PERSPECTIVE

Reaching an inflection point: how to thrive in a challenging environment

2024 Strata Management Benchmarking Report

MACQUARIE

Contents

Welcome

Australia's 61-year-old strata industry is flourishing. Remarkably, it's doubled in 20 years – the last two decades of growth equivalent to the previous 40 years. What's more, this growth is cumulative rather than cyclical, as each release of lots onto the market adds to the industry's dwelling stock.

This year-on-year growth, driven in large part by residential apartment construction, has buoyed the sector's performance. In particular, a group of higher performing strata management businesses have thrived despite the turbulence of the last three years.

Yet despite revenue increases, our latest research shows that average profit margins for strata businesses are in decline. Our analysis reveals margins have shrunk steadily over the decades that we've been surveying the strata industry. While profits remain healthy, this trend is cause for consideration, and for some, concern.

So, what's driving this decline in profitability, against a backdrop of consistent revenue growth? Could it be increased sophistication of schemes? Rising operating costs? The competitive environment? Inflation outpacing industry pricing? An imbalance between value provided, cost to serve, and management fees per lot? It's clear that costs are now outpacing revenue gains.

Over the years, as the industry has focused on efficiency drivers, client experience and scale, increasing costs have been absorbed by business owners. But our research shows that the sector has reached an inflection point.

For this year's report, we've updated our definition of higher performance, using extensive analysis and industry acumen to identify traits of strata businesses that outperform their peers. This is particularly relevant in a rapidly changing environment.

Absorbing inflationary and structural cost increases is no longer viable, or necessary. Our analysis shows that it's time to develop and talk to a compelling value proposition that will enable you to increase your management fees. This will ensure your business responds to future headwinds – and remains profitable going forward.

Tim MacKenzie
National Head of Strata
Macquarie Business Banking

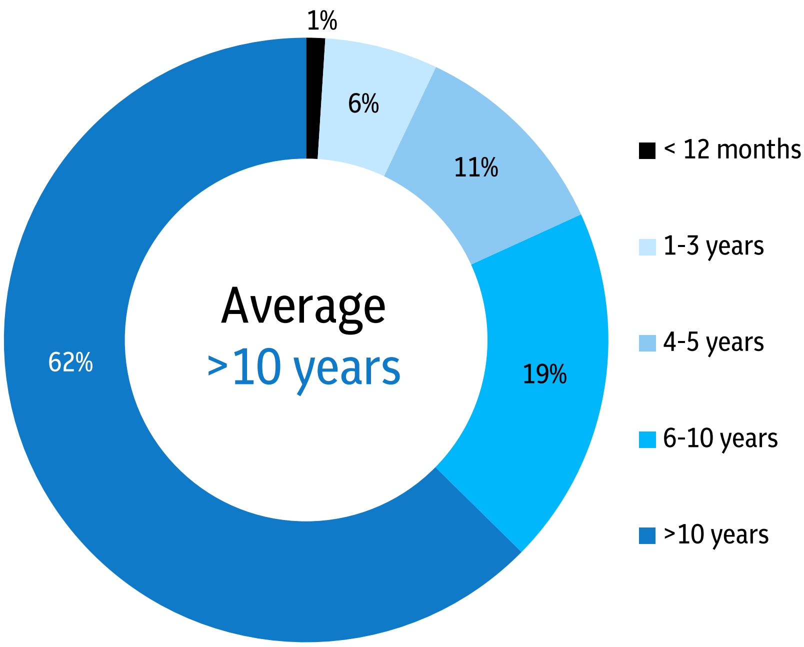
About the research

Our survey was conducted in late 2022, capturing the views of 270 leaders across the strata industry, to provide a representative sample of the industry. Each participating business provided data on business operations, people and financial performance.

Main office location

Length of operation

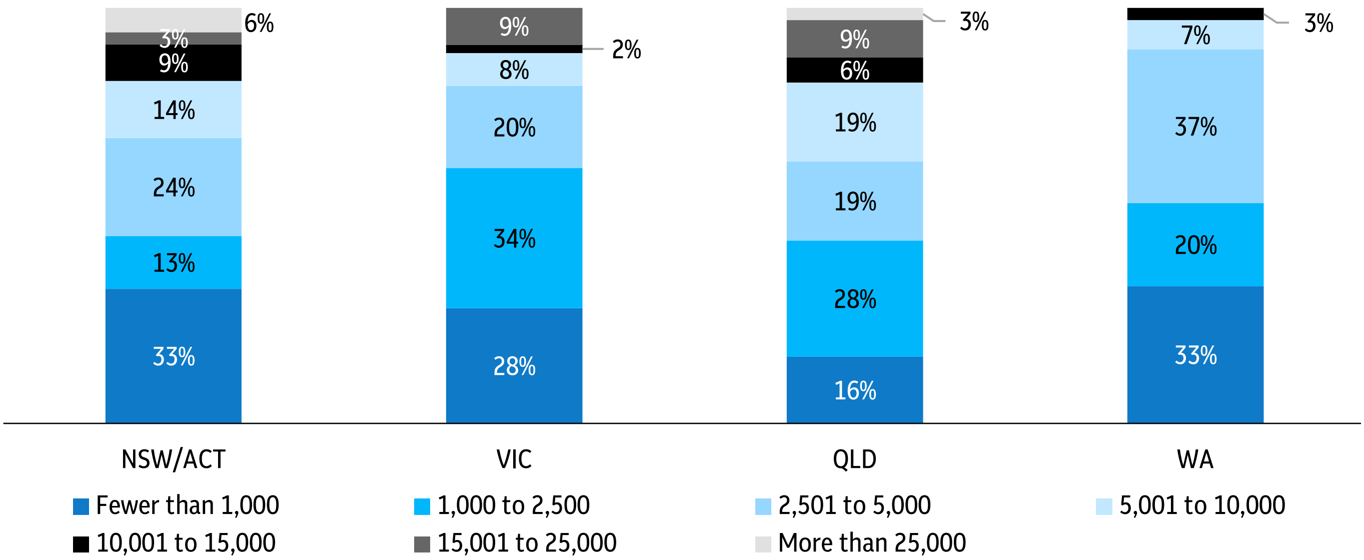
The majority of businesses surveyed have been operating for more than 10 years.

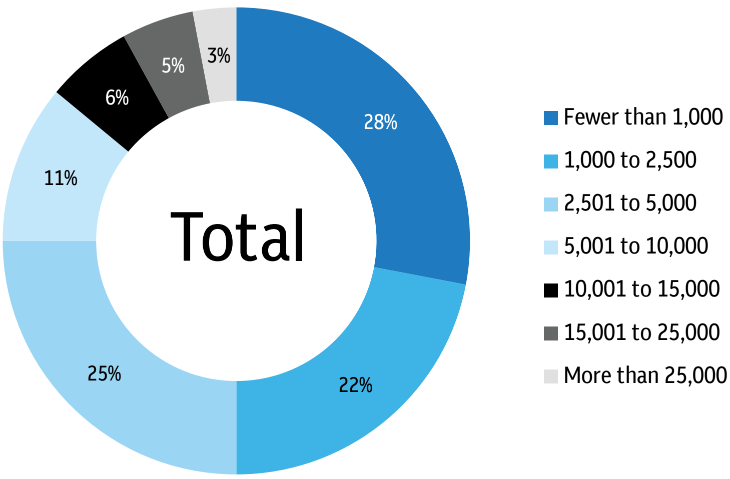


Lots and plans under management by state

The research drew on the experiences and opinions of a nationally representative sample of strata businesses.

Number of lots under management

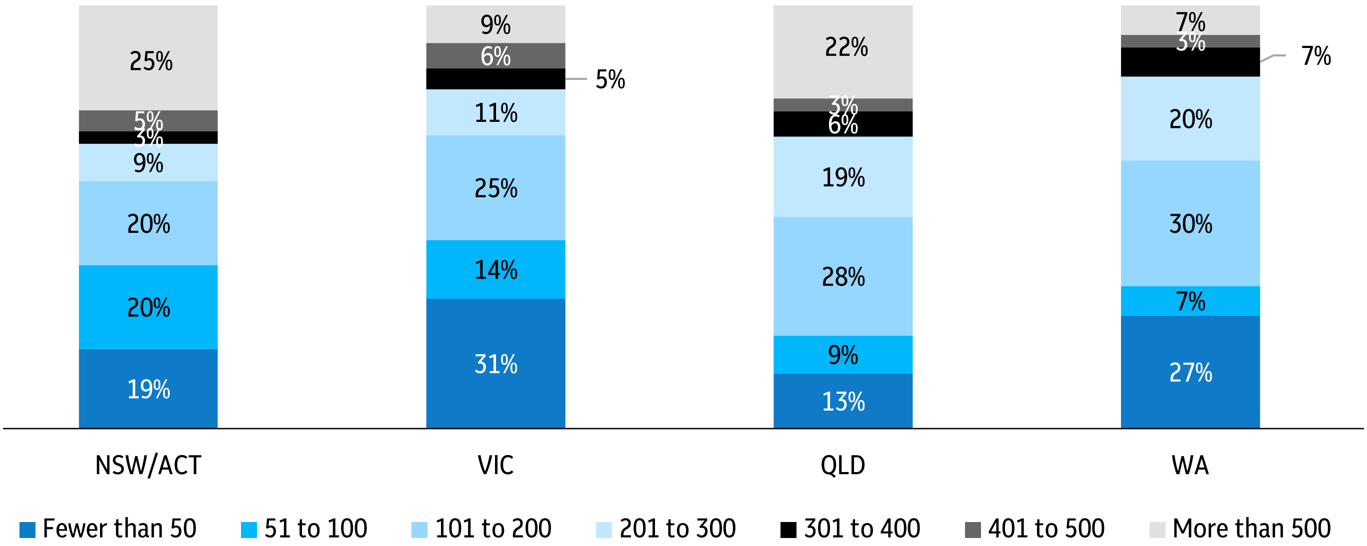


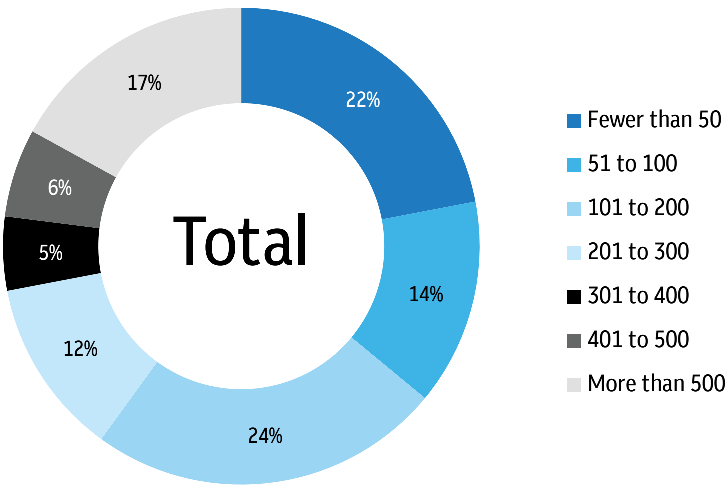


Lots and plans under management by state

The research drew on the experiences and opinions of a nationally representative sample of strata businesses.

Number of plans managed





Key findings

Defining higher performing businesses

In this year's study, we identified higher performing strata businesses as having strong revenue growth and profitability year-on-year.

This strength means that they're better positioned to weather current inflationary pressures and thrive into the future.

How we define higher performing businesses

Growing revenue and profit
FY 2022 v FY 2021

Achieved a FY 2022 profit
margin ≥ 20%

Manage at least
1,000 lots

22%

of businesses, or one in five, meet the definition of higher performance.

Key findings

Investing to drive growth and profit

What makes higher performers different?

Higher performers invest more in technology than other businesses, enabling their staff to work remotely and collaborate more easily online. They're also offering more competitive renumeration packages to both junior and senior strata managers. Our research also shows that higher performers reward staff by aligning incentives with performance. This has made it easier for them to attract and retain staff and still manage salary costs.

Investing in staff has helped higher performers retain their most talented strata managers in a tough labour market and manage their talent pipeline as older managers leave the industry.

Higher performers have invested in acquisitions at double the rate of other businesses and have taken a larger share of organic growth.

		Higher performers	Other businesses
Investment focus	Use more tech solutions	4.7	3.8
	Junior strata manager remuneration*	$74,297	$60,334
	Grow through business acquisition	20%	11%

		Higher performers	Other businesses
Stronger results	Stronger organic growth	75%	63%
	Higher revenue per lot	$474	$441
	Higher retention of strata managers	74%	64%

* Junior strata manager salary , including super, bonus and other benefits

Higher performers have fewer lots per plan

Higher performing businesses focus on smaller plans. This gives them greater control over costs and risks, and enables them to earn more revenue per lot.

Additionally, the complexity of plans is minimised, as plans with higher numbers of lots generally have a greater number of facilities and tenant services that require maintenance and management.

