INDUSTRY REPORT L6711

Residential Property Operators in Australia

Real Tea: Climbing cash rates damage mortgage affordability, priming revenue for a rise

Katherine Tweedie | January 2023

Contents

Recent Developments

Construction companies facing debt crisis

A downturn in construction activity has threatened the ability of construction firms to continue operating solvently. Rising crude oil and electricity prices have negatively affected both construction inputs and required energy supplies. Firms that have struggled with the rising expenses have collapsed, with flow-on effects hindering many related upstream and downstream industries, such as construction suppliers and real estate agents.

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About This Industry

Industry Definition

Residential property operators rent or lease out residential properties. The industry includes owner-lessors and those that sublease. The industry excludes owner-occupiers that rent or lease their own dwellings to themselves (imputed rent).

Major Players

There are no major players in this industry

Main Activities

The primary activities of this industry are:

Apartment renting or leasing

Residential caravan park operation

Flat renting or leasing

Residential house renting or leasing

Residential property body corporate operation

Residential property strata corporation operation

The major products and services in this industry are:

Leasing of detached houses

Leasing of semi-detached houses and other dwellings

Leasing of flats, units and apartments

Strata management services

Supply Chain

SIMILAR INDUSTRIES

House Construction in Australia
Complementor

Multi-Unit Apartment and Townhouse Construction in Australia
Complementor

Hotels and Resorts in Australia
Complementor

Motels in Australia
Complementor

Serviced Apartments in Australia
Competitor

Land Development and Subdivision in Australia
Complementor

RELATED INTERNATIONAL INDUSTRIES

Property Management in the US

Renting & Operating Owned or Leased Real Estate in France

Renting & Operating Owned or Leased Real Estate in Spain

Renting & Operating Owned or Leased Real Estate in Italy

Estate Agents in the UK

Letting & Operating of Real Estate in Germany

Residential Real Estate in China

Property Management in Canada

Estate Agents in Ireland

Industry at a Glance

Key Statistics

$54.1bn
Revenue

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
-0.3%	2.6%	

$15.0bn
Profit

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

27.7%
Profit Margin

56,741
Businesses

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
1.6%	1.8%	

7,777
Employment

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
0.9%	1.9%	

$775.6m
Wages

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
-1.3%	2.1%	

Key External Drivers

% = 2018–23 Annual Growth

-1.0%
Mortgage affordability

1.9%
Real household disposable income

1.3%
Number of households

4.5%
Residential housing loan rates

-0.8%
Residential property yields

Industry Structure

POSITIVE IMPACT

Concentration
Low

Industry Globalization
Low / Decreasing

MIXED IMPACT

Life Cycle
Mature

Revenue Volatility
Medium

Industry Assistance
Medium / Increasing

Regulation & Policy
Medium / Increasing

Technology Change
Medium

NEGATIVE IMPACT

Capital Intensity
High

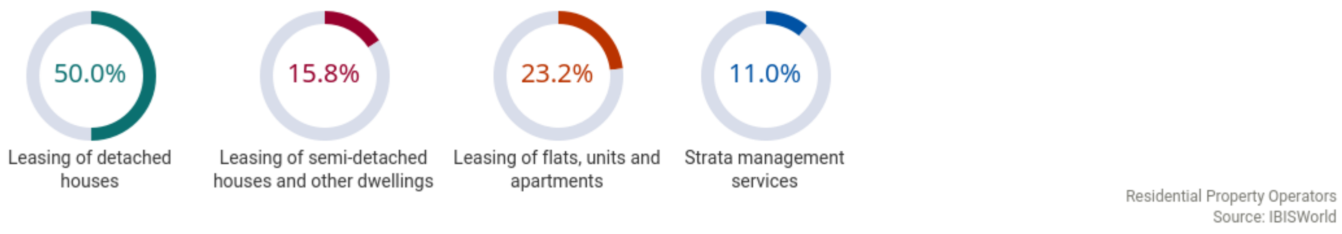
Barriers to Entry
Low / Steady

Competition
High / Steady

Key Trends

- Higher property prices have boosted demand for rental properties over the past five years
- Both federal and state governments have introduced policies to incentivise first-home buyers
- The Federal Government has implemented stricter foreign investment policies in the property market
- Rising disposable incomes are anticipated to allow more Australians to buy rather than rent property
- A forecast increase to the cash rate is likely to subdue residential housing price growth
- The number of houses available for rent is forecast to expand in line with increased demand
- Demand conditions are expected to improve as conditions stabilise following the COVID-19 pandemic

Products & Services Segmentation



Major Players

There are no major player in this industry

SWOT

STRENGTHS

Medium & Increasing Level of Assistance
Low Volatility
Low Imports
High Profit vs. Sector Average
Low Customer Class Concentration
High Revenue per Employee

WEAKNESSES

Low & Steady Barriers to Entry
High Competition
High Product/Service Concentration
High Capital Requirements

OPPORTUNITIES

High Revenue Growth (2018-2023)
High Revenue Growth (2023-2028)
High Performance Drivers
Residential housing prices

THREATS

Mortgage affordability

Executive Summary

Real Tea: Climbing cash rates damage mortgage affordability, priming revenue for a rise

The Residential Property Operators industry involves renting or leasing out residential property. The number of households that do not own residential property – and therefore need to rent it from landlords – is the main driver of industry demand. Recently, the industry's performance has diminished, as high vacancy rates, eviction moratoriums during the COVID-19 pandemic and lower residential property yields have negatively affected property operators. Overall, industry revenue has slipped by 0.3% over the five years to 2022-23, to $54.1 billion. This trend includes a rise of 3.7% in 2022-23, as revenue recovers thanks to pandemic restrictions easing and borders reopening.

Australia's negative gearing tax system gives investors an incentive to buy residential properties, as they can use these to offset their tax obligations. Therefore, many landlords ensure that they run operations at a loss to reduce their tax payments. The industry mostly comprises sole operators or non-employing enterprises, as individuals often invest in residential property to supplement their income. However, housing is becoming less affordable, particularly because of lower mortgage affordability and higher residential housing loan rates in 2022-23. Since these trends have made house purchasing more expensive, federal and state governments are introducing schemes to encourage people to buy homes. These incentives include the First Home Owner Grant and the HomeBuilder scheme, and have dampened demand for rental properties.

Industry revenue is set to return to growth in the coming years. High occupancy rates will continue to provide landlords with a stable revenue stream, driven by rising migration rates and foreign student numbers. Meanwhile, a drop in mortgage affordability due to a climbing cash rate is likely to cause people to rent houses rather than buy them. Therefore, industry revenue will rise 2.6% over the five years to 2027-28, to $61.6 billion. Profitability is on track to fall as investors claim greater depreciation costs.

Industry Performance

Key External Drivers

Residential housing prices

Residential housing prices reflect the Australian property market's value. Higher housing prices lift the values of investors' property portfolios, and indicate that landlords can charge inflated fees. Heightened housing costs price out potential homebuyers and encourage renting, providing an opportunity for industry growth. Residential housing prices are dropping 15.1% in 2022-23, as higher lending rates discourage new homeowners from entering the market.

Mortgage affordability

Mortgage affordability refers to how easily potential homebuyers can repay home loans, and measures income required to meet mortgage repayments. Falling mortgage affordability can limit demand for home purchases and increase demand for rental accommodation, while more affordable mortgages threaten performance. Higher mortgage repayments prevent some renters from considering taking out a mortgage. Mortgage affordability is slipping by 0.6% in 2022-23, as borrowing costs rise due to climbing interest rates.

Residential housing loan rates

Housing loan rates affect demand for housing, as most buyers finance a large proportion of housing through credit. Lower housing loan rates make financing cheaper, decreasing how much it costs to buy a house. Actual interest rates for loans can vary between banks based on the loan's size and other factors. Loan rates are climbing 1.9% in 2022-23, alongside the cash rate.

Residential property yields

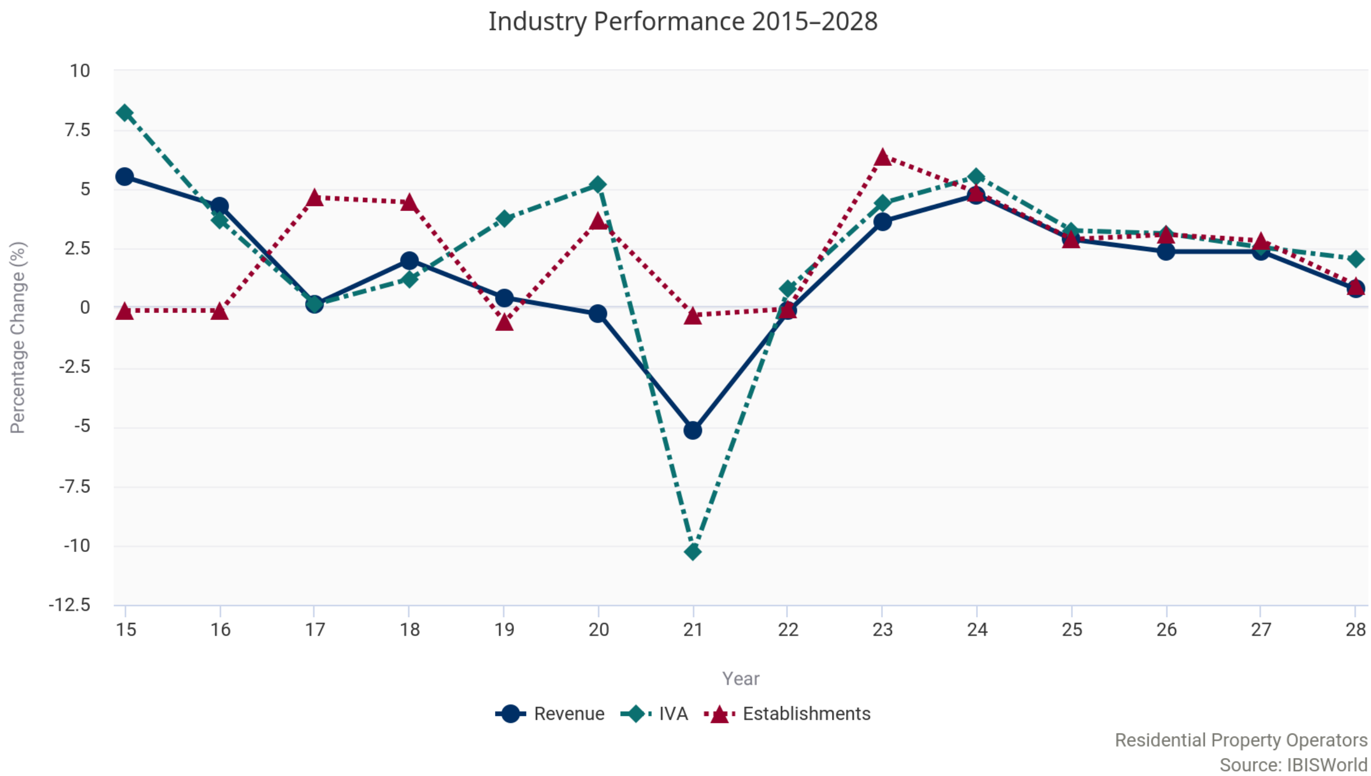
Residential property yields refer to the rental income a property generates as a proportion of the property's total cost. Higher yields therefore indicate a higher investment return for landlords. Residential property yields are lifting in 2022-23, as a fall in residential housing places downward pressure on the total value of dwellings.

