PERSPECTIVE

# Generating better business outcomes

## Navigating a complex landscape with confidence

2023 Real estate industry benchmarking report

MACQUARIE BANK

How are real estate agencies performing? What are agency owners doing to deliver value for their clients, team, network, and themselves? And what are their plans?

To provide context and insight to these and other questions, Macquarie Business Banking conducted a survey of real estate agencies around the country. Our study reveals a resilient industry, emerging from the highs and lows of recent years with clear intention.

# Foreword

## Improving governance and process to generate better business outcomes.

Real estate business owners consistently navigate events outside of their control, with recent market volatility requiring businesses to adapt quickly. This is the current reality, with no maturity date in sight.

Combined with more topics featuring on the leadership agenda, it is no surprise that many agency owners operate in a state of fatigue, which impacts their ability to manage with clear purpose and direction.

So how do we minimise the noise, deliver improved business outcomes, inspire people, and realise full business value when it's time to sell or exit?

Macquarie Business Banking's 2023 real estate benchmarking research highlights the need for improved systems, policies and procedures, to provide stability with more consistent and sustainable financial outcomes.

Implementing a framework for accountability, where actions are measured, is required. Through more deliberate planning, agencies can build the foundation for long-term prosperity, be it for business continuity, profitability, increasing scale (organically or via acquisition), or working towards succession and exit.

Additionally, the industry needs to address a challenge of attracting and retaining key talent. People need clarity, structure, reward and recognition, but more fundamentally, they need to want to come to work, feeling inspired by leaders and colleagues. If culture is the natural outgrowth of people with shared values, then businesses need to embed those values, as they influence behaviours and outcomes.

The industry is at an inflection point. With an increased number of respondents flagging their desire to consider life after real estate business ownership, succession is back in focus. This presents many opportunities, but requires energy to build capacity, profitability, and sustainable performance.

Through my time with Macquarie, working with real estate business owners to achieve their personal and professional goals has been hugely rewarding. I am genuinely excited by the conversations that I've been having with clients, as we look beyond the pandemic to carve out a future for business, family, and staff. If you would like to discuss your plans, our team would be thrilled to work with you.

Domonic Thompson
National Head of Real Estate
Macquarie Business Banking

# Contents

# About the research

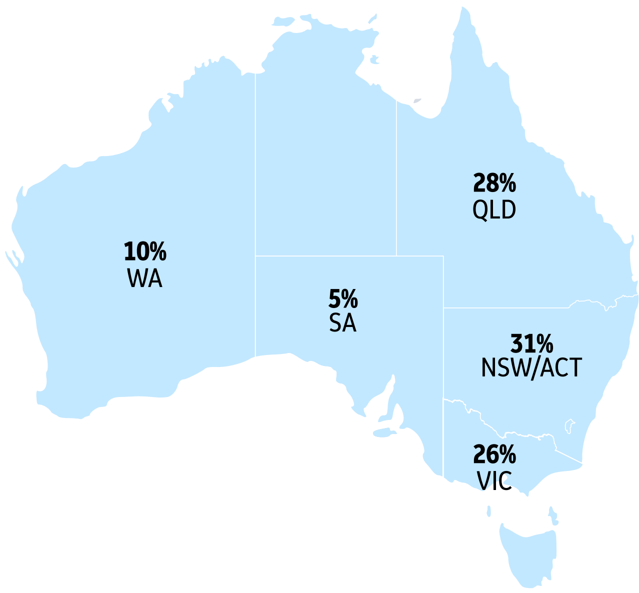
This report provides a portrait of some of Australia's larger real estate businesses. Their experience and performance are reflective of the industry, albeit with greater operational complexity.

Our 2023 benchmarking study surveyed 431 residential real estate agencies across Australia, conducted for Macquarie Bank by market research agency, Fiftyfive5, in mid-2023. It builds on our previous benchmarking studies from 2007 onwards, with trends indicative of shifting focus and priority.

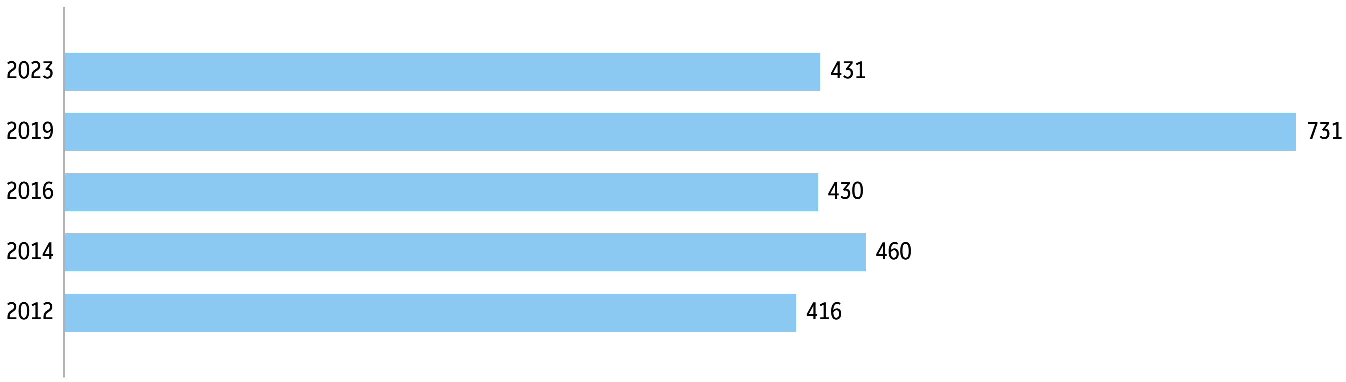
## The respondents

Study respondents were representative of larger agencies across Australia – both independent and franchise businesses. A larger number of franchise or network respondents was evident in Victoria (VIC), at 63%, and New South Wales (NSW), at 53%, with only 36% of respondents in Queensland (QLD) being part of a state or national group or network.

**Geographic profile of participants**

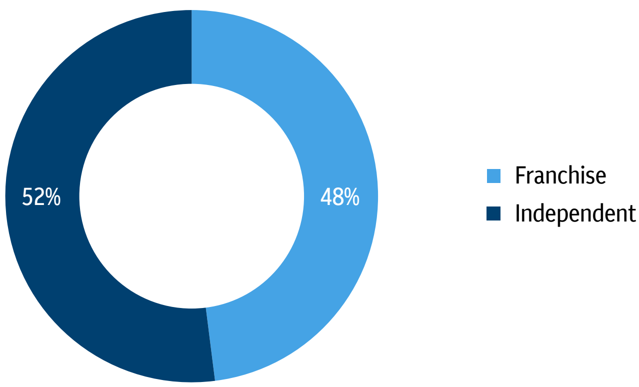



**Respondents**

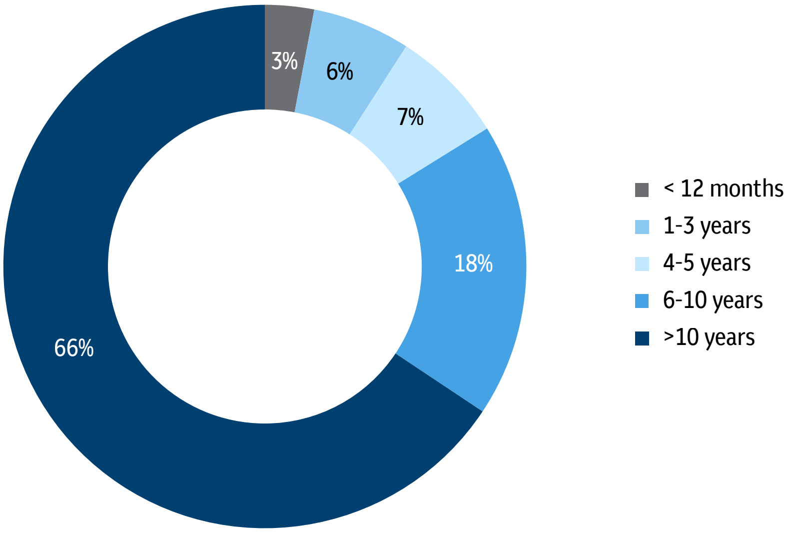



Note: The 2019 study was a shorter industry survey

**Agency type**

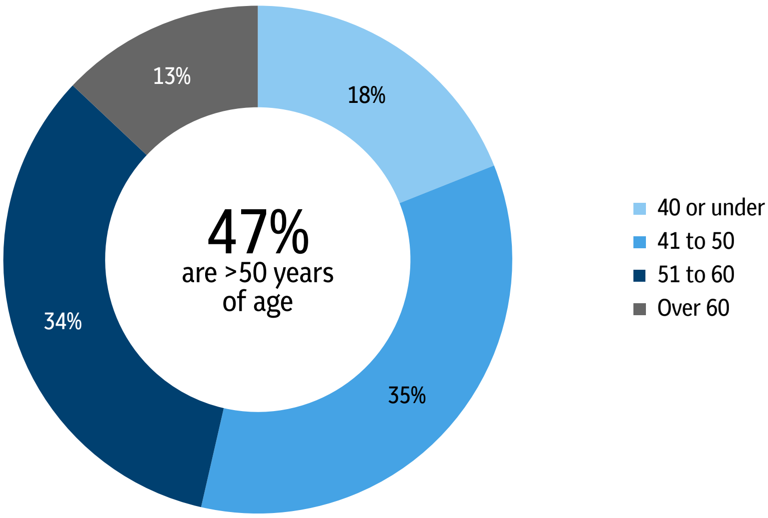


## Tenure of operation




In 2023, we see a larger representation of agencies operating for longer tenures. In our 2023 study, 66% of respondents had been in business for over 10 years; up from 53% in 2016.

## Age of principal

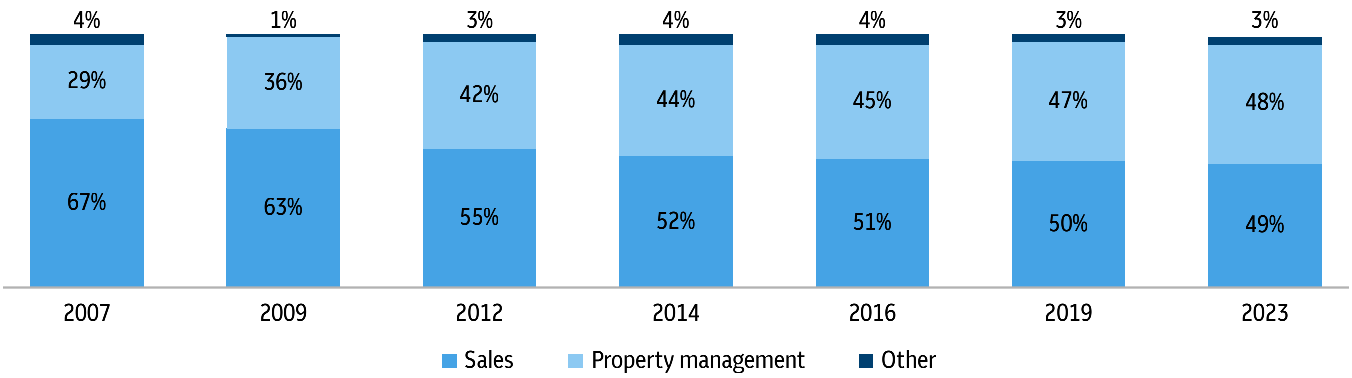



Tenure of operation and age of principal will be key factors in increasing succession, exit, and acquisition activity, following a pause during the pandemic period. Nationally, the portion of agency principals over 50 has risen from 42% in 2016, to 47% in 2023 - higher in WA, at 67%.

