INDUSTRY REPORT L6720

Real Estate Services in Australia

The real deal: Low interest rates have supported housing prices, boosting industry revenue

Darcy Gannon | October 2022

Contents

Recent Developments

Open borders supporting activity in Australia's accommodation sector

The Australian Government eased travel requirements from July 2022, predominantly by removing testing and vaccination requirements. The return of international travel without needing an exemption enabled hotels and accommodation providers and related services to operate at a higher capacity. This boost to activity revitalised occupancy rates and increased the flow of workers, supporting relevant industries' recovery.

Rising interest rates expected to dampen property values

Surging demand and supply chain disruptions associated with lingering unfavourable COVID-19-related trading conditions, compounded by geopolitical tensions abroad, have contributed to domestic inflationary pressures. Concerns regarding the inflation rate have prompted the RBA to raise interest rates. The associated rise in the cost of borrowing is anticipated to limit real estate investment from both conventional owner-occupiers and real estate investors. As a result, property prices are expected to trend downward in the current year, affecting revenue streams for many property operators and real estate service providers.

Companies facing debt crisis expected to limit property supply

A downturn in construction activity has threatened construction firms' ability to continue operating solvently. Rising crude oil, electricity and building commodity prices have negatively affected both construction inputs and required energy supplies. Firms that have struggled with rising expenses have collapsed, exerting downward pressure on the domestic supply of new properties. This trend is expected to limit the number of new building commencements and property transfers. As a result, property operators and real estate service providers are expected to endure subdued transaction activity in the current year.

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About This Industry

Industry Definition

Industry operators primarily appraise, purchase, sell (by auction or private treaty), manage or rent residential property, commercial property, or a combination of the two.

Major Players

There are no major players in this industry

Main Activities

The primary activities of this industry are:

Conveyancing (other than by qualified legal practitioners)

Real estate agency, auctioning, body corporate management and brokering

Real estate management

Real estate title transfers (other than by qualified legal practitioners)

Timeshare apartment managing

Title searching

Appraisal of real estate

The major products and services in this industry are:

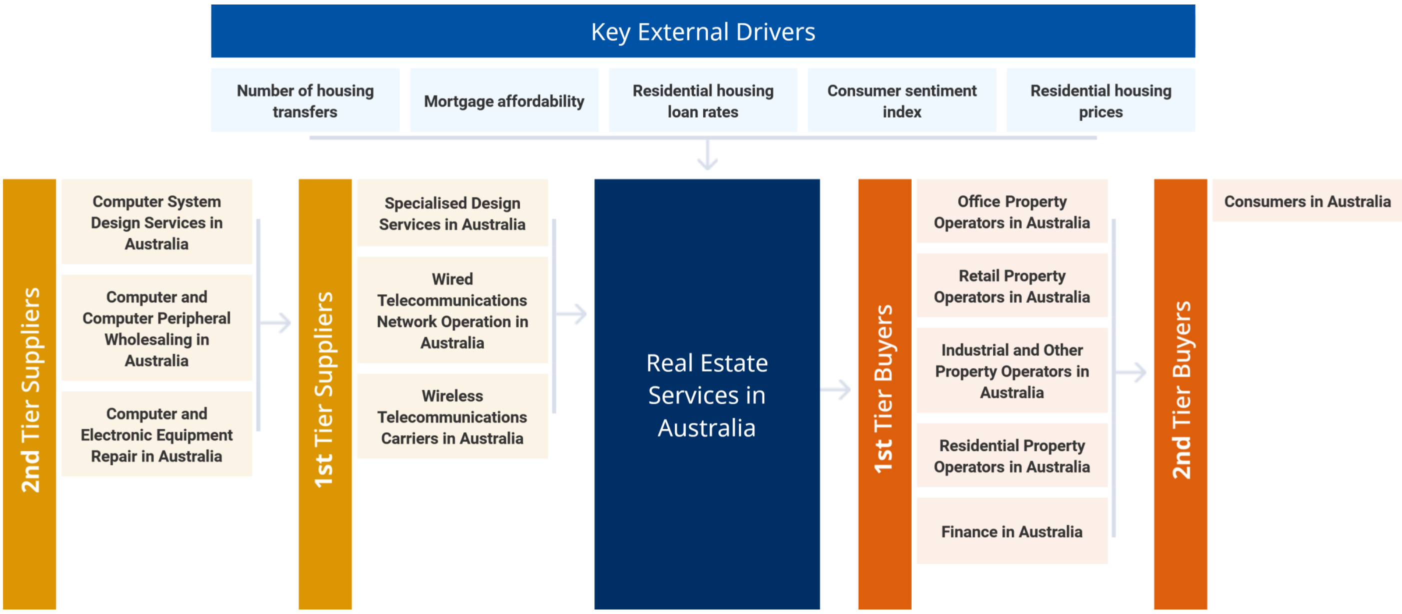
Property sales

Property management

Property leasing

Other services

Supply Chain



SIMILAR INDUSTRIES

Legal Services in Australia	Mortgage Brokers in Australia	Office Property Operators in Australia	Mortgages in Australia
Complementor	Complementor	Competitor	Complementor

RELATED INTERNATIONAL INDUSTRIES

Global Commercial Real Estate	Commercial Leasing in the US	Real Estate Sales & Brokerage in the US	Real Estate Appraisal in the US
Real Estate Asset Management & Consulting in the US	Serviced Office Leasing	Real Estate Agency Franchises	Estate Agents in the UK
Serviced Offices in the UK	Real Estate Services in New Zealand	Residential Real Estate in China	Commercial Real Estate in China
Real Estate Sales & Brokerage in Canada	Real Estate Appraisal in Canada	Real Estate Asset Management & Consulting in Canada	Estate Agents in Ireland

Industry at a Glance

Key Statistics

$35.7bn
Revenue

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
2.3%	0.9%	

$5.2bn
Profit

Annual Growth 2018–2023	Annual Growth 2018–2023
4.8%	

14.7%
Profit Margin

Annual Growth 2018–2023	Annual Growth 2018–2023
1.7pp	

45,065
Businesses

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
1.4%	0.6%	

141k
Employment

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
0.3%	1.0%	

$9.5bn
Wages

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
1.0%	1.5%	

Key External Drivers

% = 2018–23 Annual Growth

-1.3%
Consumer sentiment index

-0.6%
Number of housing transfers

-1.0%
Mortgage affordability

4.5%
Residential housing loan rates

Industry Structure

POSITIVE IMPACT

Capital Intensity
Low

Concentration
Low

Technology Change
Low

MIXED IMPACT

Life Cycle
Mature

Barriers to Entry
Medium / Increasing

Industry Globalization
Medium / Decreasing

NEGATIVE IMPACT

Revenue Volatility
High

Industry Assistance
Low / Increasing

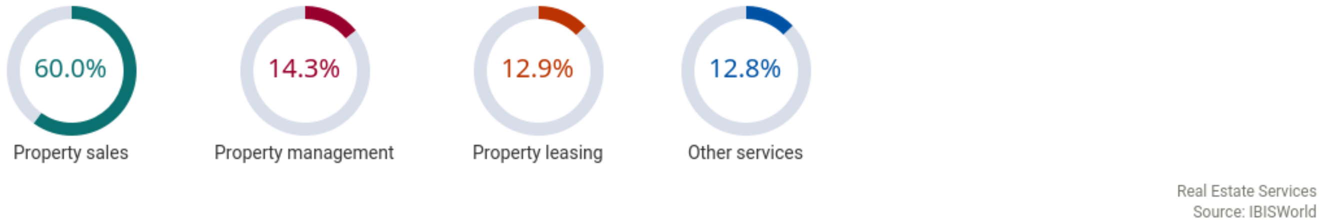
Regulation & Policy
Heavy / Increasing

Competition
High / Increasing

Key Trends

- A low interest rate environment has supported residential housing prices over the past five years
- Tenancy relief schemes during the pandemic have generally limited the industry's performance
- Activity in the residential property market has prompted small-scale firms to enter the industry
- The digitisation of real estate services is anticipated to challenge traditional operators
- Increasing urbanisation and population growth will likely support demand for the industry
- Demand for industrial real estate is anticipated to grow marginally over the next five years
- The stability of Australia's residential housing market has supported industry revenue growth

Products & Services Segmentation



Major Players

There are no major players in this industry

SWOT

STRENGTHS

Low & Increasing Level of Assistance
Low Imports
Low Capital Requirements

WEAKNESSES

High Competition
High Volatility
Low Profit vs. Sector Average
High Customer Class Concentration
High Product/Service Concentration
Low Revenue per Employee

OPPORTUNITIES

High Revenue Growth (2018-2023)
Consumer sentiment index

THREATS

Low Revenue Growth (2023-2028)
Low Performance Drivers
Number of housing transfers

Executive Summary

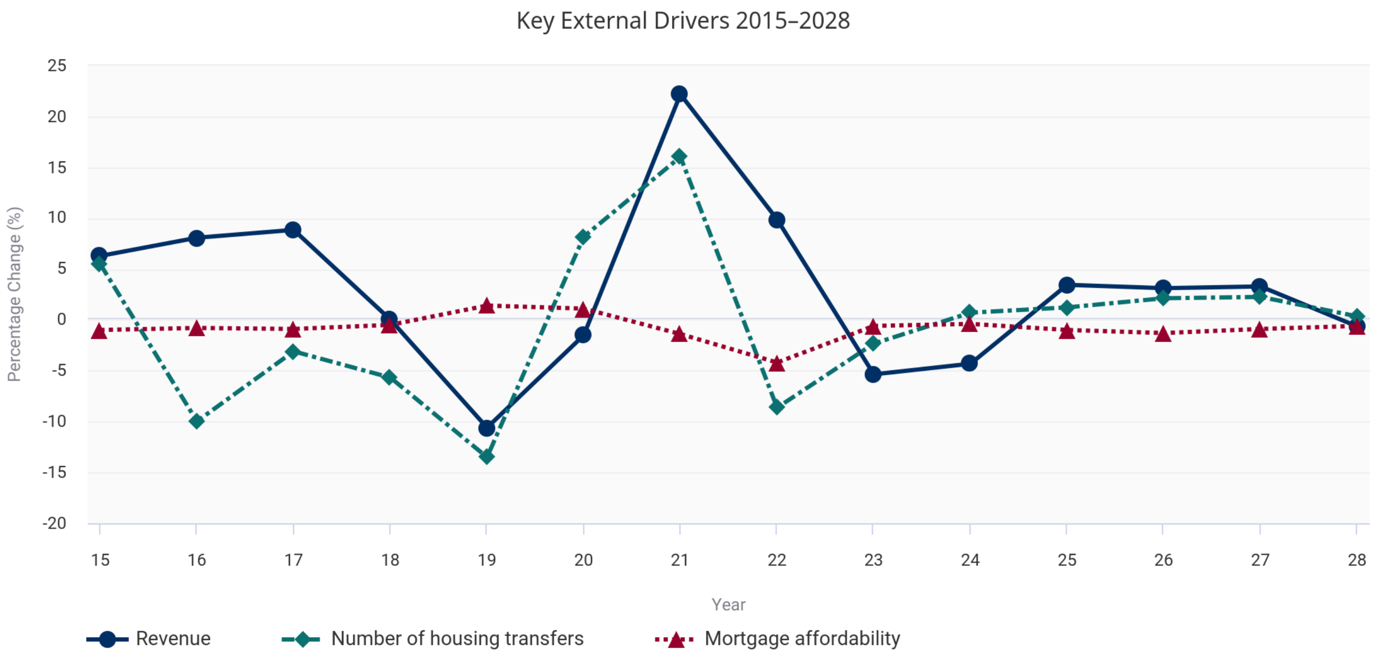
The real deal: Low interest rates have supported housing prices, boosting industry revenue

Firms in the Real Estate Services industry undertake the appraising, brokering, managing and leasing of residential and commercial properties. Government incentives and a record-low interest rate environment have supported growth in residential housing prices over the past five years, benefiting industry revenue. However, relief schemes introduced in response to the COVID-19 pandemic and declining mortgage affordability have constrained revenue growth over the period. Overall, industry revenue is expected to increase at an annualised 2.3% over the five years through 2022-23, to $35.7 billion. High residential housing prices have supported industry profitability over the period, despite strong competition from online operators and subdued residential property yields.