Number of households

The total number of households is a representation of the amount of demand for housing among the Australian population. Changes in the number of households affect demand for property purchases and the amount of demand for rental accommodation. Rises in the overall population are driving up household numbers by 1.6% in 2022-23.

Real household disposable income

Real household disposable income determines how much money households can allocate to rent or mortgage repayments. This amount influences the size, location and type of property that a household can rent, and the revenue that landlords can generate. However, greater incomes also give renters a path to home ownership, which dampens revenue. Disposable incomes are dropping 0.8% in 2022-23 because of high inflation and interest rates.



Current Performance

Industry revenue has decreased by 0.3% to $54.1 billion over the five years to 2022-23, including a 3.7% increase in 2022-23, when profitability will reach 27.7%.

Low mortgage affordability is building a return to revenue growth

- Border closures, high vacancy rates, rent reduction agreements and eviction moratoriums during the COVID-19 pandemic cut residential property yields, and therefore industry performance.
- Residential housing loan rates are continuing to swell, making financing a house more expensive for prospective buyers. These rises and easing COVID-19 restrictions are supporting rental demand.
- Low interest rates over the past five years have lifted residential housing prices, limiting their benefits to mortgage affordability.
- Having less income to allocate to deposits and lower mortgage affordability are driving demand for the rental property market and supporting revenue recovery.

Stable population growth is supporting demand for rental properties

- Most residential property operators are individuals that use residential properties to passively supplement their income. They can also use these properties to offset their tax obligations.
- Australia's population is continuing to grow, which has increased the number of households in recent years. Since mortgages have become less affordable, individuals are opting to rent properties rather than purchase them.
- Less affordable mortgages and population growth have supported demand, despite falling residential property yields. Therefore, while industry profitability has fluctuated from year to year, it has remained stable over the past five years.

Residential property investors' existing assets are becoming more valuable

- Despite a downturn in 2022-23, residential housing prices have increased over the past five years, which has been making investors' existing assets more valuable. Investors have been able to leverage more capital, and lower interest rates have facilitated cheaper borrowing.
- Increasing asset value has enabled investors to purchase property, which has driven growth in industry

enterprise numbers. The same trend has made it harder for first-home buyers to enter the property market, elevating rental demand.

- Industry employment has climbed alongside assets' value, as more rental properties have necessitated more staff. However, the uptick has been minimal – most operators are non-employing, and usually outsource property management services to real estate agents.

Historical Performance Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Exports (Units)	Imports (Units)	Wages ($m)	Domestic Demand ($m)
2013-14	48,890	24,836	2,719,000	55,392	7,533	N/A	N/A	834	N/A
2014-15	51,588	26,877	2,716,400	54,622	7,422	N/A	N/A	840	N/A
2015-16	53,800	27,869	2,713,800	53,380	6,958	N/A	N/A	803	N/A
2016-17	53,889	27,914	2,840,500	52,949	7,495	N/A	N/A	841	N/A
2017-18	54,980	28,260	2,967,200	52,474	7,439	N/A	N/A	829	N/A
2018-19	55,225	29,324	2,950,200	55,295	7,486	N/A	N/A	817	N/A
2019-20	55,092	30,852	3,059,900	55,248	7,342	N/A	N/A	781	N/A
2020-21	52,253	27,694	3,051,076	55,268	7,538	N/A	N/A	786	N/A
2021-22	52,186	27,919	3,050,386	54,261	7,475	N/A	N/A	761	N/A
2022-23	54,096	29,158	3,246,088	56,741	7,777	N/A	N/A	776	N/A

Industry Outlook

Outlook

Industry revenue will grow 2.6% to $61.6 billion over the five years through 2027-28, when profit margins will fall to 27.5%.

Low rental vacancies will keep revenue on the rise

- Residential housing loan rates and the cash rate will likely continue on an upwards trajectory, making house purchasing less affordable.
- Migration rates and foreign student numbers are set to continue to rise as COVID-19 restrictions dissipate. Most of these individuals will be unable to buy their own property, driving demand for rental properties and lowering vacancies.
- Rising demand from tourism and the popularity of homestay platforms like Airbnb will dampen rental vacancies as these properties leave the rental sector. Lower vacancies are fuelling rent price hikes, boosting industry revenue.

A rising cash rate is likely to spark initiatives for first-home buyers

- The cash rate is continuing to climb, encouraging a related rise in residential housing loan rates. These changes will limit how much potential buyers can borrow and make financing more expensive, lifting rental property demand.
- To address concerns about the affordability of purchasing property, federal and state governments are likely to introduce more initiatives to support first-home buyers. These initiatives will obstruct revenue growth.
- First-home buyer initiatives will likely cause more owner-occupiers to become investors, pushing up industry enterprise numbers.

Larger developers are set to continue to acquire and rent out properties

- Larger-scale firms like Meriton Properties Pty Limited are likely to continue to buy land for development or properties for their portfolio. Since assets' value will lift, this trend will enable these vertically integrated firms to afford loans with higher repayments.
- Employment growth will likely be attributable to larger property operators' expansion, as most industry enterprises are sole traders or have no employees.
- Australia's negative gearing legislation will incentivise smaller investors to acquire properties to offset their tax obligations. However, investors claiming greater depreciation costs will likely quash overall profitability.

Performance Outlook Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Exports (units)	Imports (units)	Wages ($m)	Domestic Demand ($m)
2022-23	54,096	29,158	3,246,088	56,741	7,777	N/A	N/A	776	N/A
2023-24	56,676	30,775	3,403,917	58,829	8,011	N/A	N/A	802	N/A
2024-25	58,320	31,784	3,502,786	60,279	8,219	N/A	N/A	825	N/A
2025-26	59,714	32,783	3,611,679	61,269	8,398	N/A	N/A	844	N/A
2026-27	61,135	33,624	3,714,469	62,360	8,556	N/A	N/A	863	N/A
2027-28	61,624	34,325	3,750,670	62,174	8,524	N/A	N/A	862	N/A
2028-29	62,320	33,341	3,803,204	62,308	8,970	N/A	N/A	910	N/A

Industry Life Cycle

The life cycle stage of this industry is ⊖ Mature

LIFE CYCLE REASONS

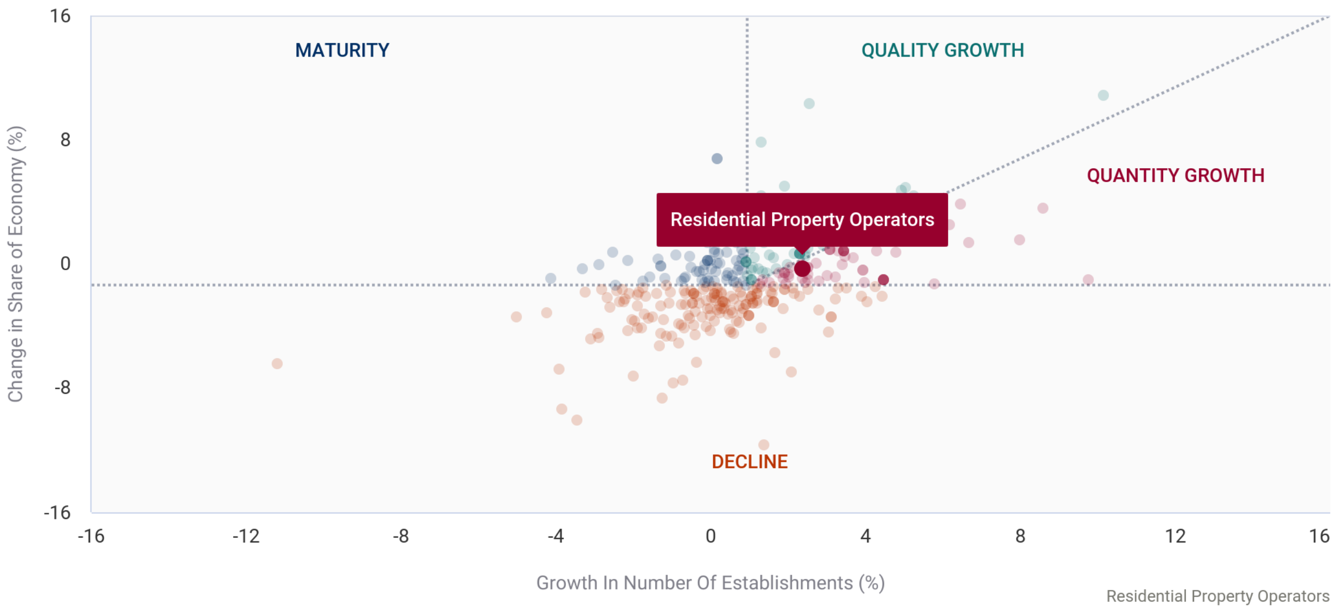
Industry growth is closely aligned to the performance of the property sales market

Industry services have wholehearted market acceptance

The number of large players entering the industry has not significantly increased

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

Indicative Industry Life Cycle



Residential Property Operators
Source: IBISWorld

Contribution to GDP

The industry's contribution to GDP is growing at a similar pace to the overall economy. The industry's practices are widely accepted, as shelter is a fundamental human requirement. The trend is characteristic of a mature industry.