# Business composition

Over the period that Macquarie Business Banking has benchmarked the industry, we have observed a shift in revenue composition towards the stability of property management as a recurring revenue line. In 2007, 29% of agency revenue was generated through property management. This has steadily increased to almost half of agency revenues, at 48% in 2023.

### Agency revenue mix

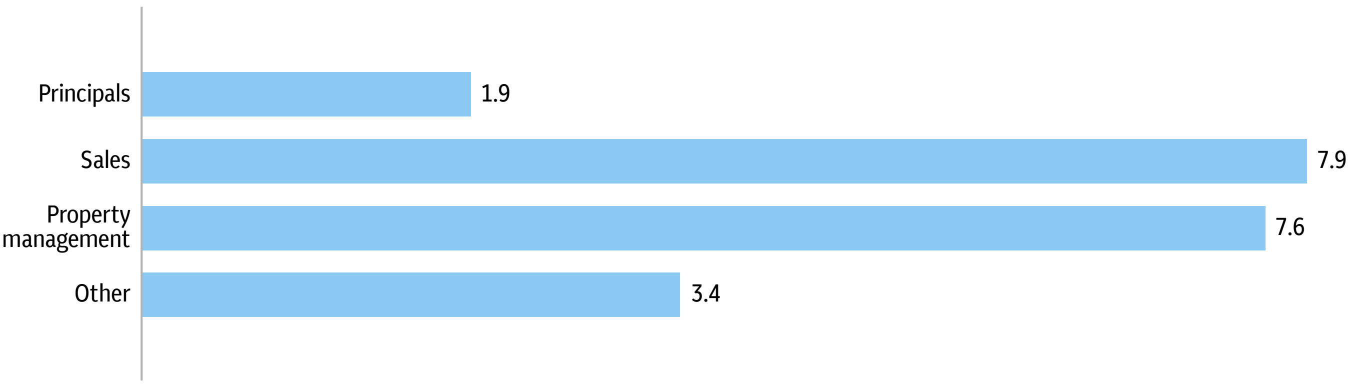



Property management revenue supports consolidation and acquisition, given the ability to buy and sell these recurring revenue lines. With operational costs increasing, building stable revenue lines, along with focus on efficiency and productivity drivers, is key to value creation.

Average annual revenues in our 2023 study were $4,218,975; significantly higher than in previous studies, and reflective of larger businesses participating in the benchmarking survey.

# Business size

### Total headcount




Nationally, agency staffing levels sit at 22, down from 24.7 in 2019, with most states showing alignment to the national average.

# Key observations

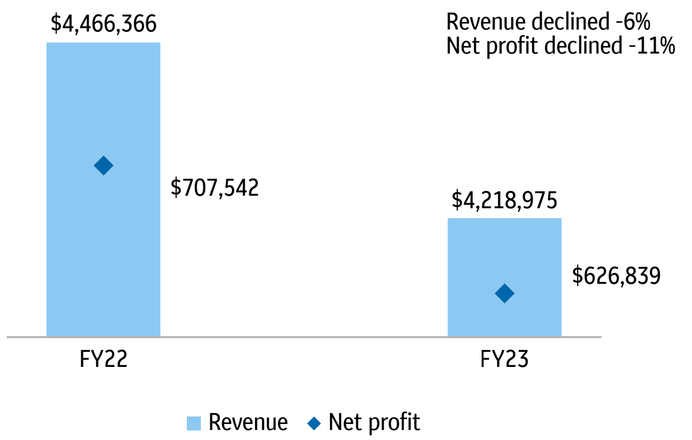
## Operating costs and commission compression impact profit margins.

The real estate industry remains vulnerable to external factors. With economic performance impacting property markets, businesses have experienced both the highs and lows of the industry's cyclical nature. Despite this, the real estate industry has remained robust in terms of revenue, but we are seeing diminished returns.

Data shows a steady decline in commission rates across both sales and property management. However, those with stronger property management focus tend to navigate this environment with more confidence.

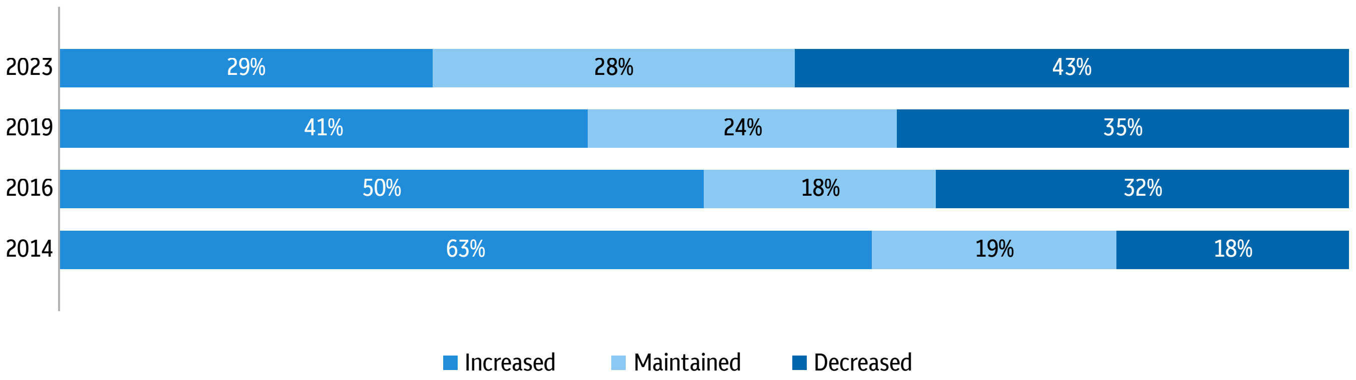
### Business under pressure

FY2022 and FY2023 gross revenue and net profit




The 2023 financial year was challenging, with declines in revenue of -6%, but more tellingly, declines in profitability of -11%. Only 29% of respondents recorded an improvement in profit in FY2023, with operating costs outpacing revenue gains.

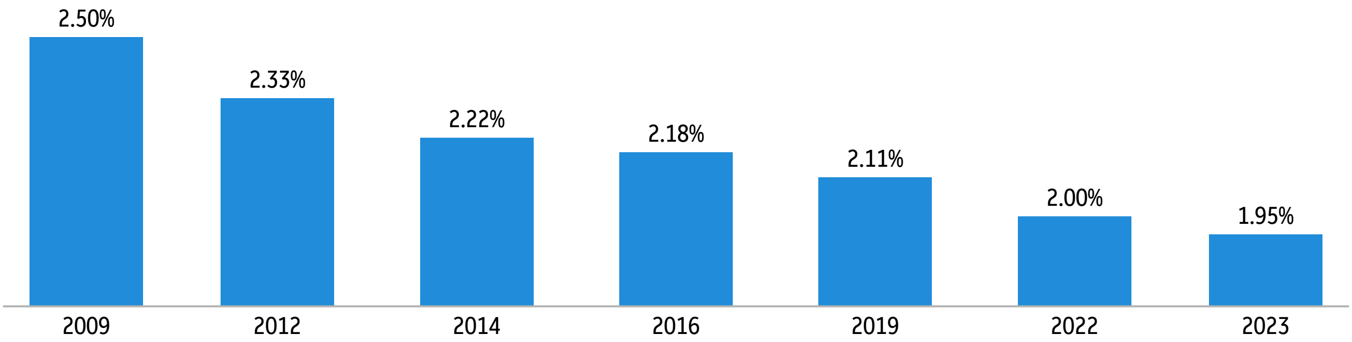
### Change in profit over prior year



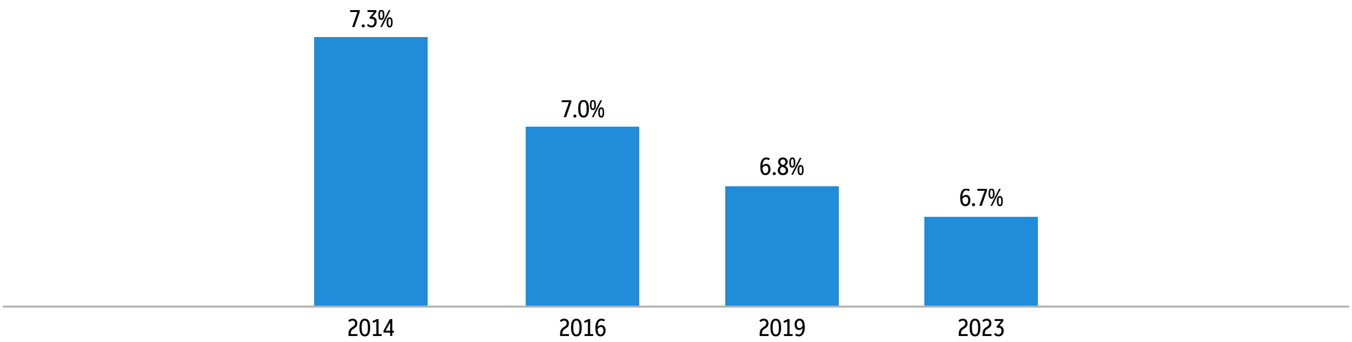

Later in the report, we will explore the operating cost pressures that contribute to this result. When coupled with deteriorating economic conditions, the ongoing challenge becomes clear.

# Commission compression

### Property sales commissions




### Property management commissions




Price competition remains a key driver in all markets. This highlights a need for businesses to improve their value propositions.

## Staff attraction and retention consume significant focus

### Key challenges

| Rising staffing and wage costs | Finding and recruiting new staff | Property manager retention |
|---|---|---|
| **69%** | **60%** | **53%** |

Staff retention and attraction has been a key topic in real estate. The cost of attraction and retention contributes to increased wage pressures, as businesses seek ways to prevent staff turnover.

