PERSPECTIVE

Macquarie business insights snapshot

Focus on residential real estate

Macquarie Business Banking

MACQUARIE BANK

Foreword

Macquarie has worked with real estate business owners for 40 years, providing comprehensive benchmarking reports and insights.

With recent investment and innovation in technology, we've transformed the way we provide information to clients on agency and peer performance. Our proprietary business insights provide more targeted, more frequent benchmarks, using aggregated and anonymised data on file, without the need for in-market surveys.

This report is our first study of business insight data, representing 414 agencies across Australia. Comparing data from the financial years 2020 to 2024, we can delve deeper into the industry themes explored in our 2023 benchmarking study with an overlay of more recent, targeted business insights.

Performance across the sector has weathered considerable volatility and shifting consumer sentiment in recent times, against a backdrop of high interest rates and inflation.

What does this mean for you?

What we see in the data is a resilient, adaptive industry, with revenues rebounding strongly in 2024. Profits have played out differently, and we are monitoring this closely.

Our data shows how agencies focus heavily on providing an environment that balances high performance, efficiency and productivity, with wellbeing and longevity of tenure. A challenge for the industry is to move from manoeuvring through peaks and troughs, to consistent and sustainable management of profit margins. The next frontier is shifting focus towards employee and client experience, productivity, efficiency and talent management, rather than volume and record gross commission income.

With property management the mainstay of real estate business, we see some agency owners using their stable business base as a lever to scale operations while navigating economic and market turbulence. The regulatory environment, business complexity, and margin compression are supporting the increasing consolidation activity in property management businesses.

I hope that you enjoy reflecting on aggregate data, referencing your own performance and experience against benchmarks. This is the first in the evolution of our thought leadership engagement with national trends up to FY2024, with more detail across states and agency size metrics to follow in the coming months.

Lisa Kearney
Head of Property Services
Macquarie Business Banking

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Key observations

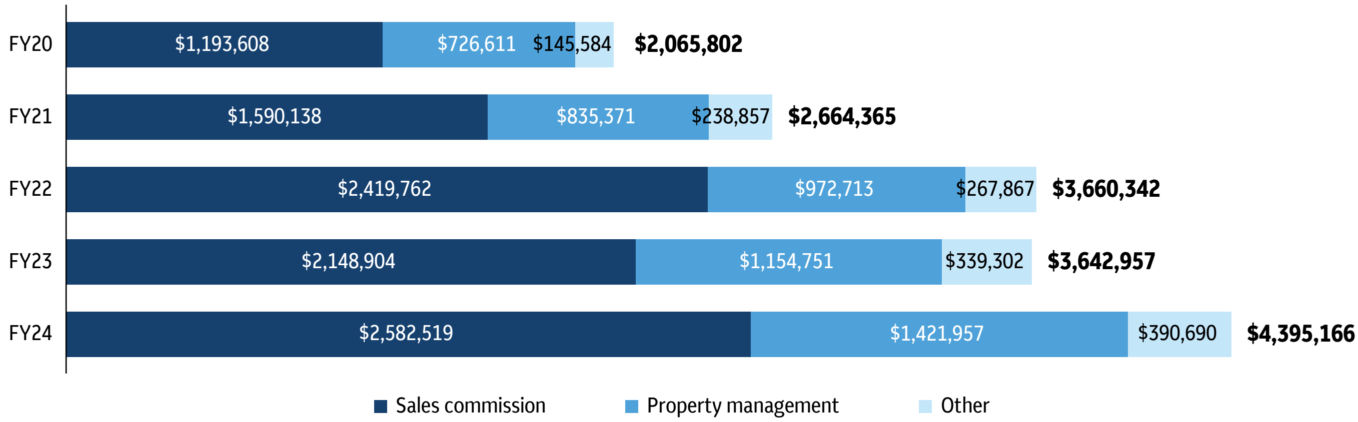
Revenues have rebounded

Agencies have showed remarkable growth, with total revenue growing +113% between FY2020 and FY2024.

Revenues have rebounded in FY2024, up +20.6% on FY2023, with all revenue streams growing strongly. With only a small dip in overall revenue experienced in FY2023, an outlier amongst strong year-on-year growth, the industry's compound annual growth rate (CAGR) is 21%; property sales (21% CAGR) and property management (18% CAGR).

In a mature industry, +113% revenue growth over five years is extraordinary, and demonstrates the resilience of agencies given the tough environment experienced over pandemic years.