Average number of lots per plan

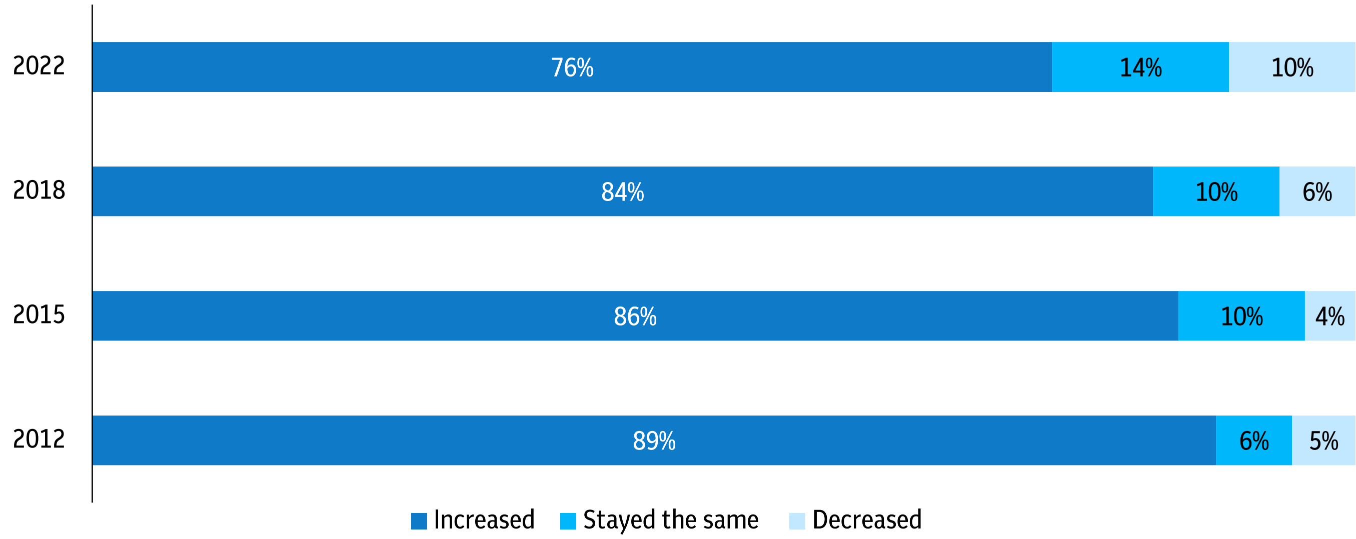
Business performance

Despite resilience, revenue growth is stalling

The strata sector has remained resilient throughout the difficult trading conditions of the past three years, due in large part by residential construction industry tail winds. Our research found that 76% of businesses enjoyed revenue increases year-on-year, driven by new lot growth, along with improved processes and efficiency.

However, the trendline reveals that it's getting harder to grow revenue year-on-year.

Change in revenue



Of those who reported profit decreases, 78% said it was due to higher staff costs,

up from 50% in 2018. The rising cost of attracting and retaining key people is a major factor for the industry, covered later in the report.

Average profit margins are in decline

Increased construction of strata buildings over the last decade has bolstered customer numbers and gross revenue growth. In FY22, revenue grew by an average of 21%, to $2,495,456 year-on-year. This headline growth is compelling. Yet our research shows that profits have significantly declined. What's more, revenue per lot is also slowing, due to increased competition and customer pressure.

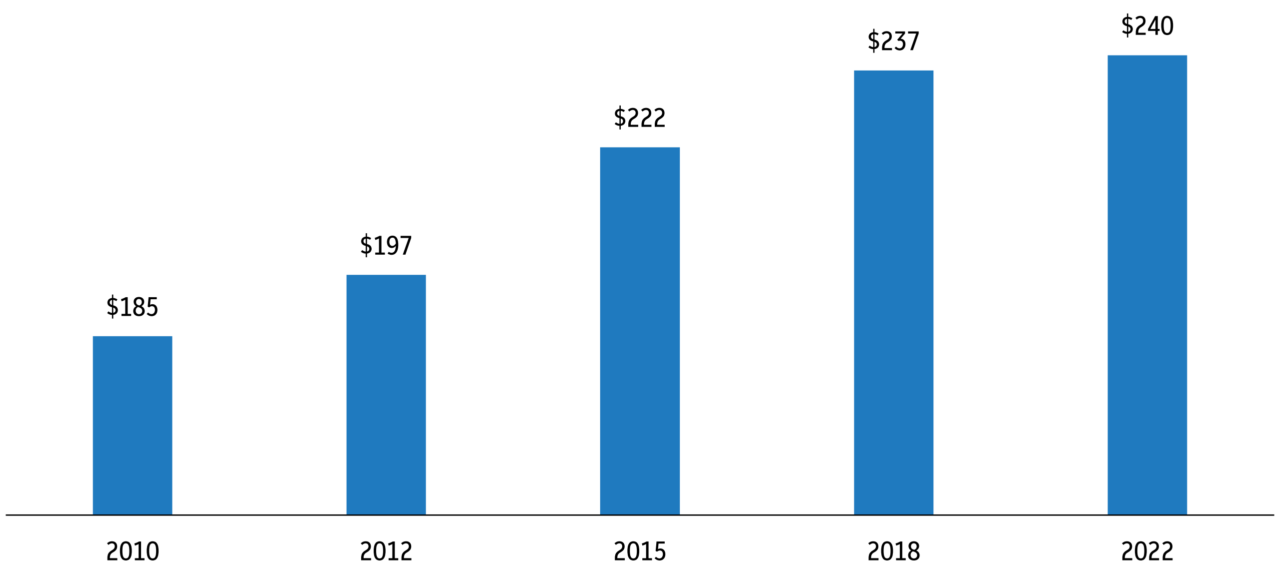
Our analysis shows consistent growth in revenue per lot until 2015. Then, from 2018 onwards, revenue growth per lot has significantly slowed to about 1% per year. This means revenue growth per lot is lagging inflation, putting pressure on margins across the industry. So, what are the factors contributing to this?

Over the last decade, larger developments have increased in sophistication. They offer a variety of exciting services, such as concierge, security, cinemas, gyms and pools, recreation facilities, restaurants and even retail. This makes them attractive to buyers and renters; community living within a collective.

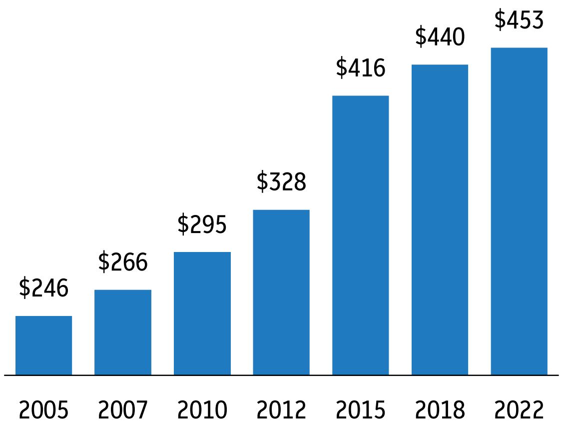
However, as schemes become more complex and diverse in their offering to residents, they're more costly to manage. What's more, strata businesses have had to recruit additional, sometimes specialist staff, or invest in training, to ensure developments are managed well.

The upshot is that rather than bringing efficiencies through economies of scale, lot growth is now increasing costs and making it harder for some strata businesses to achieve scale.

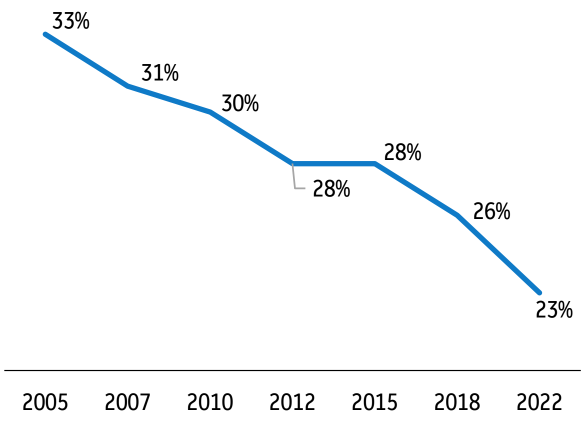
Average base contract management fees per lot



Average revenue per lot

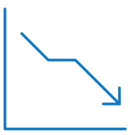


Average profit margin



76%

of businesses grew revenue, but only 60% increased profits.

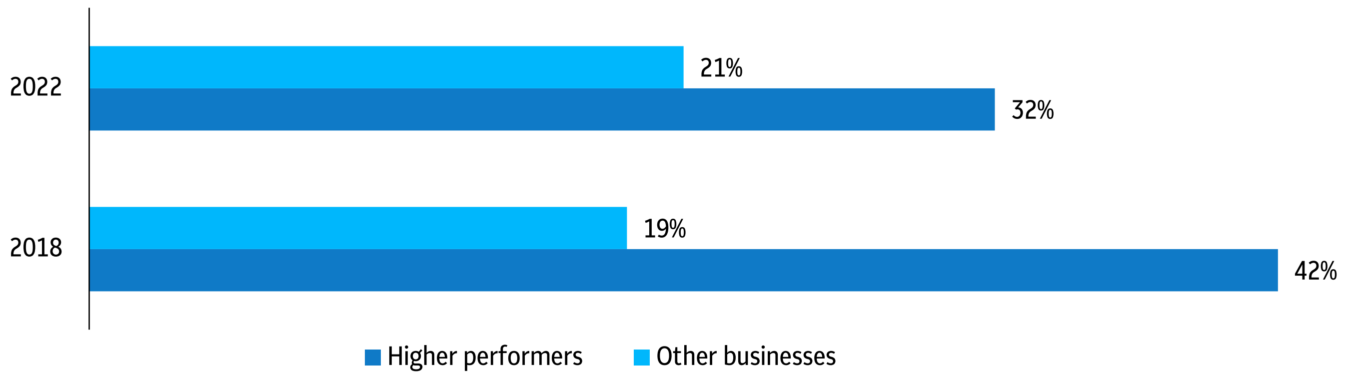


Average business profitability has trended down for the first time to $579,960 from $733,206 in 2018.

Despite revenue, lot, and plan growth, profit margins are going backwards for higher performers

While lot growth has boosted profits in dollar terms, margins have fallen for higher performers. And the data shows that managing more lots isn't improving average margins as many higher performers feel the impact of industry-wide trends.