The COVID-19 pandemic and its associated economic effects have limited demand for commercial properties over the past five years. Government-mandated lockdowns have reduced foot traffic for traditional bricks-and-mortar location retailers. Working-from-home measures implemented to slow the spread of COVID-19 have also reduced demand for office spaces. Some businesses have responded by removing or reducing rent costs. Interest rates are anticipated to increase in the current year, limiting housing prices and the number of housing transfers due to the associated rise in the cost of borrowing for investors and owner-occupiers. As a result, industry revenue is expected to decline by 5.4% in the current year.

Industry revenue is forecast to continue growing over the next five years, alongside residential housing prices. Price increases will likely place downward pressure on mortgage affordability. This trend, coupled with increasing urbanisation, is projected to boost renting rates, benefiting operators that provide property leasing and management services. However, interest rates are forecast to rise and limit industry revenue growth, due to the downward pressure on both housing prices and mortgage affordability. Moreover, higher interest rates will likely constrain business confidence and limit business expansions due to the rising the cost of borrowing. Overall, industry revenue is forecast to grow at an annualised 0.9% over the five years through 2027-28, to $37.4 billion.

Industry Performance



Real Estate Services
Source: IBISWorld

Key External Drivers

Number of housing transfers

Housing transfers occur when a house is sold. Industry revenue is typically tied to commissions on sales, and a greater number of housing transfers results in more transactions through which firms can generate revenue from brokering. The number of housing transfers is expected to decline in 2022-23, potentially threatening the industry's performance.

Mortgage affordability

Mortgage affordability influences people's ability to purchase properties, affecting the volume of residential sales and rental transactions. Declines in mortgage affordability limit industry operations by reducing the number of customers that require real estate services. Mortgage affordability is measured as the proportion of a household's income that remains after mortgage repayments are made. Mortgage affordability is expected to decline in 2022-23.

Residential housing loan rates

Real estate agents typically benefit from stronger revenue growth during periods of low interest rates. As most houses are generally purchased through credit, houses become less expensive when housing loan rates decrease. A rise in housing loan rates tends to weaken demand for property and limit the viability of property development. Residential housing loan rates are expected to increases in 2022-23.

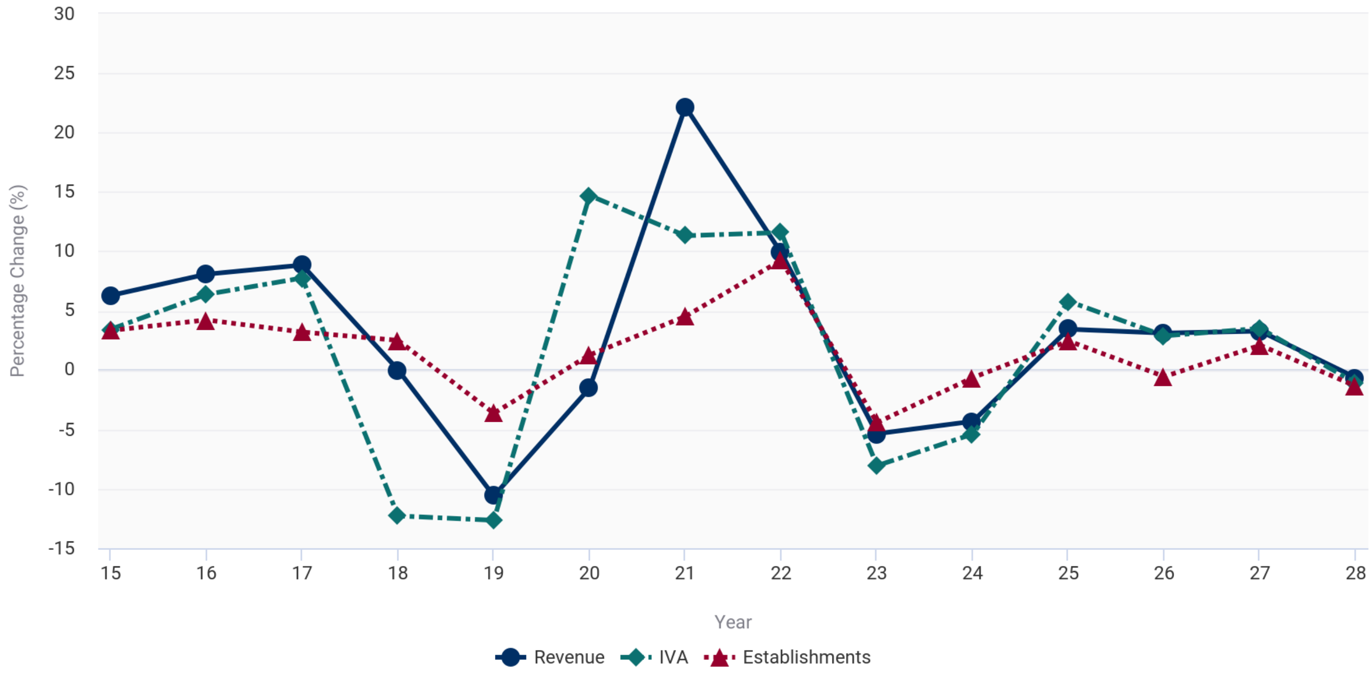
Consumer sentiment index

Consumer sentiment indicates how consumers feel about their present and future financial situation, and the broader economy. Positive consumer sentiment means consumers are more optimistic regarding their future financial stability and are therefore more likely to purchase property. Positive consumer sentiment typically encourages growth in house prices and residential housing purchases, and provides an opportunity for the industry to expand. Consumer sentiment is expected to fall and become negative in 2022-23.

Residential housing prices

Commissions are often charged as a proportion of a property's sale value. Higher house prices therefore lead to higher commissions for industry operators. Consequently, rising house prices support industry revenue growth. Residential housing prices are likely to decrease in 2022-23, in response to rising interest rates.

Industry Performance 2015–2028



Real Estate Services
Source: IBISWorld

Current Performance

The Real Estate Services industry has generally benefited from the strength of the residential property market over the past five years.

Record low interest rates and high numbers of housing transfers have supported the industry's performance. However, weakened trading conditions stemming from the COVID-19 pandemic, alongside fluctuating business confidence and consumer sentiment have limited demand for commercial property over the period. Industry revenue is expected to increase at an annualised 2.3% over the five years through 2022-23, to $35.7 billion. Concerns surrounding inflationary pressures have caused the RBA to raise the official cash rate in the current year. The higher cost of borrowing has limited housing transfer activity and constrained residential housing prices. Industry revenue is therefore anticipated to decline by 5.4% in the current year.

THE RESIDENTIAL MARKET

The industry heavily depends on trends in the wider residential property market.

The number of housing transfers in Australia has risen over the past five years, indicating that more property transactions have taken place for industry firms to broker. Residential housing prices have generally risen, supported by the prevalence of property investment, a historically low interest rate environment, and government assistance programs, such as the First Home Owner Grant and the First Home Super Saver Scheme. As industry revenue can be generated on commission of property sales, heightened property prices have increased the commissions that operators receive, supporting industry growth.

Rising residential housing prices have heightened housing affordability concerns nationally, particularly for first home buyers. Pent-up consumer demand caused by the COVID-19 pandemic and uncertainty in the wider economy have compounded housing price increases over the past five years. Investors have turned their focus to the Australian residential property market, which has traditionally benefited from being perceived as relatively safe. In relation, mortgage affordability has declined over the past five years, constraining the number of housing transfers and limiting industry growth. Declines in mortgage affordability have supported firms that provide residential property leasing and management services over the period. However, intermittent border closures sharply reduced international student and worker numbers, limiting revenue generated from property leasing.

THE COMMERCIAL MARKET

Australia's wider transition from a manufacturing-based economy to a service-based economy has supported demand for commercial properties over the past five years.

Most service-based businesses rent or lease the premises they operate on. Commercial businesses and investors use real estate services to both acquire and manage commercial buildings, and constitute significant markets for the industry. However, volatility in business confidence and consumer sentiment has constrained demand for commercial properties over the past five years.

Volatile business confidence has limited investment in commercial properties, as some purchasers have felt apprehensive about returns on their purchases. Negative consumer sentiment in some years has limited spending and demand for the retail sector. Many retailers have been therefore unwilling to expand their operations and lease new properties. The COVID-19 pandemic compounded subdued demand for the commercial property market. Working-from-home measures have prompted some professional firms to cut rent costs by transitioning to fully remote work. Government-mandated lockdowns and social distancing measures reduced foot traffic to many retail premises, and exacerbated online retail competition for many commercial retailers.

PROFITABILITY AND INDUSTRY STRUCTURE

Industry profit margins have risen marginally over the past five years, benefiting from growth in property prices and housing transfer numbers.

Increased residential housing prices have boosted the commissions that operators receive for property transactions. Greater numbers of transactions have allowed larger firms to achieve greater efficiencies through economies of scale. However, fierce competition among industry operators and intensifying competition from online services have limited industry profitability over the period. Moreover, declines in mortgage affordability have encourage property leasing and renting, which represents another revenue stream for operators. However, property leasing and management generate lower per-unit profit margins.

The industry is highly fragmented as most participants are small in scale, and employ fewer than 20 people. The number of industry enterprises has increased over the past five years, despite moderate barriers to entry. Activity in the residential property market has prompted many small-scale firms to enter the industry over the period. Sales employees typically receive wages based on commissions from property sales. Rising residential housing prices have driven growth in employee wage costs over the same period.

THE COVID-19 PANDEMIC

The COVID-19 pandemic has had varied effects on industry operations and conditions.

Working-from-home measures mandated by the government, and fluctuations in business confidence and consumer sentiment have placed downward pressure on demand for commercial properties. State governments also introduced several residential and commercial tenancy relief schemes, which generally subdued the industry's performance. Some state governments introduced rent freezes and eviction moratoriums for residential properties, and required landlords to consider rent reduction agreements under certain circumstances. Rent relief legislation was also introduced for small and medium commercial tenancies affected by the pandemic. As a result, landlords could not terminate leases for not paying rent during the pandemic, and were required to consider rent reductions or waivers based on reductions in trade.

RISING INTEREST RATES

A record low interest rate environment supported the residential housing market over the past five years.

The RBA reduced the official cash rate to historic lows over the period, to support employment and stimulate economic activity, particularly in response to wider economic disruption during the COVID-19 pandemic. Low interest rates boosted housing prices and property market activity due to the cheap cost of borrowing. Low interest rates also indirectly affected the industry by changing the capital allocation mix among investors, as incomes generated from debt securities fall when interest rates are low. Consequently, some investors reallocated their capital to investment properties to generate rental income.

In response to inflationary pressures caused by lingering unfavourable trading conditions stemming from the COVID-19 pandemic and geopolitical instability abroad, the RBA raised the official cash rate in May 2022, marking an increase for the first time in over 10 years. Interest rates are anticipated to continue rising in the current year. Heightened interest rates are expected to place downward pressure on residential housing prices, mortgage affordability, and the number of housing transfers, severely constraining the industry's performance in the current year.

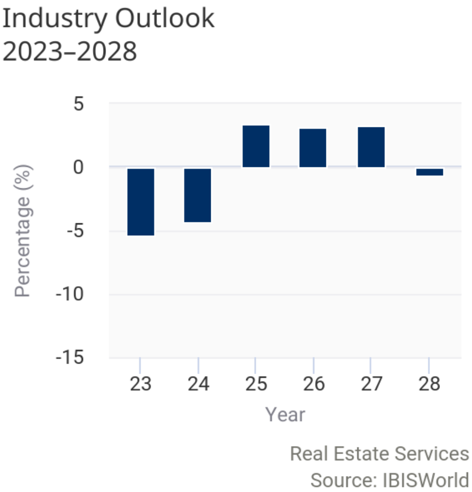
Historical Performance Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2013-14	25,510	13,342	39,053	37,005	119,936	N/A	N/A	8,057	N/A
2014-15	27,112	13,800	40,354	38,121	121,232	N/A	N/A	8,564	N/A
2015-16	29,301	14,680	42,057	39,713	123,439	N/A	N/A	9,047	N/A
2016-17	31,892	15,819	43,403	40,968	136,816	N/A	N/A	9,170	N/A
2017-18	31,901	13,877	44,489	42,060	138,644	N/A	N/A	9,066	N/A
2018-19	28,522	12,122	42,872	40,472	135,521	N/A	N/A	8,897	N/A
2019-20	28,089	13,904	43,418	41,128	132,379	N/A	N/A	9,204	N/A
2020-21	34,318	15,478	45,383	42,874	134,387	N/A	N/A	9,566	N/A
2021-22	37,708	17,270	49,582	47,248	143,539	N/A	N/A	10,169	N/A
2022-23	35,688	15,881	47,386	45,065	140,535	N/A	N/A	9,536	N/A

Industry Outlook

Outlook

Revenue is anticipated to continue growing for the Real Estate Services industry over the next five years.



