INDUSTRY REPORT OD5511

Residential Property Leasing and Management in Australia

High vacancy: Low property yields and mortgage affordability have managed to slash revenue

Katherine Tweedie | January 2023

Contents

Recent Developments

Inflation pressures cause the RBA to raise interest rates

Concerns regarding inflation have prompted the RBA to raise interest rates. Surging demand and supply chain turmoil due to the COVID-19 pandemic, compounded by geopolitical tensions abroad, have contributed to the high inflation pressures. The RBA has therefore increased the cash rate target three times over the four months through August 2022 to limit spending and tame inflation. Rising interest rates are likely to increase the cost of borrowing and subdue business confidence, while simultaneously taming inflation.

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About This Industry

Industry Definition

Industry players lease and manage residential real estate, or other property that they do not own, on behalf of residential property owners and operators.

Major Players

There are no major players in this industry

Main Activities

The primary activities of this industry are:

Managing and leasing separate houses

Managing and leasing semi-detached houses

Managing and leasing flats, units and apartments

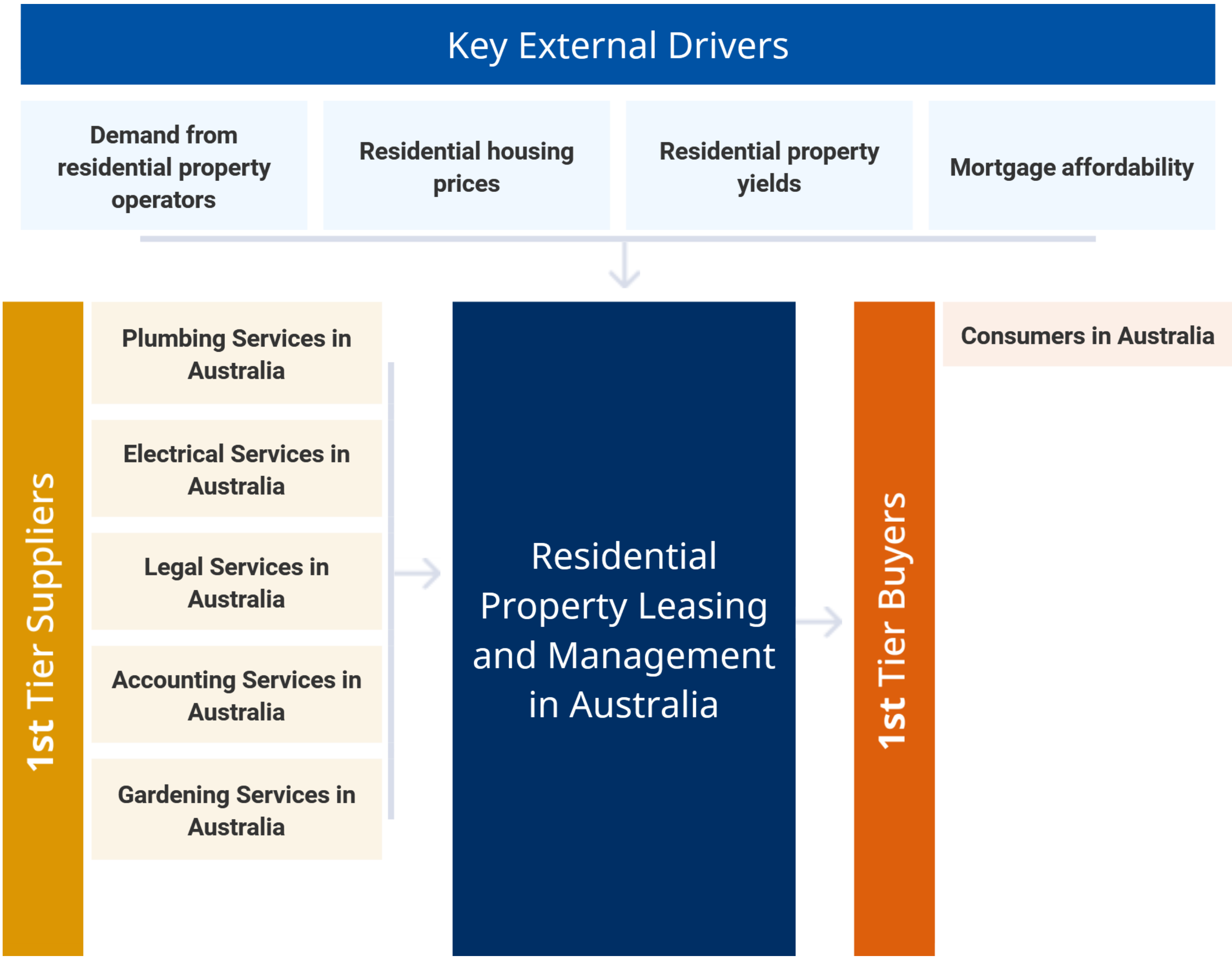
The major products and services in this industry are:

Managing and leasing separate houses

Managing and leasing semi-detached houses

Managing and leasing flats, units and apartments

Supply Chain



SIMILAR INDUSTRIES

Residential Property Operators in Australia
Competitor

Real Estate Services in Australia
Competitor

Office Property Operators in Australia
Complementor

Retail Property Operators in Australia
Complementor

RELATED INTERNATIONAL INDUSTRIES

Property Management in the US

Property Management Services in the UK

Property Management in Canada

Industry at a Glance

Key Statistics

$8.3bn
Revenue

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
-1.2%	1.9%	

$1.6bn
Profit

Annual Growth 2018–2023	Annual Growth 2018–2023
-1.7%	

19.8%
Profit Margin

Annual Growth 2018–2023	Annual Growth 2018–2023
-0.5pp	

11,400
Businesses

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
2.9%	-1.6%	

34,353
Employment

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
0.4%	0.4%	

$2.5bn
Wages

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
0.3%	2.0%	

Key External Drivers

% = 2018–23 Annual Growth

-1.0%
Mortgage affordability

-0.5%
Residential property yields

-0.3%
Demand from residential property operators

Industry Structure

POSITIVE IMPACT

Capital Intensity
Low

Concentration
Low

Technology Change
Low

Industry Globalization
Low / Decreasing

MIXED IMPACT

Life Cycle
Mature

Revenue Volatility
Medium

Regulation & Policy
Medium / Steady

Competition
Medium / Increasing

NEGATIVE IMPACT

Industry Assistance
Low / Steady

Barriers to Entry
Low / Increasing

Key Trends

- Declines to residential property yields have diminished profit margins
- Strong residential housing prices have offset larger revenue contractions in recent years
- Employment has grown at a subdued rate as firms cull costs to maintain profits
- Growth in residential property prices is set to boost industry revenue
- Employment will grow as industry firms meet higher demand
- Ever-growing interest rates will push landlords to cut costs, reducing demand for industry firms
- The COVID-19 pandemic has subdued downstream demand for the industry

Products & Services Segmentation

Residential Property Leasing and Management
Source: IBISWorld

Major Players

There are no major players in this industry

SWOT

S STRENGTHS

Low Imports
High Profit vs. Sector Average
Low Capital Requirements

W WEAKNESSES

Low & Increasing Barriers to Entry
Low & Steady Level of Assistance
High Customer Class Concentration
High Product/Service Concentration

O OPPORTUNITIES

High Revenue Growth (2018-2023)
High Revenue Growth (2023-2028)
High Performance Drivers
Demand from residential property operators

T THREATS

Residential housing prices

Executive Summary

High vacancy: Low property yields and mortgage affordability have managed to slash revenue

Firms in the Residential Property Leasing and Managing industry have battled with dulled demand conditions as the COVID-19 pandemic has sparked economic challenges. Border restrictions have meant that Australia has had lower migration and fewer international students, which has lifted rental vacancy rates and dampened demand for property management services. However, housing is a necessity, and residential property is considered a safe investment in Australia. These factors have therefore limited falls in revenue. Industry revenue dropped at an annualised 1.2% to $8.3 billion over the five years through 2022-23. This trend includes a revenue drop of 3.2% and a profit contraction to 19.8% in 2022-23, as lower mortgage affordability has discouraged people from buying houses and needing property management services.