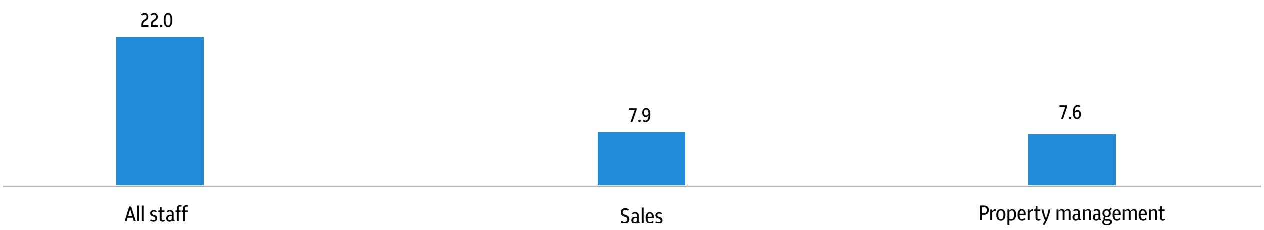
According to our 2023 survey, turnover has been 25% across all roles in FY2023, increasing to 35% when we look at property management in isolation.

Staff turnover and costs add to the pressures of agency owners, with directors and principals working to fill the gap, close transactions, and drive revenue. This acts as a cost mitigant, which in a weakening economy, is an important lever to consider. But the risk of pulling principals into execution with a leaner team is that their attention shifts from strategy and leadership.

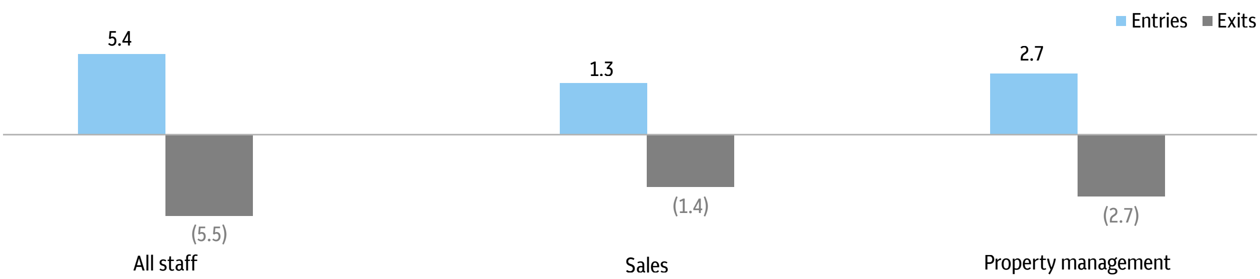
**Costs associated with attracting and retaining staff have increased, with businesses stressed by escalating costs. Agencies have been consumed by the need to fill vacant roles, train and develop new people, and attend to gaps in the client experience.**

### Staff numbers

**Current staffing**




**Staff entries and exits**



## What next? Succession and exit back on the agenda

Business sale, exit and succession activity increased through 2022, and remains strong. Agency owners are now in-market, and motivated to realise their plans, after an unstable period of pandemic lockdowns and market volatility deferring most merger and acquisition activity.

But, with an ageing population of agency owners, the challenge for many will be navigating a highly competitive landscape to transact. 55% of all business owners indicated they had an intention to either sell in full or part, or reduce day-to-day involvement in the business, within the next two to five years.

With this in mind, the key to realising value will be understanding, and maximising, business value.

Consider:

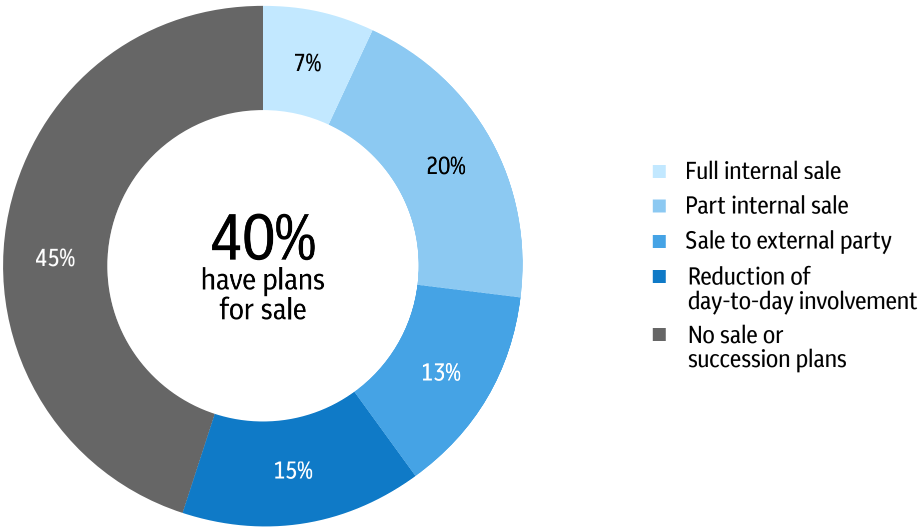
**Business metrics and performance**

**Strong processes and systems**

**Development opportunities and for staff**

**Client value proposition**

### Future ownership and involvement



# Business performance

## Revenue

### Deteriorating economic conditions and increasing costs test business resilience

Agencies are adjusting differently to new levels of activity and changing property values, after spirited activity and emotion in 2020 through to 2022 – and we can see this in both Macquarie's internal data and our benchmarking study.

Lower levels of sales activity have had negative impacts on revenues in many agencies, with our internal data suggesting that revenues in some businesses are at the same level as they were in 2021. However, our benchmarking responses saw 53% of businesses report revenue increases in FY2023.

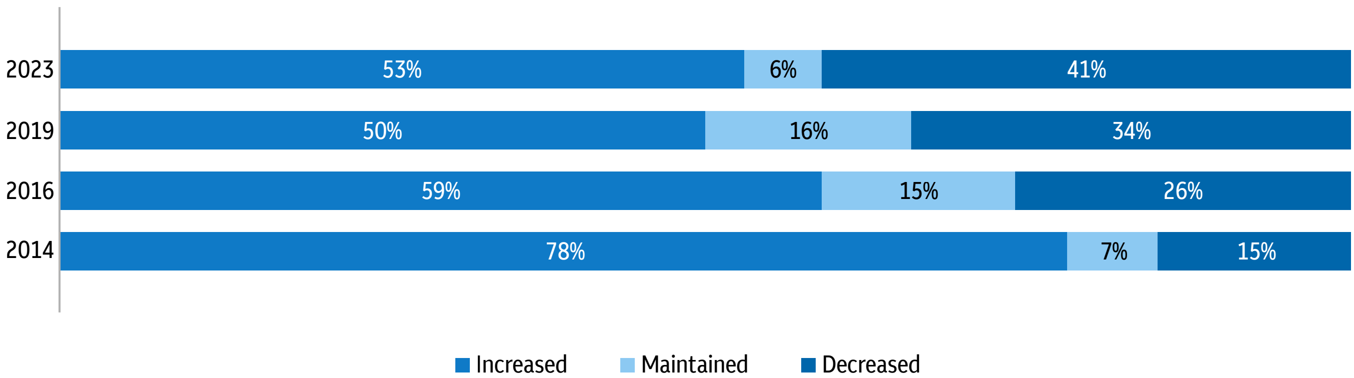
While this is an impressive feat given the backdrop of rapid inflation and rising cash rate, the data also shows that increases were incremental, and reported more so by agencies in WA and QLD, where markets were less impacted by a weakening sales environment.

Some of the revenue increases can also be attributed to market consolidation, or, in some cases, the positive effects of brand and consumer investments; we may be seeing a flight to quality for clients who feel reassured when represented by an agency whose reputation is strong.

There are agencies across the country harnessing brand and market presence and robust operating practices to help maintain a strong position in adjusting markets, while others are scaling up though acquisition to counter these conditions.

As we consider revenue changes over time, what is also highlighted is the increasing challenge to improve revenue year-on-year, with 41% of those surveyed seeing decreased revenue in 2023, compared to 15% back in 2014.

**Change in revenue v prior year**



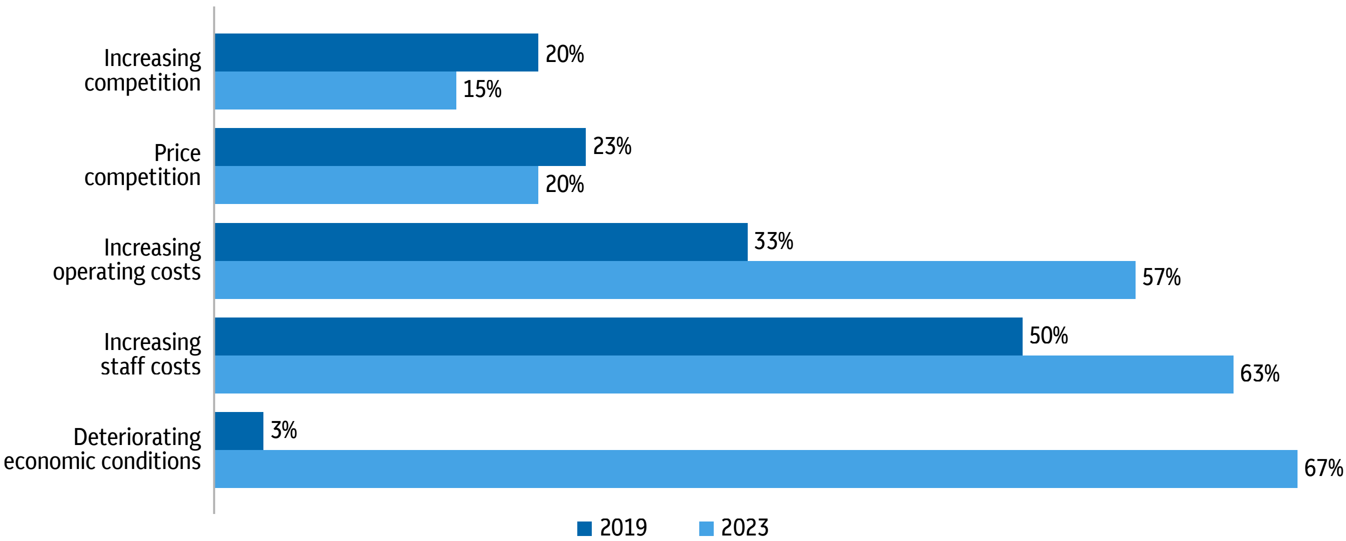
While market conditions have an impact on revenue, revenue margins also play a role. Our survey highlights a compression of commission margins across sales and property management, with national sales commissions charged to vendors falling to 1.95% (from 2.11% in 2019), and property management commissions at 6.7% (from 6.8% in 2019). Price discounting and competition was also identified by 43% of respondents as a key challenge, most prominent in SA (58%).

This has been masked by a backdrop of rising property asset values and rental market strength in recent years.

Business models need to be addressed, and built around more stable income flows from adjacent property services.

Reliance on increasing asset values leaves agencies vulnerable to market turbulence.