Market Saturation

Market saturation is low in the industry, which has no dominant players. Most residential property operators are sole operators or have no staff, as individuals often use residential property to offset tax obligations and supplement their income.

Innovation

The industry has little innovation for its products and services. While operators are proposing different business models, such as co-living housing arrangements, the nature of providing rental properties does not tend to change.

Consolidation

Larger firms and property developers tend to acquire land or existing properties. These acquisitions allow them to expand their portfolio and increase their revenue.

Technology & Systems

The industry's technological developments generally focus on investment real estate (IRE) software systems. This technology enables operators to strategically analyse asset portfolios to measure performance, forecast cashflow and manage investments.

Products & Markets

Supply Chain

Key Buying Industries

1st Tier

- Consumers in Australia
- Local Government Administration in Australia

Key Selling Industries

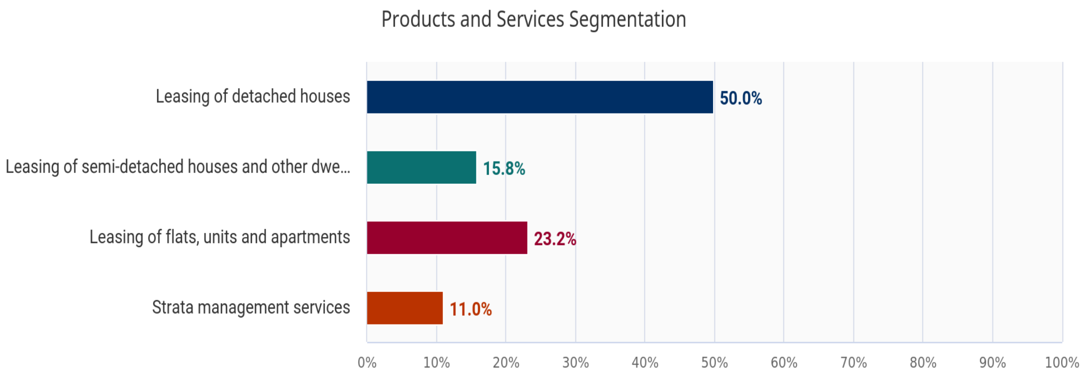
1st Tier

- Gardening Services in Australia
- Mortgages in Australia
- Land Development and Subdivision in Australia
- House Construction in Australia
- Multi-Unit Apartment and Townhouse Construction in Australia
- Plumbing Services in Australia
- Electrical Services in Australia
- Real Estate Services in Australia

2nd Tier

- Construction Machinery and Operator Hire in Australia
- Hardware Wholesaling in Australia
- Ready-Mixed Concrete Manufacturing in Australia
- Machinery and Scaffolding Rental in Australia

Products & Services



2023 INDUSTRY REVENUE

$54.1bn

Residential Property Operators
Source: IBISWorld

Lower residential property yields have reduced detached properties' revenue contribution

- Detached houses are freestanding in their own grounds, and are separated from other dwellings by at least half a metre.
- While detached houses have historically dominated Australia's retail sector, they are also generally more expensive to rent than other types of properties.
- Higher residential housing prices have lowered property yields, compelling lessees to hike up rent and consequently shrinking the segment's performance.

Returning international students and workers are increasing the number of potential lessors for apartments

- Flats, units and apartments usually share a common entrance or stairwell, and do not usually have their own private grounds.
- Rising demand from multi-unit department construction is lifting the number of properties available, while greater urbanisation is making these apartments more attractive to lease.
- COVID-19 restrictions are continuing to ease, which is causing the number of foreign students to recover and expanding the number of potential lessors for these properties.

Eviction moratoriums easing has boosted semi-detached houses' and other dwellings'

performance

- Semi-detached houses – also known as row or terrace houses, or townhouses – have their own private grounds and are connected by a common wall.
- Other dwellings account for a small amount of the residential market, and include occupied caravans, cabins, houseboats, and improvised homes like tends and sheds.
- Eviction moratoriums and rent reduction agreements due to the COVID-19 pandemic have eased, which has amplified this segment's contribution to the industry.

Waning apartment construction has put downward pressure on strata management services

- Strata management services are the industry's smallest segment. Owners of apartments, units and townhouses with common areas that need maintenance provide these services.
- Third-party operators coordinate strata management services and charge fees, which individual owners in apartment blocks pay depending on these services.
- Strata manages organise tradespeople for communal areas, like painters for stairwells or gardeners for outdoor areas. Under Australian property law, strata titles specify ownership of a specific part of the property, and partial ownership of common areas.
- Apartments and units have dipped as a share of total residential construction, which has shrunk the strata management services segment.

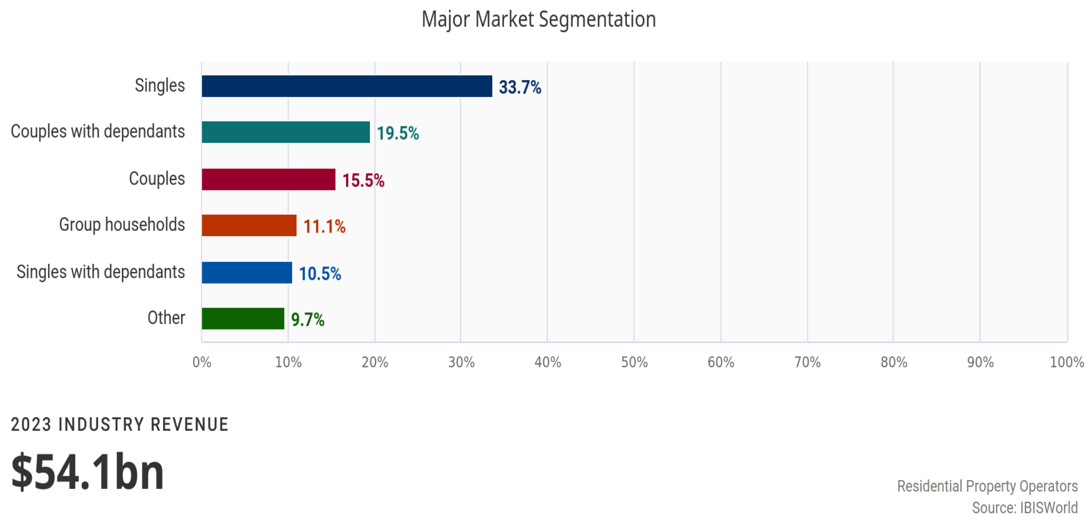
Demand Determinants

Renting's prevalence in Australia is a key demand source for the Residential Property Operators industry.

More renting activity means larger customer pools, and therefore increases revenue streams for lessors. Households' demographic composition also affects demand for rental housing. The number of people in a household and their age influence the type and size of residential property they need. Family and household structures also affect demand for housing, as singles, couples with children, single-parent families and couples without children all have different needs.

The affordability of home ownership can influence industry demand. Less affordable mortgages cause greater renting activity. Meanwhile, interest rates, residential housing prices and residential housing loan rates determine mortgage affordability. Financial factors can also influence industry demand. Higher disposable income and lower interest rates may mean households can afford to pay more rent, meaning that they may rent larger or more expensive properties. However, these factors may also encourage renters to purchase their own home, removing them as industry customers. As a result, rental demand can decline when incomes rise. Household size, financial and employment prospects, and other variables affect whether customers upgrade rental properties or buy a house.

Major Markets



Buying a home is becoming less affordable, causing more singles to enter the renting market

- The singles market segment is made up of households with only one person.
- Residential housing prices have been increasing, meaning that people need larger deposits to buy homes.
- Single-person households typically have less disposable income compared with dual-income households, which are better able to split costs and afford home deposits.
- The rising trend in residential housing prices and loan rates are leading to single-person households making

up a greater share of the renting market.

More couples with dependants are buying properties as residential housing prices decrease

- Couples with dependants are the second-largest portion of the renting market, and live with at least one child or other dependant.
- Couples with dependants tend to have more financial commitments than those without dependants.
- Residential housing prices are decreasing in 2022-23. More couples with dependants that previously put off purchasing a home are therefore buying houses, causing this segment's share of the renting market to fall.

Couples without dependants have more disposable income, limiting their contribution to the rental market

- Couples are married or de facto couples that belong to the same household. The couples segment does not include couples with dependants.
- Couples with dual incomes and without dependants generally have fewer financial commitments and more disposable income. They are therefore more likely to be able to pay housing deposits, which limits this demographic's contribution to the industry.
- Household disposable income has increased, encouraging couples to purchase their own properties rather than renting. As a result, couples' contribution to revenue has diminished.