While residential property operators are key industry clients, demand from these operators is trending downwards. Higher cash rates – and therefore, higher interest rates – have made it harder for people to buy houses, and these trends are pricing lower-income earners out of the property market. Meanwhile, high-income earners' assets are rising in value. Their ability to continue purchasing property has limited falls in revenue, and will support the industry's recovery.

Going forward, lower vacancies and high house prices are set to support revenue growth. Industry revenue will rise at an annualised 1.9% over the five years through 2027-28, reaching $9.1 billion. Climbing house prices will inflate rent prices, and high interest rates will continue to reflect the RBA hiking cash rates. Larger companies will manage more properties in the coming years, as larger residential property operators are set to acquire more properties and outsource property management services to established industry players. Since residential property managers receive commissions as a fixed percentage of rent, higher commissions will support industry revenue and demand.

Industry Performance

Residential Property Leasing and Management
Source: IBISWorld

Key External Drivers

Demand from residential property operators

Residential property operators are major industry clients, as they rent or lease out residential properties. They pay a fee to property managers, and industry revenue rises alongside property operators' rental income. Growing demand from residential property operators presents an opportunity for property management firms to expand. Demand from residential property operators is rising by 3.7% in 2022-23, as lower mortgage affordability drives demand for renting properties.

Residential housing prices

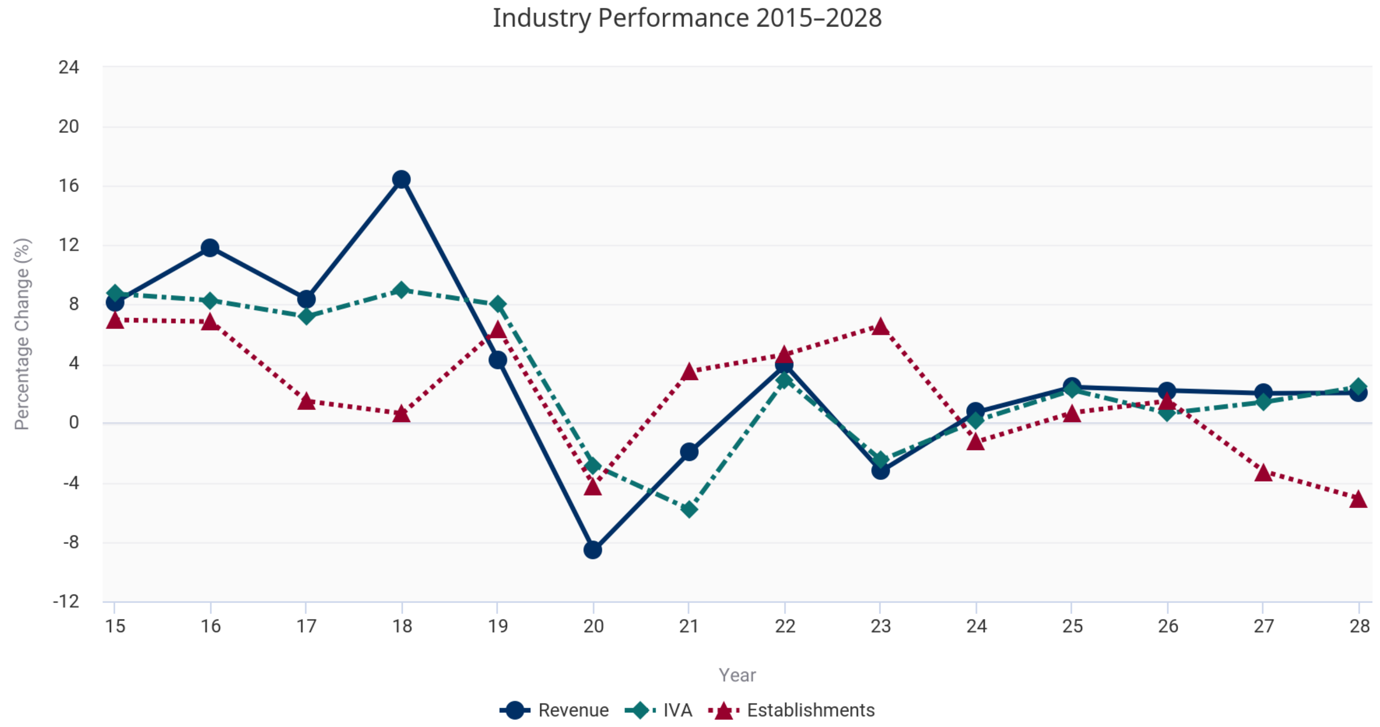
High residential housing prices benefit residential property management firms. Residential properties become less affordable when house prices increase, encouraging people to rent rather than buy homes. Higher housing prices also justify higher rents. As residential property managers typically receive commissions as a fixed percentage of rent, rent increases boost industry revenue. Residential housing prices are dropping by 15.1% in 2022-23 because of high savings rates, threatening industry performance.