Rising residential housing prices and growth in the number of housing transfers will likely support the industry. Furthermore, recovering demand for commercial and industrial properties is projected to benefit industry participants over the period. However, incremental increases to the cash rate will likely subdue activity in the wider property market. Corresponding increases to residential housing loans and a decline in mortgage affordability are projected to limit industry growth. Industry revenue is therefore forecast to grow at an annualised 0.9% over the five years through 2027-28, to $37.4 billion.

RESIDENTIAL PROPERTY

The residential property market will benefit from forecast continued growth in the population and incomes over the next five years.

As a result, residential housing prices and the number of housing transfers are projected to increase. Industry profit margins are forecast to benefit from higher commissions from property sales and more frequent property transfers. However, higher interest rates to combat inflation will likely place downward pressure on the residential property market over the period. Rising interest rates are projected to correlate with an increase in residential housing loan rates, discouraging higher volumes of home loans. Overall, industry profit is projected to decline over the next five years.

Urban growth boundaries, high-density development planning approval processes, stamp duty costs and housing supply will be major demand determinants for residential real estate services over the next five years. These factors are all administered by state governments, resulting in demand for industry services varying across cities and states. As urban growth boundaries and planning requirements limit housing supply, increasing trends in both have the potential to constrain property portfolio sizes and subdue industry revenue growth.

Continued interest in the Australian residential property market will likely support the entry of new industry enterprises over the next five years. The rising number of housing transfers will require more brokerage services, supporting industry enterprise numbers. Higher rates of urbanisation and decreased mortgage affordability are also forecast to support demand for property leasing and management services. Industry employment is anticipated to rise as enterprise numbers grow over the period, due to the industry's high reliance on labour.

COMMERCIAL AND INDUSTRIAL PROPERTY

Commercial and industrial property markets are anticipated to strengthen over the next five years, assisting industry growth.

Demand for office space is projected to recover over the period, as Australia continues to transition to a service-based economy. Consumer sentiment is projected to rise and remain positive, supporting activity in downstream retail and other commercial sectors. Demand for retail space affiliated with food consumption, such as restaurants, cafes and bars, will likely remain higher than demand in the wider retail property market.

Demand for industrial real estate is projected to grow over the next five years. Following the COVID-19 pandemic's disruptive effect on global supply chains, some businesses may undertake reshoring initiatives to strengthen their supply chains. Some manufacturing sectors are anticipated to perform well over the period. For example, demand for food product manufacturing is projected to grow due to increasing domestic and foreign consumption. Niche and high value-added manufacturing companies are also forecast to grow over the next five years. However, these firms tend to have smaller premises compared with traditional, large-scale manufacturers, and will therefore likely have a modest effect on industry revenue.

Despite easing COVID-19 restrictions, continued interest in working from home could constrain demand for commercial properties in downstream markets, limiting industry revenue growth. Many businesses are rethinking their office space needs following the pandemic. Some businesses will likely to reduce their office space requirements, while others may reduce their presence in city centres and move to suburban locations. Furthermore, continued restrictions on foreign investment will likely limit interest in the commercial and industrial property markets.

OPERATING CHALLENGES

The digitisation of real estate services is projected to continue over the next five years.

Online property portals, such as realestate.com.au and Domain.com.au, are forecast to increase their market shares over the period. Technological advancements will likely increase the popularity of virtual property tours, with some agencies already making these available for premium properties. Operators are also projected to adopt new application processes that incorporate customers' smartphones and dedicate more of their marketing budget to online initiatives. This trend signals the industry's shift away from traditional media channels. The industry's new operating environment will require firms to reassess their business models to ensure they retain a significant role in selling and managing property.

Performance Outlook Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2022-23	35,688	15,881	47,386	45,065	140,535	N/A	N/A	9,536	N/A
2023-24	34,150	15,026	47,084	44,850	141,278	N/A	N/A	9,419	N/A
2024-25	35,326	15,897	48,241	46,040	143,184	N/A	N/A	9,766	N/A
2025-26	36,427	16,356	47,980	45,897	144,576	N/A	N/A	9,979	N/A
2026-27	37,621	16,930	48,984	46,987	148,949	N/A	N/A	10,322	N/A
2027-28	37,377	16,745	48,320	46,411	148,051	N/A	N/A	10,270	N/A
2028-29	37,769	16,921	48,553	46,728	149,530	N/A	N/A	10,424	N/A

Industry Life Cycle

The life cycle stage of this industry is ⊖ Mature

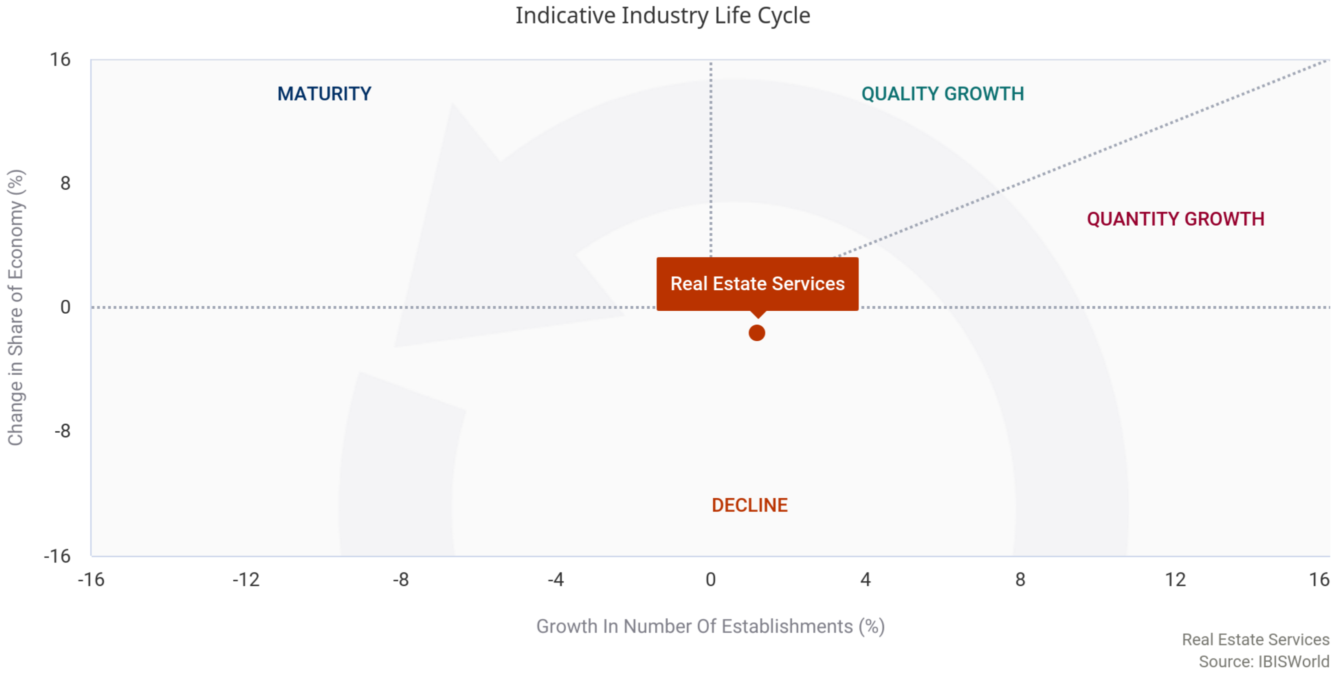
LIFE CYCLE REASONS

Economic activity and interest rates mainly influence demand for industry services

Industry establishment numbers have increased over the past five years

The industry's products and services have largely remained the same over the long term

Industry value added (IVA) is growing at a slower rate than GDP



The Real Estate Services industry is in the mature stage of its life cycle. Industry value added (IVA), a measure of the industry's contribution to the wider economy, is forecast to grow at an annualised 1.9% over the 10 years through 2027-28. This trend represents an underperformance relative to the economy, with GDP projected to grow at an annualised 2.3% over the same period. This underperformance is indicative of a mature industry. Rising demand in the residential property market is anticipated to support an increase in the number of operators in the industry over the decade. However, strong competition and established local players are expected to limit the number of industry entries.

Industry operators typically have a limited ability to add value beyond traditional services. Although some players have diversified into advisory, finance, conveyancing and facilities management activities over the past five years, most services have essentially remained the same. Technology change has been low in the industry over the period. However, many firms have innovated in terms of their online presences and capabilities to stand out in the industry's highly competitive environment. The industry's services are wholeheartedly accepted by its markets, which is a further indication of the industry's mature life cycle stage.

Industry growth is anticipated to closely align with economic, social and demographic trends in Australia over the long term. Industry activity is mainly influenced by economic activity, access to debt funding and interest rates. In particular, the cost and availability of housing credit for both owner-occupiers and investors affect industry growth. Household formation and population growth also influence demand for industry services.

Products & Markets

Supply Chain

Key Buying Industries

1st Tier

- Office Property Operators in Australia
- Retail Property Operators in Australia
- Industrial and Other Property Operators in Australia
- Residential Property Operators in Australia
- Finance in Australia

2nd Tier

- Consumers in Australia

Key Selling Industries

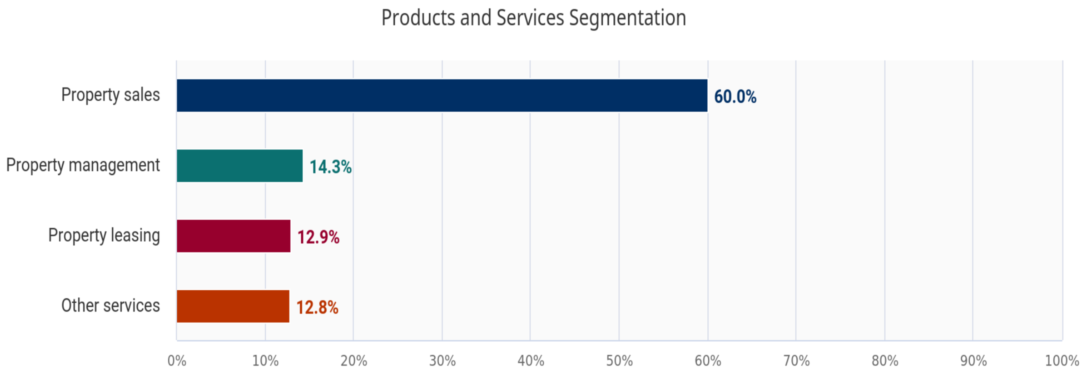
1st Tier

- Specialised Design Services in Australia
- Wired Telecommunications Network Operation in Australia
- Wireless Telecommunications Carriers in Australia

2nd Tier

- Computer System Design Services in Australia
- Computer and Computer Peripheral Wholesaling in Australia
- Computer and Electronic Equipment Repair in Australia

Products & Services



2023 INDUSTRY REVENUE

$35.7bn

Real Estate Services
Source: IBISWorld

The industry offers a range of property-related services to its customers.

Real estate agents are enlisted by property owners to either lease or sell assets. Many players also provide property management services, overseeing all aspects of leasing arrangements, such as organising maintenance activities. Other services beyond the traditional role of real estate agencies are also included in the industry, such as property valuation and escrow services. Industry participants typically generate revenue by charging commission fees for these services. Operators also tend to offer their services for certain property types, such as residential, office, retail or industrial properties.

PROPERTY SALES

Property sales, including sales of residential, retail, industrial and other commercial properties, account for the industry's largest share of revenue.