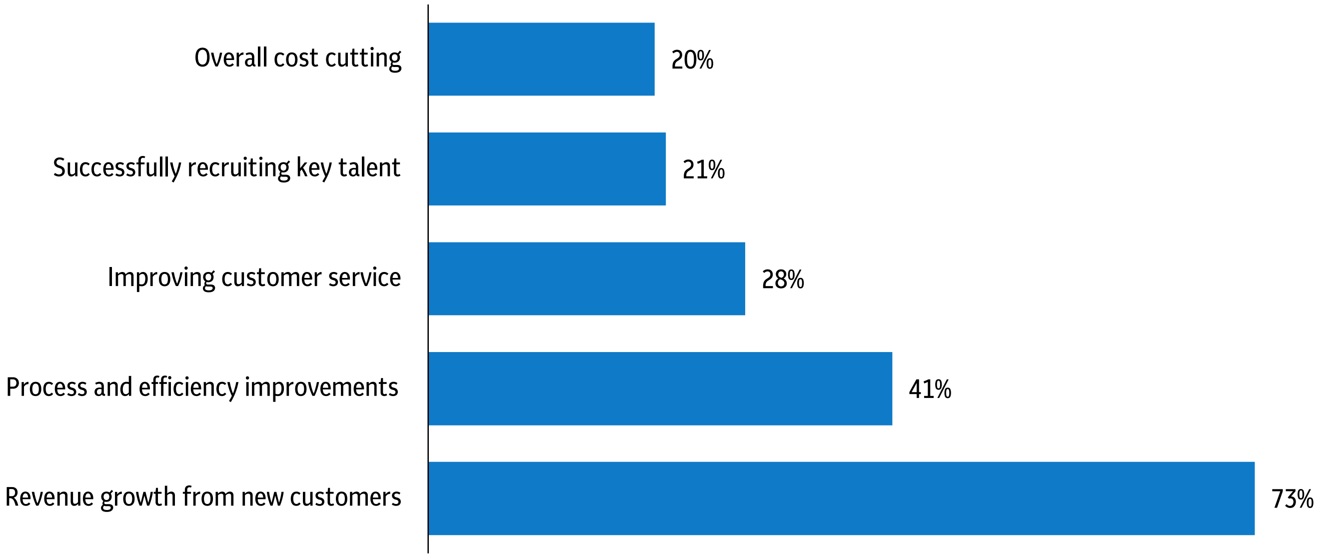
Median net profit margin



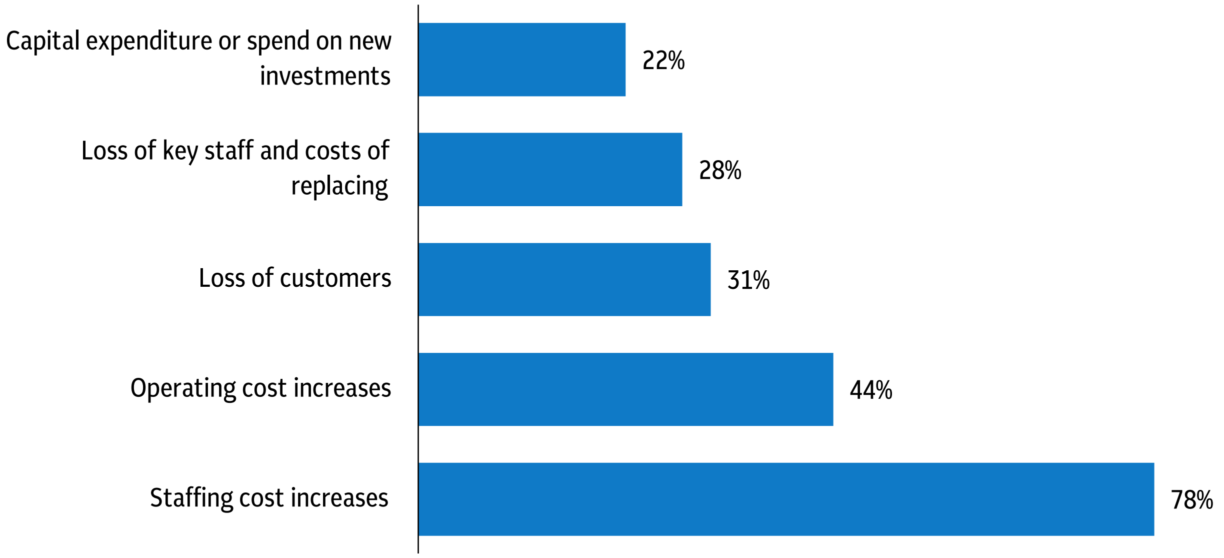
Rising staff and operating costs are eating into profits

Our analysis shows that rising costs are impacting and eroding profit margins. Even though businesses are bringing in new customers, improving processes, efficiency and customer service, their efforts are not keeping pace with inflation. What's driving this? We see that rising staffing and operational costs are largely responsible for this profit erosion.

Top profitability drivers



Profitability headwinds



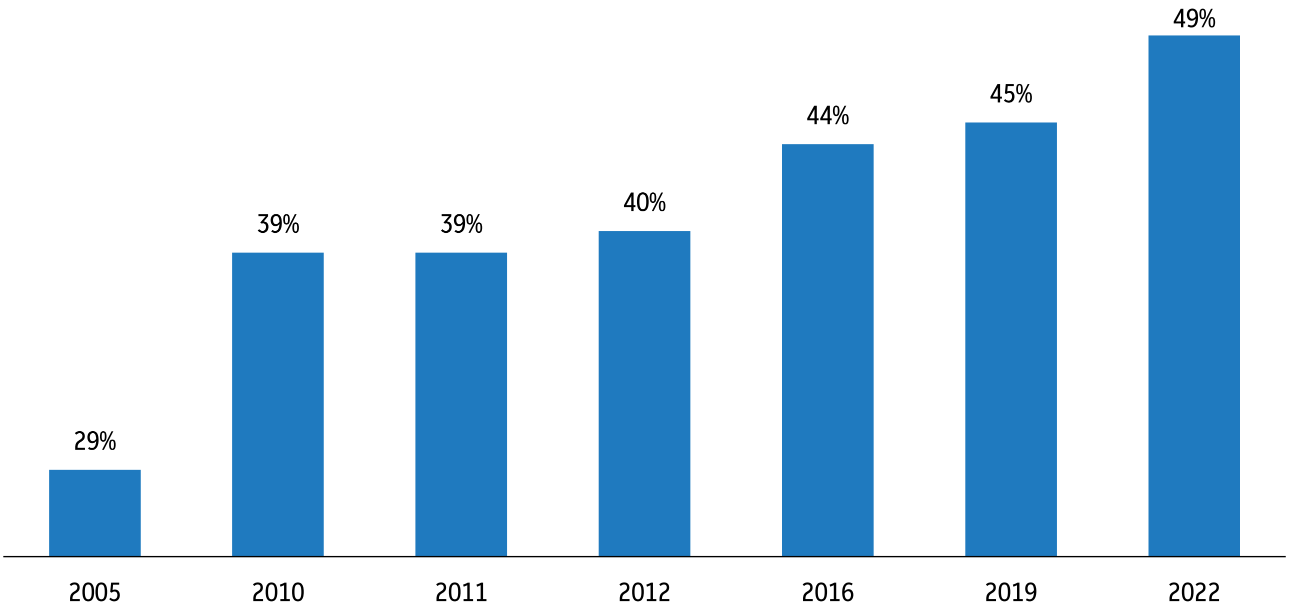
Growth-fuelled recruitment is pushing up salaries

Nationally, our estimate is that there are 70,000 new lots built every year, with our reporting showing that one full-time employee (FTE) is required to manage every 365 lots. To accommodate this growth, the strata industry requires between 180 and 216 additional employees per year to service the demand.

To meet this requirement, some businesses have employed a 'cheque-book' approach to attracting strata managers. This strategy has been a success in terms of attracting new players into the industry and retaining talent. However, salaries have trended upward from a healthy 29% of total revenue in 2005 to more than 45% in 2019, and in 2022, 49%.

This trend is unsustainable from a cost control perspective, especially in the current inflationary environment. Additionally, salary cannot be the only, or primary lever for attraction and retention of people.

Salaries as a % of total revenue



People and culture

Strata managers chase higher pay, with increasing turnover

Most industries are experiencing high turnover in the current job seekers' market, with staff showing readiness to leave positions for more money and better conditions. High turnover impacts profits – and affects customer relationships.

In 2022, our analysis showed that 33% of strata managers changed employers – compared to just 14% in 2018. The loss of key staff and the cost of replacing them contributed to the year-on-year decline in profits experienced by 28% of surveyed businesses. Additionally, the impact on lot owners, other staff, and business owners cannot be understated.

Yet despite this high turnover, strata businesses have managed to attract more staff into the strata industry – with recruitment exceeding exits. However, there's no denying that recruitment costs are placing additional pressure.

Full time employees

6.6 recruited

23.9

5.5 Exited

Strata managers

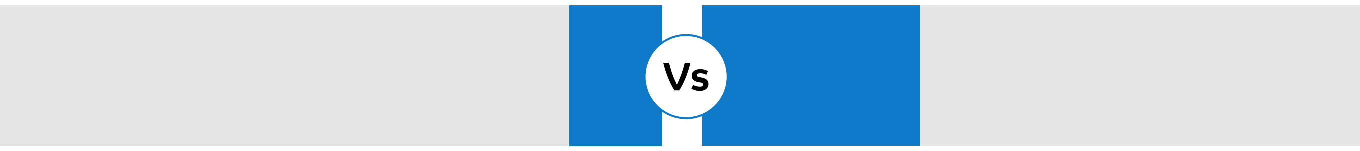
3.1 recruited

10.7

2.7 Exited

14% **in 2018**

33% **of strata managers changed employers in 2022**

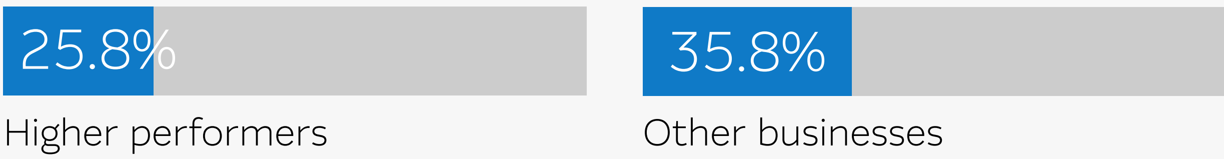


Higher performers retain strata managers

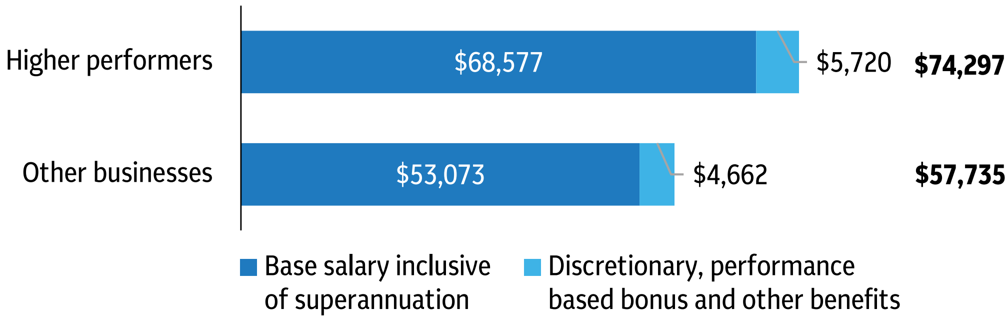
Higher performers experienced 28% lower strata manager turnover compared to the rest of the industry (36%), while still experiencing a pain point with strata manager turnover, less so than their industry peers. 81% of higher performers offer their strata managers commissions, bonuses and other incentives, some of which are linked to business performance and profit, tightening the link between role delivery and business outcome. They also pay higher levels of remuneration at both the junior and senior level, compared to their peers.

Over the years that we have surveyed the industry, data has revealed to us that a stable, engaged workforce is a constant in higher performing businesses – and key to helping maximise the revenue earned from every customer.

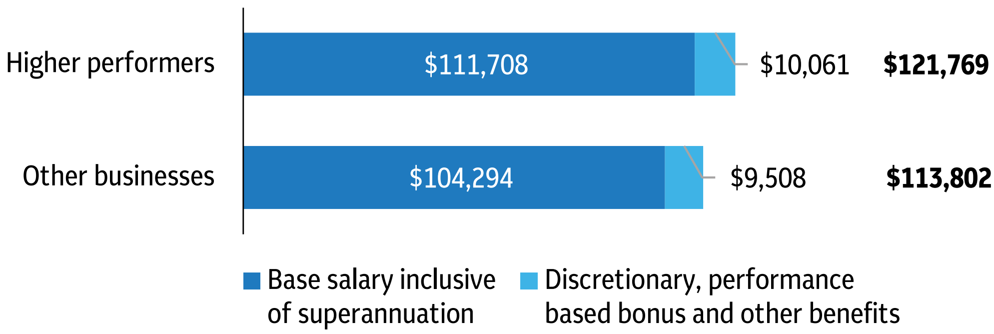
Strata manager turnover



Junior strata manager remuneration



Senior strata manager remuneration



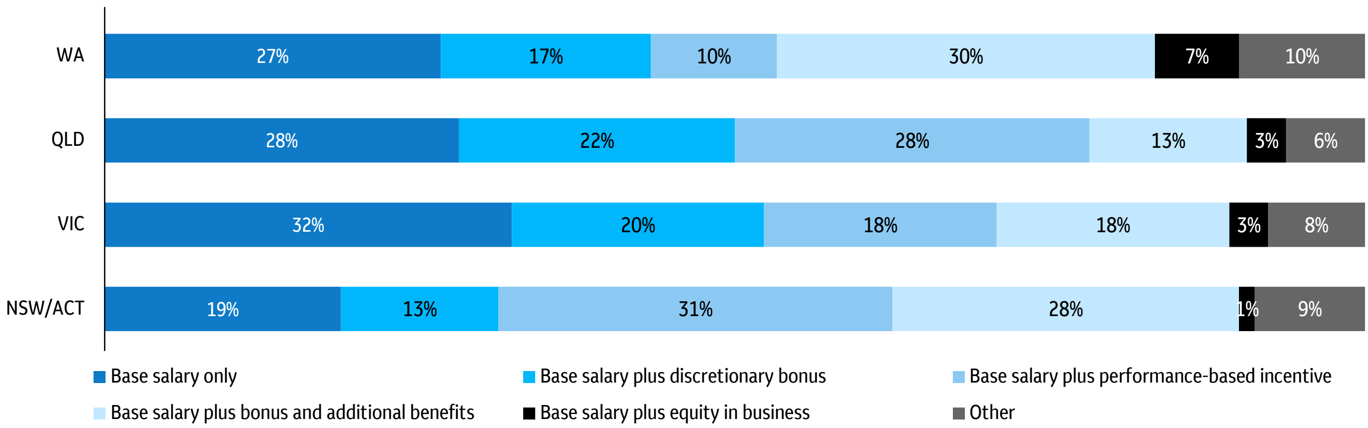
Strata managers are remunerated and incentivised in a number of ways