Residential property yields

Residential property yields reflect the rental income that an investment property can generate. Property managers receive commissions as a percentage of rent. Declines in residential yields negatively affect the industry, as they drive down commissions from rent. Residential property yields are lifting by 0.6% in 2022-23, as vacancy rates drop.

Mortgage affordability

Most residential property owners rely on a mortgage to purchase their property. Lower mortgage affordability means fewer people can afford to meet repayments, and therefore cannot buy a home. People that cannot afford to buy a property tend to rent a home, which increases the demand for property management services. Mortgage affordability is falling by 0.6% in 2022-23, reflecting higher interest rates.



Residential Property Leasing and Management
Source: IBISWorld

Current Performance

Industry revenue has fallen by an annualised 1.2% over the past five years, totalling to $8.3 billion in 2022-23 when revenue will fall by 3.2% and profit margins will drop to 19.8%.

Difficult demand conditions have closed the door on revenue opportunities

- Although residential property prices have risen, falling property yields have reduced industry demand and performance. Falling demand from residential property operators – a key client base for industry firms – has dampened demand for property leasing and management services.
- COVID-19 pandemic-related border restrictions reduced migration rates and the number of international students and workers travelling to Australia, lowering demand for residential rental properties. Unemployment in the retail and hospitality sectors also dulled rental demand.
- Higher gross rent and lower vacancy rates in 2022-23 will augment demand for residential properties, and therefore demand for property management services.

As residential property is considered a safe investment option, more firms have entered the industry

- Industry firms help landlords by finding tenants and managing properties. Residential property managers charge their clients a fixed percentage one-off commission for their services in leasing a property, and ongoing commissions for property management services.
- Property management is a volume-based business, and profitability increases with the number of properties under management (PUM). Small companies have fewer than 100 PUM, while larger firms have over 1,000 PUM.
- Residential property is considered a safe investment, and housing is a necessity. These factors lend some security to industry demand. Industry enterprise and establishment numbers have continued to rise, despite challenging economic conditions.

Sustained demand from high-income earners has supported the industry

- Residential property operators are major industry clients. Small-scale players dominate the fragmented Residential Property Operators industry.
- The RBA has continued to hike the cash rate, which has increased interest rates and made it more difficult for potential industry clients to buy property. Lower mortgage affordability has been pricing low-income earners out of the housing market.
- Rising property prices have increased the value of high-income earners' existing assets, enabling them to buy more residential property and expand their portfolios. This demand has limited revenue falls, as high-income earners are more likely to outsource property management to industry firms.

Companies have been keeping wage growth low to alleviate falls in profit margins

- Falling residential property yields have thinned industry profit margins. High vacancy rates due to pandemic-related border restrictions, which have decreased migration rates, have contributed to this trend.
- Landlords and residential property managers are fighting low property yields by hiking rent prices in 2022-23. These higher rent prices will help to limit falls in revenue and profit.
- Residential property management firms have been cutting wage growth to mitigate falling profit margins. While enterprise numbers have been rising, property managers have avoided hiring large numbers of staff. Employment numbers and wage costs have therefore been rising at slower rates than enterprise and establishment numbers.