Operators organise property sales through auctions or private sales, and offer advice on pricing. While real estate agents can charge a fixed flat fee, sales commissions constitute the bulk of revenue from property sales. Commissions are calculated as a variable percentage of the final sale price. When selling property on behalf of consumers and businesses, industry operators offer a range of services, such as organising advertising campaigns, coordinating property inspection times, negotiating prices and handling property auctions. Real estate agents can also sell property in conjunction with other agents. Property sales have risen as a share of industry revenue over the past five years. Rising residential housing prices have caused revenue generated from commission sales to increase over the period. Heightened interest rates are anticipated to subdue revenue generated from property sales in the current year.

PROPERTY MANAGEMENT

Property management involves managing lease agreements, property inspections, rental reviews and tenant relocations.

Property management has increased as a share of industry revenue over the past five years. Declines in residential property yields have prompted industry firms to increase their management fees to retain their revenue streams over the period. Subdued demand from office and retail property operators has limited growth in this segment.

PROPERTY LEASING

Real estate agents earn commissions by securing tenants to lease properties.

The short timeframes required when arranging leasing agreements generate lower fees compared with other industry services. Industry operators typically provide ongoing property management services once a lease has been signed. Property leasing has declined as a share of industry revenue over the past five years. Declines in residential property yields, and limited demand for office and retail premises have constrained revenue generated through property leasing services. In addition, eviction moratoriums and rent reduction agreements introduced in response to the COVID-19 pandemic have further constrained the performance of this segment.

OTHER SERVICES

Industry firms offer a range of other services, which include providing property valuations, fiduciary and escrow consulting, miscellaneous consulting, and reimbursing property owners for various expenditures.

The industry also includes research agents, listings agents and some tenant representatives. Traditionally, real estate firms have acted on behalf of property owners, rather than tenants or purchasers. Providing consulting advice to property tenants represents a minor growth market for the industry. Other services have declined as a share of revenue over the past five years, due to enhanced competition from online providers of these services.

Demand Determinants

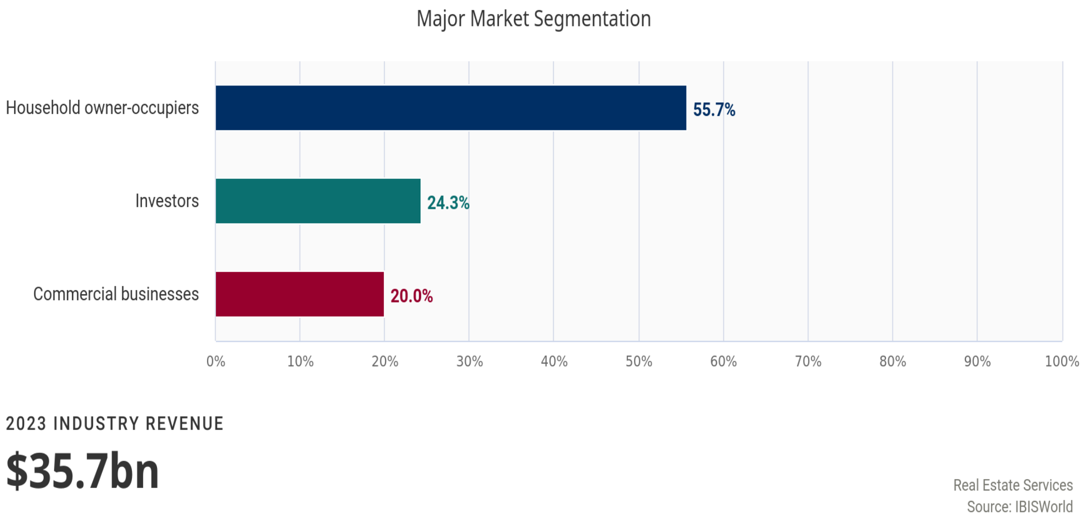
Activity in the housing market primarily dictates demand for the industry.

The value of property sales and leasing activity, home ownership and housing rents all influence industry revenue. As firms generate revenue on commission of property transactions, higher housing prices and a greater frequency of housing sales can positively affect industry revenue. House prices are affected by a range of factors, including interest rates, economic growth, business profitability, household incomes, household wealth, taxation regulations, the size and age of the population, employment levels, and the number of people per household.

The prevalence of renting and leasing also boosts industry demand. Operators generate revenue on residential property yields, and higher occurrences of renting and higher rent prices increase industry revenue. More rent activity also increases demand for services such as property inspections, tenant negotiations, relocations and the general managing of lease agreements. Declines in the number of overseas students and in the mobility of Australian students have reduced specialised markets for student accommodation, which has limited property sales and leasing activity over the past five years.

Government intervention can also affect industry demand. For example, schemes designed to increase property investment activity, such as negative gearing, have encouraged property investment. Negative gearing enables investors to use their net losses on investment properties to claim deductions on their tax returns. In contrast, the RBA's decisions regarding the country's interest rate can determine the cost of investments. Raising the country's interest rate increases the cost of loans for many Australians, weakening demand for housing and constraining the industry's performance.

Major Markets



Industry players lease and sell residential, retail, office, industrial and rural property.

Real estate agents' customers are therefore either sellers, known as vendors, or property managers, known as lessors. The industry provides its services to a variety of property owners. Markets for the industry include household owner-occupiers, investors and commercial businesses. Owners of residential property are largely owner-occupiers, and household or individual investors. Owners of non-residential properties include individual investors, family companies and trusts, superannuation funds, insurance companies, property trusts and other managed funds, and businesses that own property.

HOUSEHOLD OWNER-OCCUPIERS

Household owner-occupiers account for the industry's largest market.

Customers in this market segment use industry services to organise and complete transactions for their homes. Rising residential housing prices have caused mortgage affordability to decrease over the past five years. However, many customers have had access to government organised schemes aimed at encouraging home ownership, such as the First Home Owner Grant, the HomeBuilder grant and the First Home Guarantee. These initiatives provide cash to prospective buyers or allow buyers to take out larger loans with smaller deposits, encouraging home purchases and raising residential property values. As a result, the number of housing transfers has risen over the period, causing household owner-occupiers to increase as a share of industry revenue.

INVESTORS

Investors purchase real estate in Australia to generate passive income through leasing to occupants.

The historic relative stability of the Australian housing market has attracted significant attention from local and foreign investors over the past decade. Heightened attention has contributed to increases in residential housing prices over the same period. Older Australians have been increasingly downsizing their living arrangements and leasing their previous properties, supporting this market's contribution to industry revenue.

Amendments to the Foreign Investment Review Board (FIRB) in April 2022 are anticipated to support investment activity in the Australian housing market. The amendments have raised thresholds for mandatory FIRB approvals for certain transaction types and entities. However, the treasurer doubled FIRB application fees in July 2022, which could limit foreign investment in Australian property. Overall, investors have risen as a share of industry revenue over the past five years.

COMMERCIAL BUSINESSES

Commercial businesses are the industry's smallest market segment by revenue.

Commercial firms use industry services to consult on purchases or sales of commercial properties, help facilitate sales of their property, manage property maintenance or secure tenants for large commercial buildings. Industry firms that target this market typically have specialised knowledge in commercial property and its operations, and often attempt to perform activities usually undertaken in-house.

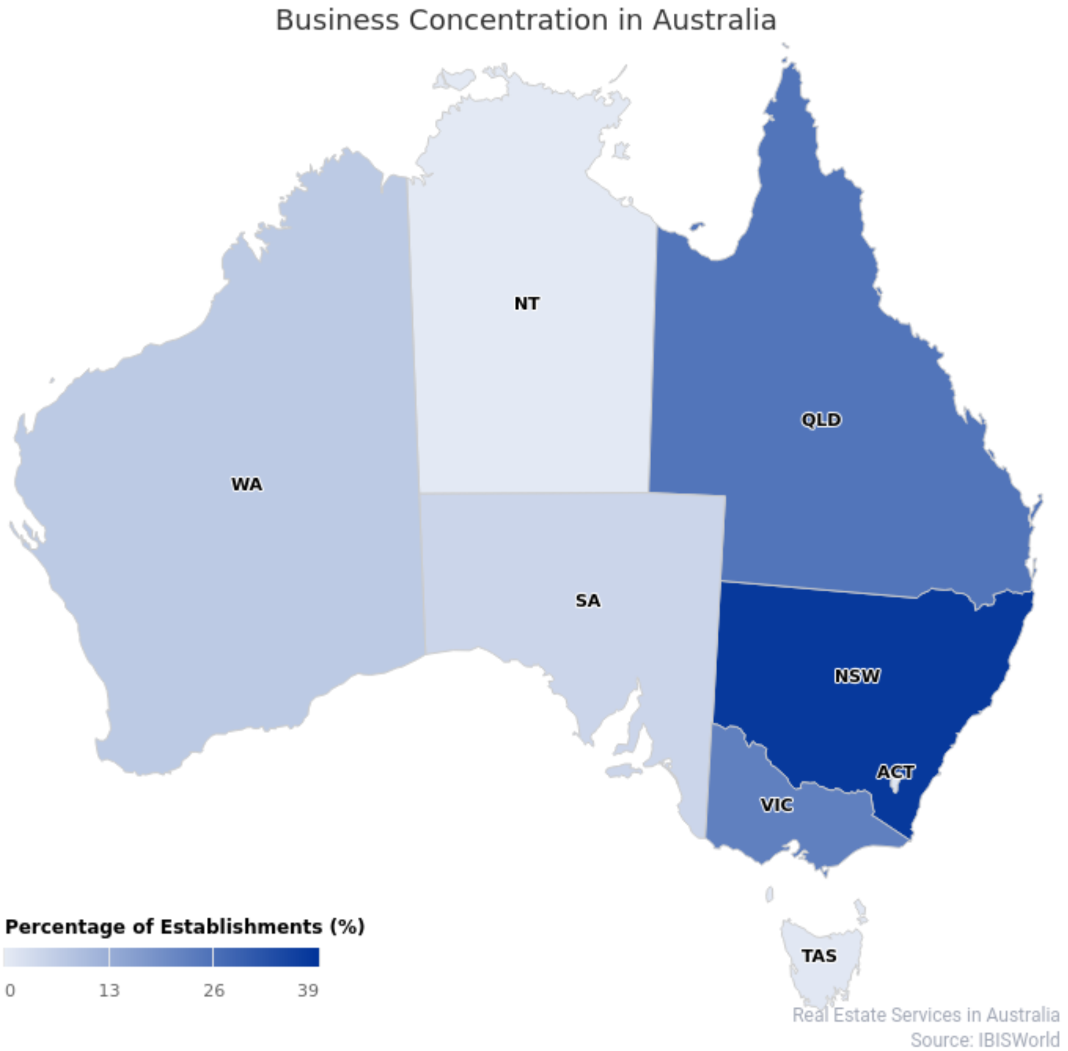
Fluctuating business confidence during the COVID-19 pandemic has constrained this market's contribution to revenue. Commercial tenancy relief schemes introduced nationally in response to the pandemic further constrained demand from this market. Construction of non-residential buildings, such as commercial and industrial buildings, has declined over the past five years, further limiting demand from this market. Commercial businesses have therefore fallen as a share of industry revenue over the period.

Exports in this industry are Low and Steady

Imports in this industry are Low and Steady

Industry revenue is generated domestically. However, Australian real estate agency firms can attract significant business by marking and selling properties to wealthy foreign investors. Foreign owners rely on industry firms to arrange for their property transactions, liaise with tenants and manage their lease agreements. The Foreign Investment Review Board regulates foreign real estate investment. Potential restrictions for foreign investors include limited foreign ownership of new developments, a lack of capital gains tax exemptions, and higher fees and taxes.