**Drivers of profitability decline**




Outside of deteriorating economic conditions (67%), increasing staff costs (63%) and operating costs (57%) have tested business resilience as the key reasons for profitability decline in FY2023. Operating cost pressures have increased significantly from 33% in 2019, while increasing staffing costs were still a challenge in 2019, accounting for 50% of the responses.

# Expenses

Staffing costs and operating expenses are straining business resilience. As agency owners look to navigate issues that influence market activity, expense management becomes critical to the sustainability of business and profit maintenance.

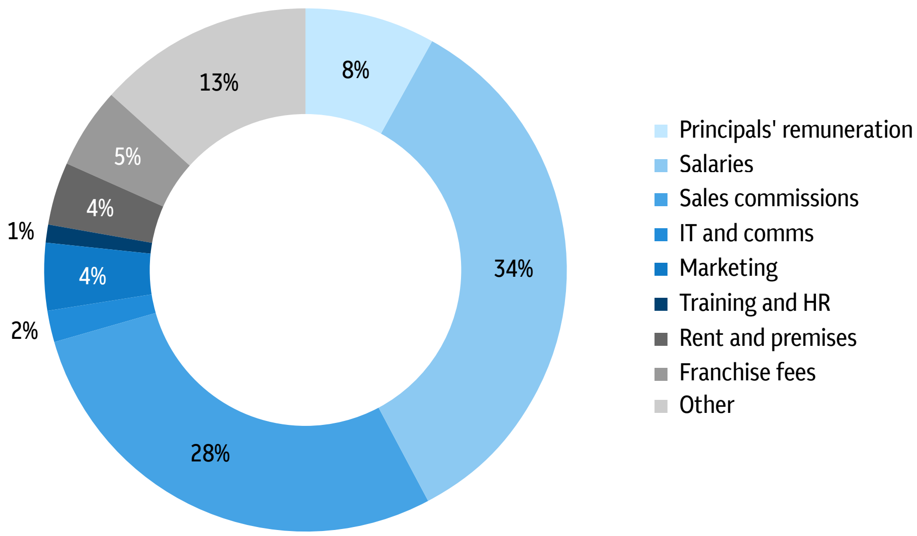
Expense management is not explicitly about cost rationalisation, but business owners must ensure a focus on appropriate staff productivity.

As we look at agency expenses in 2023, what is clear is the significance of the costs attributed to staff, with salaries and sales commissions accounting for 62% of overall expenses, and for 49% of revenue, which puts agencies at an inflection point. Agency owners need to focus attention on productivity and efficiency, to ensure that these costs are returned in value.

In other industry benchmarking studies, we have observed similar rising operational costs impacting profitability. The strata industry's portion of revenue occupied by remuneration has risen from 29% in 2005 to 49% in 2022, and similar observations have been made of the financial advice industry.

**62%** **of expenses are occupied by staff salaries and commissions**

**Expense profile**




Staffing levels are lower (15% lower than in 2017) yet staff salaries and commission have increased: from 52% of expenses in 2017, to 62% in 2023.

This is more of an issue in WA (70% of expenses), where businesses are being forced to consider other aspects of the employee experience to help attract and retain talented people.

These figures highlight the need to be mindful of how staffing costs impact profitability, but also how the industry needs to consider opportunities beyond remuneration.

Most other costs remain proportionate to prior studies. However, the overall expense profile continues to grow, as service providers and other input costs incrementally increase. This places agencies under increased pressure.

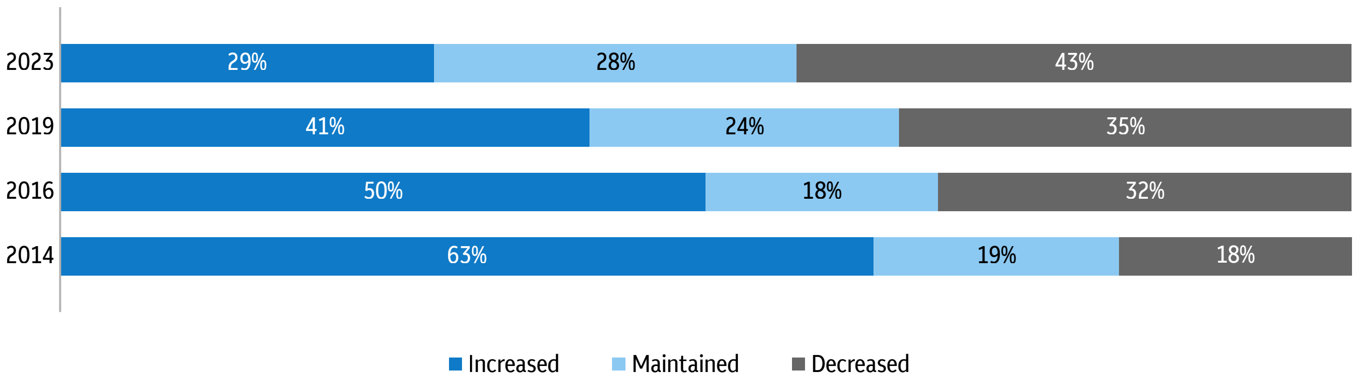
Understanding business expenses, especially those that can be manipulated in changing markets, is imperative to stabilise business performance through economic and property cycles.

# Profit

While revenue lines have been influenced heavily by external factors, profit margins and performance remain within the relative control of agencies, through cost management, efficiency, and productivity monitoring.

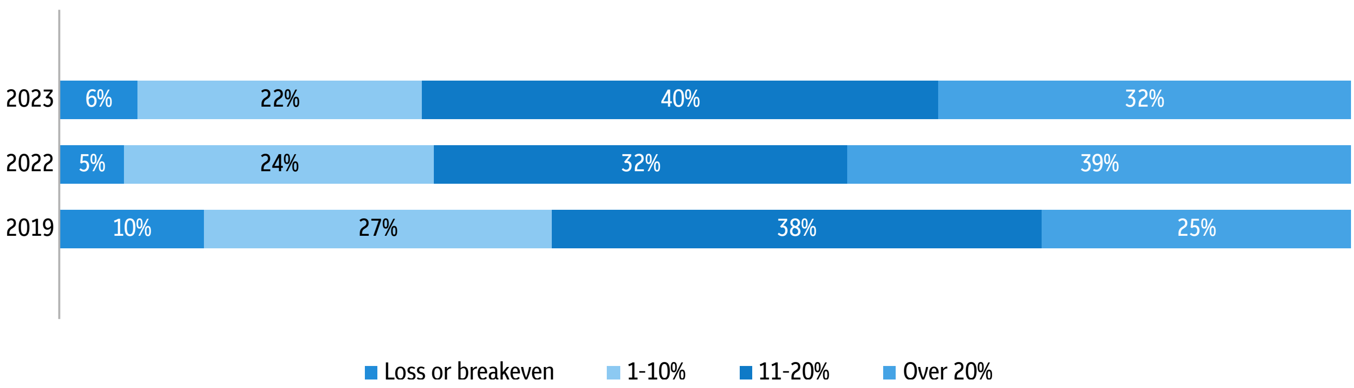
Only 29% of those surveyed saw an increase in profitability, highlighting cost pressures. The survey also highlights the challenge of improving profitability over time, with an increasing number of businesses reporting declining year-on-year profitability since 2014.

**Profit growth**



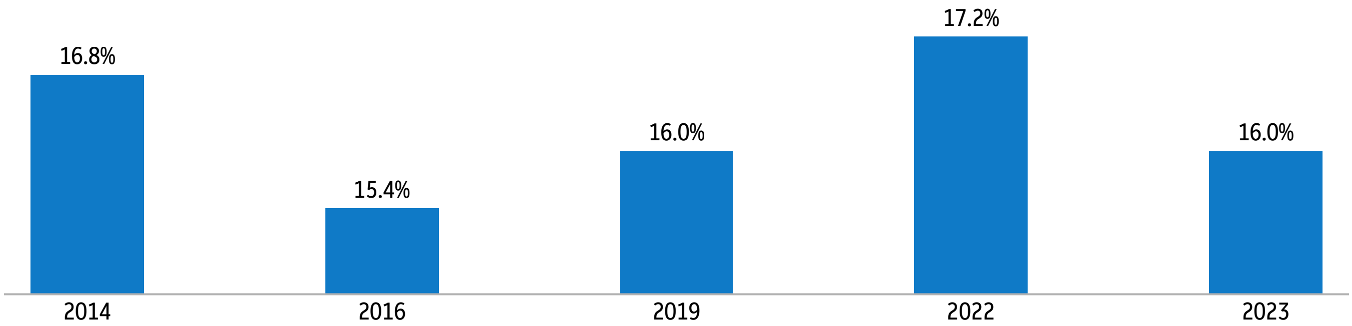

There is room for improvement in understanding business cost levers, and there is also a need to consider businesses as a composition of separate profit centres (property sales, property management, adjacent services, administration) to allow a more granular understanding regarding profit opportunities, and where shortfalls are occurring.

**Profit profile**



Across the country, 28% of agencies generated under 10% net profit margin. This represents a significant number of principals under pressure to build stronger business foundations, and improve the balance of revenue and expenses.

**Net profit margin**




Since 2014, our industry benchmarking studies have shown minimal variance in agency net profit margins, with a low of 15.4% in 2016, and a high of 17.2% in 2022. While this highlights resilience of the industry to navigate market cycles, it also shows missed opportunity, especially when we consider the record high property asset values and spirited activity levels in market in FY2022. When referenced against other industries that Macquarie Business Banking benchmarks, net profit oscillating below 20% represents a risk to business continuity, and provides little room to manoeuvre in changing market cycles.

## A look at the outliers

In this study, a small group of agencies have navigated this turbulent environment well, maintaining or growing their agency headcount, and sustaining profits. They typically run leaner teams that achieve higher output per team member.

**11%** **outliers** v. **89%** **other agencies**

| **Defining traits** | **Outliers v other agencies** | | |
|---|---|---|---|
| Lower headcount: | **15.3** | **v** | **23.6** |
| Lower sales volume:<br>but more **sales per agent:** | **128.5**<br>**41.3** | **v**<br>**v** | **184.5**<br>**28.2** |
| More properties under management **per property manager:** | **130** | **v** | **111** |
| **Higher property management commissions:** | **7.32%** | **v** | **6.30%** |

# Property sales

Sales volumes increased rapidly through late 2020 and 2021, falling below five-year averages by late 2022, with property values sharing a similar journey. The downward trajectory reversed somewhat during 2023, but volatility remains.

This has required an adjustment, and has seen many agencies reflect on the foundation of their sales business to reset and re-train for new markets.

Despite the fall in volumes over the past two years, a number of agencies have been able to demonstrate growth in sales volumes in FY2023.

**Average number of property sales by agency**


The material increase reported in property sales by agency reflects a respondent base comprised of larger, more mature, complex businesses. But it is how they deliver these outcomes that is of most interest.