Gross revenue

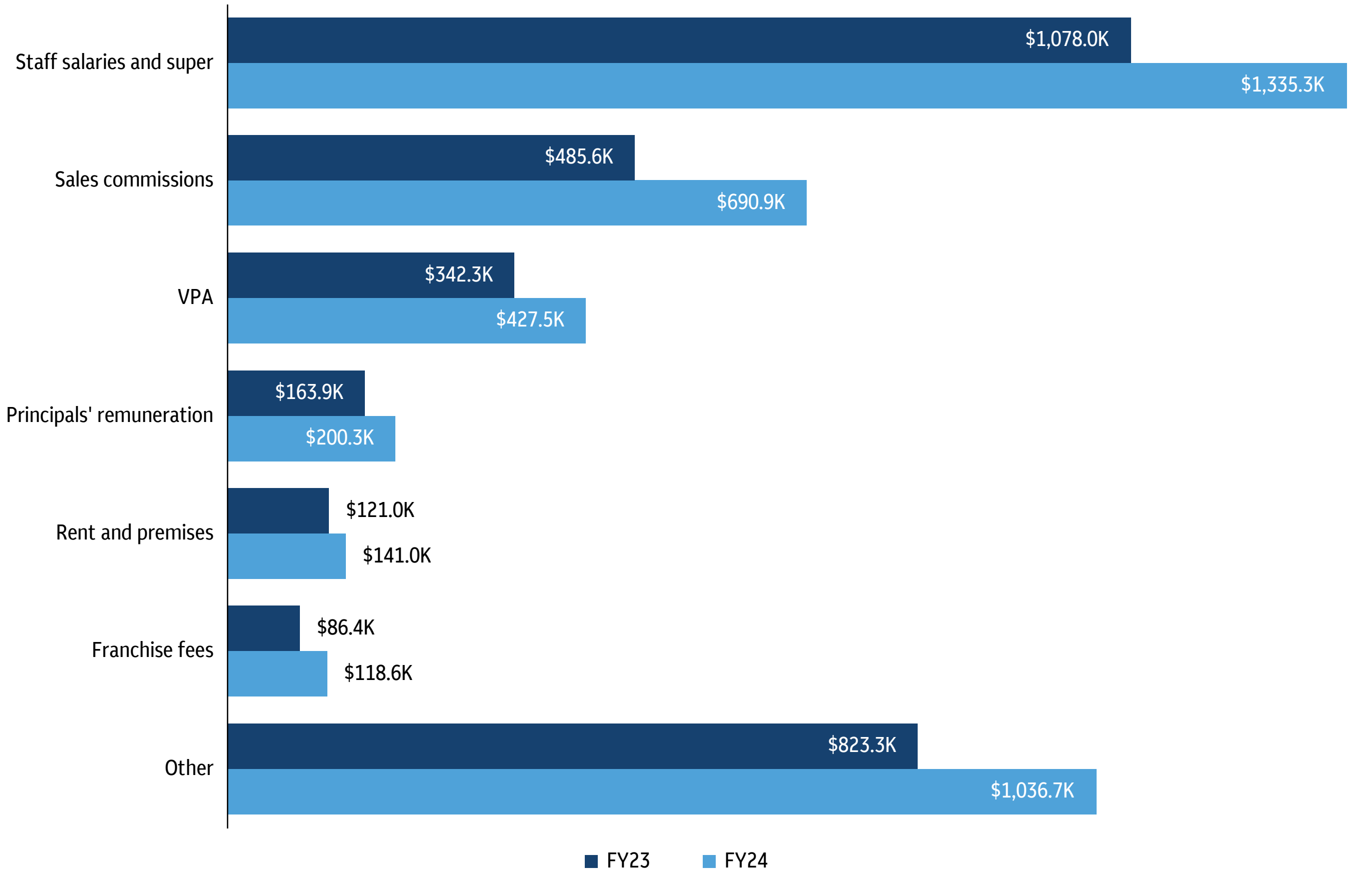


Margins are down

Despite revenue improvements in FY2024 of +20%, margin pressure still exists, with net profit margin falling from 13.3% in FY2023 to 12.8% in FY2024.