Historical Performance Data

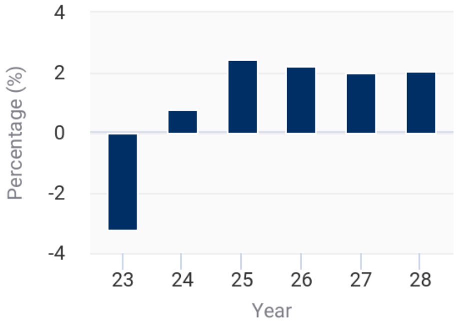
Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2013-14	5,765	3,252	9,916	8,363	23,119	N/A	N/A	1,844	N/A
2014-15	6,236	3,536	10,608	8,768	23,702	N/A	N/A	2,002	N/A
2015-16	6,974	3,829	11,335	9,452	24,161	N/A	N/A	2,130	N/A
2016-17	7,559	4,104	11,506	9,709	28,344	N/A	N/A	2,203	N/A
2017-18	8,805	4,473	11,582	9,867	33,614	N/A	N/A	2,503	N/A
2018-19	9,184	4,831	12,320	10,426	39,711	N/A	N/A	2,871	N/A
2019-20	8,399	4,695	11,805	9,838	36,954	N/A	N/A	2,781	N/A
2020-21	8,236	4,423	12,219	10,290	33,453	N/A	N/A	2,505	N/A
2021-22	8,560	4,554	12,786	10,725	32,367	N/A	N/A	2,608	N/A
2022-23	8,285	4,441	13,630	11,400	34,353	N/A	N/A	2,547	N/A

Industry Outlook

Outlook

Industry revenue will grow at an annualised 1.9% to $9.1 billion over the five years through 2027-28, when profitability will fall to 18.6%.

Industry Outlook
2023–2028



Residential Property Leasing and Management
Source: IBISWorld

Lower mortgage affordability is increasing rental occupancy and supporting industry demand

- The RBA has continued to raise the cash rate, and will likely continue to do so. Corresponding interest rate rises are making mortgage repayments and buying residential properties less affordable, particularly for people with lower incomes. These people are opting to rent houses rather than buy them.
- As COVID-19 pandemic restrictions continue to ease, international students and workers are set to return to Australian capital cities, increasing rental demand and occupancy rates.
- Higher demand for rentals will support demand for property management services, as owners outsource these services to property management firms.
- Employment is set to rise to meet higher demand.

Rising housing prices and rents will support industry revenue recovery

- Residential housing prices will continue to grow. Higher housing prices will influence landlords to raise rent prices to counteract falling profits. As residential property managers receive a fixed percentage of rent for properties they manage, higher rent prices will support managers' revenue performance.
- Mortgage affordability will continue falling due to rising house prices. The resulting lift in rental demand will give property management firms more revenue opportunities by generating higher commissions.
- Although revenue is on track to recover, growing residential loan rates will limit the hikes in house prices. Higher loan rates make buying investment properties less attractive to investors and limit revenue growth.

Recovering demand from residential property operators will aid larger industry firms

- Demand from residential property operators is set to recover over the coming years, as the economy emerges from the pandemic-related downturn.
- Large-scale property operators will likely acquire new properties for their portfolios, as they are often vertically integrated with assets that are rising in value, allowing them to afford loans with higher repayments.
- Large-scale residential property operators that can afford to buy new properties will be more likely to outsource property management services to established players with whom they already have a relationship.
- Smaller property management firms will continue struggling to remain viable, diminishing enterprise and establishment numbers.

Fewer residential property operators will be outsourcing property management services

- Industry profitability increases according to the number of properties under management. However, while large residential property operators will continue to engage larger firms' services, profit margins are set to continue falling over the coming years.
- Interest rates will likely continue to rise alongside hikes to the cash rate. As residential property operators face increased repayments, they will cut costs elsewhere to afford these repayments. Cost-cutting measures will involve engaging industry property management firms less frequently, which will dampen

industry profitability and revenue growth.