In 2023, agencies transacted 22 sales per agent per year. In comparison, agencies in 2019 transacted 12 sales per agent per year.

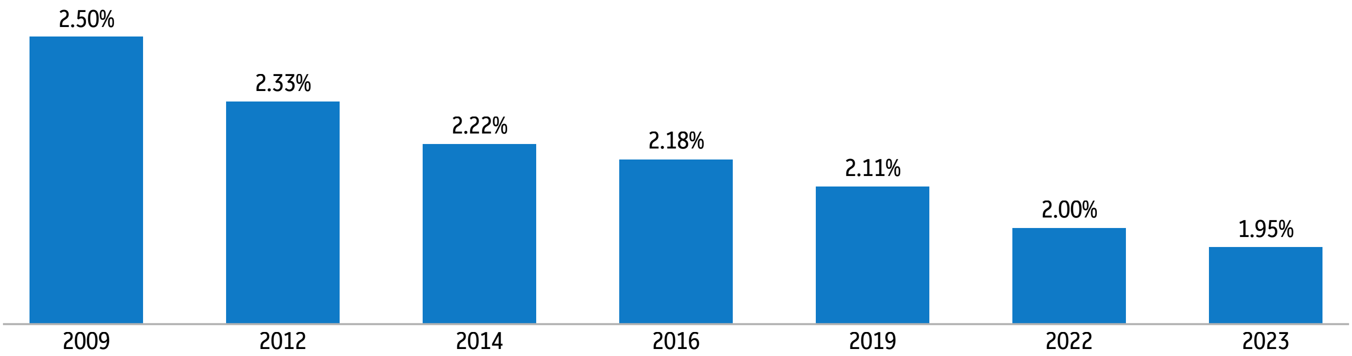
Sales agent productivity can significantly improve business performance, highlighting the need to ensure focus and accountability for outcomes. Agencies should be able to understand the contribution of individuals based on profitability, not simply gross commission income.

Typically, lower sales listing volumes drive increased competition, and our 2023 study indicates that this trend continues, with 43% of agencies reporting price competition and discounting as a key challenge.

# Sales commissions

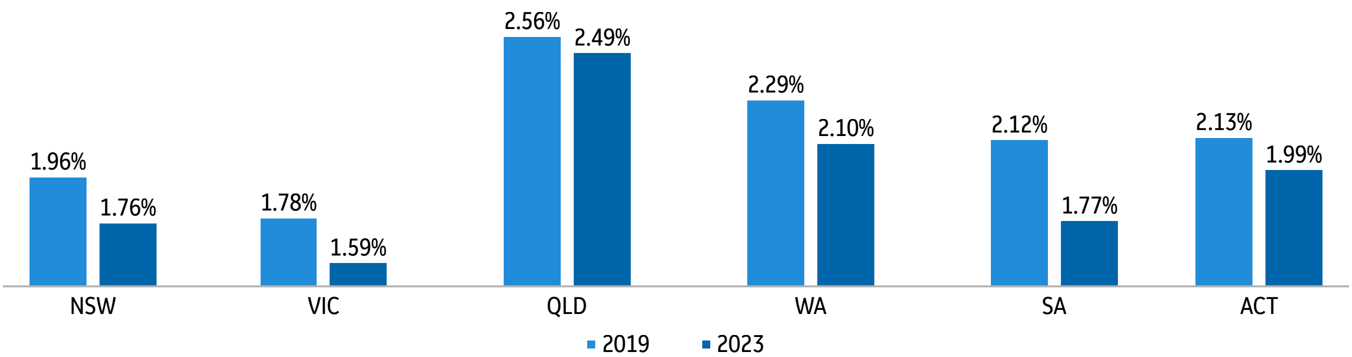
A contributing factor to productivity and profitability is compressed commission margin, even though agencies have benefitted from improved asset values and consequently dollar transaction volumes. This trend has been in effect for the period that Macquarie Business Banking has benchmarked the real estate industry.

**Sales commissions charged to vendors (vendor paid advertising) ex GST**




Our benchmarking studies have tracked the percentage of decline in sales commissions charged to vendors, which may have accelerated due to competition for listings, or difficulty articulating value to clients.

**Sales commissions by state**




It's interesting to note that in NSW and VIC, where property asset values have fallen most sharply, and listings volume has been tightest, sales commissions have been most competitive, falling well below 2%.

**Agencies need to consider how they define value, shifting the focus from price driven competition.**

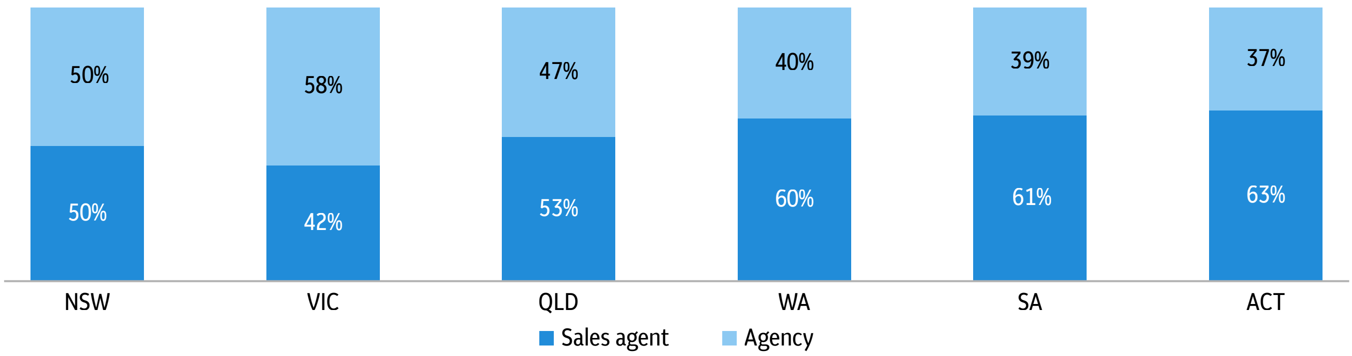
# Commission split

As margins come under pressure, commission splits with sales agents can add additional strain to agency revenues, especially if negotiated in more favourable environments.

With rising transactional values masking margin pressures in recent years, revenues must be paired with associated costs, monitored, and managed carefully.

Across the states, commission split variances are visible, and would be influenced by the characteristics of each office, regarding experience, depth of team, skills and focus.

### Split of commission income




Businesses must ensure that commission split arrangements with sales agents allow an appropriate flow of revenue through to profit, and account for full cost allocation.

Many sales teams benefit from the clarity of consolidated reporting, and this transparency allows for more meaningful negotiation, talent mapping, and people development, to allow the best returns from market activity.

While many agencies focus on market share, they must also consider - at what cost? Consider both the cost to your business financially, and to broader business culture and client experience.

# Property management

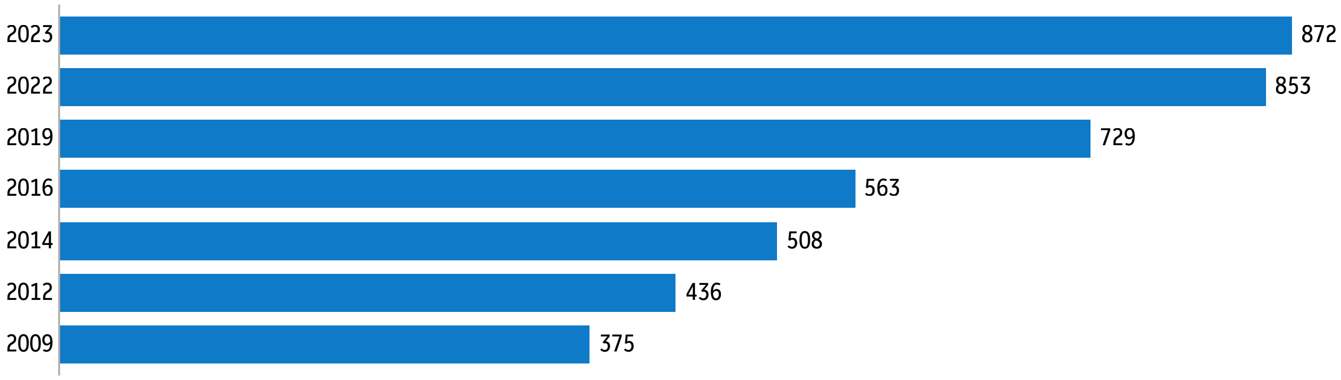
Property management portfolios continue to be a focus for growth and scale, bolstered by acquisition.

## Sustained property management focus

Our study shows the total number of properties managed by participants increasing to 872 in FY2023, but it is important to acknowledge that the survey respondents of larger businesses may have skewed this result, due to acquisitive activity.

Since 2009, we have observed recognition of the benefits property management offers a business: as contribution to stability of business cashflow, a hedge against market volatility, and a key driver of business value in sale scenarios. This, coupled with population growth, and construction of new dwellings, has driven growth in many businesses. For 80% of respondents, property management growth is a key focus area, which will drive competition in merger and acquisition.

**Properties under management per agency**



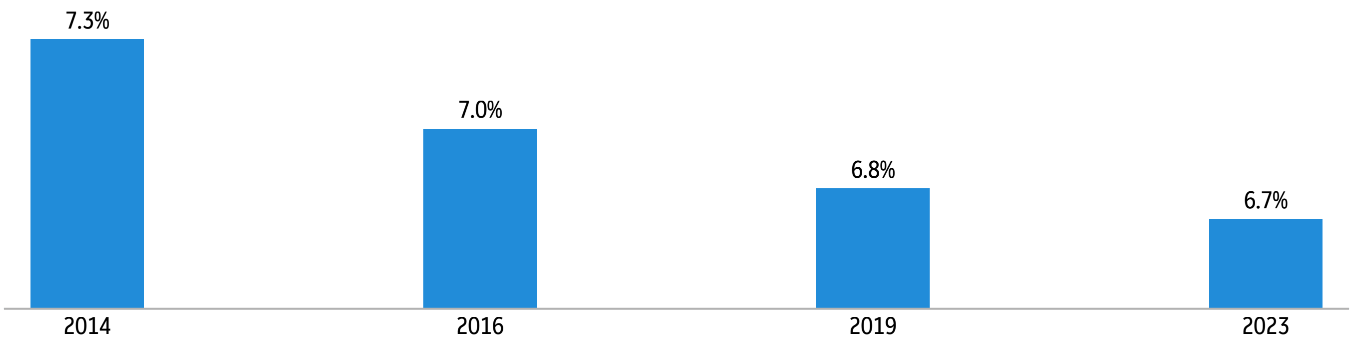

Despite benchmarking data indicating an increase in properties under management, we see PUM trending down across the Macquarie Business Banking client portfolio. The impact of PUM loss has been offset by increased rent returns, and increasing average annualised management income (AAMI), which has provided stability to property management income.