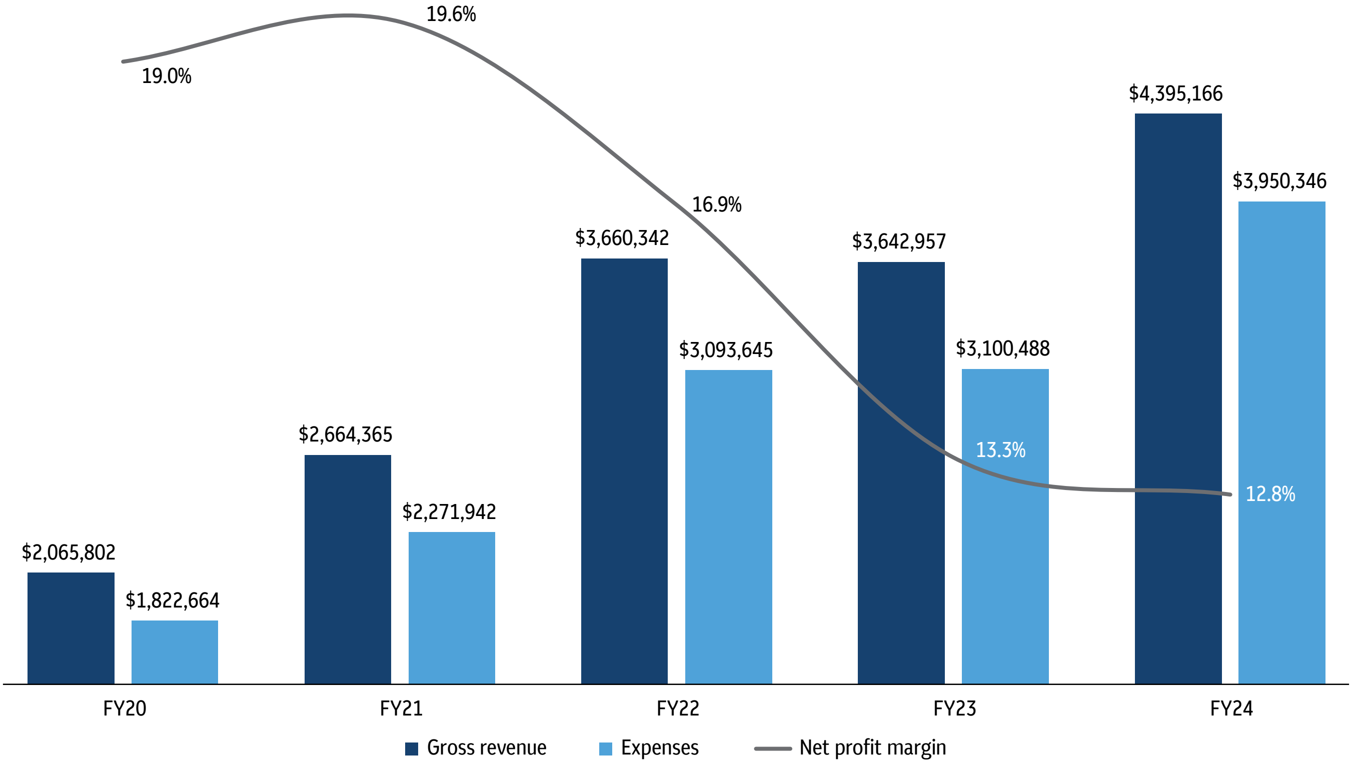
Net profit margin

Expenses



This pressure on profits can be attributed to increasing costs; up +27% on FY2023, with staff salaries up +24%.

The interplay of revenues, expenses, and net profit margin



With margins being squeezed, business owners are turning attention to scale to ensure they can deliver strong year-on-year returns. With costs rising, complexity and compliance increasing, and client expectations continuing to evolve, this trend of consolidation is set to continue, despite the industry still weighted heavily towards independent small businesses, with fewer than 200 properties under management, and revenues of less than $1M per year.

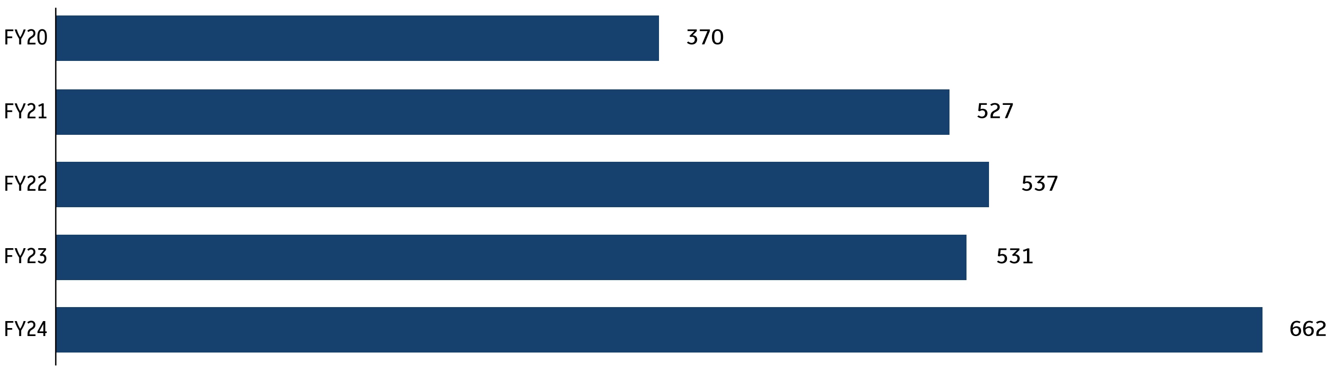
Property management remains core to stability, and is clearly a focus, with properties under management pushing higher; up +25% in FY2024. This is despite the ongoing rental crisis with lower properties on offer to tenants.

While net organic growth of properties under management remains possible in a challenging market, we have seen most businesses achieve their net growth via acquisition.

The industry remains focused on acquisition to support PUM growth and drive revenue, and, increasingly, as a tool to feed the sales business. However, it is key to remain focused on the cultural integration of businesses, along with balancing other strategic benefits beyond just acquiring revenue.

As the financial year rolls through, it's likely that the FY2024 PUM number will decrease, not because of declining trends but due to incorporation of data collected from clients less active in acquisition.