Lower rental vacancies and high rent prices are encouraging more groups to share rental properties

- Group households are also known as share houses, and include two or more individuals that are not related to each other. These individuals may be friends, acquaintances, classmates or colleagues.
- People in group households are generally younger, and are overrepresented in the hospitality and retail sectors. Friends and other individuals who are not related are also less likely to purchase houses together compared with couples or people with other family ties.
- Group households' contribution to the rental market has increased recently, as lower rental vacancies and rising rent prices have driven people to share rental properties.

Singles with dependants are less likely to be able to afford to buy homes

- Singles with dependants are adults living with at least one child or another dependant. Individuals in this market need less space than couples with dependants, and often opt for apartments over detached or semi-detached houses.
- Singles with dependants generally have lower household disposable income compared with other markets, as they have one income stream and more financial commitments. These commitments also mean that they are less likely to be able to afford to buy their own home.
- The market's contribution to the rental market has climbed over recent years, as rental reduction initiatives related to the COVID-19 pandemic wrap up.

Low migration numbers are shrinking the other households market

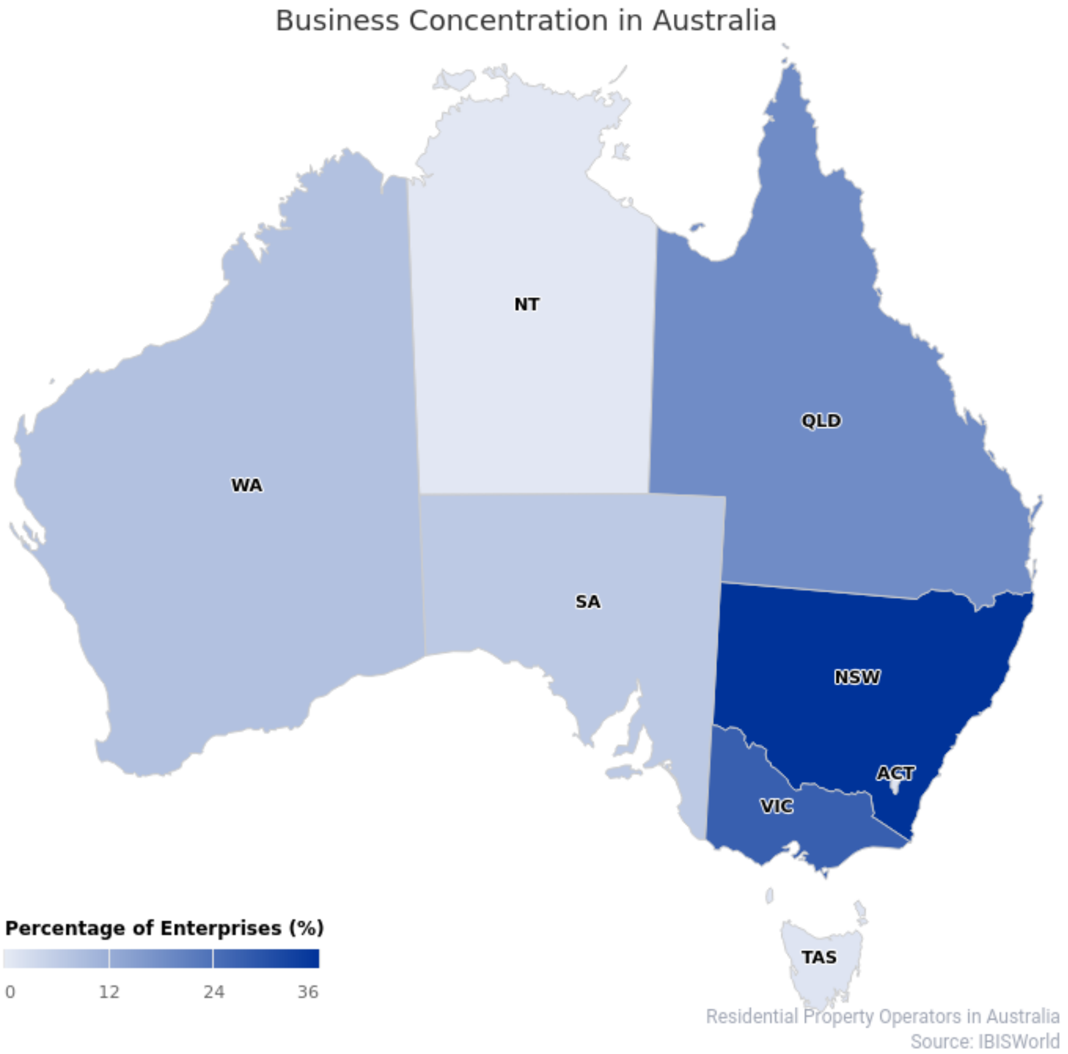
- Other households include multiple-family households and other household types, and is the smallest industry market segment. Multiple-family households are often made up of families that have migrated from overseas.
- Net migration has decreased over the past five years, as governmental COVID-19 restrictions prevented people from moving to Australia.
- The other households segment's contribution to the rental market has shrunk recently due to lower migration rates and rises in other markets.

Exports in this industry are Low and Steady

Imports in this industry are Low and Steady

The Residential Property Operators industry does not record international trade, and the industry's income is accounted for domestically. However, income from international students and workers temporarily living in Australia accounts for some industry revenue. While COVID-19 pandemic-related border restrictions led to fewer international students and workers visiting Australia, these numbers are improving in 2022-23.

Business Locations



Sydney: Australia's largest market for residential property

- New South Wales and the Sydney region account for the largest demand for residential property, which its high housing prices reflect.
- Sydney has the highest median house values in Australia, meaning that first-home buyers are being priced out of the market. High prices have meant that there are more rental properties in Sydney, and are encouraging people to rent houses rather than buy them.
- Industry player Meriton Properties Pty Limited is located in Sydney and is close to high-value inner city properties, which it specialises in developing. The company's location supports its industry-specific performance.

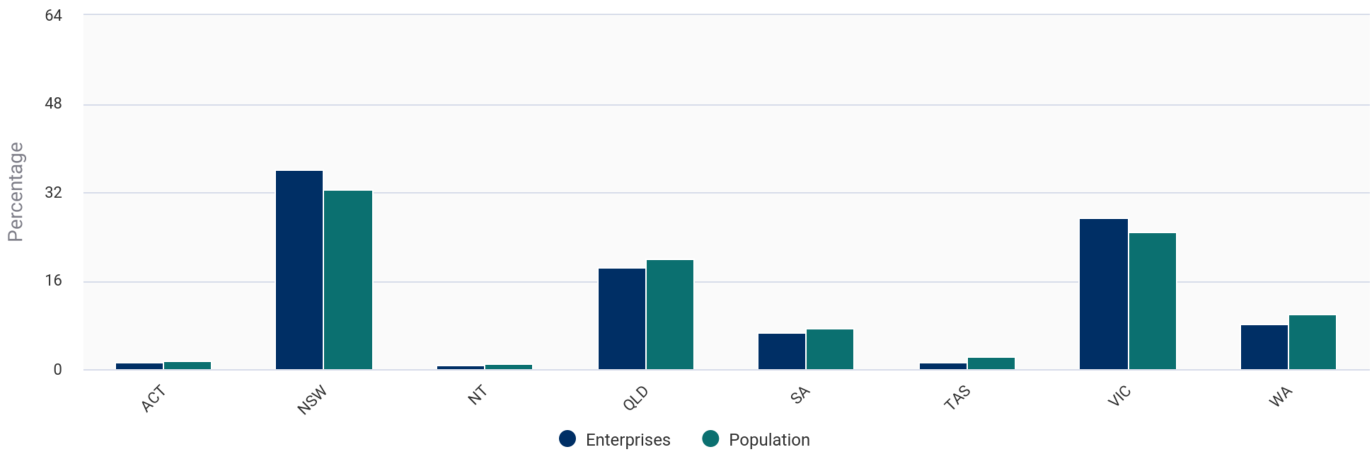
Melbourne: A hub for education and work opportunities

- Similar to Sydney, Melbourne has high demand for rental properties. This factor is because many people migrate to the city, both domestically and from overseas, to pursue education and work opportunities.
- Melbourne has the country's second-highest median house value, and lower rental vacancies are driving demand for residential property.
- While housing values have fallen since February 2022, house values are still high. This factor and lower mortgage affordability are encouraging people to opt for renting properties in Melbourne rather than buying their own houses.

Western Australia: Underrepresented as a share of the population due to falling housing prices

- The number of businesses operating in Western Australia underrepresents the state's population share.
- Housing prices were previously high in Western Australian mining towns, as construction workers for mining projects supported demand for rental properties. However, many mining projects have wrapped up over the past five years, which has cut housing prices in both Perth and other Western Australian mining towns.
- Decreasing capital expenditure on mining in 2022-23 is causing residential property operators to leave the state, reflecting the state's falling share of industry enterprises.

Distribution of Enterprises vs Population



Residential Property Operators
Source: IBISWorld

Competitive Landscape

Market Share Concentration

Concentration in this industry is Low

Individual investors are continuing to dominate the industry

- The industry exhibits low market share concentration. Most businesses that operate in the Residential Property Operators industry are individual investors, which typically do not account for a significant share of revenue.
- Over 92% of the industry's enterprises are non-employing, including sole traders and partnerships with no additional employees.
- The industry also includes larger property syndicates, and smaller property groups and trusts.