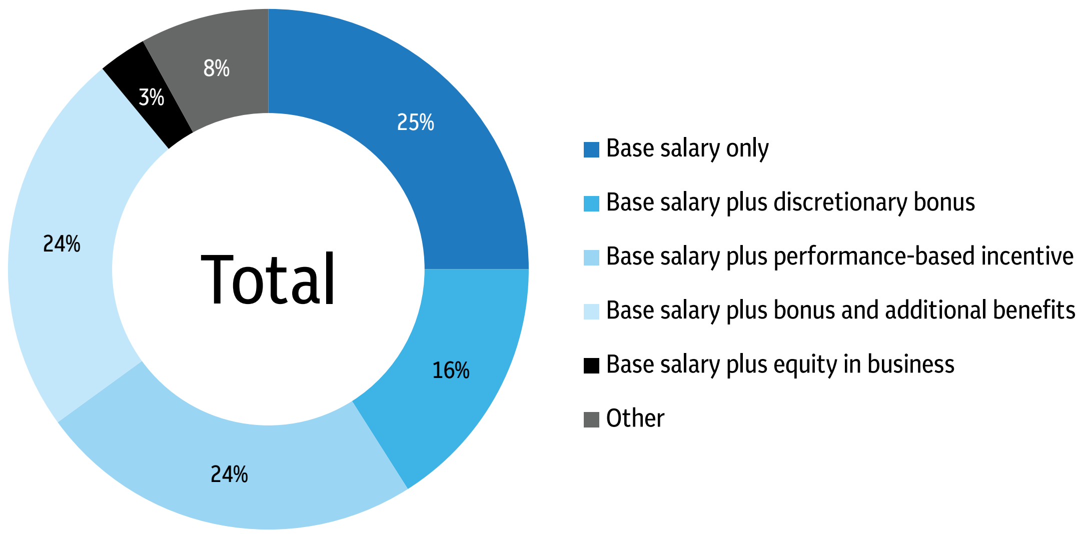
Relative to past studies, the challenges faced by strata managers to conduct their roles, including travelling to out of hours strata scheme meetings, have been addressed by adoption of communication tools and platforms such as Zoom. This has gone some way to improving role manageability for strata managers. However, remuneration has also become a key lever and tool for incentivising performance, and retention.

Strata businesses are using commissions, bonuses and other incentives to attract and retain strata managers in a competitive employment market.

Our analysis shows remuneration packages vary in response to localised market demands.

Remuneration structure – strata managers



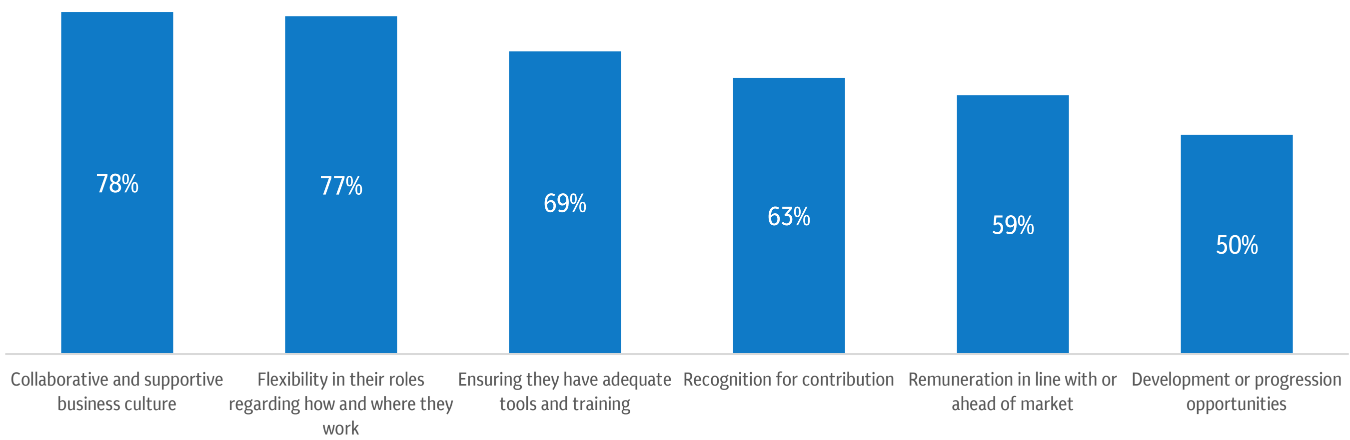


Flexible working, tools and training are another incentive

Our research revealed that higher performing businesses place more emphasis on flexible working and ensuring managers have the right tools and training to succeed. This is especially important as strata buildings become more complex and offer more sophisticated services – and require more specialist skills to effectively manage them.

The complexity of a strata manager's role is increasing, along with the requirement for out of hours meetings with lot owners, at locations sometimes a sizeable distance from where strata managers work. The key to building an employee experience and culture of support that fortifies performance and loyalty to a business is flexibility and acknowledgement of the impact that these requirements have on their lives.

How strata businesses are retaining strata managers



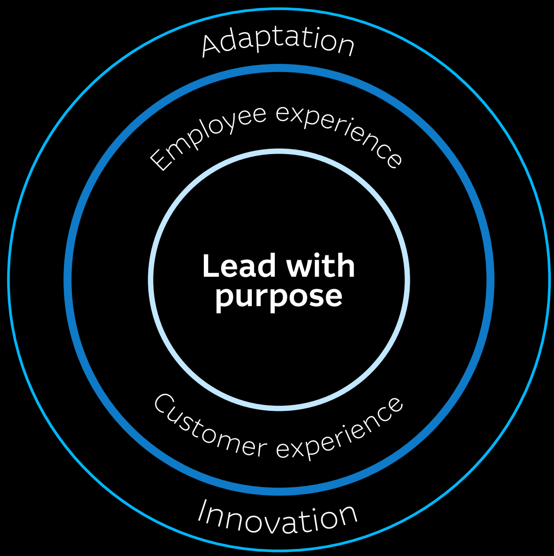
What is the Adaptive Business Framework?

Considerations for business leaders

For businesses looking for ways to adapt in a rapidly shifting environment, Macquarie Business Banking's adaptive business framework helps to understand the drivers and levers available for business owners.

The employee and client experience is fundamental to growth and change, and creates a ripple effect across businesses, impacting their people, clients, and the industry.

Through benchmarking surveys, proprietary research and our ongoing dialogue with clients, Macquarie has observed common traits and behaviours within high-performing organisations, underpinned by the essential components of an adaptive business. The result of these learnings is a framework for an 'adaptive business'. We believe strong leadership creates a ripple effects that amplifies the impact of these essential components.



- **Leading with purpose:** Adaptive leaders are able to articulate a common purpose, providing clear principles to guide decision-making.
- **Employee experience:** These leaders consciously invest in finding, hiring and nurturing great people.
- **Customer experience:** Highly engaged staff create better client outcomes.
- **Innovation:** By deeply connecting with customer needs and emotions, staff feel empowered to seek out better ways of providing them with solutions.
- **Adaptation:** All these factors interplay to expand the impact across and beyond the organisation, so it can adapt and flex as demands and requirement shift.

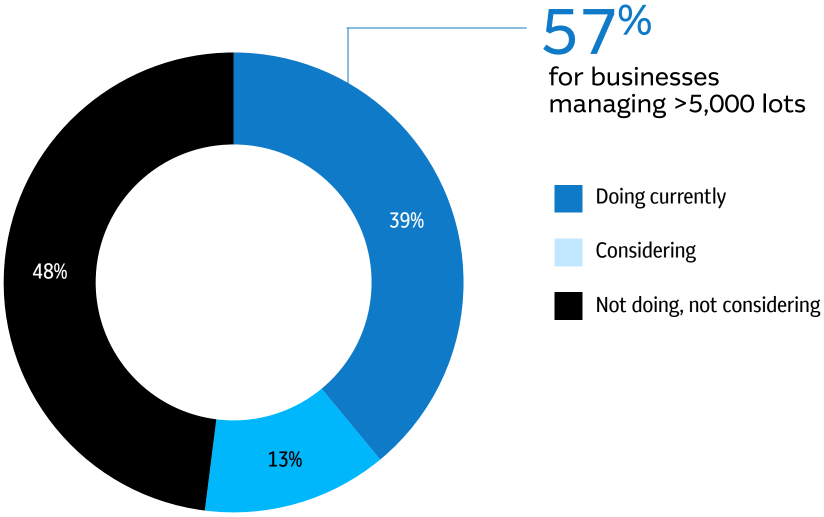
Evolving business models

Outsourcing and offshoring an option

As margins come under pressure, strata businesses are looking for ways to increase efficiency and support scale. When we asked businesses what strategies they were employing, 39% of businesses said they currently outsource at least part of their operation – and a further 13% are considering it for the future.

Larger businesses were most likely to outsource or offshore some of their operations, making up 57% of respondents who currently send work externally or overseas.

Strata businesses and outsourcing/offshoring



Technology and operations

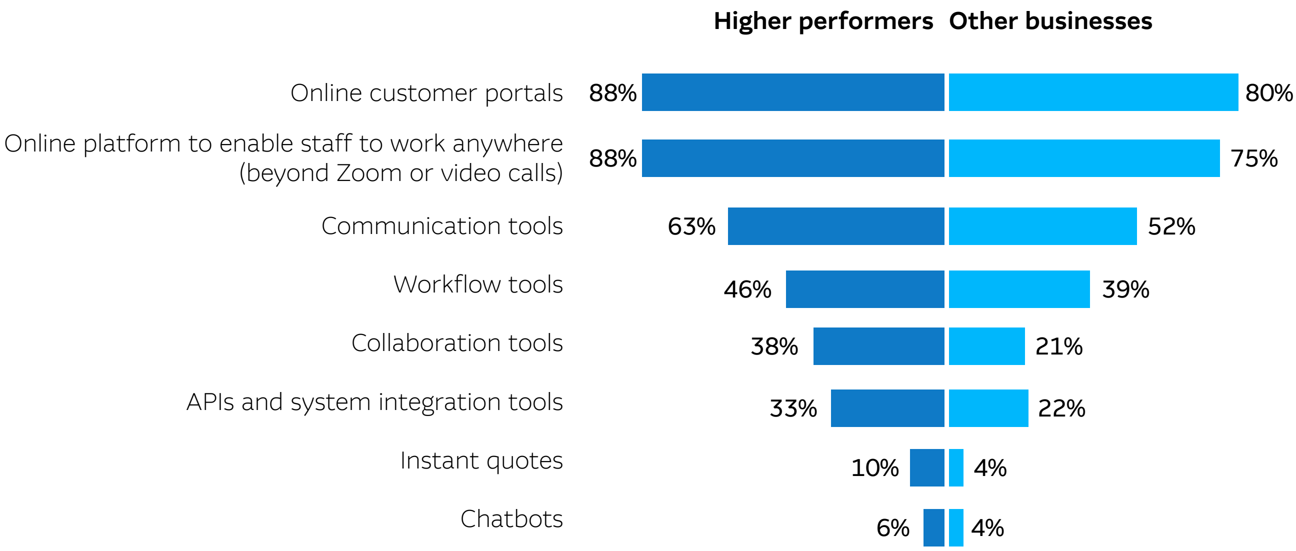
Technology is key to staff flexibility, efficient workflow and customer engagement

The COVID-19 pandemic has proven that flexible working conditions and productivity aren't mutually exclusive. Flexibility is also a draw card for many employees. This is particularly the case in the strata industry, where strata managers need to work flexible hours to meet customer needs.

So it's no surprise that the majority of strata businesses are making the most of tech tools to enable staff flexibility. They're also introducing technology to streamline workflows and drive customer engagement. The most common tech solutions employed by respondents are online customer portals, followed by online platforms enabling staff to work anywhere.

Higher performing businesses are more likely than others to offer their staff technology solutions that allow them to work anywhere and collaborate with others online. Higher performers are also more focused on using remote working as a tool to retain strata managers.

Technology used in strata businesses today



75%

of higher performers will invest in processes and technology in the next 12 months to improve business performance vs **60%** of other businesses.

Higher performers use

4.7

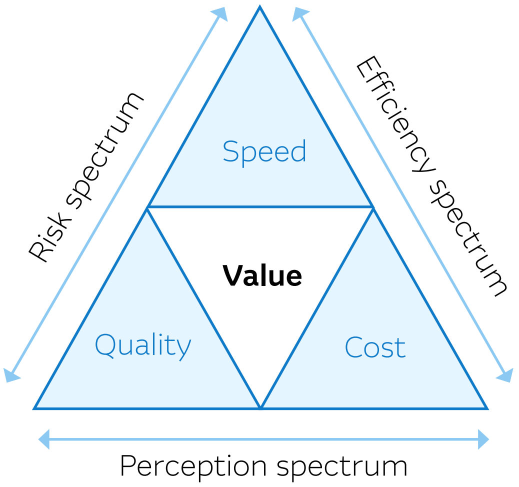
tech solutions vs other businesses **3.8**

2

of the **top 5** tech tools used support staff flexibility and online collaboration.

The goodwill trade-off: quality, speed, or cost?