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	8,285	4,441	13,630	11,400	34,353	N/A	N/A	2,547	N/A
2023-24	8,348	4,449	13,462	11,273	35,147	N/A	N/A	2,605	N/A
2024-25	8,552	4,549	13,559	11,333	34,727	N/A	N/A	2,667	N/A
2025-26	8,741	4,581	13,764	10,944	34,720	N/A	N/A	2,693	N/A
2026-27	8,918	4,646	13,318	10,789	34,936	N/A	N/A	2,754	N/A
2027-28	9,102	4,760	12,643	10,536	35,009	N/A	N/A	2,818	N/A
2028-29	9,237	4,822	12,832	10,578	35,399	N/A	N/A	2,864	N/A

Industry Life Cycle

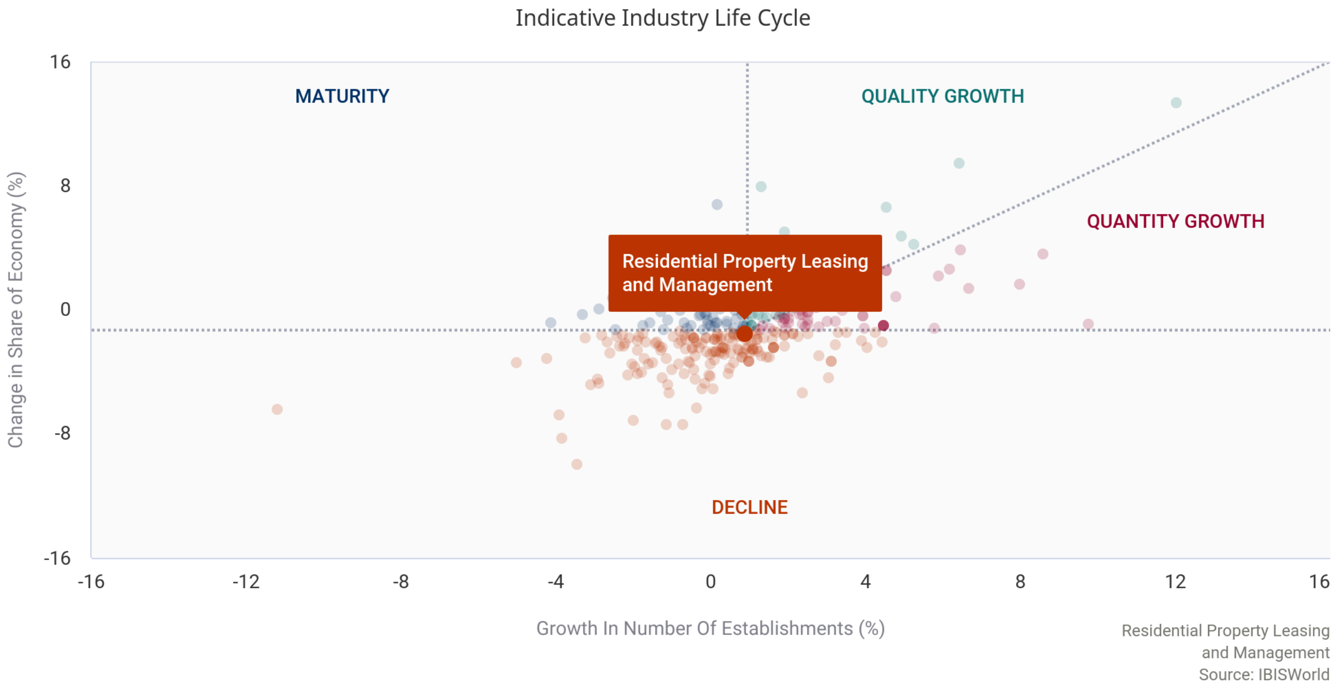
The life cycle stage of this industry is ⊖ Mature

LIFE CYCLE REASONS

Industry value added will rise slightly over the ten years through 2027-28

Industry employment will increase over the next five years

Industry markets will expand over the next five years in line with population increases



Contribution to GDP

The industry's contribution to GDP is growing slightly, but at a slower pace than the overall economy. Establishment numbers are also rising, and property leasing and management services are widely accepted. These trends reflect a mature industry.