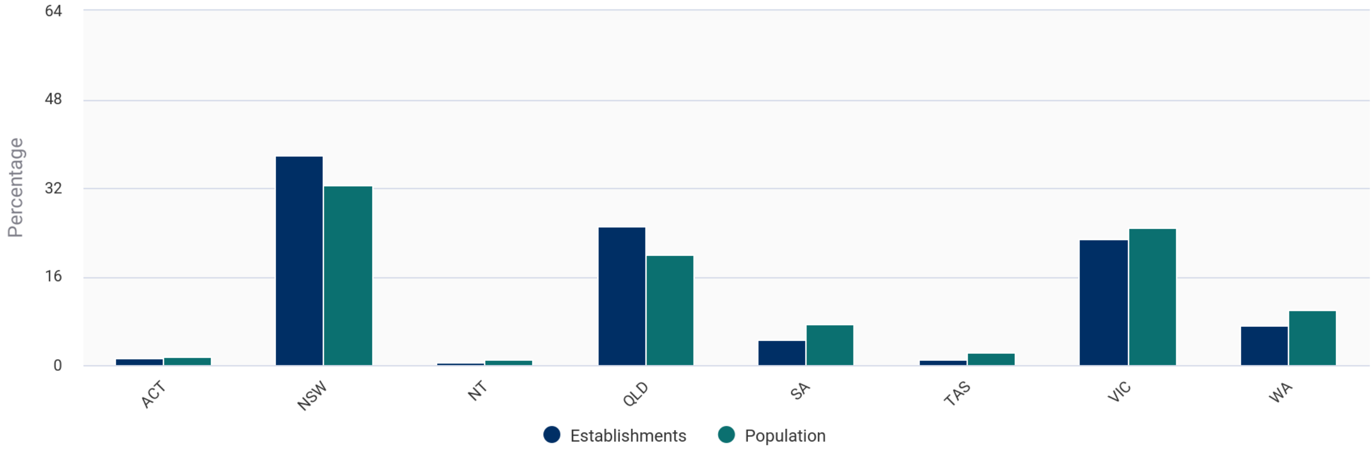
Business Locations



Industry businesses are primarily concentrated along Australia's eastern seaboard. New South Wales, Queensland and Victoria account for 85.0% of all industry enterprises, which is an overrepresentation of the three state's combined share of the national population. The concentration of Australia's population and commercial activities in these states encourages a higher presence of industry businesses. For example, Ray White began in Queensland, while LJ Hooker is headquartered in Sydney. The number of businesses in New South Wales and Victoria has risen over the past five years, due to increasing demand for residential property in these states, which has been reflected in record growth in housing prices. As property prices have risen, industry operators have benefited from higher commissions and revenue.

Together, the Australian Capital Territory, the Northern Territory and Tasmania account for less than 3% of industry businesses. This is an underrepresentation of the three state's combined share of the national population. The generally lower median house prices and populations in these three states indicate smaller commission fees and lower volumes of business for operators, which discourages a higher prevalence of industry enterprises.

Distribution of Establishments vs Population



Real Estate Services
Source: IBISWorld

Competitive Landscape

Market Share Concentration

Concentration in this industry is Low

The industry has low market share concentration. The industry's size prevents larger players from increasing their market share concentration. The four largest players account for just under 10% of revenue in the current year. In comparison, only 6.0% of industry firms record $2.0 million or more in annual revenue. Operators are mainly self-employed local firms, although a small proportion of operators participate in national franchise systems. A significant proportion of national players operate in the commercial and rural segments. The industry's market share concentration has declined over the past five years, due to growth in the number of independent property managers.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Aggressive marketing/franchising - given the high level of competition:
Real estate agents that invest in marketing and promotional activities can benefit from referrals and a wider client base.

Ability to effectively communicate and negotiate:
Industry operators that effectively manage their properties and tenants can maintain client loyalty, and build long-term leasing revenue streams.

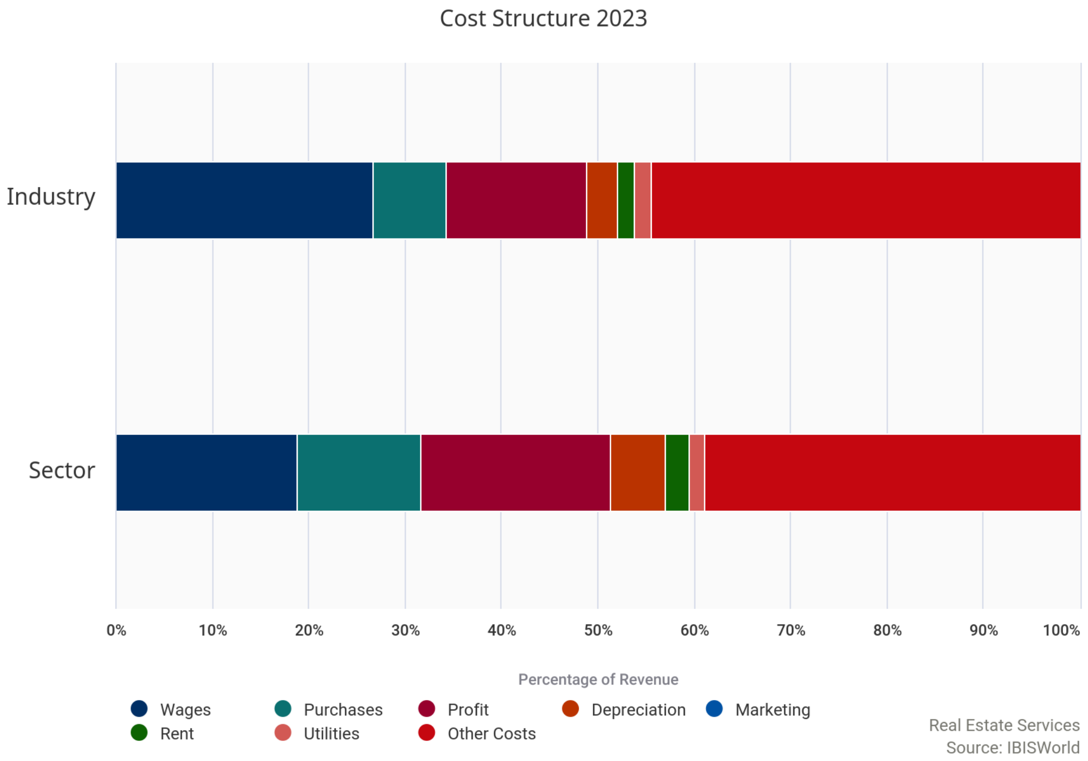
Having contacts within key markets:
Successful real estate agencies establish and maintain good working relationship with banks, investors and international customers.

Market research and understanding:
Operators that conduct property research activities can strengthen their revenue and property management activities.

Proximity to key markets:
Customers tend to prefer operators located close to the markets they serve. Sellers often seek agents with a knowledge of local properties.

Access to highly skilled workforce:
Operators that hire skilled employees can offer high-quality service and generate greater revenue.

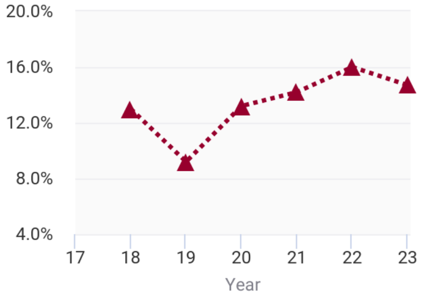
Cost Structure Benchmarks



Profit

Industry profit margins are high as owner-operators often use profit as imputed wages. Firms that offer a varied range of services can typically justify higher prices and fees, and therefore have higher profit margins. Rising residential housing prices have supported industry profit margins over the past five years. However, residential and commercial tenancy relief schemes introduced during the COVID-19 pandemic have subdued property yields and placed downward pressure on profit. Furthermore, significant external competition from property websites has forced many players to lower their profit margins to compete against strong price-based competition. Overall, industry profitability has marginally risen over the period. Recent increases to interest rates are anticipated to subdue housing prices and transaction volumes, and therefore limit profit margins in the current year.

Profit as a Share of Revenue 2018-2023

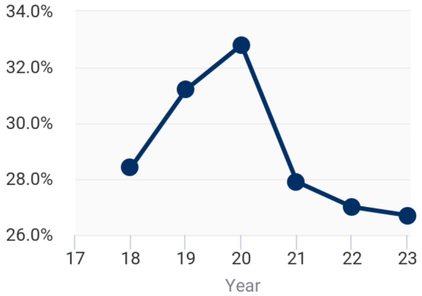


Real Estate Services
Source: IBISWorld

Wages

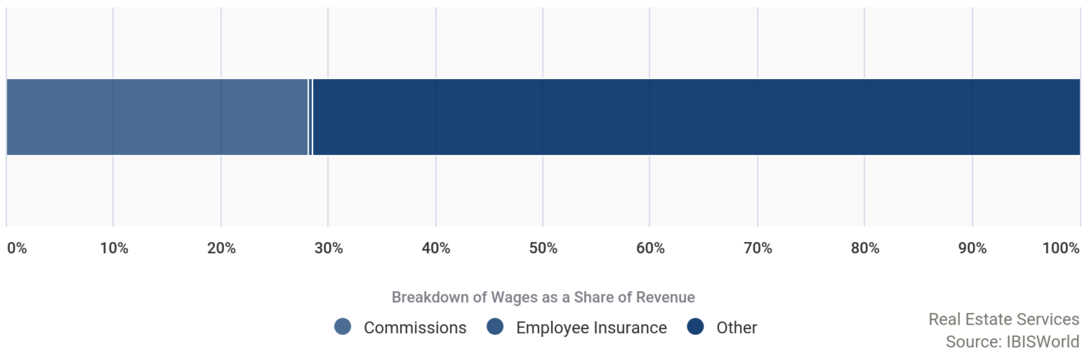
Wages represent the industry's largest cost segment. As the industry is service-based, participants heavily rely on labour to generate revenue. Many independent owner-operators use profit as imputed wages, constraining wage costs for the industry. Wages paid to sales staff, which include commissions, tend to be higher than wages for property managers. Many leading agencies have employed sales staff that work under a commission-only salary structure over the past five years, or have increased the proportion of salary derived from commission. Higher housing prices have increased these commissions, driving up industry wages. As a result, the average industry wage has risen over the period. In contrast, some firms have enhanced their online services to reduce wage cost pressures. Industry operators and consumers are increasingly using online services, such as property listing websites, reducing the industry's reliance on labour. Overall, wages have declined as a share of revenue over the past five years.

Wages as a Share of Revenue 2018-2023



Real Estate Services
Source: IBISWorld

Wages Breakdown (% of Total Wages in 2023)

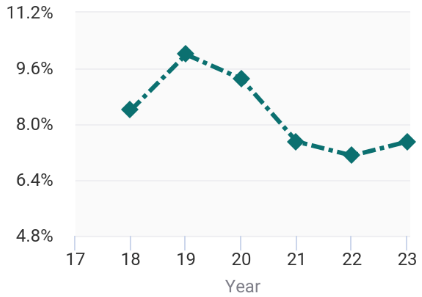


Real Estate Services
Source: IBISWorld

Purchases

Industry purchase costs include stationery and software subscriptions necessary for daily operations. Purchase costs have fallen slightly as a share of industry revenue over the past five years, as operators have increasingly moved towards SaaS subscriptions rather than purchasing software. Operators have also been relying less on paper and other stationery purchases, further reducing costs.

Purchases as a Share of Revenue 2018-2023

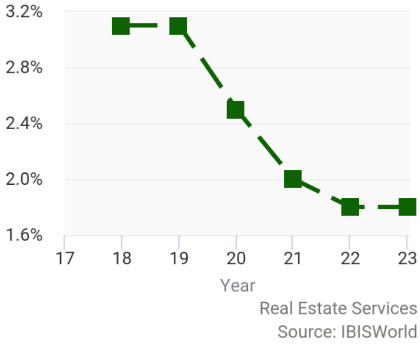


Real Estate Services
Source: IBISWorld

Rent

Real estate service providers benefit from occupying offices in high-density areas. High rent costs across the real estate sector can also increase revenue for agents, as more properties are purchased, developed and offered for rent due to greater yields. This trend can partly offset the effect of higher rental costs on the industry's cost structure. Proximity to household owner-occupiers and businesses allows operators to reach a wider customer base. Real estate agencies generally also sell properties close to their offices, making the choice of location important for buyers, sellers and agents. Rent costs have declined as a share of industry revenue over the past five years, as some operators have avoided prime locations to limit rent costs and preserve profit margins.

Rent as a Share of Revenue 2018-2023



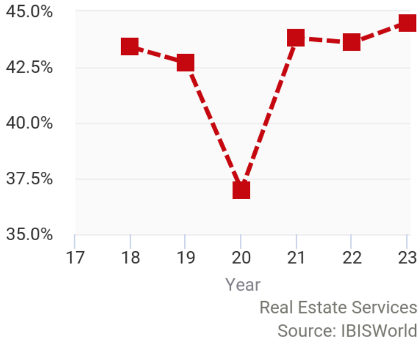
Other Costs

Other costs include franchise fees, utility costs, depreciation expenses, IT costs, training and HR expenses, cleaning costs, security expenses and other administrative costs. These costs vary as a share of revenue, depending on a business's size and its primary activities. IT and HR costs tend to be higher for larger agencies that employ a substantial workforce and perform a range of functions. Other costs have increased as a share of revenue over the past five years.