The new value equation



When considering the future of the strata industry, choices between investment in efficiency drivers, increasing costs, or focus on quality are often framed within the context of technology. Technological innovation is shifting the notion of a trade-off between speed, quality and cost in service delivery, with the most progressive businesses offering viable alternatives that deliver on all three, and dismantling the long-held belief that it's only possible to deliver two, trading at least one off.

This places the onus on businesses to either accelerate technology adoption, or provide additional quality that clients deem a genuine exchange of value and worthy of loyalty. In an increasingly commoditised, and competitive environment, framing the value equation for clients and tenants is key.

Succession

Extracting business value, and leaving a legacy

When we asked business owners about the future, 40% told us that they plan to retain ownership of the business, but plan to evolve management and step aside from the day-to-day running of the business within the next two to five years.

This strategy may be due to the resilience and revenue stability of the strata sector demonstrated during the first years of the COVID-19 pandemic. For those wanting to step back from an intense workload, it makes sense to keep a business with a consistent income stream, but re-engineer it so they can work in ways that the business isn't dependent upon their leadership and contribution. This empowers others in the business to step forward, as well as paves the way for succession and evolution.

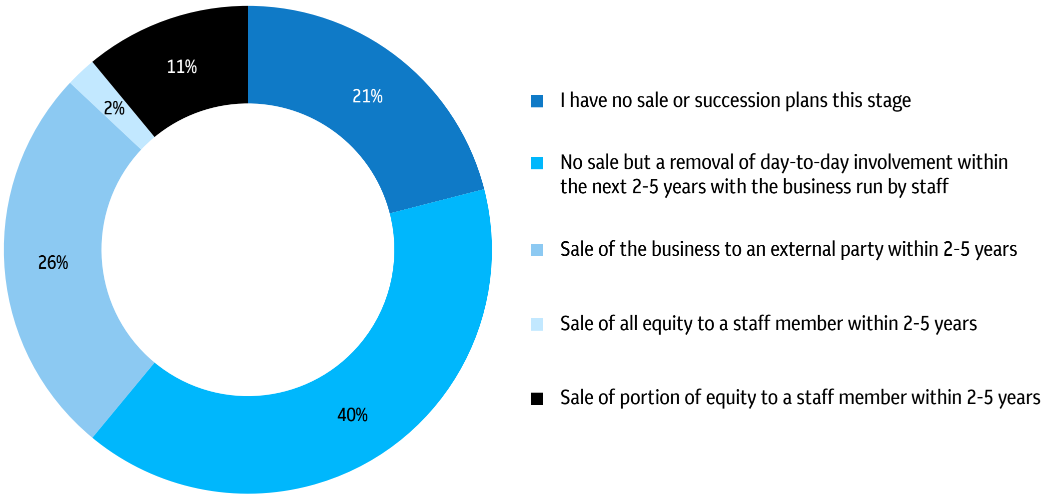
We anticipate that in the next few years, strata business owners will focus on maximising their business value and profitability. They're also likely to implement more tech solutions to reduce key-person reliance and improve efficiency.

Many business owners will also start succession planning – a key retention and performance strategy for higher performing staff looking to lead. We believe that business owners should start this plan early to ensure their successor is business ready. Without conversations, and thorough consideration early, transition is more difficult, and takes longer, with lower likelihood of success, at a lower value.

The other trend revealed by our analysis is a preference for multi-generational control in contrast to acquisition by another strata business. We expect to see a younger pool of business owners entering the sector in the next few years, leading to a greater age diversity among business owners.

In our view, the next generation of business owners should focus on building capability and attracting funding to facilitate equity transfer.

Succession plans for strata businesses



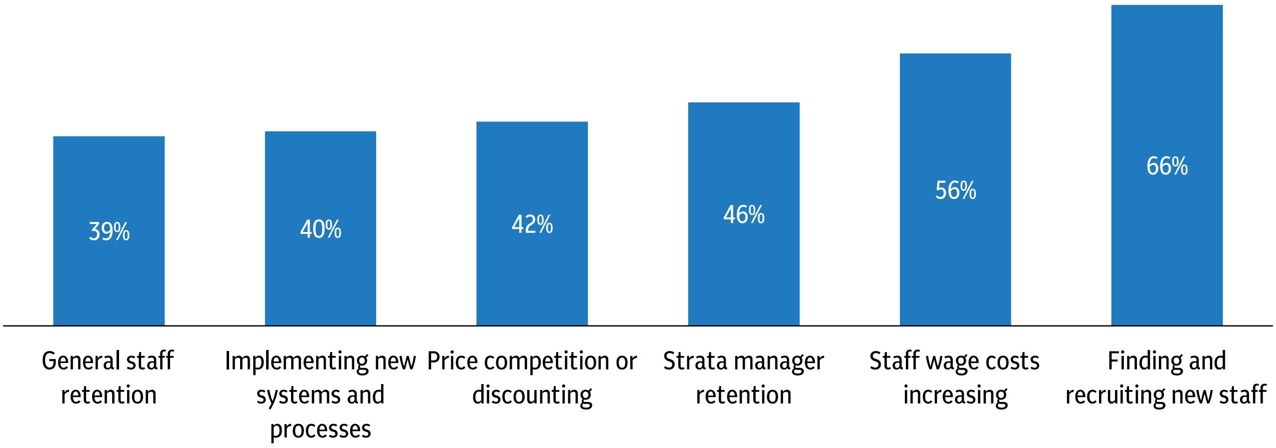
Outlook

Staffing challenges and cost management

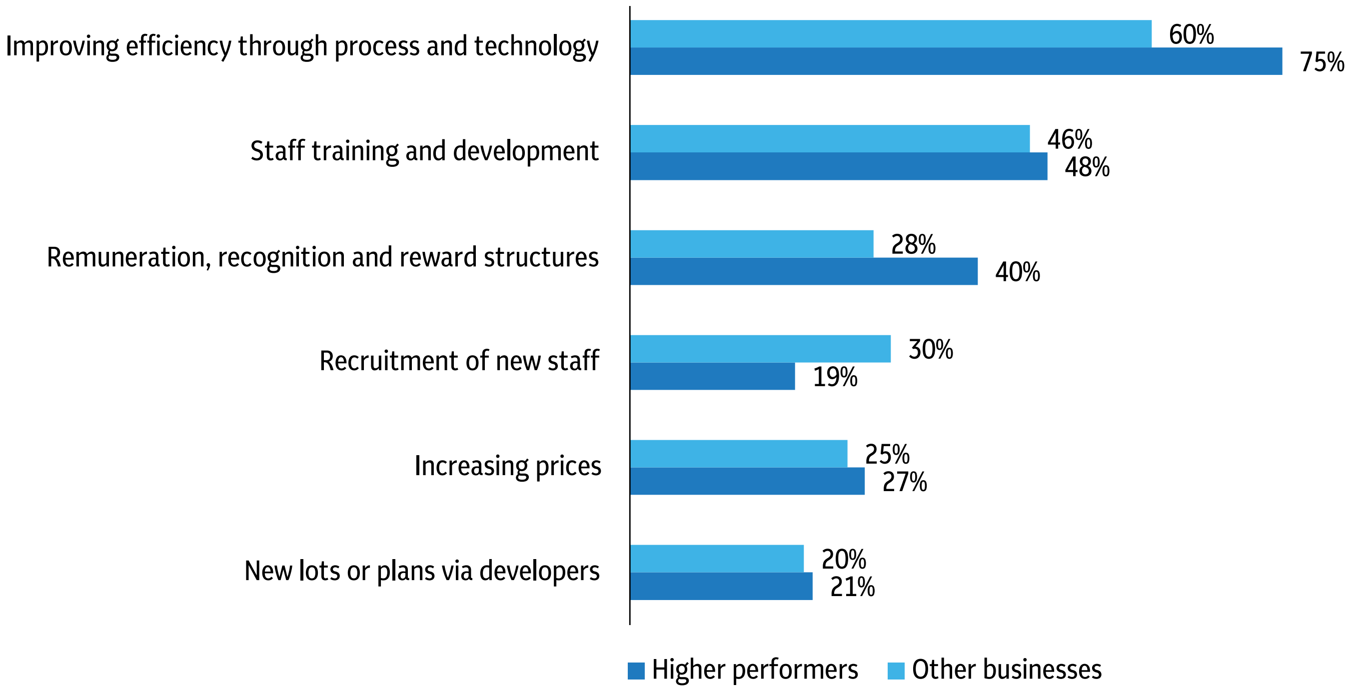
As we've seen, the biggest challenge for strata management will be recruitment, retention and managing costs of staffing. Price competition will also be a growing issue as businesses use discounting to draw customers away from competitors.

A key tool for managing these challenges are technology and improved efficiency to reduce operational costs. Technology that allows staff flexibility will also help attract and retain the best and brightest strata managers – as will attractive remuneration, recognition and innovative reward structures.

Most important challenges for strata businesses in the next 12 to 24 months



Most important focus areas for strata businesses in the next 12 months



How will your business respond?

Now is the time to put these data points and insights to work.

In our view, the outlook for the strata sector remains strong – largely in part to the continued construction cycle, and resultant lot growth. However, our analysis also reveals that shrinking profit margins are a persistent challenge.

As strata management increases in sophistication and complexity, the need to recruit or train specialists – and then retain them – has never been more important. Yet this will mean salaries and operating costs will continue to rise.

Plotting a new trajectory

To continue to benefit from profitable growth, it's clear that strata businesses won't be able to continue with business as usual. Now is the time to plot a new trajectory, by:

1. Defining your business purpose
2. Developing a compelling value proposition – one that enables you to increase your prices
3. Differentiating against your competitors to ward off competition

Macquarie Business Banking's strata management team is here to help guide you as you develop your growth strategy.

State observations

New South Wales

Strongest growth nationally

For New South Wales, average gross revenue and revenue per lot leads the country, with 80% of these state and territory businesses growing their revenue year-on-year versus the national average of 78%. It's perhaps unsurprising, given that New South Wales have the highest and second highest mean price of residential dwellings.

But while revenue is strong in New South Wales, the total cost of strata manager remuneration is also the nation's highest. This has helped drag average margins down to 18% – well below the national average of 23%.

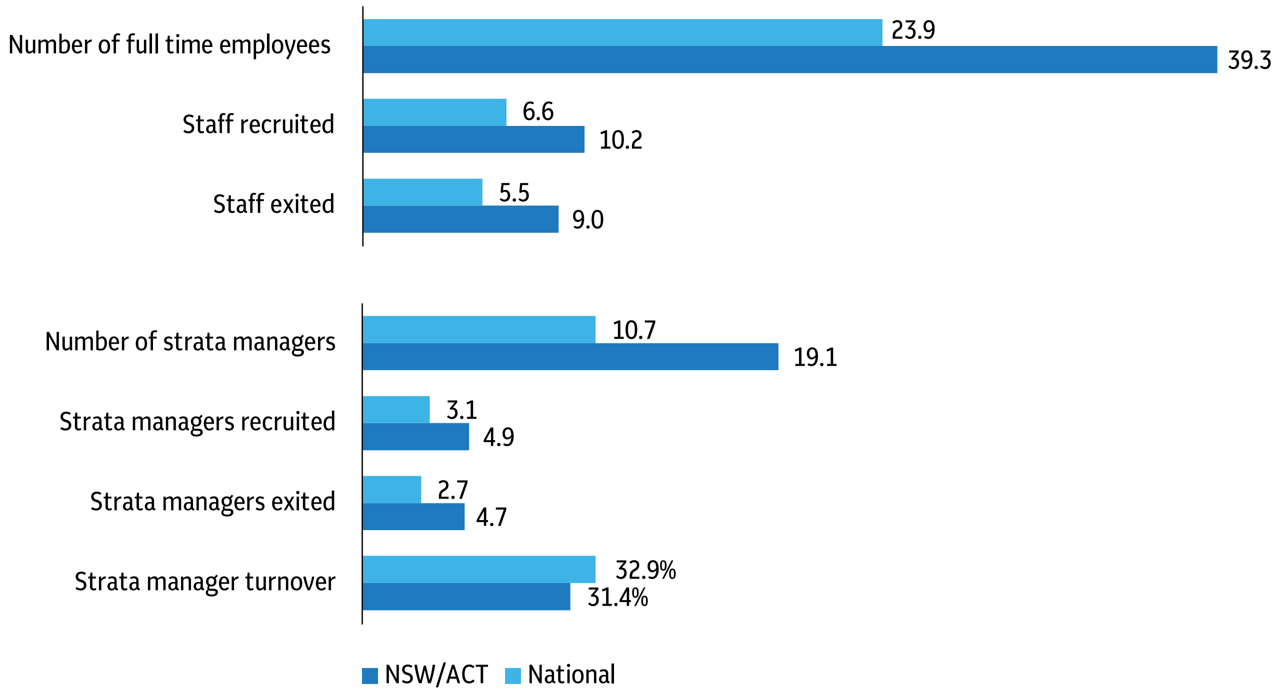
It's also interesting to note that 19% of New South Wales businesses are higher performers, below the national average of 22%. So despite average gross higher revenue, businesses in these regions are hampered by costs, especially staffing. However, with strata manager churn at 31%, this is slightly lower than the national average of 33%.