Prevalent individual investing is limiting larger operators' expansion

- The industry includes many individuals that purchase houses and rent them out for investment purposes, which limits how much larger industry syndicates can expand.
- While individuals and families generally prefer to own their own home rather than renting properties, high prices mean that investors are expected to continue to purchase residential property and make it available for people to rent.

Key Success Factors

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

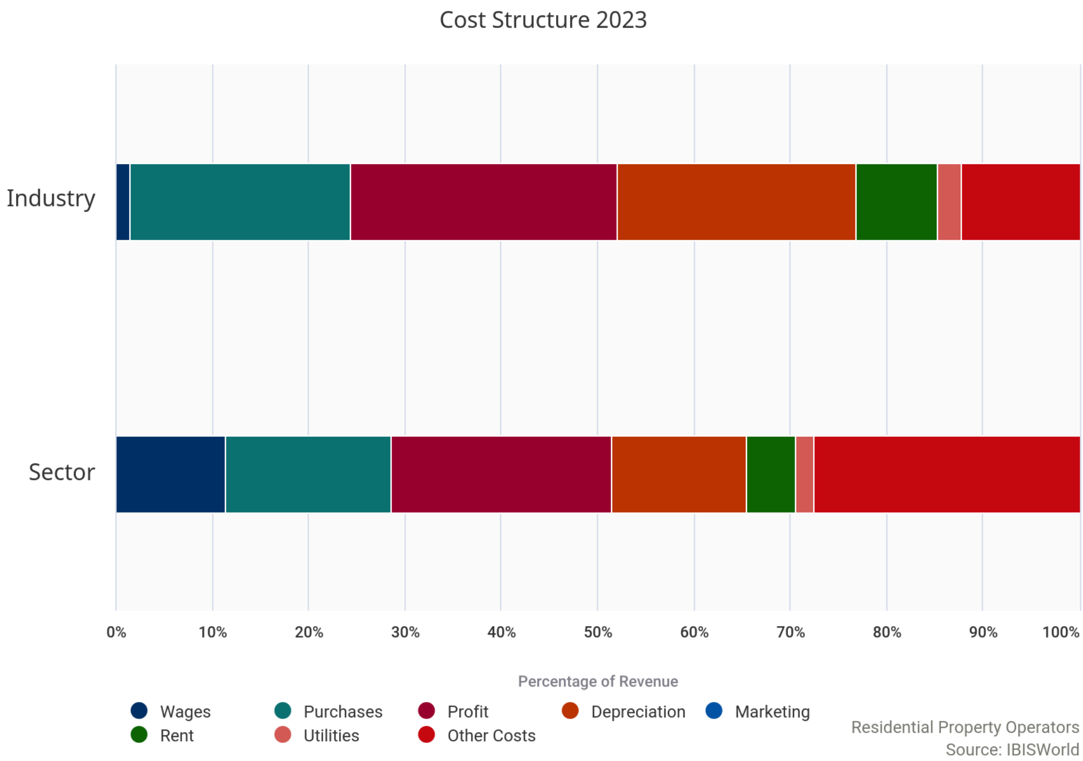
Understand government policies and their implications:
Residential property operators must understand landlord-tenant legislation, and government approval regulations and processes to succeed. They also need to understand tax legislation and financial markets, and negotiate favourable borrowing.

Develop strong project management skills:
Landlords must effectively manage assets and tenants to maintain high occupancy rates.

Carry out all necessary maintenance to keep facilities in good condition:
Property operators must monitor their property's state and ensure maintenance is prompt to retain tenants.

Conduct market research:
Companies must comprehensively analyse economic, demographic and property market conditions to benefit from opportunities and manage slowing economic conditions.

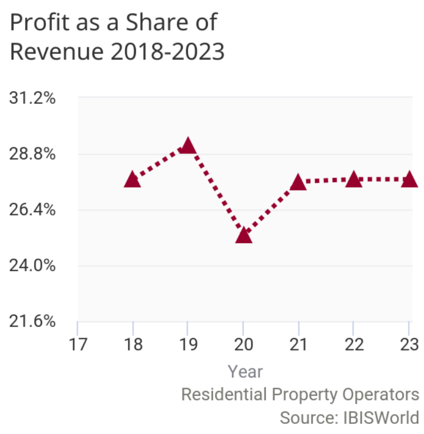
Cost Structure Benchmarks



Profit

Negative gearing, population growth and lower mortgage affordability keep profit stable

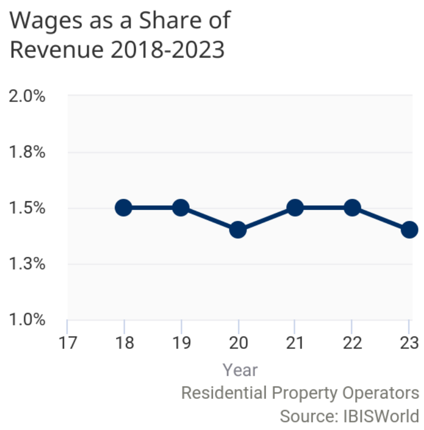
- Industry profitability – measured using earnings before interest and tax (EBIT) – includes interest costs.
- Profit margins have been stable at 27.7% over the past five years, as a growing population and lower mortgage affordability have mitigated year-to-year fluctuations.
- Through negative gearing – where if the interest and property expenses investors pay are greater than the rental income they receive, the investment has made a net loss – the investor can claim this to offset the tax payable on their total income. However, for the purposes of this analysis, tax credits that operators gain through negative gearing are not included in industry profit.

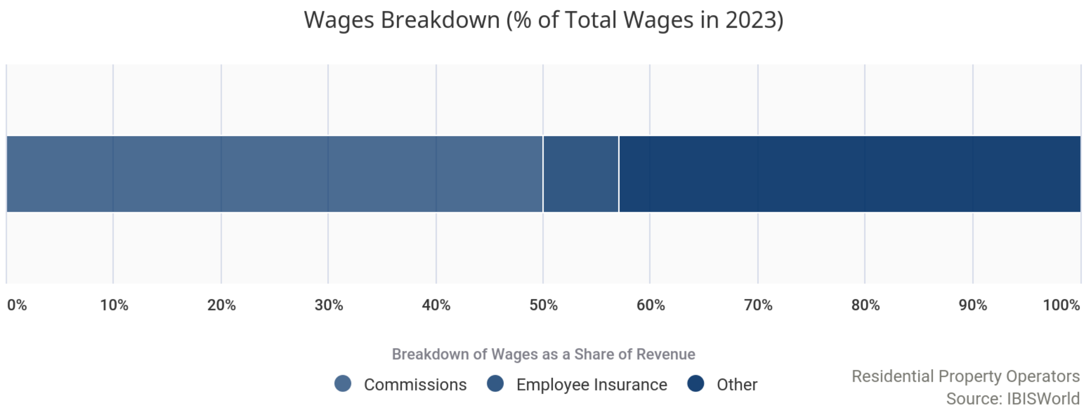


Wages

Property management outsourcing has diminished wages

- Investors whose main income does not come from operating residential properties tend to outsource property management. Therefore, wages account for a small proportion of industry revenue. Owners treat property investment as an alternative to other investments like shares or term deposits.
- Wages have fallen slightly to 1.4% of revenue over the past five years, as operators have been outsourcing property management to real estate agents.

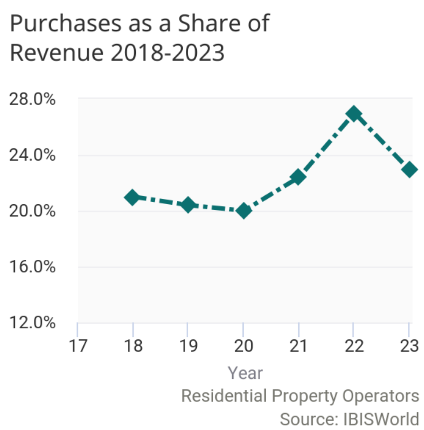




Purchases

The ongoing residential housing price boom has pushed up purchase costs

- Purchase costs include costs associated with purchasing a residential property, such as financial services expenses. Operators incur these expenses when they are securing finance to buy a property, and they are often the primary purchase costs. They can include funds they pay to brokers or financial advisors involved in the purchase.
- Purchase costs have risen to 22.9% of revenue over the past five years, due to rising residential housing prices.

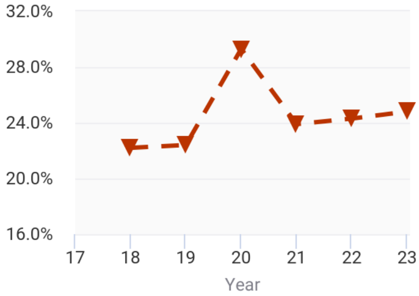


Depreciation

Flow-on effects of low interest rates over the past five years have heightened depreciation costs

- Depreciation expenses account for a large proportion of industry revenue.
- Depreciation has ascended to 25.6% of revenue.
- Many investors seek to maximise depreciation expenses, as provisions offered due to holding investment property can minimise their tax obligations. Owners can claim depreciation on an investment property as a tax deduction, encouraging them to increase capital expenses on their property. Lower interest rates over the past five years have made capital investment more affordable and encouraged property operators to increase capital costs that need financing.

Depreciation as a Share of Revenue 2018-2023



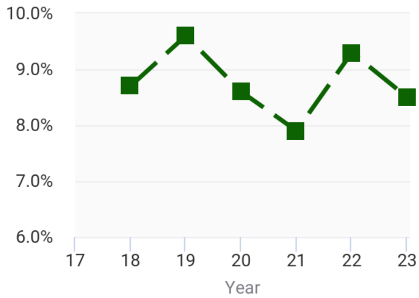
Residential Property Operators
Source: IBISWorld

Rent

Non-employing enterprises have begun to dominate the industry, cutting overall rent expenses

- Rent costs account for expenses on offices or other facilities that property operators need. Rent costs for the industry are relatively low, as few residential property operators are large enough to need these facilities.
- Rent costs have decreased to 8.5% of revenue over the past five years as non-employing enterprises are making up a greater share of property operators, and they do not usually need offices.

