising up front has a cashflow impact on a business as it carries the cost of the advertising pending collection from the vendor. This cashflow impact only gets exacerbated as days on market pushes out, something agencies are experiencing in all markets nationally. Without strong systems in place to subsequently collect advertising that is not collected up front or prior to settlement, a business runs the risk of a vendor defaulting on payment. Advertising not collected flows directly to the bottom line and at the end of the day, will directly impact what you as owners and shareholders will put in your pockets.
Growth and succession

What aspects of client service make a successful business and what are your agency’s strengths in this regard?

Responding quickly to clients requests is clearly identified on top of a shortlist of client service factors that drive success in real estate agencies. In our experience, responsiveness does not necessarily mean responding with ‘all the answers’, clients are looking for timely contact and expectations for further contact.

Spending time with clients and regular communication by email also rank highly, while hosting or taking clients to events and offering discounts play lesser roles in driving business success through customer service.

There is a noted disparity between perceived success factors and the average agency’s strengths when it comes to spending time with clients face-to-face and inviting clients to events. These elements of customer service therefore present opportunities for agencies to focus on in order to improve the customer experience and business success. The fact that they run hand-in-hand makes this an easier task.

Interestingly, it appears that what generally does not come at a cost (responding quickly, face-to-face and email contact) outranks what does (events and discounting) when it comes to forms of customer service that most drive success within a business.

Business insights

- What processes do you have in place to respond swiftly to clients?
- Do your staff have KPIs around client responsiveness?
Sales, business development and marketing were identified highest (63%) in a list of factors for business focus in the coming 12 months, with 73% of large agencies identifying this as a key focus.

Cashflow management, which comes under increasing focus the tighter the market conditions, came in at 51%, although 63% of break-even or loss-making agencies identified it as an area of focus.

Agencies did not distinguish between monitoring of plans and performance and managing staff. Both are set to be a particular focus for medium-sized agencies (58% and 56% respectively) and more so than any of their counterparts.

Agencies with a profit at or below break-even or those generating a profit of less than 9% have a heightened focus on reducing costs (49% and 53% respectively) versus their peers.

Vic agencies, which experienced a downturn in the market much later than others, have arrived at getting back to basics as a focus. Generally, agencies seem to sharpen their focus on this at some stage after coming out of a buoyant market into a flat or declining market.

Large agencies plan to focus more on training and skills development (57%) than their counterparts, perhaps as a result of generally being better resourced to do so.
Are you considering selling all or part of your business in the next three years?
Do you have a succession plan in place?

<table>
<thead>
<tr>
<th>Succession plan in place?</th>
<th>If selling</th>
<th>52%</th>
<th>51%</th>
<th>65%</th>
<th>47%</th>
<th>52%</th>
<th>40%</th>
<th>45%</th>
<th>49%</th>
<th>74%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not selling</td>
<td>44%</td>
<td>44%</td>
<td>46%</td>
<td>46%</td>
<td>38%</td>
<td>44%</td>
<td>37%</td>
<td>46%</td>
<td>53%</td>
<td></td>
</tr>
</tbody>
</table>

Almost a third of all agencies (31%) are considering selling all or part of their business in the next three years. Selling is a consideration for more WA principals (40%) and small agency principals (37%) than other groups. The consideration to sell is low for SA principals on average, which supports what we have seen empirically with rent rolls and businesses in this state – they are tightly held.

Interestingly, when asked what their primary intention was for their property management business (acquisition, organic growth or sell) only 3% of respondents identified selling as their primary intention.

It would therefore follow that there is a large percentage of those who have declared an intention to sell within three years who only plan to sell down a portion of their agencies. In fact, 38% of agencies who are considering selling advised that their preference would be for a staged, internal sell-down and exit. This does not completely account for the disparity; rather, it is thought that while the intention to sell is a factor for principals, it is not necessarily the primary intention in their minds.
Have you got a succession plan in place?

Of those considering sale, only 52% have a succession plan in place, which does not sit much higher than those with no intention of selling (44%). Is this because selling is only a moderate consideration at this stage, or simply reflective of a poor level of planning? Experience in the industry tells us that this is likely to be a combination of both.