Key metrics

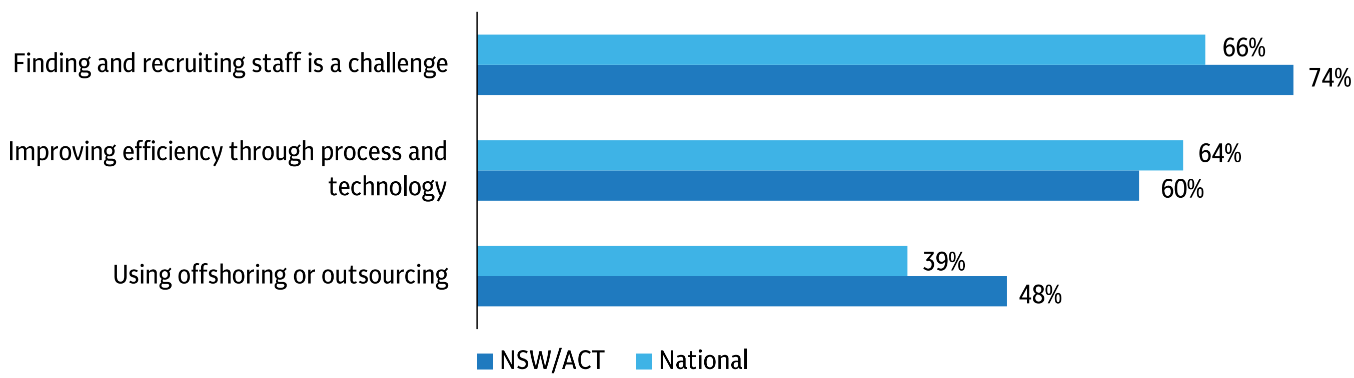
	NSW/ACT	National
Average revenue	$3,299,592	$2,495,456
Median revenue	$2,000,000	$1,659,214
Average revenue per lot	$479	$453
Median revenue per lot	$469	$439
Average profit	$607,923	$579,960
Median profit	$500,000	$327,000
Average profit per lot	$86	$102
Median profit per lot	$119	$109
Grew revenue year on year	80%	78%
Average margin	18%	23%
Are higher performers	19%	22%

People

Junior strata manager total remuneration	Australia	$60,334
	NSW/ACT	$62,661
Senior strata manager total remuneration	Australia	$97,701
	NSW/ACT	$104,061



Operations



State observations

Victoria

Stronger profit margins earned from lower per lot revenue

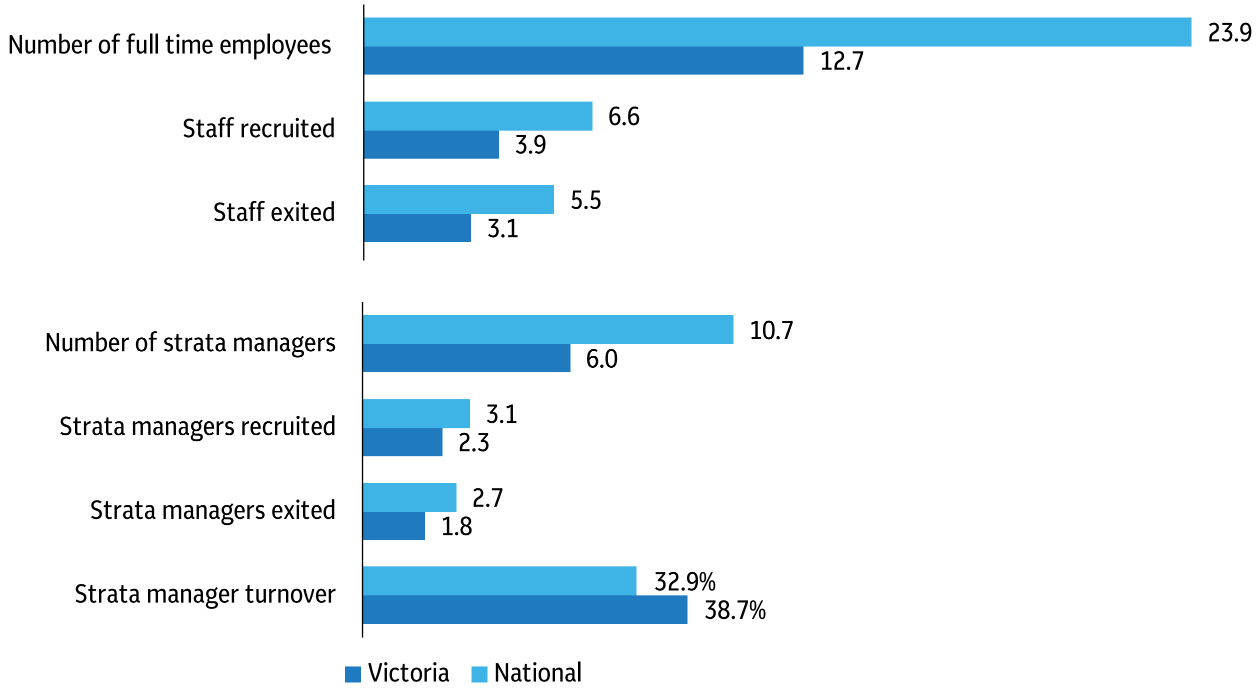
Victorian businesses collected the lowest revenue compared to other states and territories. Yet they still managed to retain the highest profit margin. This is also despite dealing with the highest turnover of strata managers (38.7%, compared to the national average of 32.9%), and slightly higher salaries.

Key metrics

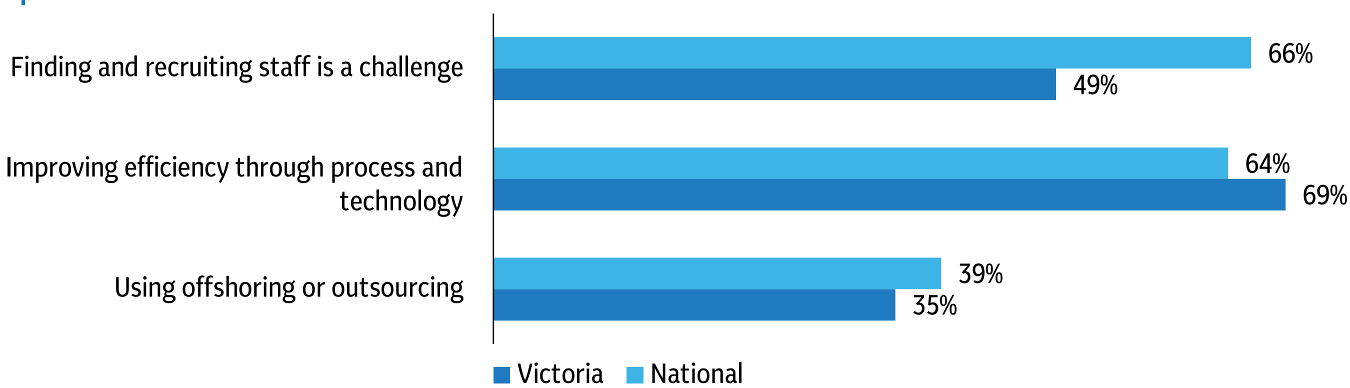
	Victoria	National
Average revenue	$1,858,264	$2,495,456
Median revenue	$1,250,000	$1,659,214
Average revenue per lot	$425	$453
Median revenue per lot	$408	$439
Average profit	$508,306	$579,960
Median profit	$443,524	$327,000
Average profit per lot	$112	$102
Median profit per lot	$116	$109
Grew revenue year on year	74%	78%
Average margin	27%	23%
Are higher performers	26%	22%

People

Junior strata manager total remuneration	National average	$60,334
	Victoria	$62,498
Senior strata manager total remuneration	National average	$97,701
	Victoria	$98,511



Operations



State observations

Queensland

Higher performance today and investing for tomorrow

Queensland led the country in terms of higher performing strata businesses at 31% versus the national average of 22%. At 91%, Queensland strata businesses also had the highest rate of year-on-year profit growth in Australia.

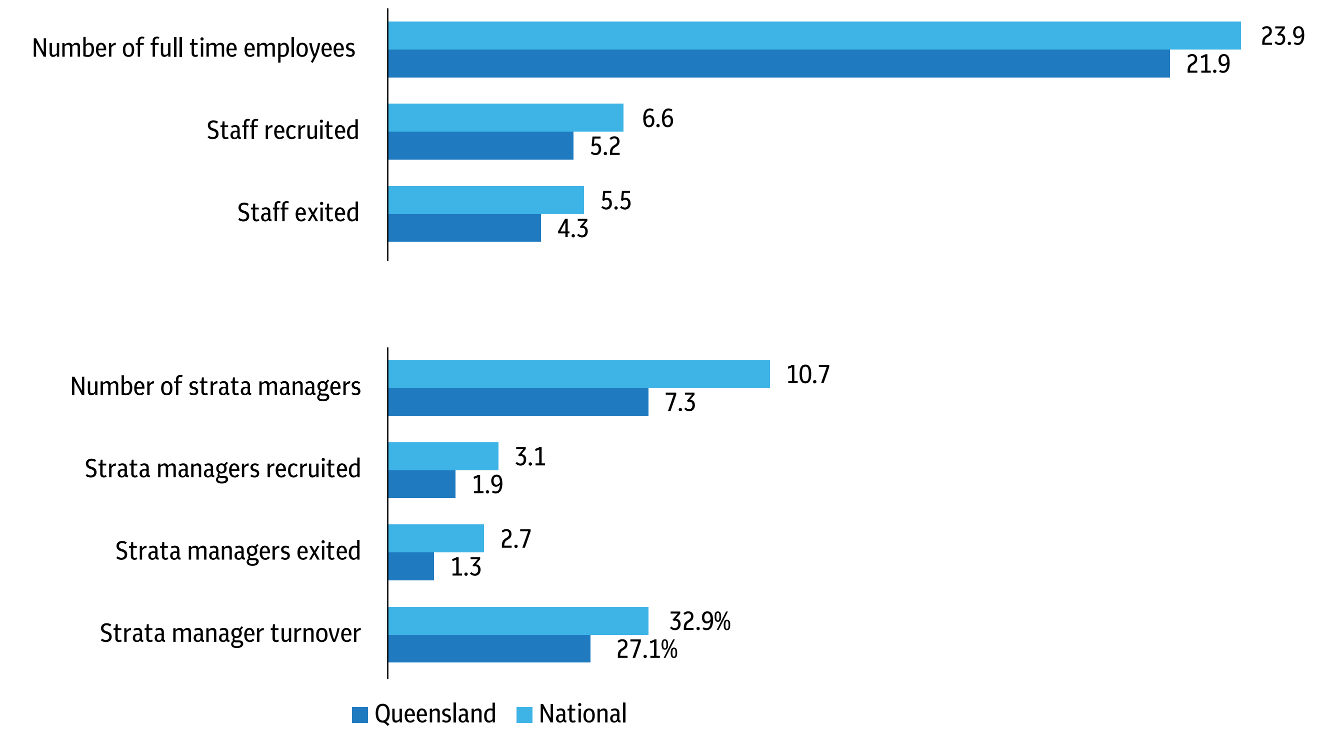
Queensland strata business owners were the keenest of all states to invest in processes and technology to improve their efficiency. This places them in good stead for strong profits in the coming years.