A key metric to consider is PUM per property manager. Despite an upward trend in our benchmarking study of PUM per agency, average properties under management per property manager has not improved at the same rate, indicating a need to attend to productivity and efficiency.

**Properties under management per property manager**

# Property management commissions

### Property management commissions

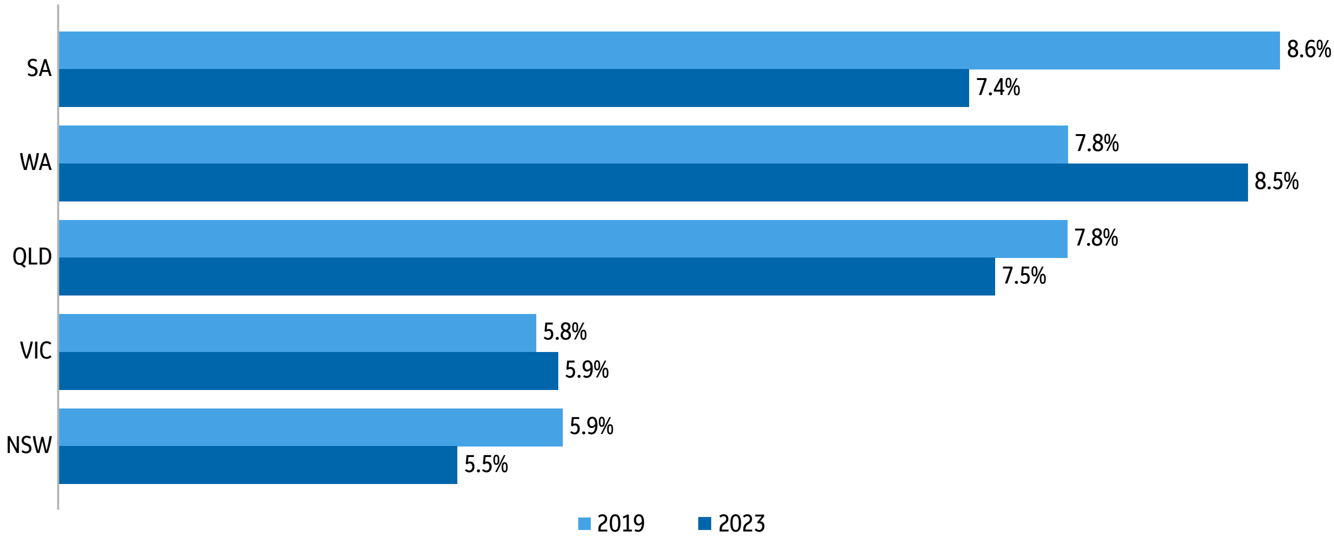



Similar to property sales, property management commissions are under pressure.

Our benchmarking studies have tracked the decline in property management commissions, which have not decreased at the same rate as sales commissions, but are symptomatic of difficulty articulating value to clients, and competition for listings.

Similarly to commentary around sales commissions, the downward trend in property management commission needs to reverse.

### Property management commission by state (ex GST)



# Case study: The technology challenge

Despite the adoption and integration of technology, productivity gains and margin improvements are not being realised.

An opportunity to improve property management efficiency is to reconsider how we support people in use of technology.

Under the traditional model of property management, property managers are responsible for all tasks across their portfolio, and move from task to task, navigating different systems, replicating data inputs, and balancing priorities. This is both inefficient, and subject to error.

True opportunity to improve outputs lies within task specialisation and workflow simplification.

**Task specialisation** allows outsourcing or offshoring of low value tasks. Individuals can focus on adding value to their clients.

**Workflow simplification** overlays existing processes, technologies and data feeds with task-based mapping of workdays.

Improved productivity is not simply a missed opportunity; it is also necessary to counter the profit compression that the industry experiences.

# Portfolio rationalisation

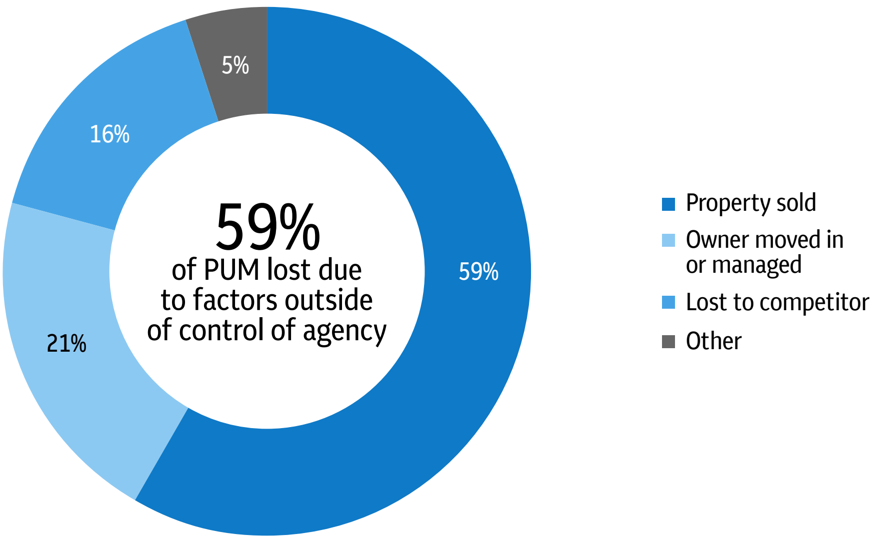
An interesting observation through FY2023 has been an increase in the number of businesses rationalising property management portfolios through review and on-sale. That is, many portfolios have been reviewed for returns, geographic proximity, and other factors, to then be sold to improve the performance of the remaining portfolio.

This makes strong commercial sense, and allows agencies to focus.

# Property management turnover

An environment of uncertainty, changing regulation, and increasing cash rates has pressured many investors to sell, impacting properties under management for many agencies.

**Reasons for lost properties under management**




For owners who have moved into or self-managed their property, they may be influenced by the perception of a lack of value in the services they are paying for in their property management fees. They may also be unaware of the implications of self-management.

As an industry, the need to demonstrate the value of property management to clients is paramount. Are services delivered in a manner that clients expect and value?

### The need for articulation of value

Formulating and articulating a strong value proposition in market is an important opportunity for property management teams and agencies.

The absence of articulated value will allow price to be the primary consideration and lever in securing clients. **With 80% of agencies** focused on growth in property management, the key to success will be to shift away from price driven competition, towards holistic value offered, which nurtures existing client relationships, as well as those with future buyers, vendors, and property managers.

Not only will this improve the client experience; it will have a significant impact on employee experience, in turn influencing the challenging issues around staff retention and attraction currently in play.

# People

Amid market pressures, the real estate industry faces the challenge of retaining talented people and attracting new talent. Getting the people and culture equation to balance can help differentiate an agency, drive better financial outcomes, and enhance business value.

There are numerous factors that have contributed to the challenge of attracting and retaining talented people, culminating in a year of significant staff turnover. This provides an inflection point for the industry to consider the future.

## What's causing people to leave?

- **Industry transformation**
- **Increasing regulation**
- **Heightened client expectations**
- **Lack of investment in people**
- **A candidate-driven labour market**

Macquarie Bank's Business Barometer[1] revealed that 24% of respondents were concerned about their people leaving the industry altogether. Profit, focus, customers, and culture are all impacted as staff turnover increases.

## What's attracting people elsewhere?

- **Flexibility in how and where they work**
- **Remuneration**
- **Empathy from business leaders**

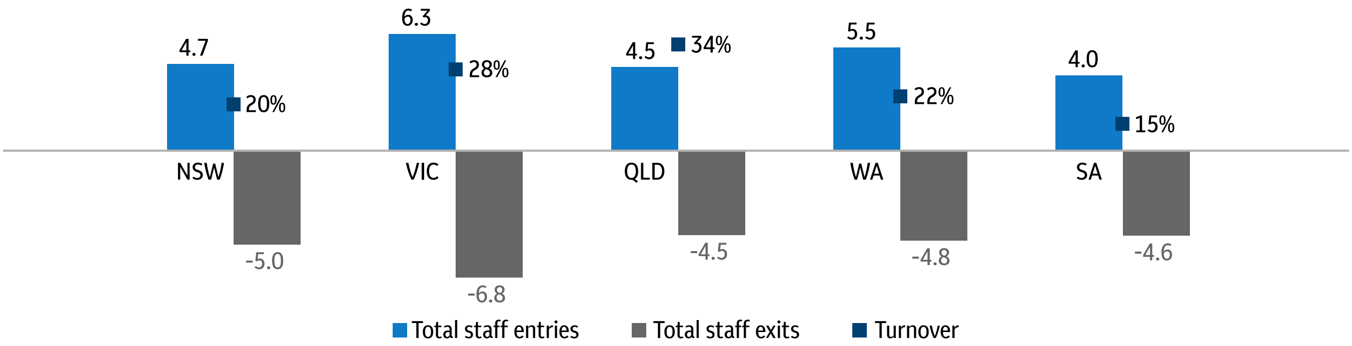
1 Macquarie Bank Business Barometer, https://www.macquarie.com.au/assets/bfs/secure/documents/macquarie-bank-business-barometer-report.pdf

# Staff turnover

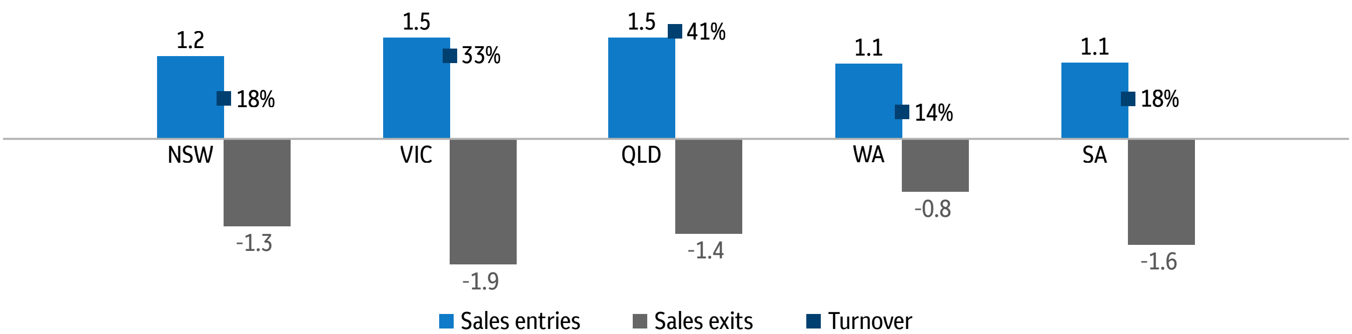
Nationally, 25% of all agency staff were reported to have changed employers in FY2023, with a neutral net effect on overall team numbers, as new staff were recruited.

The area most impacted by this turnover was property management, with 35% of property managers changing employers.