Rent as a Share of Revenue 2018-2023



Residential Property Operators
Source: IBISWorld

Basis of Competition

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

Competition is high in the Residential Property Operators industry.

Competition among landlords is usually based on the property's size and type, and associated rent fees. Housing ownership trends pose significant external competition to residential property operators.

INTERNAL COMPETITION

Competition between residential property operators is primarily based on the properties in their portfolios and the rent fees they charge.

Investors that have access to properties in prime real estate locations with desirable amenities can justify higher rental and leasing fees. Landlords can also gain a competitive edge by outsourcing property management tasks to other providers. Effective property management reduces the costs that high vacancy rates cause, like marketing and advertising expenses associated with relisting a property. Outsourcing allows investors to spend more money on acquiring and developing properties. Higher occupancy also reduces the unnecessary loss in rental income, helping property operators to maintain revenue streams.

Investors with strong market research and analysis capabilities can forecast economic changes, identify gaps in the market and target investment opportunities. These strategies enable them to acquire assets in locations that will maintain high occupancy and enjoy both rental and capital value growth. A strong balance sheet with serviceable debt and access to funds allow residential property operators to respond to changing economic conditions and capitalise on investment opportunities. Investors can also acquire properties that incur losses in interest and property expenses, allowing them to offset their tax obligations through negative gearing.

EXTERNAL COMPETITION

Home ownership presents a significant source of external competition to residential property operators.

Higher home ownership rates in Australia mean that there is less demand for industry services. Lower interest rates over the past five years have allowed investors to acquire new properties for their portfolios. However, low interest rates have also permitted cheaper borrowing for first-home buyers. Overall, falling mortgage affordability has limited how much home ownership has threatened performance.

Large commercial property operators have the scale to commission new developments and increase supply in a particular area, which can weaken rental prices and limit industry revenue growth. Similarly, rapidly introducing new houses could also dampen house prices in 2022-23, increasing home purchases and cutting rental property demand. Superannuation funds are also a large source of competition, as they have large amounts of cash and need stable long-term returns. Superannuation funds may gain the ability to build or manage large developments in the future.

Barriers to Entry

Barriers to Entry in this industry are ⚠ Low and the trend is Steady

Legal

Any Australian citizen, company or fund can legally purchase residential property. This factor prevents non-citizens or individuals that migrate into the country from buying houses.

Start-Up Costs

High residential housing prices and deposits disadvantage new industry entrants. Other start-up costs include financing and acquiring property assets and marketing, advertising and research expenses. Lower interest rates over the past five years have facilitated cheap borrowing for new operators.

Differentiation

Landlords largely compete with one another based on the property's type and size. Associated rental costs also enable landlords to compete with and differentiate themselves from competitors.

Capital Intensity

The industry is highly capital-intensive, as operators do not directly employ many staff. Landlords tend to outsource most property operating activities to real estate service providers. These functions include acquiring tenants, and managing and valuing properties. Negative gearing practices have increased capital intensity over recent years.

Barriers to Entry Checklist

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

Industry Globalization

Globalization in this industry is ✓ Low and the trend is Decreasing

The industry has low globalisation and the trend is decreasing. Foreign investment in Australian property has dropped as real estate becomes less affordable. While Australian operators may own residential assets internationally, most operators make property investments domestically. Residential property investors are generally individual investors that wish to supplement their primary income source with an alternative to a term deposit or shares. Residential property is often considered a safe, steady asset, which domestic property investments reflect.

The Foreign Investment Review Board (FIRB) regulates foreign investment in Australian residential property. In 2018 and 2020, the Federal Government tightened restrictions to foreign property investment, which it introduced in 2017 in response to concerns regarding foreign ownership of Australian property. The restrictions involve stronger enforcement laws, increased transparency and additional purchase fees.

Major Companies

There are no major players in this industry

Other Companies

The Residential Property Operators industry is highly fragmented. Over 92% of residential property operators are non-employing owner-operators, including sole traders and partnerships with no additional employees. Furthermore, just over two-thirds of operators have annual income of under $200,000. Investing in residential property has historically provided a stable rate of return and reliable capital appreciation. Furthermore, Australia's negative gearing tax system means that interest payments on investment properties can reduce the investor's effective tax rate.

Some industry firms are highly vertically integrated. For example, Meriton Properties Pty Limited also engages in property development and property management services. Apart from Defence Housing Australia and Meriton Properties, single entities that operate considerable residential portfolios include state and territory housing authorities. Otherwise, the industry mainly comprises individual or household investors, and occasionally, small property syndicates.

Defence Housing Australia

Market Share: 2.0%
Description

Defence Housing Australia (DHA) is the government body responsible for providing housing and related services to Australian Defence Force (ADF) personnel and their families. DHA was created as part of the Defence Housing Australia Act 1987, in response to forecast demand for residences from the Department of Defence. DHA has office locations in every Australian state except Tasmania, and is headquartered in Barton, ACT. The body employs approximately 500 staff.

ADF recruitment drive is pushing up demand for personnel housing

- Investors own approximately two-thirds of the properties that DHA manages, which DHA then leases to defence personnel.
- The Federal Budget has allocated $1.0 billion in funding to drive recruitment for the ADF during the 2023-24 financial year, with a target of 80,000 personnel by 2039.
- Greater recruitment will likely drive demand for housing from ADF personnel and their families, as more individuals will need to be supplied with rental properties.

DHA does not receive direct government funding

- The Federal Government does not directly fund the company. Therefore, the company generates revenue from the rent and sale of any assets in its portfolio. DHA then reinvests the revenue in acquiring or developing properties.
- While recommendations have been made to privatise DHA in the past, the Federal Government has turned down recommendations to sell the company.

Meriton Properties Pty Limited

Market Share: 1.0%
Description

Real estate developer Harry Triguboff established Meriton Properties Pty Limited in 1963. Headquartered in Sydney, the company is one of Australia's largest property developers and employs over 600 people. Meriton has designed, developed and built more than 75,000 apartments across Australia's east coast, and offers sales, leasing and property management services, and serviced apartment accommodation.

A growing portfolio has increased company revenue

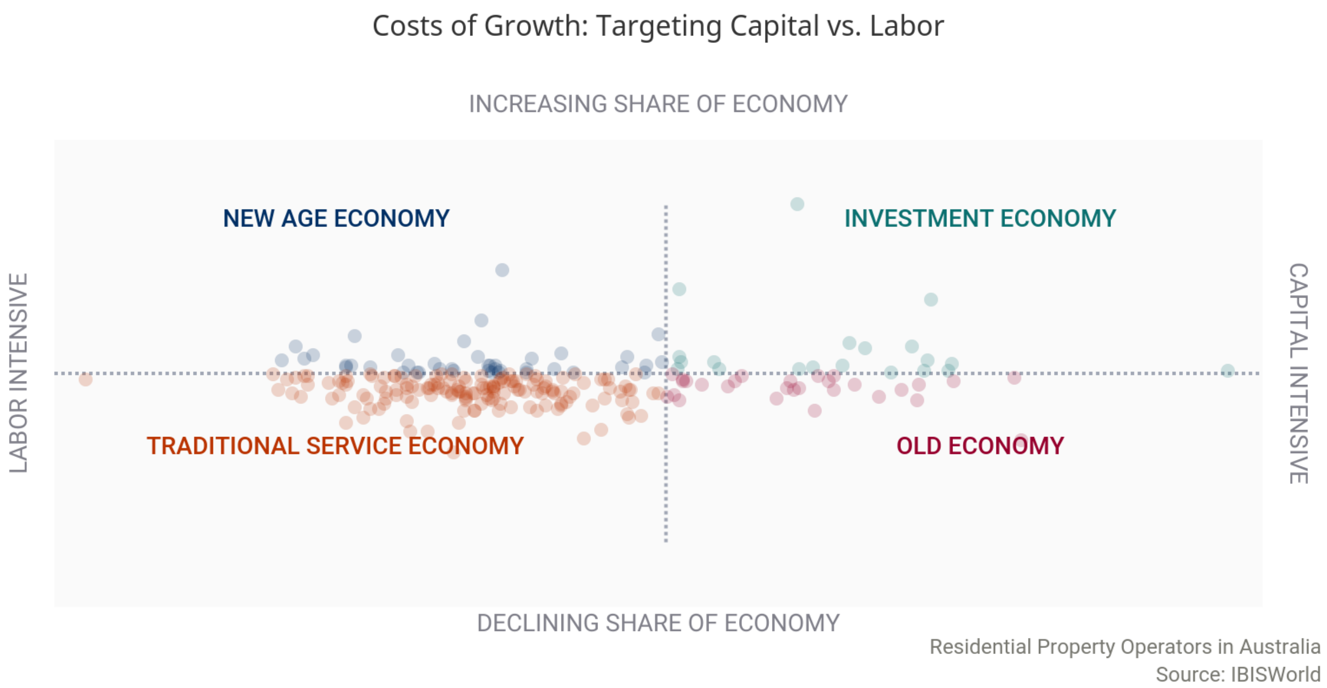
- Meriton owns over 10,000 apartments across New South Wales and Queensland, and generates its industry-specific revenue through approximately 4,000 of these.
- The company is continuing to add new apartments to its portfolio and offer them for rent, rather than selling them once they have been built. In July 2022, Meriton purchased a site on the Gold Coast to build 1,000 apartments.
- Meriton has also presented offers for purchasing existing apartments. For example, in October 2022, the company presented offers to purchase The Garden Apartments in the Brisbane CBD as part of a single

package.