Properties under management

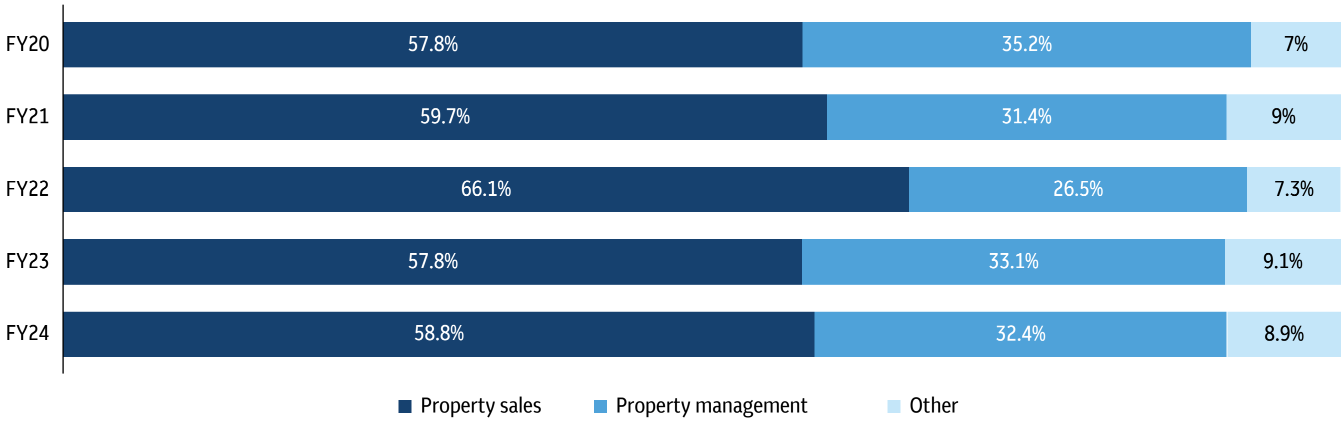


Financial performance

Revenues have rebounded, with strong growth recorded over the past five years.

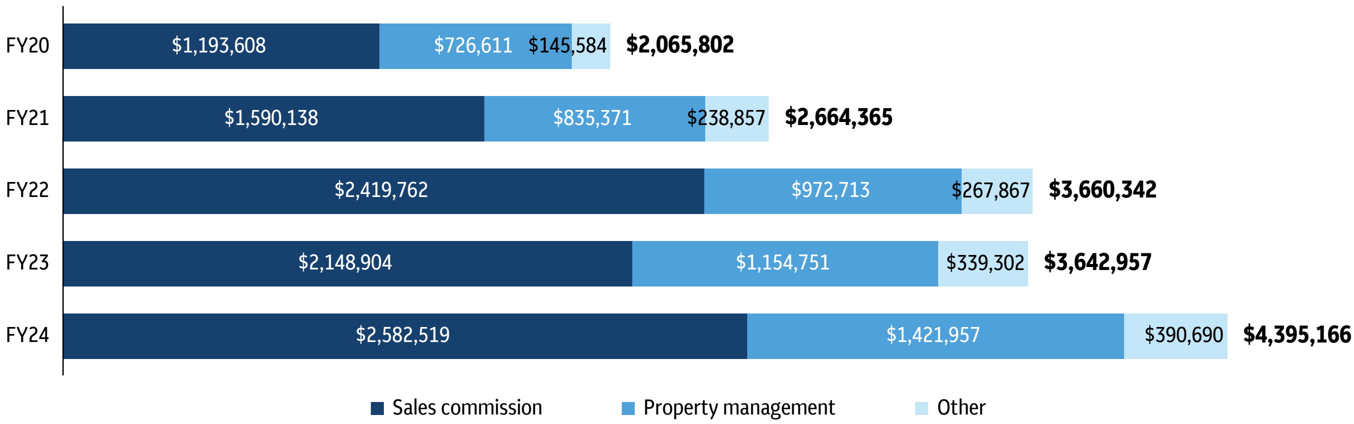
Our analysis shows agencies under pressure in recent years, adapting to shifting market conditions to ensure business stability. Following the rapidly changing COVID-19 protocols that impacted the sector heavily in FY2021, agencies capitalised on favourable property sales conditions and strong consumer sentiment in FY2022. Despite a small dip in revenue in FY2023, they have rebounded strongly in FY2024.