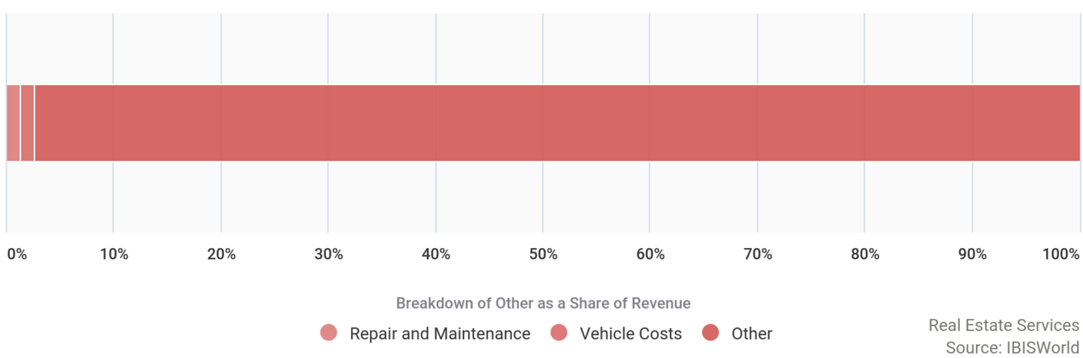
Industry operators that provide real estate management services typically hire cleaning and security staff for rental lease changeover periods. Cleaning and security services are generally subcontracted out to third-party providers, with property managers using their scale to negotiate more favourable agreements than are available to individual tenants and landlords. Industry operators involved in conveyancing also sustain costs associated with searching for property titles and planning certificates.

Marketing costs are a significant expense for larger firms. Intense internal competition has encouraged many agents to highlight their own reputation and brand, along with the properties they have listed. Marketing has largely shifted from print classifieds to online listings, which include videos and virtual tours, due to technological developments. Price increases for online listing portals are heavily influencing industry marketing costs.

Other Costs as a Share of Revenue 2018-2023



Other Breakdown (% of Total Other in 2023)



Basis of Competition

Competition in this industry is ⚠ High and the trend is Increasing

Internal and external competition is high in the industry.

Firms compete with one another on their quality and range of services. Low market share concentration indicates that few operators can significantly benefit from economies of scale. Firms are also subject to substitution as vendors can perform industry services without engaging industry operators.

INTERNAL COMPETITION

The industry is highly fragmented and many small-scale enterprises compete based on the quality of services offered and fees charged.

Larger firms typically rely on their status and reputation to attract customers, and can use relative economies of scale to reduce per-unit costs for their services. Operators that can offer a variety of services across several property types are likely to benefit from higher revenue.

Firms must pay attention to factors such as developing a referral base, managing clients, undertaking office fit-out, selecting sales staff, training, and monitoring and motivating staff. Real estate agents also use advertisements to gain a competitive advantage. Advertising across magazines, newspapers, TV and online represents the most common way to attract prospective tenants and home owners. Online advertising is particularly important for industry firms targeting potential interstate and overseas-based investors. Many firms have also heavily focused on procuring overseas investment.

Firms can use highly skilled staff to provide high-quality services, including achieving higher sales prices for housing transactions that increases their commissions and benefits sellers. Sales commissions on commercial properties have been deregulated in all states, resulting in many operators competing on price. The emergence of disruptors such as PropertyNow, which charges a flat fee for agency services, has also given consumers a more cost-effective listing alternative. Price competition has risen over the past five years, constraining the industry's performance.

EXTERNAL COMPETITION

Vendors can organise their own transactions and manage their own leases, resulting in substitution for industry services.

This trend has increased over the past five years, due to the rising popularity of online listing websites such as Gumtree. These online platforms have allowed vendors to advertise properties without paying commissions to real estate agents, and therefore minimising selling costs. Higher rates of home ownership benefit industry players that provide property sales. However, home ownership indicates a heightened threat of substitution for firms that rely on revenue streams generated from residential property yields. Declines to mortgage affordability have limited this substitution threat over the past five years.

Barriers to Entry

Barriers to Entry in this industry are ⊝ Medium and the trend is Increasing

The industry has moderate barriers to entry. Small-scale industry operations have low start-up costs, and the industry is mainly composed of firms that are non-employing or employ fewer than 20 people. However, the abundance of industry participants indicates that new entrants may have difficulty acquiring customers. Significant investment in advertising and marketing is typically required to develop a customer base. However, new entrants may rely on favourable word-of-mouth referrals to acquire customers. Larger industry players already have brand recognition, clientele and highly skilled staff, which require time and capital for new players to establish.

The need for highly skilled staff can present a barrier to entry for smaller players that lack sales and real estate skills. Geographical boundaries also represent a barrier to entry. Prospective buyers of properties tend to concentrate their search in a localised area. Established firms can have expertise in defined areas. Many firms focus on local markets, which can be difficult for new entrants to access.

Barriers to Entry Checklist

Competition	High ⚠
Concentration	Low ✓
Life Cycle Stage	Mature ⊝
Technology Change	Low ✓
Regulation & Policy	Heavy ⚠
Industry Assistance	Low ⚠

Industry Globalization

Globalization in this industry is ⊝ Medium and the trend is Decreasing

Industry globalisation is considered to be moderate. Revenue generated by the industry is accounted for at the domestic level, which results in low international trade for the industry. The industry is highly fragmented and does not involve extensive foreign ownership. Most operators are small-scale firms that earn less than $2 million in annual revenue. Notable exceptions include CBRE, Colliers and JLL, which are foreign-owned.

The industry relies on foreign investment in real estate to generate considerable income. The relative stability of the Australian housing market makes it a safe investment for many overseas investors. Some local companies, such as LJ Hooker, have started to develop significant overseas-based franchise networks and franchisees. Rising thresholds for mandatory Foreign Investment Review Board (FIRB) approvals has placed upward pressure on industry globalisation, as some barriers to foreign investment have been lowered. However, the treasurer doubled FIRB application fees in July 2022, which will likely discourage wider foreign investment in Australian property. Overall, industry globalisation has decreased over the past five years.

Major Companies

There are no major players in this industry

Other Companies

The industry is highly fragmented. An estimated 98.5% of firms employ fewer than 20 people or are non-employing in the current year. The industry's larger players include international real estate agents and firms specialising in niche markets, such as rural residential properties. Due to the relative size of the industry and its strong competition, large-scale players have difficulty developing greater market shares.

LPI (Australia) Holdings Pty Limited

Market Share: 4.0%
Brand Names: Jones Lang LaSalle (JLL)
LPI (Australia) Holdings Pty Limited is the holding company for the Australian Jones Lang LaSalle (JLL) group of companies, which provide real estate services and investment management. The commercial real estate firm Jones Lang LaSalle Inc. is headquartered in Chicago, United States, and owns LPI (Australia). The financial and professional services firm has 300 corporate offices worldwide and operates in over 80 countries. LPI specialises in property and corporate facility management services. In Australia, the company has 13 offices and its head office is in Sydney.

Ray White Group

Market Share: 4.0%
The Ray White Group was established in 1902 in Crow's Nest, QLD, and has expanded through a franchise system to become one of Australia's largest real estate networks. The company has approximately 8,000 staff throughout its global operations, which cover several sectors. The company's business lines include residential, rural and commercial real estate agency services, and financial, insurance and construction operations. Ray White has focused on expanding its markets and has offices in Atlanta, United States, and Beijing, China. The company has over 1,000 offices globally.

CBRE Pty Limited

Market Share: 3.0%
CBRE Pty Limited is the Australian subsidiary of US-based real estate firm CBRE Group Inc. Globally, the company employs over 105,000 people across 500 offices. CBRE's operations include over 2,970 employees across Australia and New Zealand, with 13 offices in Australia. The company offers strategic advice and execution for property sales and leasing. It also offers corporate services, property facilities and project management, mortgage banking, appraisal and valuation, development services, investment management, and research and consulting.

Colliers International Holdings (Australia) Limited

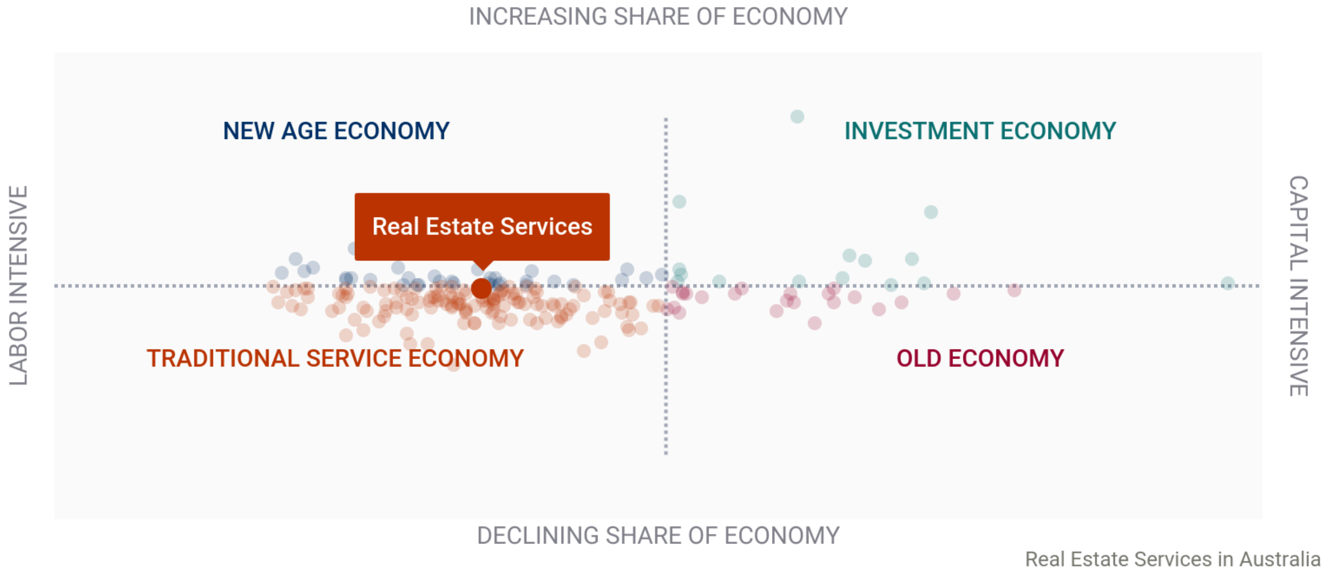
Market Share: 2.0%
Colliers International Holdings (Australia) Limited is a global real estate service provider that was founded in Australia in 1976, and is currently headquartered in Canada. The company operates in 68 countries and has over 15,000 employees worldwide. The company operates 23 locations in Australia. Colliers provides a range of real estate services to property owners, investors, developers and tenants, in both domestic and international markets.

LJ Hooker Limited

Market Share: 2.0%
LJ Hooker Limited, established in 1928, is one of Australia's most recognised real estate brands. In 1989, LJ Hooker Limited was sold to Suncorp Group, a financial institution based in Queensland. In 2009, Suncorp Group sold LJ Hooker to LJ Resurrection Pty Limited, a consortium led by the founder's grandson, for $67.0 million. This sale gave control of the company back to the Hooker family. LJ Hooker has since expanded, and now has a global network of approximately 480 offices and 6,000 staff, a large portion of which are located in Australia. The company also has offices in New Zealand, Fiji, Indonesia, Papua New Guinea, Vanuatu and China.