Large agencies – both considering sale and otherwise – outstrip their peers in this planning function. Likewise Vic agencies are a standout amongst their peers in terms of succession planning.

Of those considering sale, their top two preferences are for staged internal sale and exit (38%) and external sale (23%). Internal sale (15%) and staged external sale and exit (8%) rank behind principals having no preference (15%).

We have found that those who have a clear succession plan with a reasonable lead-in time exact more value from the sale of their asset than those who do not. Agencies should be in a position to put a plan into place as and when selling moves from a consideration to a primary intention.

With respect to Vic agencies’ higher level of planning for exit, we attribute this largely to the size of the Vic agencies (both sales and property management). Given their relatively large size, selling down and exiting in one transaction is difficult. A transaction involving the sell-down of 10%, 15% or 25% of an agency can still be a significant transaction. Further, apart from facilitating the principals/owners exit, anecdotal market evidence suggests that a staged, internal sell down (sales businesses or rent rolls) can attract a premium to an external sale, given the continuation of management/ownership and the absence of disruptive factors otherwise present in an external sale.

Vic principals have come to appreciate that more value can be exacted from the sale of both the sales business and the rent roll asset in the event they remain in the business while they stage an exit over a period of time.
Which of the following combination of factors do you plan on utilising to fund for growth?

<table>
<thead>
<tr>
<th>Not planning on growing</th>
<th>Introducing new shareholders</th>
<th>Personal reserves</th>
<th>Bank funding</th>
<th>Retained earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>59%</td>
</tr>
<tr>
<td>4%</td>
<td>9%</td>
<td>18%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

More than half (59%) of agencies plan on funding part or all of their future growth through retained earnings. Vic agencies are more likely to utilise bank finance to fund part or all of their growth (51% versus an average of 41%), as are large agencies (49%).

A higher proportion of small agencies (29%) and those breaking even or making a loss (26%) will rely on personal reserves than their peers – perhaps this is a factor of all choices not necessarily being available, particularly in the case of agencies not generating a profit.

Vic and WA agencies intend to raise funds for growth through the introduction of shareholders to a greater degree than their peers (17% and 15% respectively).

**Business insights**

Utilising bank funding presents the opportunity to support rapid growth without placing undue strain on cash reserves or working capital. This is particularly true in the case of large acquisitions or equity purchases.
What do you feel the outlook will be for the residential housing market in your area in the coming 12 months?

While there is a strong feeling from agencies that the residential housing market will remain stable (49%), the industry appears slightly optimistic overall with the upside sentiment (steady growth and high growth – 30%) outweighing the downside sentiment (slight decline and significant decline – 19%) slightly.
Of the following factors, which ones have significantly impacted your business in the past 12 months and what factors do you see as significantly impacting your business in the coming 12 months?

- Slow recovery of investment markets or economic conditions: 36% (49% expected to impact next year)
- Maintaining and growing profitability: 41% (41%)
- Reduced investor confidence: 29% (38%)
- Staff retention and recruitment: 35% (34%)
- Another downturn in the investment markets or economic conditions: 27% (33%)
- Attracting enough new target clients: 16% (18%)
- Increased legislative requirements: 9% (14%)
- The threat posed by new and different competitors: 12% (11%)

Maintaining and growing profitability was seen as the factor which most significantly (41%) impacted agencies over the past year. This ties in with other significant factors identified by agencies in slow economic recovery (36%), economic downturn (27%) and reduced investor confidence (29%).

These results are not surprising, considering the industry is inextricably linked to the property market and investors. As illustrated in the previous graph, agencies are uncertain about the future direction of the market as they identify slow recovery of investment markets or economic conditions as the single greatest factor to impact business in the next 12 months (49%). This is again closely linked to reduced investor confidence (38%) and another downturn (33%), which are identified as factors to impact in the future.

Staff retention and recruitment seems to be a constant and significant challenge for agencies while the threat posed by new and different competitors weighs little on principals’ minds.
For more information about this report or to discuss using this information to help benchmark your business, please contact one our relationship managers in your region:

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