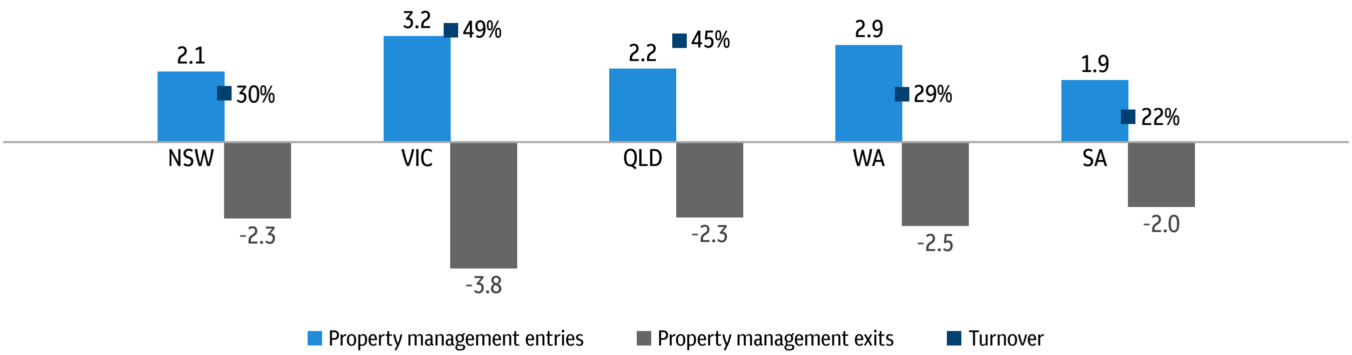
### Staff entries and exits by state




### Sales staff entries and exits




### Property management staff entries and exits




Not all of this is reflective of a challenging labour market or shallow recruitment pool. In some instances, business owners have adjusted business structures to run more efficiently in the current climate, or even taken a more active role in the business, to prepare for anticipated economic headwinds, reduce associated staffing costs, or optimise chances of success in securing property listings.

# Staff salaries

For 69% of respondents, increasing staff wages was identified as the biggest agency challenge; more so than finding and recruiting new staff (60%) and property management retention (53%). The portion of respondents in VIC, at 81%, was the highest response in the country.

Sales staff salary structures remain heavily weighted to performance in most agencies, with strong emphasis on commission models. Property manager salaries are simpler to compare, given their more traditional structure of base and bonus components.

On average, senior property managers are remunerated at $82,959, inclusive of bonus. However, the range of salaries on offer is broad, from $56,500 to $135,000; highest in NSW. Average junior property manager remuneration is $61,250, ranging from $30,000 to $100,000.

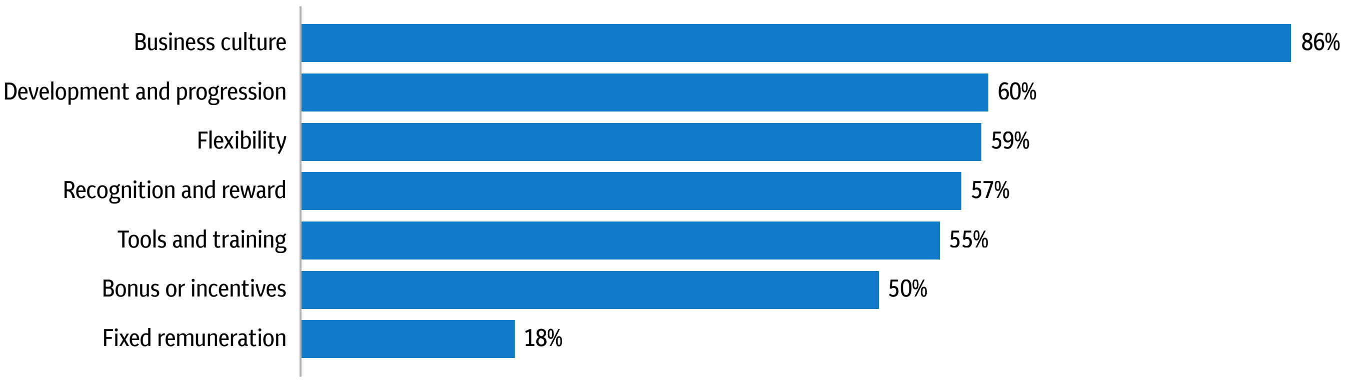
### Property management salary ranges

| | National | NSW | VIC | QLD | WA | SA | ACT |
|---|---|---|---|---|---|---|---|
| **Junior property manager** | | | | | | | |
| Min | $30,000 | $30,000 | $52,000 | $40,000 | $45,000 | $50,000 | $55,000 |
| Average | $61,250 | $62,407 | $63,908 | $57,552 | $57,809 | $59,595 | $65,525 |
| Max | $100,000 | $100,000 | $77,000 | $94,000 | $66,000 | $68,000 | $85,000 |
| **Senior property manager** | | | | | | | |
| Min | $56,500 | $60,000 | $64,000 | $56,500 | $65,000 | $60,775 | $70,000 |
| Average | $82,959 | $92,522 | $82,670 | $75,178 | $77,713 | $75,022 | $90,657 |
| Max | $135,000 | $135,000 | $110,000 | $105,000 | $104,500 | $125,000 | $120,000 |

The highest average junior property manager salaries are offered in VIC, which also experienced turnover of 49% of property managers.

While remuneration is a key component of employee retention, agency owners need to ensure they build a strong and supportive business culture, which will help drive tenure and loyalty.

### Retention and engagement strategies




For performance incentives to work, role descriptions must be clear, performance must be managed frequently against key metrics, and outcomes must be measured against clear expectations.

# The link between employee and client experience, and business value

With one in four people changing roles over the past 12 months, coupled with increased wages and operating costs, the industry is at a critical point. Agencies need to address their challenges with people, building trust, respect, and currency with staff.

In a people-focused sector like real estate, positive employee engagement plays a key role in the business' success, and can establish agencies as ideal places to work. Better employee experiences lead to higher employee engagement, which can bring multiple benefits for agencies, including:

| | | | |
|---|---|---|---|
| Higher work performance and productivity | Greater discretionary (voluntary) effort | Higher employee retention (lower turnover) | Improved client experience, loyalty, and likelihood of advocacy and referral. |

The benefits of highly engaged staff

# Strategies for higher employee engagement

Renumeration is not the sole, or even the most important reason that employees join and remain with an employer. People want to be proud of the organisation they work for, and they want to know that their leaders have a clear strategy and genuinely care for their staff.

Research[2] suggests that there are five core drivers of employee engagement that are consistently more important to employees than remuneration, including:

- **Belief in leadership**, with behaviour aligned to organisation values, trust, and confidence in leaders' judgment, and leaders who exhibit genuine interest in employee wellbeing
- **Alignment with strategy**, with clearly understood objectives, and clarity around how individual performance contributes to these
- **Balance** between professional and personal objectives, including flexible working arrangements and sufficient resources, including people, systems, and tools
- **Image,** where employees have pride in the organisation, and believe that it is highly regarded in the community
- **Empowerment,** with management involving employees in decisions that affect them, seeking input and feedback, and acting upon it.

Factors that determine employee engagement

Business culture can be an ambiguous term, with varying interpretations. If you consider culture as the product of shared values, these values bring together purpose, strategy, and how you want to conduct business. If your purpose explains why you do business, and strategy defines what you will do, then values are the glue.

A study reported in the Harvard Business Review[3] shows that companies with high levels of purpose outperform the market by 5 to 7% annually, grow faster, and are more profitable.

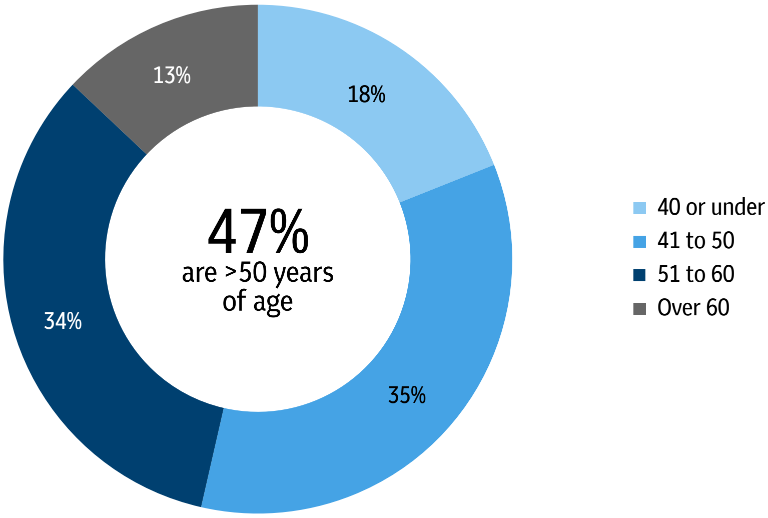
2 Willis Towers Watson, Global trends in employee attraction, retention, and engagement, 2014
3 Harvard Business Review: 181 Top CEOs Have Realized Companies Need a Purpose Beyond Profit

# What lies ahead? Succession and exit

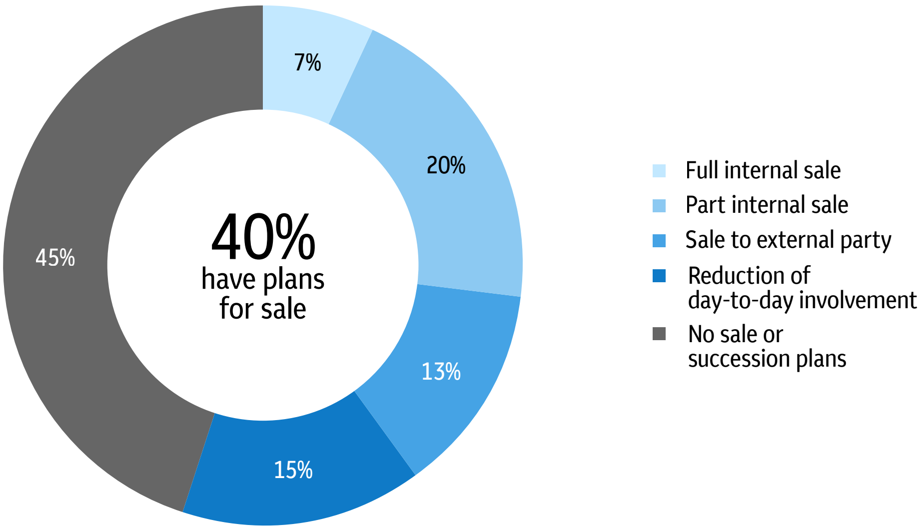
Australia is experiencing the onset of a generational shift,[4] as a large portion of the population reaches retirement age and hands over leadership.