Apartment price hikes are driving up company performance

- Meriton has increased the prices of renting its apartments due to rising, building and petrol prices.
- Higher costs have also deterred the company from purchasing additional development sites. Costs are particularly high in Sydney, which has encouraged the company to purchase sites in Queensland rather than in New South Wales.

Operating Conditions

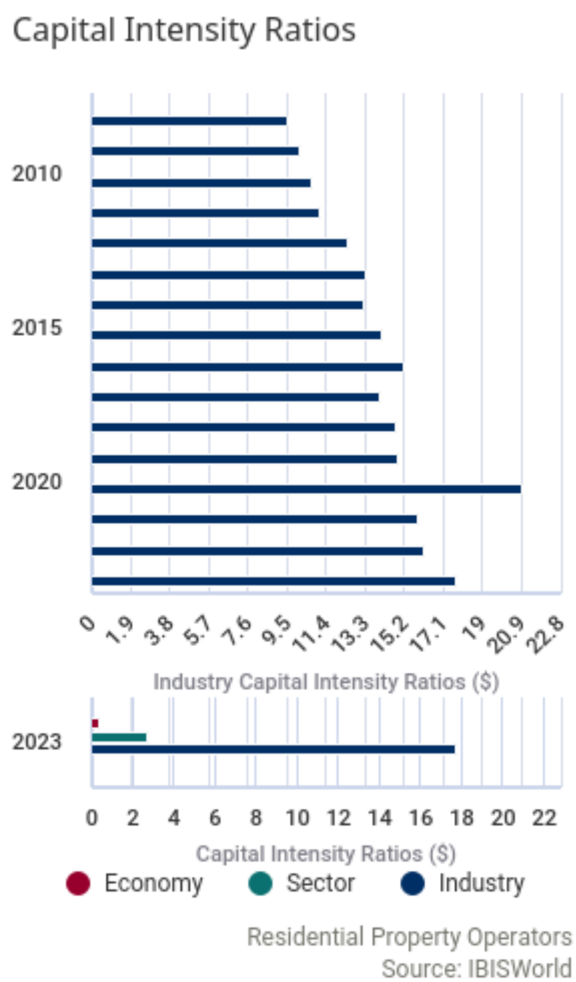


Capital Intensity

The level of capital intensity is ⚠ High

The Residential Property Operators industry has high capital intensity. For every dollar spent on wages in 2022-23, an additional $17.7 is invested in capital. The industry does not directly employ many staff, and residential property operators typically outsource property operation's labour-intensive activities to real estate service providers. These functions include acquiring tenants, and managing and valuing properties. Investors often seek to maximise depreciation to use as an income deduction, reducing their taxable income. Uptake of negative gearing practices has supported the industry's capital intensity.

Larger firms often have lower capital intensity because of their wage costs compared with the rest of the industry. Investment in a single residential property does not require significant ongoing administrative or labour input, while investment in a large number of properties, like an apartment building, is more labour-intensive.



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.
High	Rate of Entry	Likely	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.
Very High	Market Concentration	Very Likely	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.

This technology trend is underscored by structural factors that support new entrants. An accommodative structure can create a situation where small entrants can focus on less profitable albeit innovative industry entry points. Or, large operators in other industries can leverage expertise in other areas to enter the industry from a new angle.

The major markets for this industry are highly concentrated, which implies that the market has a focus on key customer segments. This presents an opportunity for strategic entrance into lower-end markets or unserved markets for innovations to take on a disruptive trajectory.

New building technologies like smart buildings may provide marketing advantages for some properties.

New systems that address environmental concerns, such as water and energy efficiency, will help property owners to find tenants and receive more rent. Property management systems enable residential property operators to remove many administrative tasks for which manual labour was previously needed. Examples include records for maintenance, cleaning and bookkeeping functions. In some cases, these allow property managers to effectively manage more properties, as they need to spend less time on administrative functions. As these systems become more sophisticated, they will offer more potential for automation, like dispatching repair people to certain locations based on queries. This factor will further reduce how many administrative tasks need property managers' attention.

Co-living is a business model for industry operators that is still in the very early stages of uptake. This concept has parallels with co-working, which has quickly grown in popularity in the Office Property Operators industry. Co-living refers to residential housing arrangements that involve tenants sharing some centralised services and living spaces. The model aims to ease concerns about rising rent and house prices, the environment and social isolation. Residents usually receive a private bedroom and bathroom but share kitchen, living and outdoor areas. As the rooms are smaller, they are cheaper than regular rental properties. Currently, only a few companies operate locally, including firms UKO and Hmlet. However, others such as Urbico are planning to enter the local market. These rooms are provided on company applications and websites, and potential residents can view multiple rooms and their availability.

The level of technology change is ⊖ **Medium**

The Residential Property Operators industry has moderate technological change.

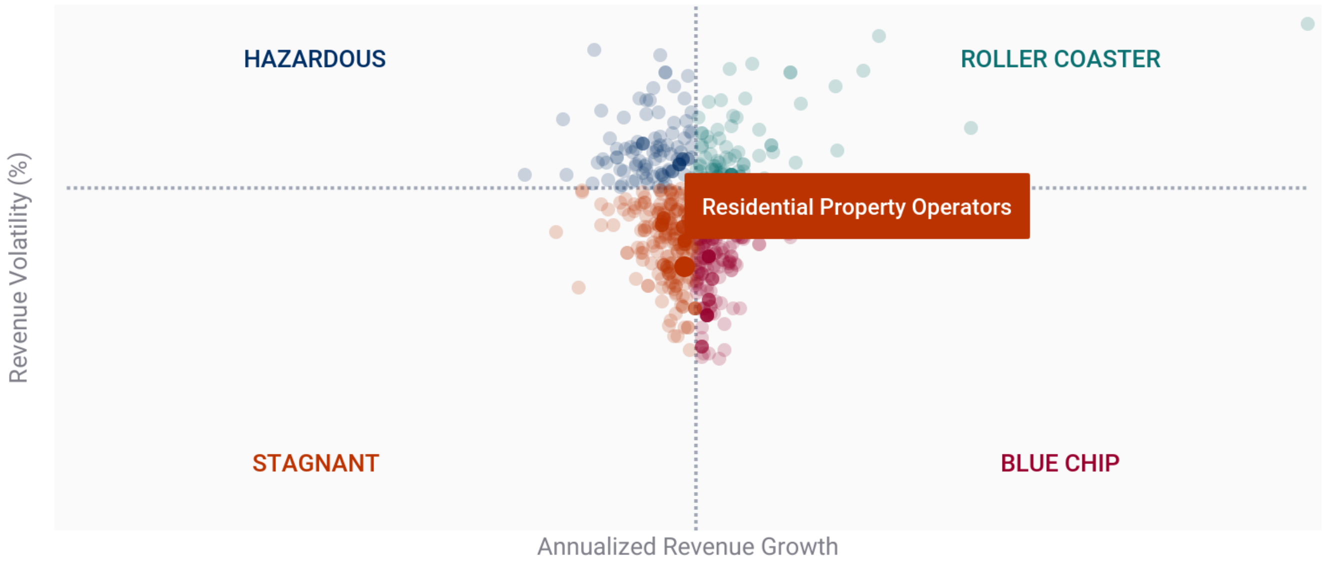
Many residential property operators are independent owner-operators that own small-scale portfolios. They do not usually generate economies of scale, and they don't significantly benefit from investing in technology. However, digital technology allows property operators to advertise their vacancies for less than what it costs to hire real estate services. Other real estate service costs can be circumvented through document automation.

Some investors have benefited from adopting investment real estate (IRE) software systems. Residential property operators can pay a subscription fee to use the licensed software to provide sophisticated transaction processing and analysis tools. IRE systems can be broken down into two categories: operational systems and decision support systems. Operational systems support day-to-day activities like property maintenance, management and accounting. Decision support systems consolidate operational data with industry benchmarks and market assumptions to strategically analyse an asset portfolio to help measure performance, forecast cashflow and support investment decisions.

Revenue Volatility

The level of volatility is ⊖ **Medium**

Volatility vs. Growth



Residential Property Operators
Source: IBISWorld

Fluctuating disposable incomes and residential housing prices have increased revenue volatility

- While household disposable incomes and residential housing prices have risen over recent years, annual changes have been volatile.
- These same fluctuations caused many tenants to be unable to pay rent during the COVID-19 pandemic, leading to temporary rent reduction agreements and eviction moratoriums.
- The changes have contributed to fluctuating residential property yields, causing moderate revenue volatility in 2022-23.

Rising residential housing prices are pricing buyers out of the market

- Residential housing prices are on the rise, discouraging potential buyers from purchasing property. Meanwhile, rent prices have increased, as lower mortgage affordability and greater house prices have necessitated hikes.
- The cash rate and housing loan rates have risen, driving stable demand for rental properties.
- Fluctuating residential property yields, largely due to volatile demand and incomes resulting from the COVID-19 pandemic, have driven volatility. However, demand is recovering as the pandemic eases, marking a return to stable residential property yield growth in 2022-23. This trend will likely encourage a return to low revenue volatility over the coming years.

Regulation &

The level of regulation is ⊖ **Medium and the trend is Increasing**

Policy

Government assistance schemes

The Federal Government implemented the First Home Owner Grant to help first-home buyers offset home ownership costs. In May 2017, a First Home Super Saver Scheme was announced to help entry-level buyers save for a first-home deposit. The HomeBuilder program was introduced in June 2020, allowing owner-occupiers to apply for a $25,000 grant to renovate an existing home or build a new home. These schemes reduce demand for rental properties.