Key metrics

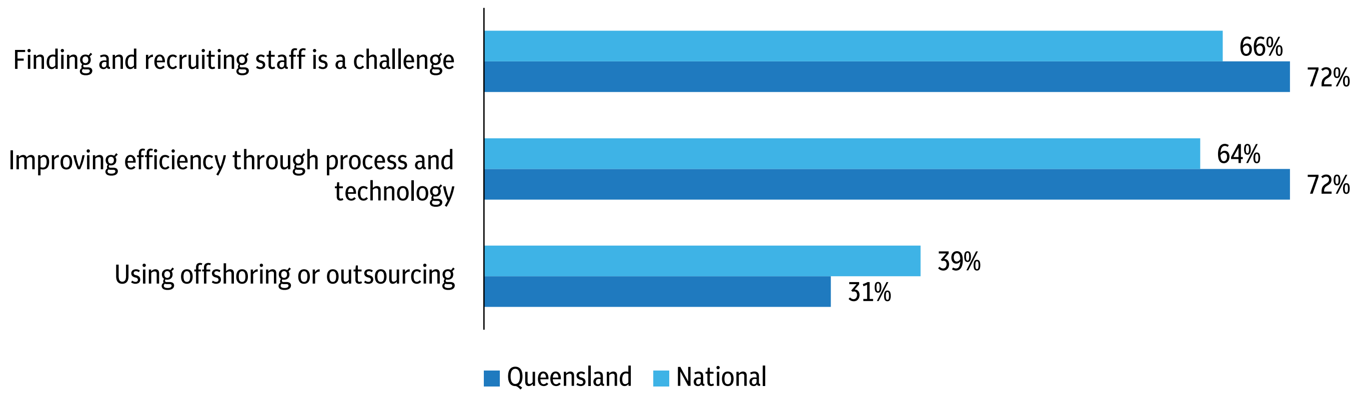
	Queensland	National
Average revenue	$2,899,327	$2,495,456
Median revenue	$1,850,000	$1,659,214
Average revenue collected per lot	$449	$453
Median revenue per lot	$429	$439
Strata manager turnover	27.1%	32.9%
Average profit	$732,410	$579,960
Median profit	$459,000	$327,000
Average profit per lot	$108	$102
Median profit per lot	$141	$109
Grew revenue year on year	91%	78%
Average margin	25%	23%
Are higher performers	31%	22%

People

Junior strata manager total remuneration	National average	$60,334
	Queensland	$60,684
Senior strata manager total remuneration	National average	$97,701
	Queensland	$95,055



Operations



State observations

Western Australia

Lower staff costs contributing to higher profit margins

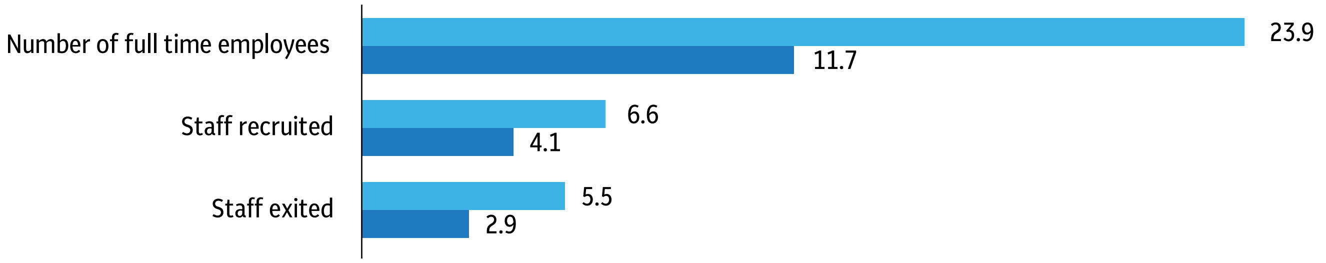
Western Australian strata businesses are generating stronger profit margins than the national average. Our analysis also shows that lower strata manager salaries and lower strata manager churn versus the national average have contributed to strong financial performance.

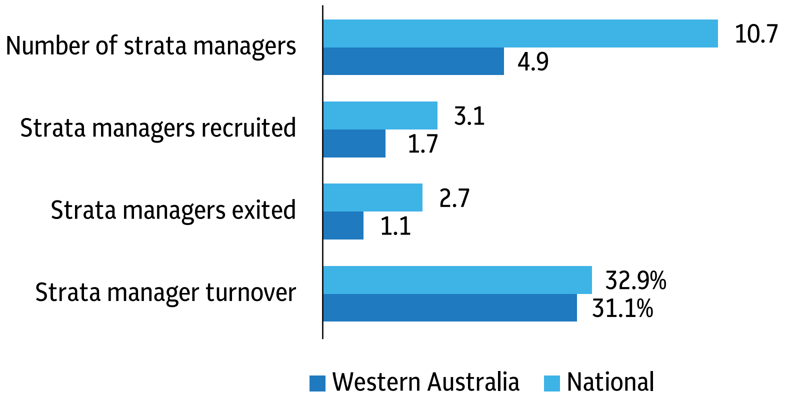
Key metrics

	Western Australia	National
Average revenue	$1,501,964	$2,495,456
Median revenue	$1,650,000	$1,659,214
Average revenue per lot	$447	$453
Median revenue per lot	$446	$439
Average profit	$439,780	$579,960
Median profit	$459,000	$327,000
Average profit per lot	$131	$102
Median profit per lot	$128	$109
Grew revenue year-on-year	67%	78%
Average margin	26%	23%
Strata manager turnover	31.1%	32.9%
Are higher performers	20%	22%

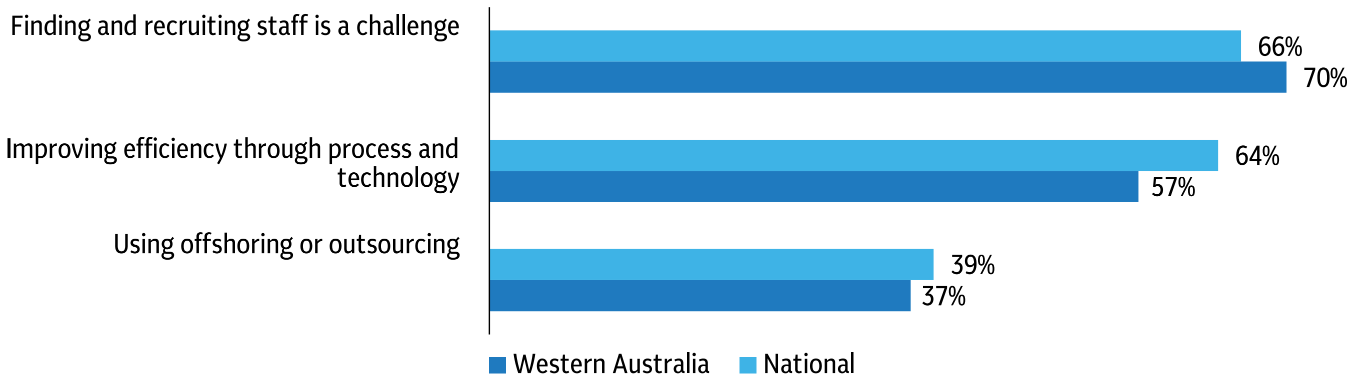
People

Junior strata manager total remuneration	National average	$60,334
	Western Australia	$51,718
Senior strata manager total remuneration	National average	$97,701
	Western Australia	$91,141





Operations



Smaller strata businesses

Businesses with fewer than 1,000 lots face different challenges

In this report, we have divided our findings into two groups – larger and smaller strata businesses. We have reported the findings for both groups separately, primarily due to the role and remuneration of the business owner in a smaller strata business. Both groups experience different challenges and opportunities – and dividing the data avoided distortions in the findings.

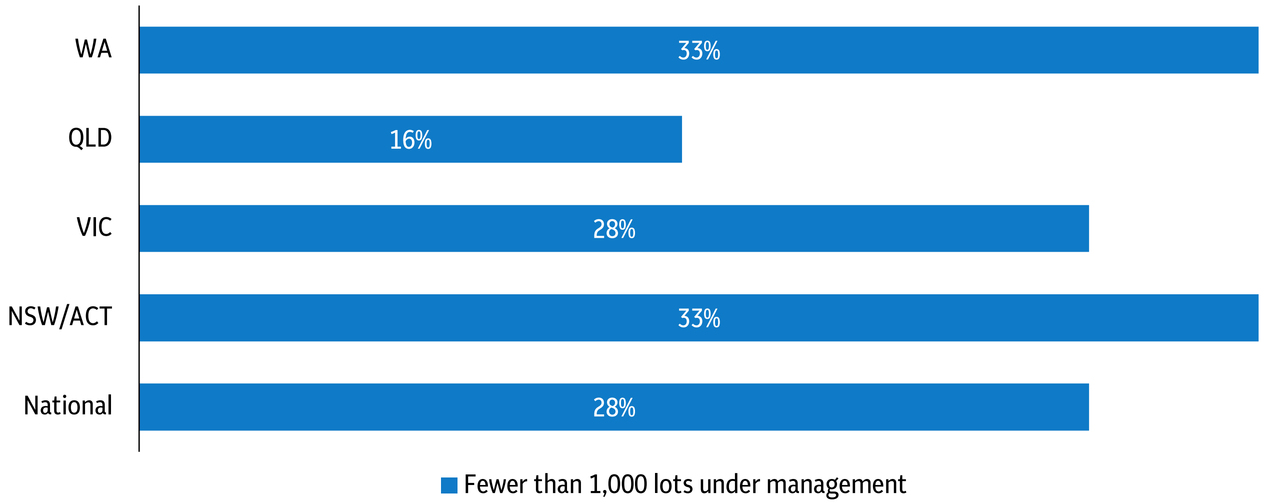
We define smaller strata businesses as those with fewer than 1,000 lots under management. They are typically owner-operators. This means have no or very few staff – so the economics of their businesses differ significantly from firms with a large workforce.

Our survey revealed that the owner-operator model's greatest challenge is the succession process – where the owner wishes to realise the value they've created. Of this cohort, 30% told us that they would like to step back from day-to-day activity. In our view, these business owners need to start planning now to evolve their businesses to operate independently.

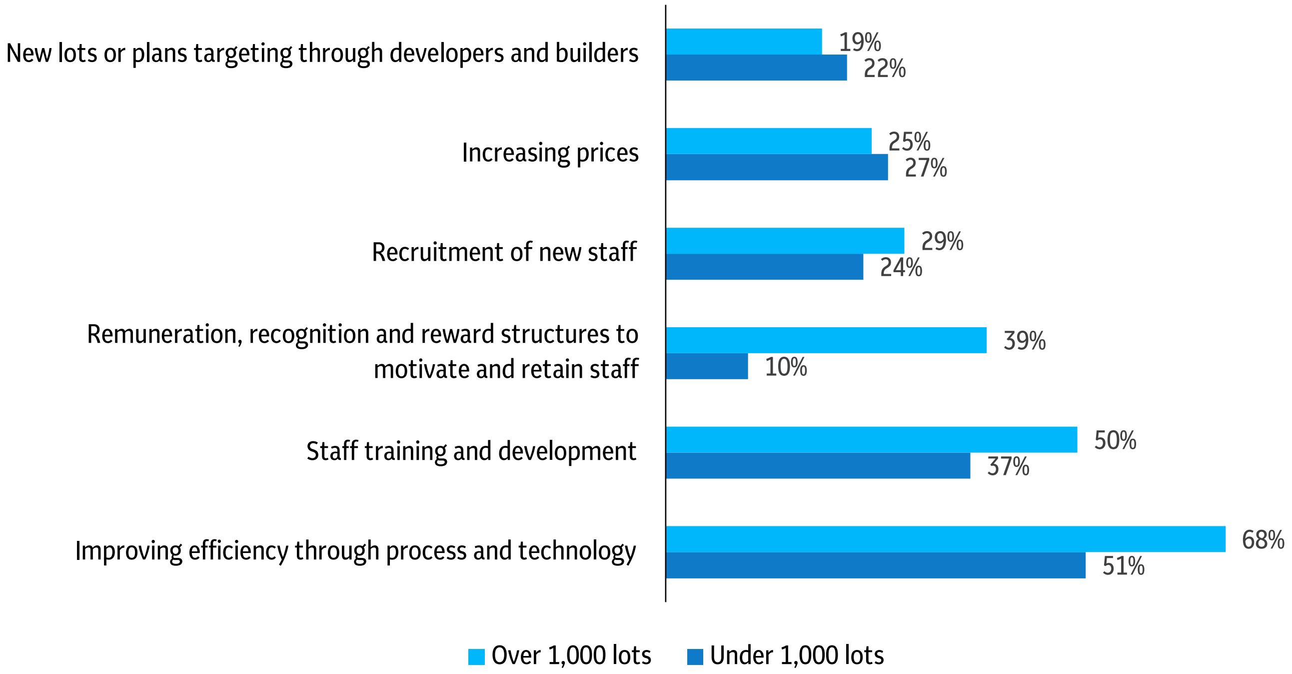
The good news is that 51% plan to focus on process and technology in the next 12 months to improve efficiency. However, they still lag their larger counterparts, with 68% of businesses that manage more than 1,000 lots planning to invest more in process and tech solutions.

Our research also revealed that smaller operators are less concerned about forecasted challenges for the next 24 months compared to larger strata businesses. This is likely to be because rising remuneration costs will have a smaller effect on their business.