Business composition



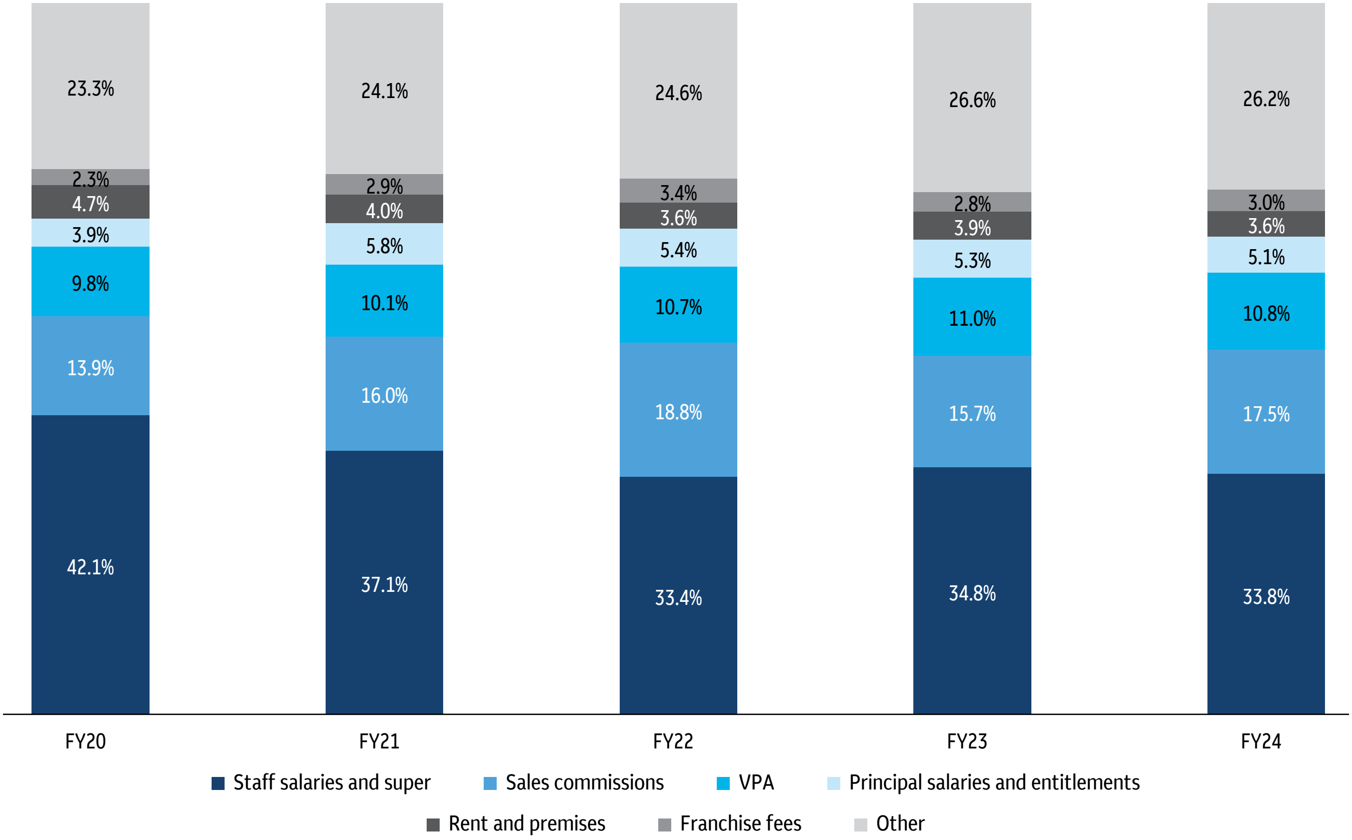
Agency composition has shifted subtly since FY2020; property sales comprise a greater portion of the business in years with stronger listings volume and asset values. This is arguably due to a compression of available rental properties, with overseas residents returning to Australia, as well as a strong property sales market.

Gross revenue



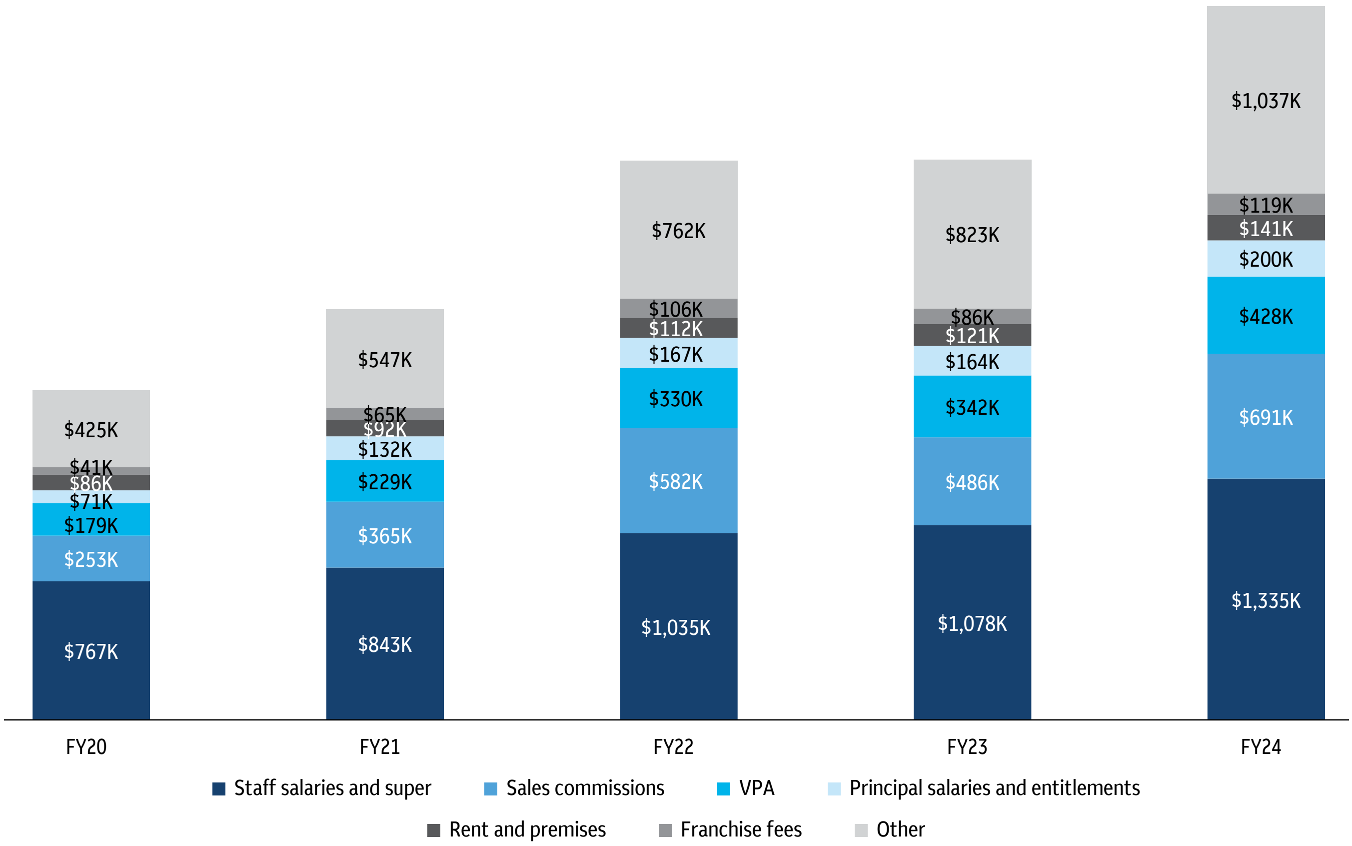
Our data continues to show consolidation year-on-year, despite a modest drop in FY2023 led by the well documented soft sales market.