Operating Conditions

Costs of Growth: Targeting Capital vs. Labor

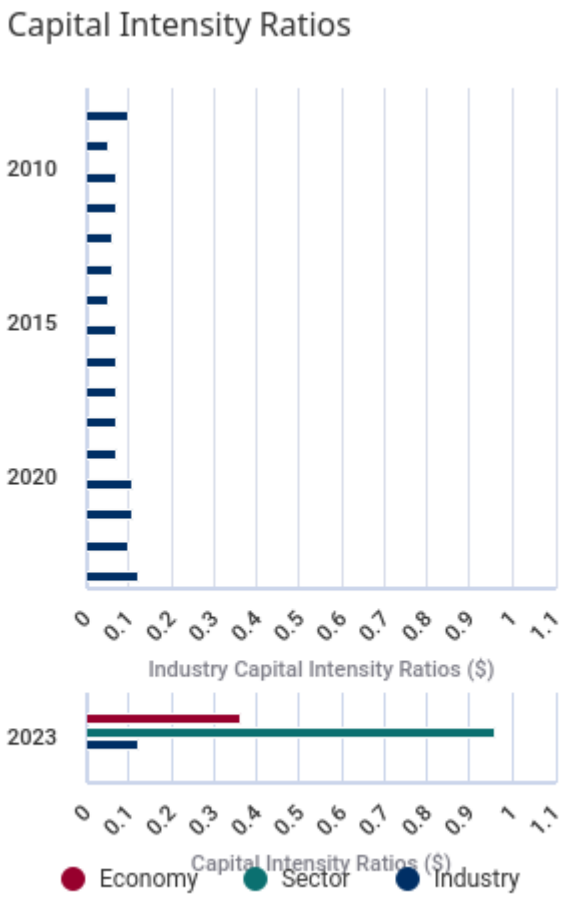


Real Estate Services in Australia
Source: IBISWorld

Capital Intensity

The level of capital intensity is ✓ **Low**

The industry is characterised by low capital intensity. For every dollar spent on wages in the current year, industry firms invest an estimated $0.12 in capital. As the industry is service-based, operations are labour-intensive, and firms rely on skill and expertise to generate revenue. Employees are required to broker property transactions, liaise with buyers and sellers, manage leasing agreements, and provide a range of other services. The industry also incurs low depreciation costs. Rising capital expenditure on computer software years has caused industry capital intensity to rise over the past five years, as firms have increased operating efficiencies through technology and invested in their online presences.



Real Estate Services
Source: IBISWorld

Technology & Systems

Potential Disruptive Innovation: Factors Driving Threat of Change

Level	Factor	Disruptive Effect	Description
Very Low	Rate of Innovation	Very Unlikely	A ranked measure for the number of patents assigned to an industry. A faster rate of new patent additions to the industry increases the likelihood of a disruptive innovation occurring.
Very High	Innovation Concentration	Very Likely	A measure for the mix of patent classes assigned to the industry. A greater concentration of patents in one area increases the likelihood of technological disruption of incumbent operators.
High	Ease of Entry	Likely	A qualitative measure of barriers to entry. Fewer barriers to entry increases the likelihood that new entrants can disrupt incumbents by putting new technologies to use.
Medium	Rate of Entry	Potential	Annualized growth in the number of enterprises in the industry, ranked against all other industries. A greater intensity of companies entering an industry increases the pool of potential disruptors.
Low	Market Concentration	Unlikely	A ranked measure of the largest core market for the industry. Concentrated core markets present a low-end market or new market entry point for disruptive technologies to capture market share.

The rate of new patent technologies entering the industry is low, which limits the potential for innovations. A low rate does not mean that innovations cannot occur, just that the likelihood of some innovation materializing as a threat is lower. However, the concentration of technologies is high in this industry. This suggests that industry operators have exposure to potentially unforeseen areas of innovation.

The relative ease of entry is high, which can support the potential for external innovators to enter the industry with a disruptive trajectory. Despite this, the rate of entry of new companies is in line with the national average.

Major market segments for industry operators are relatively diversified. The spread of market segments suggests that there are limited entry points other than those already served my incumbent operators.

The COVID-19 pandemic disrupted regular operations for many players.

Social distancing measures heavily curtailed in-person property inspections. In response, some firms developed and enhanced their remote viewing options. Remote inspections allowed prospective purchasers to tour potential properties without needing to attend in person. Furthermore, the technology associated with remote inspections can benefit firms that wish to advertise their properties to distant and overseas investors. Improvements to virtual reality (VR) technology have the potential to enhance these virtual inspections. VR can allow individuals to traverse digitally-rendered 3D recreations of existing properties.

Many firms are anticipated to continue augmenting their online offerings over the next five years. For example, applications can enable potential customers to book property inspections, maps can show local schools and attractions, and firms can undertake automatic valuations based on property data. As a result, these websites can increasingly provide specialist advice regarding valuations and neighbourhood amenities that were previously sought from real estate agents.

The ability to advertise properties through websites has already disrupted the traditional advertising methods of many operators. These websites provide real estate agents with a much wider reach when trying to raise awareness of a property available for lease or sale. Previously, those wishing to advertise properties did so in print adverts in newspapers and magazines, which have a localised reach. Property listing websites have national and international reaches, significantly increasing exposure to potential purchasers.

The level of technology change is ✓ Low

The industry has a low rate of technology change.

The industry is labour-intensive, and communication between transactional parties, and property leasing and management has remained largely unchanged over the past five years. Technology change has focused on the internet presence of firms and computer software that improves service turnaround times.

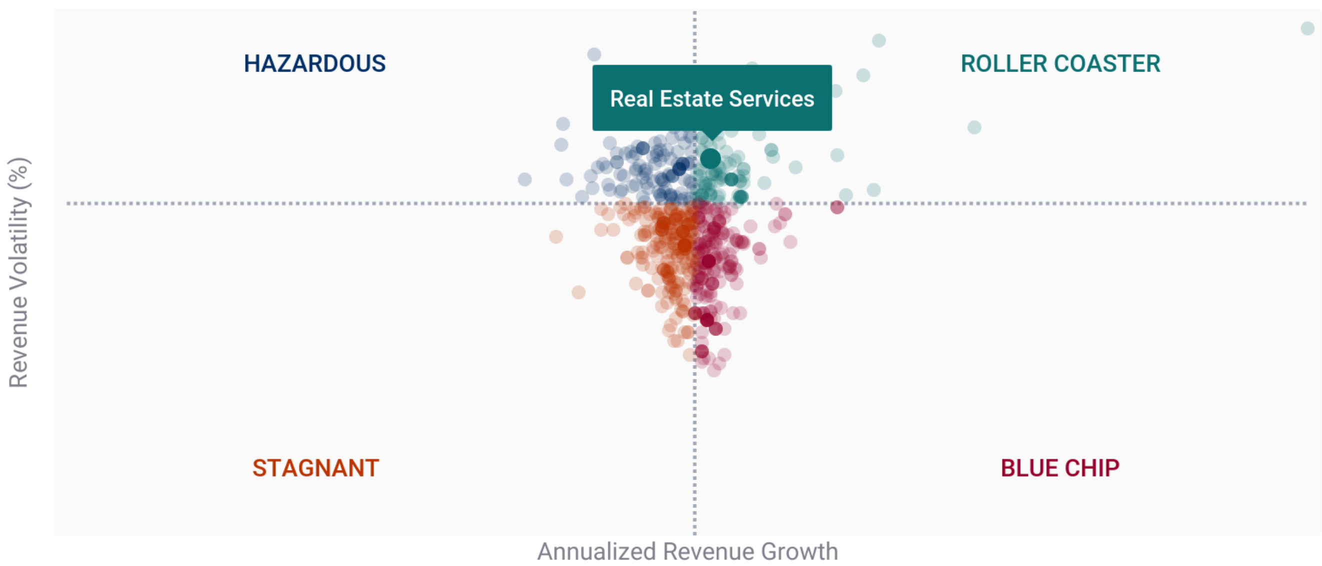
Industry firms have enhanced their online presences over the past five years, in response to fierce internet-based competition. Almost all real estate agents have an internet presence that provides details and pictures of listed properties for potential purchases or lessors. The online advertising landscape has become increasingly important for operators over the period, as most potential property buyers or renters use online sites such as realestate.com.au or Domain.com.au. Online listings regularly include floorplans and high-quality images of properties available for purchase or rent. Some firms have also began using videos and virtual tours of properties to attract potential buyers. While virtual property tours are currently largely restricted to premium properties, they are likely to become more commonly used across the industry over the next five years.

Industry firms that provide property management services may also invest in real estate investment software systems to help minimise labour costs. These systems usually provide operational and decision support. Operational systems provide sophisticated transaction processing to support daily activities, such as property maintenance, management and accounting. Industry firms may also use decision support software, which provides analytic tools to consolidate operational data with market benchmarks. This software allows firms to analyse their asset portfolio by measuring performance, forecasting future cashflow and supporting investment decisions. These types of systems are projected to become increasingly popular in the industry over the next five years.

Revenue Volatility

The level of volatility is ⚠ High

Volatility vs. Growth



Real Estate Services
Source: IBISWorld

Industry revenue volatility has been high over the past five years.

Changes in interest rates, unemployment levels, incomes, consumer sentiment and access to finance all affect companies' and investors' purchasing power. These trends also influence sales volumes, property prices and rental rates, in turn affecting revenue growth. Property transaction sizes have increased due to rising residential housing prices over the past five years. The concurrent increase in sales commissions has boosted overall industry revenue, despite unfavourable conditions across the wider economy during the COVID-19 pandemic. However, interest rate increases in the current year will likely subdue residential property prices and contribute to industry volatility.

Demand for certain classifications of property, such as commercial and industrial real estate, has been subdued due to the COVID-19 pandemic affecting revenue streams for certain operators that specialise in those classifications. Reduced commercial and industrial building construction activity has also limited property industry supply over the past five years. In addition, working from home practices became more frequent during the pandemic, which reduced demand for commercial building leasing. Residential and commercial tenancy relief schemes introduced in response to the pandemic have also constrained the industry's performance and contributed to volatility.

Regulation & Policy

The level of regulation is ⚠ Heavy and the trend is Increasing

State and territory governments tightly regulate the industry.

Regulations relating to industry operators typically vary according to where operations take place. Laws governing the industry largely relate to entry requirements, and firms' and employees' conduct.

STATE REGULATION

State-based regulations for industry participants are generally a part of broader fair trading acts.

For example, the ACT's Agents Act 2003 forms part of the state's fair trading legislation. State-level legislation primarily focuses on maintaining good business practice for fair trading conditions in the industry, along with licensing requirements for agents and businesses. Licensing requirements differ among states and territories, but generally relate to educational qualifications, experience and an agent's residence. Additionally, industry operators are exposed to state-relevant auctioning, tenancy and conveyancing regulations.

FEDERAL REGULATION

The ACCC manages Federal Government's industry-related regulation through the Franchise Code of Conduct.

This code regulates interactions in the franchise sector to ensure fair and requisite franchise agreements and dispute resolution procedures for both franchisees and franchisors. Several industry players operate under franchise agreements. In response to a parliamentary inquiry report, the code was amended in June 2021 to support franchisees by adding enhanced financial disclosures, risk transparencies and other measures.

Foreign investment in property is typically regulated at the federal level by the Foreign Investment Review Board (FIRB). The FIRB introduced amendments to existing legislation in April 2022, which raised the thresholds for mandatory FIRB approvals for certain transaction types and entities. These amendments will likely support foreign investment in Australia by removing barriers for some investors. In contrast, the treasurer announced that foreign investment fees would double from in July 2022. The fees are intended to provide additional financing for the budget and may limit growth in foreign investment in domestic property over the next five years.

RESIDENTIAL AND COMMERCIAL TENANCY RELIEF SCHEMES

In response to the COVID-19 pandemic, some state governments introduced rent freezes and eviction moratoriums for residential properties.

Landlords were prevented from evicting tenants in arrears for extended periods because of the pandemic. Some landlords were required to consider rent reduction agreements in good faith due to financial hardship caused by the pandemic. The resulting effects on residential property yields have constrained industry revenue streams from property leasing and management.

In 2020, Australia introduced rent relief legislation for small and medium commercial tenancies affected by the COVID-19 pandemic. The legislation across all states and territories was broadly similar, ran for similar periods, and followed the general principle that landlords could not terminate leases for not paying rent during the COVID-19 pandemic. Furthermore, landlords were required to offer reductions in rent (as waivers or deferrals) based on the tenant's reduction in trade during the pandemic. The legislation broadly applied to businesses with turnovers of less than $50 million, which constituted a sizable portion of the industry's clients. Commercial tenancy relief schemes constrained property leasing income for the industry due to lowered rental payments.