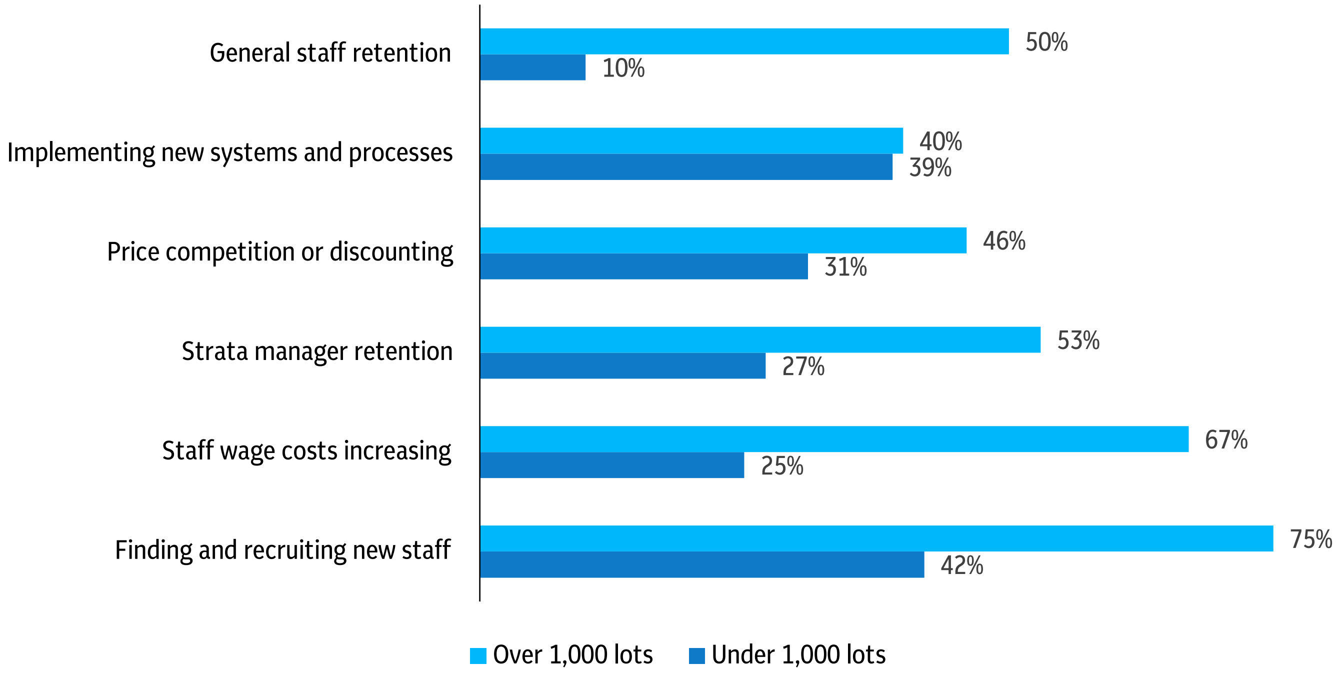
State attribution of smaller strata businesses



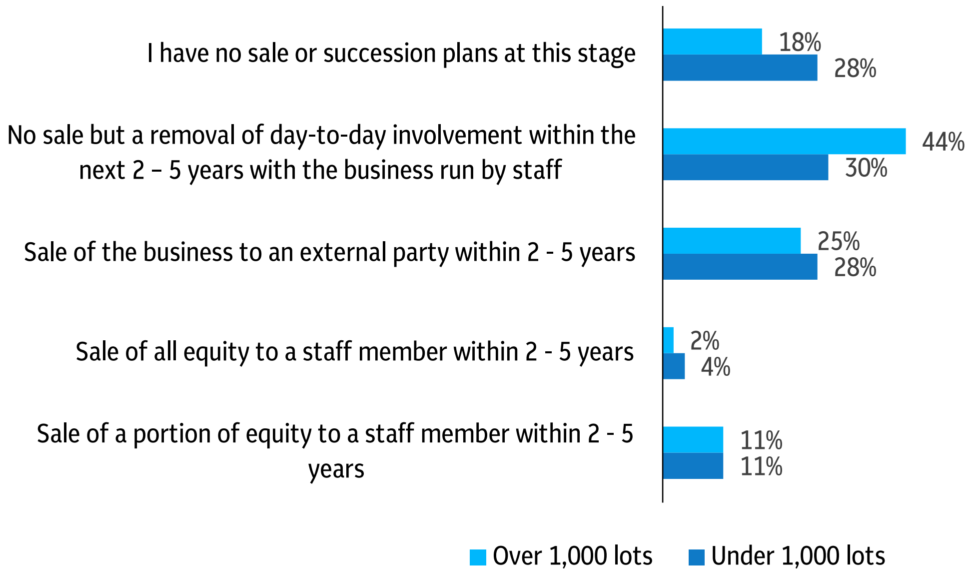
Key focus areas in the next 12 months



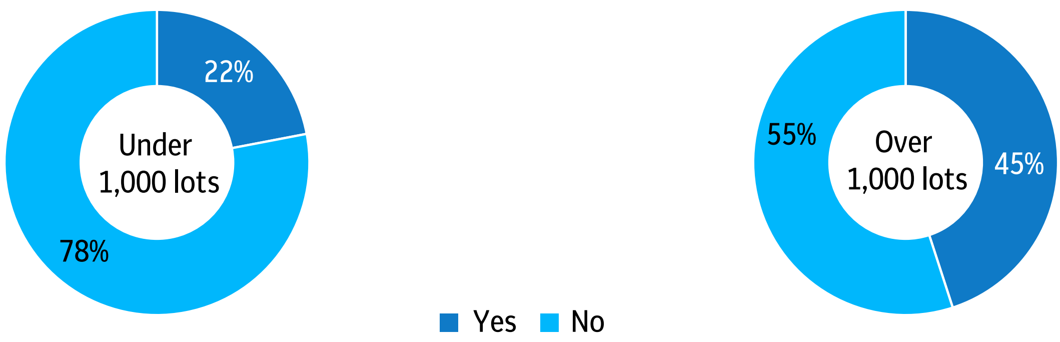
Challenges expected in the next 12 to 24 months



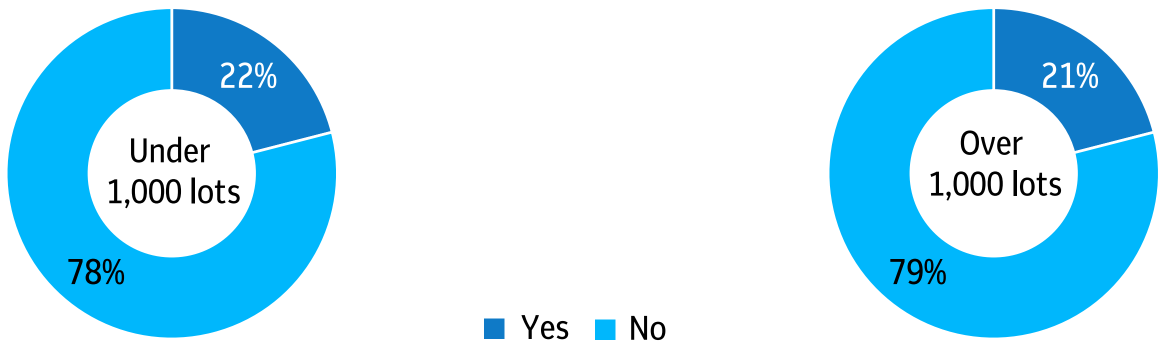
Succession plans



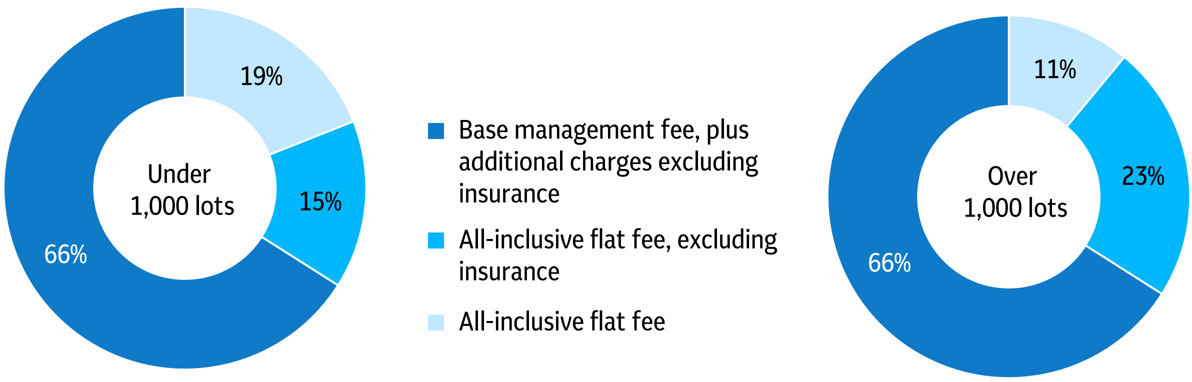
Use of outsourced or offshore staffing solutions



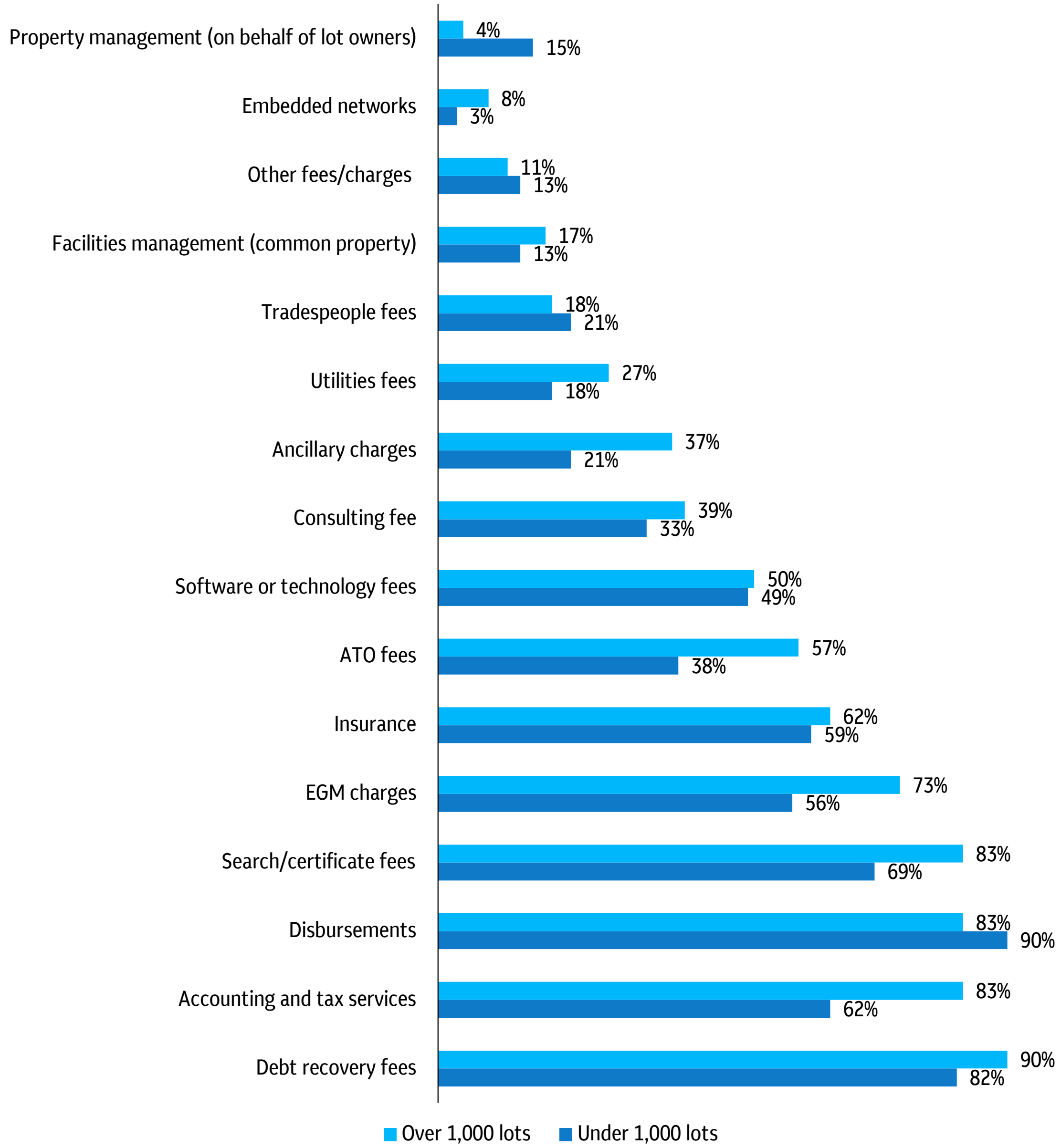
Considering outsourced or offshore staffing solutions



Management fee structure



Additional charges added to the base management fee



Ready to learn more?

Having worked with small and mid-sized businesses for decades, Macquarie Business Banking has seen many successfully navigate challenging situations and environments – building more adaptive organisations that continue to thrive.

We help businesses grow and change, for their owners to capture opportunities, and realise their true value, achieving their goals. Having worked with leaders in the strata industry since 1985, we've seen businesses move through market cycles, evolving their business, and the industry they operate in.

As your business charters its course through the pandemic and beyond, we can help you put thought to work, and insight into action, with data, frameworks, and tools to help your business thrive through change.

How do you manage through this inflection point, accommodating the impact of today, while planning for tomorrow? Please get in touch.

Tim MacKenzie
National Head of Strata
Macquarie Business Banking

www.macquarie.com.au/strata