The past few years have seen many delay succession and exit formalisation, due to peaks and troughs of market cycles, coupled with a transitioning economy, and pandemic measures. These factors have compelled principals to consider life outside of agency ownership, and acquisitive activity has gathered momentum over the past 18 months.

## Age of principal




## Future plans: ownership and involvement




4 ABS, Snapshot Australia: Australia on Census Night, 10 August 2021, 28 June 2022, Accessed 21 July 2023.

With 55% of real estate business owners surveyed (and 70% of Victorian agencies surveyed) considering succession, exit, or reduction of operational involvement in their agency, the next two to five years will be a busy period.

This transfer requires owners to present a strong, valuable business asset, making it attractive either internally, or on the open market.

**Despite appetite to realise value, we observe the following traits:**

- Lack of clarity around business value, and drivers of value
- Key person reliance
- Opportunistic revenue focus
- A lack of process, rigour and governance.

**Agency principals will need to maximise and extract business value by:**

- Focusing on profit driving activities, and measures of accountability
- Implementing technology to bolster efficiency and productivity
- Recruiting and retaining key talent
- Documenting and implementing a succession plan which can be a key retention and performance strategy

Business readiness takes time, so owners must begin planning early - and the next generation of business owners will need to build capability and personal equity to facilitate funding.

# Preparing for exit

Realising the value of a business is an emotional as well as financial process – for many, it is the culmination of a life's work. A successful exit with a strong sale value requires recurring revenue and steady profits, strong processes, and a solid investment in systems and support. It also requires a detailed succession and transition plan, drawing on expertise from accountants, lawyers, bankers, and other trusted advisers to ensure that the transition between owners goes smoothly.

Preparation is everything. It is never too early to start planning, but it can be too late.

## Succession versus exit

Succession and exit are different outcomes, requiring distinct strategies.

**The aim of succession planning is to identify and train high-performing people within, or external to, the business, planning for them to step in as leaders. Equity may be sold in parcels over a period of time, or in one transaction. One key goal is for the transition to be smooth for all involved: staff in the business, clients, and the incoming equity holder.**

**Exit planning generally involves selling the business or the property management book in the open market to another agency that wants to grow its book and increase scale. It can also entail the principal removing themselves from day-to-day operational responsibility, without sale of the business asset.**

# Ensuring a smooth succession

**Consider the end result.** Think of your goals and when you want to achieve them, and enlist the support of experts, to help you realise your business' full value.

**Allow time.** A well-considered succession and exit involves many elements.

**Identify your successor.** If an internal candidate, discuss in detail and incentivise appropriately. If you aren't having the conversation, others will be. If considering an external party, ensure that they are a strong cultural fit for your agency.

**Bring talented people into discussions.** Actively search for ways to bring talented people into business decisions, and structure remuneration around performance, profit, tenure, and equity buy-in. Being identified as a future business owner is a powerful motivator.

**Document (and implement) your plan.** Devise a documented, formal and thorough succession and transition plan that all involved parties are aware of. This should include a formal valuation, and structured documentation, inclusive of trigger events.

**Get ready.** Concentrate on maximising the value of your business, by focusing on efficiency measures, documenting processes and systems, ensuring that staff have clear roles and accountabilities, and that your financial reporting is current.

**Organise your funding.** Surround yourself with a strong network of advisers, including your accountant, solicitor, and banking partner.

# Best practice: in summary

Real estate business leaders are navigating market uncertainty and require improved rules, systems and processes to deliver sustainable profitability and output improvements.

Rising salaries, operating costs and poor productivity outputs need to be addressed.

Business leaders can consider:

## Improved governance

- Process driven outcomes
- Continual improvements
- Accountability and responsibility

## Investment in people

- Clarity around role, with well-defined parameters for success
- Increased costs require high productivity
- Empowerment and accountability, in an inclusive, high-performing culture

## Build and scale the foundation

- Property management provides stability, opportunity, and value
- Document your processes and put in place operational, succession and performance plans
- Profit performance and business management will have greater influence on value in the future

## Start with the end in mind

- Start talent mapping those who will future lead your business
- Derive a plan for your anticipated scale or size, to ensure you are continuing to build equity to support the transition
- Focus on making your business attractive; a strongly performing and well resourced business is saleable

# State snapshots

## New South Wales

| **Financials** | | **2022** | | **2023** |
|---|---|---|---|---|
| Gross revenue (average) | | $5,357,652 | | $5,953,611 |
| Net profit (average) | | $1,062,721 (19.4%) | | $888,638 (15.4%) |
| Sales commission (vendor paid advertising) | | | | 1.76% |
| Property management commission | | | | 5.5% |
| **Staffing** | | | | |
| Overall staffing | Headcount | 23.7 | | |
| Sales staff (inc. support) | Headcount | 7.2 | Turnover | 17% |
| Property management staff | Headcount | 7.8 | Turnover | 27% |
| Revenue per FTE | | | | $250,972 |
| Profit per FTE | | | | $37,460 |
| Properties under management (PUM) | | | | 982 |

| **Top 3 challenges** | | **Top 3 focus areas** | |
|---|---|---|---|
| Staff wage costs increasing | 70% | Increasing properties under management | 84% |
| Finding and recruiting new staff | 62% | Improving efficiency via process and technology<br>Staff training and development | 57% |
| Deteriorating economic conditions | 56% | Growing revenue from existing clients | 52% |

# State snapshots

## Victoria

| Financials | 2022 | | 2023 | |
|---|---|---|---|---|
| Gross revenue (average) | $5,080,986 | | $4,967,981 | |
| Net profit (average) | $741,171 (14.5%) | | $584,058 (13.5%) | |
| Sales commission (vendor paid advertising) | | | 1.59% | |
| Property management commission | | | 5.9% | |
| **Staffing** | | | | |
| Overall staffing | Headcount | 23.5 | | |
| Sales staff (inc. support) | Headcount | 5.8 | Turnover | 26% |
| Property management staff | Headcount | 7.8 | Turnover | 41% |
| Revenue per FTE | $211,160 | | | |
| Profit per FTE | $24,825 | | | |
| Properties under management (PUM) | 1,423 | | | |
| **Top 3 challenges** | | **Top 3 focus areas** | | |
| Staff wage costs increasing | 81% | Increasing properties under management | | 79% |
| Finding and recruiting new staff | 54% | Improving efficiency via process and technology | | 67% |
| Property manager retention | 65% | Growing revenue from existing clients | | 65% |

# State snapshots

## Queensland

| Financials | | | 2022 | | 2023 |
|---|---|---|---|---|---|
| Gross revenue (average) | | | $2,138,419 | | $2,126,732 |
| Net profit (average) | | | $471,234 (18%) | | $407,462 (18.5%) |
| Sales commission (vendor paid advertising) | | | | | 2.49% |
| Property management commission | | | | | 7.5% |
| **Staffing** | | | | | |
| Overall staffing | | Headcount | 13.3 | | |
| Sales staff (inc. support) | | Headcount | 3.5 | Turnover | 43% |
| Property management staff | | Headcount | 5.0 | Turnover | 44% |
| Revenue per FTE | | | | | $159,949 |
| Profit per FTE | | | | | $30,645 |
| Properties under management (PUM) | | | | | 448 |
| **Top 3 challenges** | | **Top 3 focus areas** | | | |
| Staff wage costs increasing | 50% | Increasing properties under management | | | 71% |
| Finding and recruiting new staff | 56% | Improving efficiency via process and technology | | | 60% |
| Property manager retention | 44% | Staff training and development | | | 57% |

# State snapshots

## Western Australia

| Financials | | 2022 | | 2023 |
|---|---|---|---|---|
| Gross revenue (average) | | $3,658,819 | | $4,105,613 |
| Net profit (average) | | $719,101 (16.9%) | | $764,620 (19.5%) |
| Sales commission (vendor paid advertising) | | | | 2.1% |
| Property management commission | | | | 8.5% |
| **Staffing** | | | | |
| Overall staffing | Headcount | 21.8 | | |
| Sales staff (inc. support) | Headcount | 5.7 | Turnover | 20% |
| Property management staff | Headcount | | | |
| Revenue per FTE | | | | $188,002 |
| Profit per FTE | | | | $35,013 |
| Properties under management (PUM) | | | | 792 |
| **Top 3 challenges** | | **Top 3 focus areas** | | |
| Staff wage costs increasing | 73% | Increasing properties under management | | 86% |
| Finding and recruiting new staff | 53% | Improving efficiency via process and technology | | 59% |
| Property manager retention | 63% | Staff training and development | | 59% |

# State snapshots

## South Australia

| **Financials** | | | **2022** | | **2023** |
|---|---|---|---|---|---|
| Gross revenue (average) | | | $4,736,519 | | $4,965,349 |
| Net profit (average) | | | $851,799 (14.5%) | | $781,250 (13.5%) |
| Sales commission (vendor paid advertising) | | | | | 1.8% |
| Property management commission | | | | | 7.4% |
| **Staffing** | | | | | |
| Overall staffing | | Headcount | 29.8 | | |
| Sales staff (inc. support) | | Headcount | 8.6 | Turnover | 13% |
| Property management staff | | Headcount | 8.7 | Turnover | 21% |
| Revenue per FTE | | | | | $166,540 |
| Profit per FTE | | | | | $26,203 |
| Properties under management (PUM) | | | | | 675 |
| **Top 3 challenges** | | **Top 3 focus areas** | | | |
| Staff wage costs increasing Legislative, compliance or regulatory changes | 75% | Increasing properties under management | | | 92% |
| Finding and recruiting new staff Property manager retention | 83% | Improving efficiency via process and technology | | | 83% |
| Deteriorating economic conditions | 58% | Recruitment of new staff | | | 75% |

# State snapshots

## Australian Capital Territory

| Financials | | 2022 | | 2023 |
|---|---|---|---|---|
| Gross revenue (average) | | $4,161,955 | | $4,265,816 |
| Net profit (average) | | $1,034,356 (23.7%) | | $623,137 (13.2%) |
| Sales commission (vendor paid advertising) | | | | 2% |
| Property management commission | | | | 7.6% |
| **Staffing** | | | | |
| Overall staffing | Headcount | 34.5 | | |
| Sales staff (inc. support) | Headcount | 10.8 | Turnover | 19% |
| Property management staff | Headcount | 10.5 | Turnover | 46% |
| Revenue per FTE | | | | $123,618 |
| Profit per FTE | | | | $18,058 |
| Properties under management (PUM) | | | | 675 |

| Top 3 challenges | | Top 3 focus areas | |
|---|---|---|---|
| Staff wage costs increasing<br>Price competition or discounting | 58% | Increasing properties under management | 92% |
| Finding and recruiting new staff | 75% | Improving efficiency via process and technology | 58% |
| Deteriorating economic conditions | 67% | Recruitment of new staff | 67% |

# We’re here to help

If you’d like to learn more about putting our best practice insights to work in your agency, please get in touch.

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