MODERN SLAVERY ACT

In November 2018, the Federal Government passed the Modern Slavery Act 2018.

The act, which came into force on 1 January 2019, is a new reporting requirement for larger Australian businesses. Companies that generate annual consolidated revenue of at least $100.0 million have to report on how they act to mitigate the risks of modern slavery in their operations and supply chains.

The NSW Modern Slavery Act 2018 was due to come into force on 1 July 2019, but the act was delayed for further consultation. The NSW Parliament voted in favour of proposed amendments to the NSW Act in November 2021, under which local councils meeting the reporting threshold also need to prepare a modern slavery statement. The Modern Slavery Amendment Act 2021 (NSW) commenced on 1 January 2022.

The act has had a minimal effect on the overall industry, as most industry operators do not meet the revenue threshold. For the industry players that do meet the threshold, the act will have moderate implications. For example, industry players CBRE and JLL have submitted publicly available statements for 2021. The reports outline the operations of each company, their risks for modern slavery in their supply chains, and indicate strategies the firms have adopted to mitigate these risks.

Industry Assistance

The level of industry assistance is ⚠ Low and the trend is Increasing

The industry receives little direct assistance. No import tariffs apply to the industry. Other than licensing requirements, no protection is specifically afforded to the industry. However, government policy can influence transactional property activity, such as through interest rates; acquisitions, sales and leasing of property; investment in infrastructure; taxes on sales transactions and property investors; and grants to first-home buyers. Any tax concessions or grants that encourage real estate activity are generally positive for the industry.

The First Home Owner Grant (FHOG) is designed to help new buyers in the housing market purchase a property. The grant is only eligible to owner-occupier buyers of new homes. Eligibility criteria, payments and benefits vary among individual states. For example, a $10,000 grant is available to residents in New South Wales that are purchasing a new home that does not exceed $750,000. New home buyers are also eligible for stamp duty concessions.

A First Home Super Saver Scheme was introduced in the 2017-18 Federal Budget. Similar to the FHOG, this initiative was created to assist first-home buyers. The scheme came into effect on 1 July 2017, allowing entry-level buyers to make voluntary contributions into a separate account in their superannuation fund, which helps new buyers save for a deposit at a discounted tax rate. First-home buyers can then apply to withdraw these funds. The Federal Government also introduced the First Home Loan Deposit Scheme. The scheme, which came into effect on 1 January 2020, enables first-home buyers to purchase eligible properties with as little as 5.0% deposit, without needing to take out lenders mortgage insurance.

COVID-19 assistance policies

During the COVID-19 pandemic, operators in the industry benefited from the Federal Government's JobKeeper payment scheme. Businesses that were eligible for the scheme received up to $1,500 per fortnight for each eligible employee, which was then to be paid to the employee in lieu of normal pay. The scheme prevented larger job losses and reduced wage costs for businesses during the pandemic amid fallings sales. The scheme ended on 21 March 2021.

In June 2020, the Federal Government introduced the HomeBuilder program. This program allows eligible owner-occupiers to apply for a grant of $25,000 to renovate an existing home or build a new home. To be eligible, an individual must earn less than $125,000, or a couple must earn less than $200,000. Applications for grants closed on 14 April 2021.

Several Australian states introduced legislation for rent relief. In Victoria, grants were provided to certain landlords of tenants that were experiencing financial difficulties due to the pandemic in lieu of their rent. Similar aid packages were introduced in other states, such as Western Australia and New South Wales. These grants eased the burden of rent payment on tenants, and supported incomes for landlords and industry participants.

Key Statistics

Industry Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2013-14	25,510	13,342	39,053	37,005	119,936	N/A	N/A	8,057	N/A
2014-15	27,112	13,800	40,354	38,121	121,232	N/A	N/A	8,564	N/A
2015-16	29,301	14,680	42,057	39,713	123,439	N/A	N/A	9,047	N/A
2016-17	31,892	15,819	43,403	40,968	136,816	N/A	N/A	9,170	N/A
2017-18	31,901	13,877	44,489	42,060	138,644	N/A	N/A	9,066	N/A
2018-19	28,522	12,122	42,872	40,472	135,521	N/A	N/A	8,897	N/A
2019-20	28,089	13,904	43,418	41,128	132,379	N/A	N/A	9,204	N/A
2020-21	34,318	15,478	45,383	42,874	134,387	N/A	N/A	9,566	N/A
2021-22	37,708	17,270	49,582	47,248	143,539	N/A	N/A	10,169	N/A
2022-23	35,688	15,881	47,386	45,065	140,535	N/A	N/A	9,536	N/A
2023-24	34,150	15,026	47,084	44,850	141,278	N/A	N/A	9,419	N/A
2024-25	35,326	15,897	48,241	46,040	143,184	N/A	N/A	9,766	N/A
2025-26	36,427	16,356	47,980	45,897	144,576	N/A	N/A	9,979	N/A
2026-27	37,621	16,930	48,984	46,987	148,949	N/A	N/A	10,322	N/A
2027-28	37,377	16,745	48,320	46,411	148,051	N/A	N/A	10,270	N/A

Annual Change

Year	Revenue (%)	IVA (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2013-14	6.94	7.35	5.62	5.68	0.12	N/A	N/A	6.89	N/A
2014-15	6.28	3.43	3.33	3.01	1.08	N/A	N/A	6.30	N/A
2015-16	8.07	6.37	4.22	4.17	1.82	N/A	N/A	5.63	N/A
2016-17	8.84	7.75	3.20	3.16	10.8	N/A	N/A	1.36	N/A
2017-18	0.02	-12.3	2.50	2.66	1.33	N/A	N/A	-1.14	N/A
2018-19	-10.6	-12.7	-3.64	-3.78	-2.26	N/A	N/A	-1.87	N/A
2019-20	-1.52	14.7	1.27	1.62	-2.32	N/A	N/A	3.44	N/A
2020-21	22.2	11.3	4.52	4.24	1.51	N/A	N/A	3.92	N/A
2021-22	9.87	11.6	9.25	10.2	6.81	N/A	N/A	6.30	N/A
2022-23	-5.36	-8.05	-4.43	-4.63	-2.10	N/A	N/A	-6.22	N/A
2023-24	-4.32	-5.39	-0.64	-0.48	0.52	N/A	N/A	-1.24	N/A
2024-25	3.44	5.79	2.45	2.65	1.34	N/A	N/A	3.67	N/A
2025-26	3.11	2.88	-0.55	-0.32	0.97	N/A	N/A	2.18	N/A
2026-27	3.28	3.51	2.09	2.37	3.02	N/A	N/A	3.43	N/A
2027-28	-0.65	-1.10	-1.36	-1.23	-0.61	N/A	N/A	-0.51	N/A

Key Ratios

Year	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/ Revenue (%)	Employees per estab. (Units)	Average Wage ($)
2013-14	52.3	N/A	N/A	213	31.6	3.07	67,174
2014-15	50.9	N/A	N/A	224	31.6	3.00	70,643
2015-16	50.1	N/A	N/A	237	30.9	2.94	73,289
2016-17	49.6	N/A	N/A	233	28.8	3.15	67,024
2017-18	43.5	N/A	N/A	230	28.4	3.12	65,389
2018-19	42.5	N/A	N/A	210	31.2	3.16	65,651
2019-20	49.5	N/A	N/A	212	32.8	3.05	69,528
2020-21	45.1	N/A	N/A	255	27.9	2.96	71,180
2021-22	45.8	N/A	N/A	263	27.0	2.89	70,844
2022-23	44.5	N/A	N/A	254	26.7	2.97	67,858
2023-24	44.0	N/A	N/A	242	27.6	3.00	66,671
2024-25	45.0	N/A	N/A	247	27.6	2.97	68,204
2025-26	44.9	N/A	N/A	252	27.4	3.01	69,023
2026-27	45.0	N/A	N/A	253	27.4	3.04	69,298
2027-28	44.8	N/A	N/A	252	27.5	3.06	69,367

Figures are inflation adjusted to 2022-23

Additional Resources

Additional Resources

Real Estate Institute of Australia
http://www.reia.com.au

Australian Bureau of Statistics
http://www.abs.gov.au

Property Council of Australia
http://www.propertycouncil.com.au

Industry Jargon

FIRB
Foreign Investment Review Board – A government body established to regulate foreign investment in Australia.

FIRST HOME OWNER GRANT
A national scheme funded by states and territories that provides a government grant for first home owners.

VR
Virtual reality - Computer-generated imagery designed to simulate real-life conditions and environments.

Glossary

BARRIERS TO ENTRY
High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY
Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

CONSTANT PRICES
The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

DOMESTIC DEMAND
Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT
The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE
A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT
The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS
Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS
Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION
An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE
The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other

operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA)

The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE

The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE

All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT

Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT

IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY

The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES

The gross total wages and salaries of all employees in the industry.

Call Preparation Questions

Role Specific Questions

Sales & Marketing

What local events does your brand sponsor?

Sponsoring local events generates goodwill and brand awareness, and can attract the attention of local consumers.

What online advertising does your company undertake?

Advertising online allows for more direct competition against alternative online platforms.

Strategy & Operations

What steps has your business taken to remain competitive against online property portals?

A strong reputation for expert advice and consistent sales can provide significant competition against online marketplaces.

Experienced and well-trained staff are essential to providing a positive experience for customers.

Where are your firms' offices located?

Establishing offices in key locations can increase the number of consumers that sell through an agency.

Technology

How does your business use data analytics to help determine market price movements?

Larger industry operators are increasing their use of data analytics to assist in determining market price movements.

Monitoring market price movements can reduce negotiation times for sales and limit the effect of market volatility on sales revenue.

What online services does your business provide?

Consumers are increasingly demanding the convenience of online services to facilitate real estate sales.

Firms now commonly use social media to drive traffic to online services.

Compliance

How does your business ensure it complies with relevant state fair trading acts and federal consumer law?

Fair trading laws are different in each state and can affect businesses differently depending on their operational locations.

Failure to comply with relevant state fair trading acts and federal consumer law can lead to fines, legal action and a damage an operator's reputation.

How do you ensure your company meets its licensing requirements?

Practising as an unlicensed real estate agent in Australia is illegal and can result in heavy fines and jail time.

Operators must perform thorough background checks on new staff to comply with requirements.

Finance

How do exchange rate movements affect your business?

Foreign investment in property exposes the industry to exchange rate movements.

Restrictions on foreign investment in property limit the risk of exchange rate volatility on the industry.

How has price competition affected your firm's profitability?

Price competition has resulted in lower commissions being offered to increase competitiveness, reducing profitability.

External Impacts Questions

Impact: Number of housing transfers

What does your firm do to reduce losses when housing transfer numbers fall?

Having a portfolio of property management contracts can shield against periods of lower housing transfers.

Having a strong reputation in both residential and commercial real estate allows operators to focus on commercial sales during periods of low residential sales.

Impact: Residential housing prices

How does your firm manage volatility in the property market?

Having a mixture of property sales, management and leases minimises the effect of property market volatility.

Operations in multiple locations and markets can also protect against localised property price volatility.

Impact: Consumer sentiment index

How can your business benefit from positive consumer sentiment?

Positive consumer sentiment indicates households feel optimistic about their finances, making them more likely to purchase residential property.

Promotional activities are more likely to be effective when consumer sentiment is high.

Internal Issues Questions

Issue: Access to highly skilled workforce

How do you ensure your employees are highly skilled?

Highly skilled employees can provide an advantage when marketing, as their expertise can encourage consumers to use real estate services.

Offering expert services reduces the threat of industry substitutes, such as online listings.

Issue: Market research and understanding

How do you protect your firm against property market volatility?

Firms must ensure that portfolios are managed efficiently and weighted appropriately to reduce market volatility risk.

A split of property types (e.g. house, unit), values and locations helps diversify revenue sources and insulate against shocks to any one type of property market.

Issue: Aggressive marketing/franchising - given the high level of competition

How does your firm protect its local market share?

Undertaking advertising and promotional activities in your local area is essential to ensuring that potential customers are familiar with your brand.

Campaigns that encourage word-of-mouth referrals are more likely to be effective.

IBISWorld

WHERE KNOWLEDGE IS POWER

IBISWorld helps you find the industry information you need – fast.

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