Expense profile



The portion of expenses relating to staff salaries and superannuation has declined from 42% of total expenses in FY2020 to 34% in FY2024. This indicates that agency owners are scrutinising their cost bases, and may indicate that talent is being utilised more efficiently – not necessarily that salaries and wages have reduced per person.

Business expenses



While the expense mix has not changed considerably since FY2022, expenses have increased across all lines. This underlying pressure on costs, which played out most significantly in FY2023, continues to apply pressure on margins.

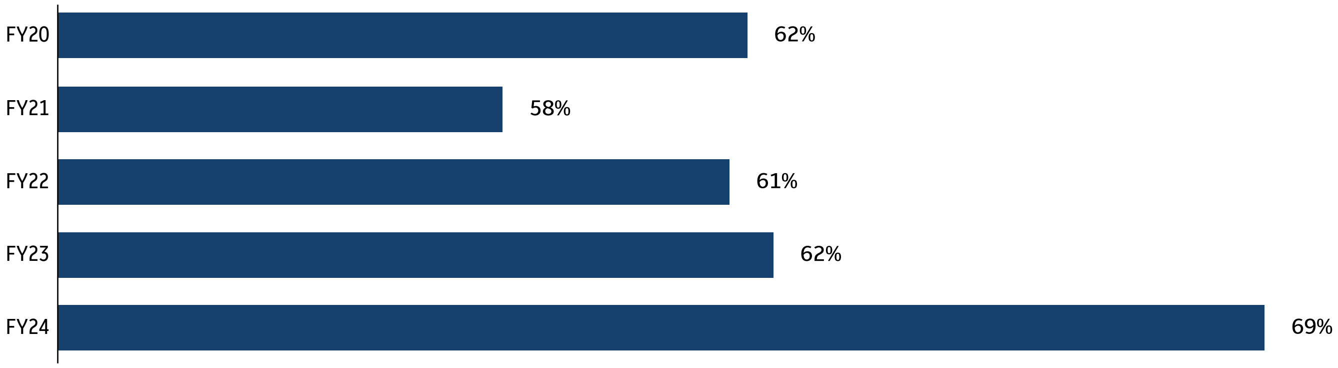
Vendor paid advertising has shown a material increase that is proportionate to increasing revenue, but this statistic reinforces the need to remain vigilant in advertising recoveries. It's critical to not sacrifice this position in times when sales activity is more challenging or competitive pressures are higher.

Other expenses have grown to become the second largest cost, reflective of the growing complexity in delivery of real estate operations, including the abundance of productivity tools, subscriptions, regulatory obligations and other 'need to have' expenses. We have moved far beyond the old method of one-third profit/occupancy/employee split. Monitoring these 'additional' expenses is of ever-growing importance when it comes to margin.

Net profit margin

Rationalising cost bases is a challenge. As a service industry, real estate is dependent upon stability of its people, particularly in property management. There is increasing complexity of delivery in property management, compounded by increased service expectations. Agencies appear to be refocusing on enabling staff capacity rather than stretching their people across maximum portfolio sizes or redirecting surplus capacity. This response to what was a very challenging employment market for agency owners throughout FY2022 and FY2023 will continue to impact profit margins.

Fixed cost coverage ratio



We saw a higher fixed cost coverage ratio in data provided for FY2024 so far, which is reflective of the current data cohort, but we expect this ratio to moderate as the data pool grows.

Fixed cost coverage is not a marker of success, but rather a risk management tool, demonstrating how much of an agency's total fixed costs can be covered by the recurring revenue streams of property management. A lower FCCR only means that the agency is more reliant on higher sales values to cover its costs.

As we see properties under management grow, it's unsurprising that fixed cost coverage ratios are higher. This metric allows agencies to navigate more volatile sales markets, but when coupled to profit margins, the need to balance scale with appropriate margin maintenance remains, particularly through a focus on accountability and governance.