Limitations on foreign investors

Australian real estate prices have grown strongly compared with most other developed economies in recent years, attracting foreign investment. In October 2022, the Federal Government revealed additional measures for Australia's foreign investment framework. From 29 July 2022, fees were doubled for all applications made under the framework. The maximum financial penalties for breaches related to residential land will also double from 1 January 2023.

Eviction moratoriums

During the COVID-19 pandemic, some state governments introduced rent freezes and eviction moratoriums for residential properties. Landlords could not evict tenants in arrears for extended periods due to the pandemic. These moratoriums have reduced residential property yields over the past five years. However, these measures have since wrapped up, and these yields are expected to return to growth in 2022-23.

Modern Slavery Act 2018

The act is expected to minimally affect the overall industry, as most operators do not meet the revenue threshold. However, it will moderately affect players that do meet the threshold. Defence Housing Australia (DHA) submitted a publicly available statement regarding the 2020-21 financial year, assessing the risk of modern slavery in DHA's supply chain as low. It indicated that DHA has procedures to prevent modern slavery in its supply chains.

Industry Assistance

The level of industry assistance is ⊖ Medium and the trend is Increasing

Taxation benefits

Australia's negative gearing tax system assists investors with repaying loans on investment assets, including investment property. Investors can claim interest expenses on loans used to acquire an investment property as a tax deduction, reducing their taxable income and the amount of income tax they pay. As expenses claimed are generally higher than gross rental income claimed, residential investors run at a net loss, reflecting negative gearing's effectiveness for minimising tax.

Government rental assistance

Services Australia offers rental assistance programs for low-income earners. Australians in need can apply for a rent allowance on top of their Centrelink payment. The amounts paid in assistance range from $88 per fortnight for a single with no dependants living in shared accommodation, to $175 per fortnight for a couple with children. These payments assist property operators offering individuals more affordable housing at no cost to operators.

Key Statistics

Industry Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (People)	Exports (Units)	Imports (Units)	Wages ($m)	Domestic Demand ($m)
2013-14	48,890	24,836	2,719,000	55,392	7,533	N/A	N/A	834	N/A
2014-15	51,588	26,877	2,716,400	54,622	7,422	N/A	N/A	840	N/A
2015-16	53,800	27,869	2,713,800	53,380	6,958	N/A	N/A	803	N/A
2016-17	53,889	27,914	2,840,500	52,949	7,495	N/A	N/A	841	N/A
2017-18	54,980	28,260	2,967,200	52,474	7,439	N/A	N/A	829	N/A
2018-19	55,225	29,324	2,950,200	55,295	7,486	N/A	N/A	817	N/A
2019-20	55,092	30,852	3,059,900	55,248	7,342	N/A	N/A	781	N/A
2020-21	52,253	27,694	3,051,076	55,268	7,538	N/A	N/A	786	N/A
2021-22	52,186	27,919	3,050,386	54,261	7,475	N/A	N/A	761	N/A
2022-23	54,096	29,158	3,246,088	56,741	7,777	N/A	N/A	776	N/A
2023-24	56,676	30,775	3,403,917	58,829	8,011	N/A	N/A	802	N/A
2024-25	58,320	31,784	3,502,786	60,279	8,219	N/A	N/A	825	N/A
2025-26	59,714	32,783	3,611,679	61,269	8,398	N/A	N/A	844	N/A
2026-27	61,135	33,624	3,714,469	62,360	8,556	N/A	N/A	863	N/A
2027-28	61,624	34,325	3,750,670	62,174	8,524	N/A	N/A	862	N/A

Annual Change

Year	Revenue (%)	IVA (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2013-14	4.05	3.44	1.96	0.27	3.94	N/A	N/A	3.86	N/A
2014-15	5.51	8.21	-0.10	-1.40	-1.48	N/A	N/A	0.77	N/A
2015-16	4.28	3.68	-0.10	-2.28	-6.26	N/A	N/A	-4.44	N/A
2016-17	0.16	0.16	4.66	-0.81	7.71	N/A	N/A	4.73	N/A
2017-18	2.02	1.23	4.46	-0.90	-0.75	N/A	N/A	-1.37	N/A
2018-19	0.44	3.76	-0.58	5.37	0.63	N/A	N/A	-1.45	N/A
2019-20	-0.25	5.20	3.71	-0.09	-1.93	N/A	N/A	-4.41	N/A
2020-21	-5.16	-10.2	-0.29	0.03	2.66	N/A	N/A	0.58	N/A
2021-22	-0.13	0.81	-0.03	-1.83	-0.84	N/A	N/A	-3.15	N/A
2022-23	3.66	4.43	6.41	4.57	4.04	N/A	N/A	1.87	N/A
2023-24	4.77	5.54	4.86	3.67	3.00	N/A	N/A	3.33	N/A
2024-25	2.89	3.27	2.90	2.46	2.59	N/A	N/A	2.88	N/A
2025-26	2.38	3.14	3.10	1.64	2.17	N/A	N/A	2.38	N/A
2026-27	2.38	2.56	2.84	1.78	1.88	N/A	N/A	2.21	N/A
2027-28	0.80	2.08	0.97	-0.30	-0.38	N/A	N/A	-0.09	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	50.8	N/A	N/A	6,490	1.71	0.00	110,673
2014-15	52.1	N/A	N/A	6,951	1.63	0.00	113,204
2015-16	51.8	N/A	N/A	7,732	1.49	0.00	115,392
2016-17	51.8	N/A	N/A	7,190	1.56	0.00	112,195
2017-18	51.4	N/A	N/A	7,391	1.51	0.00	111,493
2018-19	53.1	N/A	N/A	7,377	1.48	0.00	109,190
2019-20	56.0	N/A	N/A	7,504	1.42	0.00	106,429
2020-21	53.0	N/A	N/A	6,932	1.50	0.00	104,272
2021-22	53.5	N/A	N/A	6,981	1.46	0.00	101,846
2022-23	53.9	N/A	N/A	6,956	1.43	0.00	99,730
2023-24	54.3	N/A	N/A	7,075	1.41	0.00	100,050
2024-25	54.5	N/A	N/A	7,096	1.41	0.00	100,329
2025-26	54.9	N/A	N/A	7,110	1.41	0.00	100,536
2026-27	55.0	N/A	N/A	7,145	1.41	0.00	100,865
2027-28	55.7	N/A	N/A	7,229	1.40	0.00	101,161

Figures are inflation adjusted to 2022-23

Additional Resources

Additional Resources

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

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

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

Industry Jargon

CAPITAL GAINS
A profit from selling real estate, which exceeds its purchase price. It is the difference between a higher selling price and a lower purchase price.

LANDLORD
Another term for an industry operator. A landlord can be anyone from an individual to a large trust that owns property and rents it out for tenants to live in.

OWNER-OCCUPIER
A home owner who lives in the property that they own. Meanwhile, an investor typically rents out the property to a tenant.

TENANT
A tenant is an individual, household or group that leases property that an industry operator owns to live in.

VACANCY RATES
A measure of the number of unoccupied properties as a percentage of total available properties. Occupancy rate is the equivalent for the percentage of occupied properties.

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

How do you market your properties to potential tenants?

Advertising must focus on targeting specific markets to maximise occupancy rates.

How does consumer sentiment affect your revenue?

In periods of weak or negative consumer sentiment, consumers are less likely to purchase property, which benefits the industry.

Strategy & Operations

How strong is demand in the suburb where your properties are located?

Properties located in valuable areas, such as close to public transportation or education institutions, are in a better position to charge higher rent.

How do you monitor the performance of competitors with properties nearby?

Monitoring rent prices of other nearby properties ensures that a firm remains price competitive.

Technology

How do you keep up to date with the latest property management systems?

Using computerised property management systems can improve large property operators' efficiency.

What sort of new home technologies does your property have?

New building technologies such as smart buildings can also provide marketing advantages for some properties.

Compliance

How have you adapted to changing regulations?

Sometimes reforms to tenancy acts require industry operators to change their strategy or operate differently.

How do you ensure compliance with tenancy policies?

State residential tenancies acts, which outline the rights and responsibilities of landlords and tenants, regulate rental housing in Australia.

Finance

How have you taken initiatives to improve your property's profitability?

Incorporating technology to improve efficiency in everyday property management can help boost profit margins.

How do you optimise your capital structure to benefit from negative gearing?

Industry operators can change their capital structure to benefit from Australia's negative gearing system.

External Impacts Questions

Impact: Mortgage affordability

How do trends in mortgage affordability affect your operations?

Mortgage affordability refers to how easily potential homebuyers can make repayments for a home.

Rising mortgage affordability can increase demand for home purchases and decrease demand for rental accommodation.

Impact: Residential property yields

How do you track changes in yields?

Residential property yields refer to income from property through rent and capital gains.

Yields have been low due to high property prices, partly because of investor purchases. These low yields indicate subdued rent incomes for operators.

Impact: Residential housing loan rates

How do housing loan rates affect your pricing structure?

Housing loan rates affect demand for housing, as a large proportion of housing is financed through credit.

Higher housing loan rates make financing and buying a house more expensive.

Internal Issues Questions

Issue: Carrying out all necessary maintenance to keep facilities in good condition

What maintenance systems do you currently have in place?

Property investors must monitor the property's state and ensure prompt maintenance to retain tenants and property value.

Issue: Understanding government policies and their implications

What policies currently affect your operations the most?

Industry operators must understand landlord-tenant legislation, and government approval regulations and processes to operate successfully.

Issue: Market research and understanding

How well do you understand demand drivers from different markets?

A comprehensive analysis and understanding of economic, demographic and property market conditions enable industry players to better understand the property market, allowing them to effectively target opportunities.