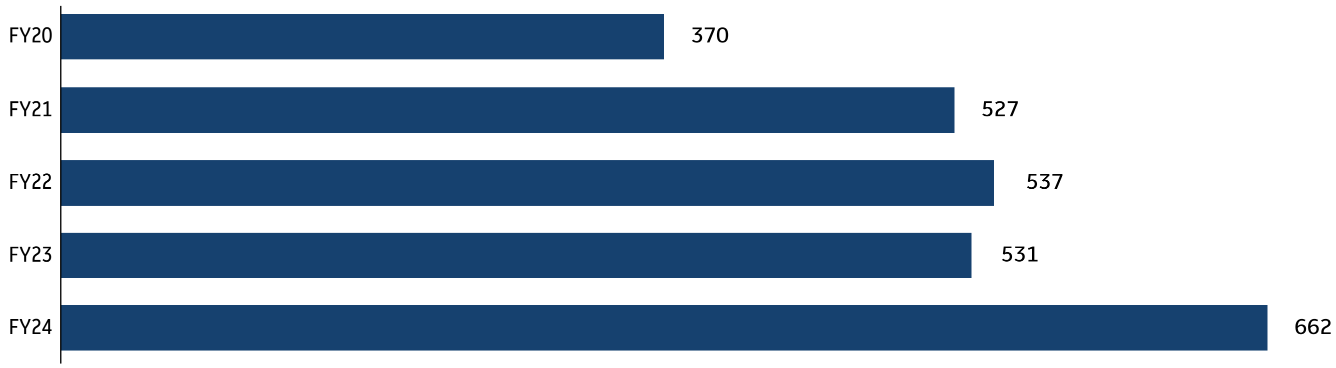
Property management

Property management portfolios continue to be a focus for growth and scale, bolstered by acquisition.

Sustained property management focus

Our data in FY2024 indicates that properties under management (PUM) has grown considerably; up +25% in FY2024, with compound annual growth of 16% since FY2020. This indicates a reliance upon property management, particularly amongst larger agencies, which are well-represented in our data.

Properties under management



The total number of properties managed is a focus for agencies, and our conversations with clients support this.

The recognised benefits of property management – namely consistency of cashflow, a hedge against sales market volatility, and a key driver of business value in sale scenarios – is a core driver amongst agency owners.

Increased rental returns in a tightened investor and rental market see agencies growing property management income and increasing average annualised management income (AAMI). This has helped soften the impact in select markets that have seen a material decline in properties available to rent. We have seen many clients rationalise non-core property management portfolios by reviewing geographic proximity and fit for agency profile. With rent roll sales to improve the performance of the remaining portfolio, there is considerable dynamism in market, with commercial drivers allowing agency owners to focus on their strategy and strengths.

The scale agenda

It is unsurprising to see that PUM has increased: building out PUM as a recurring revenue stream is a key buffer for offsetting an increase in cost base.

With many seeing a contraction of available PUM in their chosen markets, organic growth has become increasingly challenging in the recent period; albeit not unseen. As such, we have seen an increase in M&A activity. Non-core assets for some are seen as strategic opportunities for others, in an environment where 47% of agency principals are over 50 years of age, and 40% have active plans to sell.[1] Additionally, change management and cultural fit is core to the success of these acquisitions. These require leadership focus, and careful alignment of property managers to agency culture and strategy.

1. Macquarie Business Banking 2023 real estate benchmarking study.

In summary

As expected, the industry pivoted in FY2023 and welcomed improved conditions in FY2024, with early indication that they will continue.

Even so, the real estate industry is particularly exposed to the ebbs and flows of policy and broader economic movements, and owners must navigate a volatile external environment. As outlined in the 2023 benchmarking study, there is a need for ongoing governance to buffer against margin compression. In short, businesses with declining profitability need to scale up.

The FY2024 revenue rebound has not been without its challenges, and from data on file, the key focus areas for business owners include:

Sustainable, efficient growth

An expense profile should not keep pace with revenue growth, and strategic management is required to ensure that efficiency is delivered rather than just scale.

Strategic acquisition and divestment

The acquisition of key assets to access new markets, consolidate in a chosen market, and attract strong staff and associated skills/revenue continues to be prevalent, however it must be matched by the divestment of non-core assets.

The cost of rising costs

Costs associated with doing business, such as compliance and regulations, have materially increased and look set to continue affecting not only profit, but also the employee and client experience.

Attraction and retention of people

Talented people continue to be the cornerstone of success. While the employment market has returned to a more normalised level, the focus on attracting and retaining quality staff remains paramount to overarching strategy.

The data and analysis provided in this report are the first step in Macquarie's new way of providing support and insights to the real estate industry. More comprehensive data, reports and insights will continue to be released as they become available.

Tips to thrive

With revenues and profits under pressure, considerations for sustainable growth, profitability, and prosperity include:

Nurture your people

- Real estate is a relationship-driven industry, and talented people drive business.
- Support key people with systems, processes and structures to aid their growth, and in turn, the agency's.

Be motivated by profit

- Manage costs – accountability and governance is key.
- Improve the revenue cycle – volume, velocity, process, and rigour.

Focus on process

- Implement processes and productivity measures. Technology can drive efficiency.
- Drive accountability within the business.

Build and scale

- Property management is the mainstay of agency stability, which creates opportunities for growth and business development.
- Property sales are dynamic, yet turbulent. Your business model must be adaptive to accommodate market peaks and troughs.
- Document and drive your strategy, sharing it with others, and allowing them to own elements.
- Focus on making your agency as strong and robust as possible.

Contact us

If you'd like to learn more about putting thought and insight to work in your agency, please get in touch.

Contact your Macquarie Relationship Manager, call 1800 442 370 or visit **www.macquarie.com.au/real-estate-industry**.

About the data

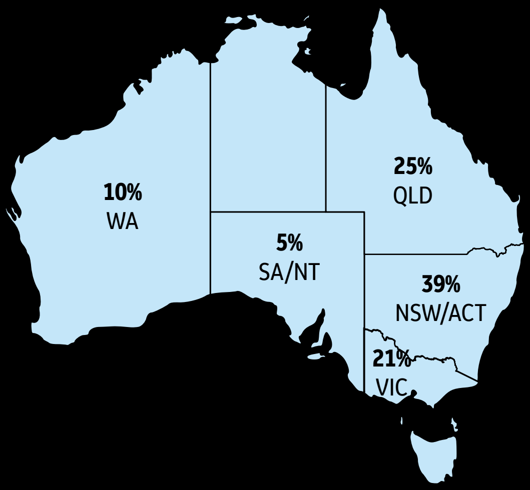
Our point of view is based on aggregated business data, collected through regular client reviews. **414** real estate agencies contributed financial, operational, and property management data across the financial years ending June 2020, 2021, 2022, 2023 and 2024.

Agencies are representative of the industry, in terms of size, revenue, demographics, and dynamics.

Metrics detailed in this report include:

- **Financial performance**
- **People**
- **Business operations**
- **Property management**

A focused study of Australian real estate business



State snapshots

Our state-specific analysis is reflective of the financial years ending June 2021, 2022, and 2023. As database sizes become stable at a state and revenue-based level, analysis will be provided for the financial year ending June 2024.

		Gross revenue				Change over prior year			
		Sales	PM	Other	Total	Total	Sales	PM	Other
NSW	FY21	$1,490,000	$770,000	$190,000	$2,450,000				
	FY22	$2,260,000	$900,000	$280,000	$3,440,000	40.4%	51.7%	16.9%	47.4%
	FY23	$1,850,000	$1,070,000	$290,000	$3,210,000	(6.7%)	(18.1%)	18.9%	3.6%
VIC	FY21	$2,050,000	$880,000	$300,000	$3,230,000				
	FY22	$2,640,000	$930,000	$280,000	$3,850,000	19.2%	28.8%	5.7%	(6.7%)
	FY23	$1,990,000	$1,110,000	$360,000	$3,460,000	(10.1%)	(24.6%)	19.4%	28.6%
QLD	FY21	$1,650,000	$820,000	$200,000	$2,670,000				
	FY22	$2,970,000	$1,030,000	$210,000	$4,210,000	57.7%	80.0%	25.6%	5.0%
	FY23	$2,300,000	$1,190,000	$190,000	$3,680,000	(12.6%)	(22.6%)	15.5%	(9.5%)
WA	FY21	$1,160,000	$1,160,000	$320,000	$2,640,000				
	FY22	$1,450,000	$1,090,000	$240,000	$2,780,000	5.3%	25.0%	(6.0%)	(25.0%)
	FY23	$1,380,000	$1,170,000	$260,000	$2,810,000	1.1%	(4.8%)	7.3%	8.3%
SA	FY21	$1,230,000	$910,000	$280,000	$2,420,000				
	FY22	$1,630,000	$980,000	$220,000	$2,830,000	16.9%	32.5%	7.7%	(21.4%)
	FY23	$1,460,000	$1,180,000	$220,000	$2,860,000	1.1%	(10.4%)	20.4%	0.0%

Net profit margin	**NSW**	**VIC**	**QLD**	**WA**	**SA**
	33%	24%	24%	24%	29%

Agency profile		**NSW**	**VIC**	**QLD**	**WA**	**SA**
Staffing	Principals	2.7	2.4	1.3	2.3	2
	Sales	14.6	5.8	4.3	4.9	7.3
	Property mgt	5.5	5.6	3.9	5.1	8.7
	Other	2.7	1.3	2	2.5	3.1
Size of business	<$2M	60%	45%	54%	53%	50%
	$2M to $5M	24%	34%	26%	33%	40%
	>$5M	16%	21%	20%	14%	10%
Agency type	Franchise	33%	30%	76%	21%	11%
	Independent	67%	70%	24%	79%	89%

Property management		**NSW**	**VIC**	**QLD**	**WA**	**SA**
PUM		569	542	448	451	783
PM productivity		136	110	135	108	97
PM commission rate		5.1%	5.2%	6.4%	7.7%	6.1%
Income/ property	FY21	$1,452	$1,572	$1,768	$1,970	$1,195
	FY22	$1,815	$1,243	$1,684	$2,325	$1,420
	FY23	$1,893	$1,500	$1,733	$5,134	$1,434

Contact us

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The information in this report was finalised on 11 October 2024.