Market Saturation

No large residential property leasing and management firms dominate the industry, and the services that they provide are widely accepted by consumers.

Innovation

There is little innovation within the industry. The nature of providing property management services does not tend to change significantly, despite firms using differing operational processes and software.

Consolidation

Price-based competition among large firms and their economies of scale limit smaller-scale companies' ability to expand, leading to rising market consolidation.

Technology & Systems

Technological change is low in the industry, and most technological advancement focuses on enhancing companies' web presence and automating leasing processes.

Products & Markets

Supply Chain

Key Buying Industries

1st Tier

Consumers in Australia

Key Selling Industries

1st Tier

Plumbing Services in Australia

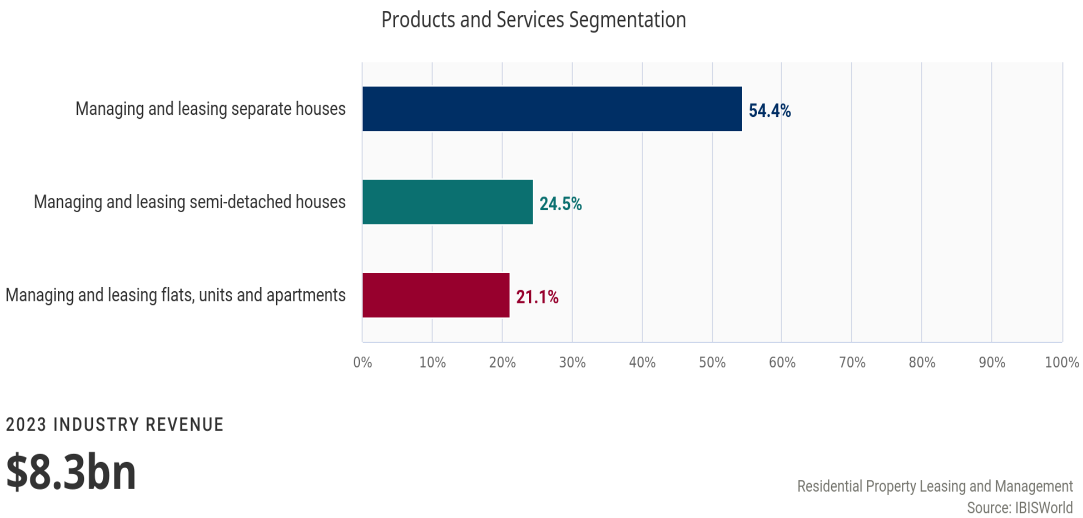
Electrical Services in Australia

Legal Services in Australia

Accounting Services in Australia

Gardening Services in Australia

Products & Services



Consumers are moving away from separate houses due to higher rent prices

- Separate houses are the most common type of housing in Australia and make up the largest service segment. They are usually unattached, and are separated from other houses by at least half a metre.
- Low mortgage affordability has made this segment's contribution to industry revenue volatile. Fewer people have been opting to buy separate houses, which has dampened revenue.
- Residential housing prices have shot up while property yields have dropped, causing landlords to raise rent prices. Higher rent has pushed people to rent comparatively cheaper townhouses instead, limiting demand for separate houses.

More people are renting townhouses for their lower cost and urbanised location

- Also known as terrace houses or townhouses, semi-detached houses often have private grounds, but usually share a common wall with other homes.
- This segment's share of industry revenue has climbed, as it has become more expensive to rent separate houses than townhouses.
- People have been returning to major cities as the COVID-19 pandemic eases. As the pandemic and the prospect of spreading COVID-19 have made high-density apartments less desirable, many people are opting to rent townhouses instead, to remain in urbanised locations.

Demand for flats, units and apartments will recover as international arrivals resume

- Flats, units and apartments don't have private grounds, and usually share an entrance foyer or stairwell.
- Apartment vacancy rates climbed after the initial COVID-19 outbreak, as border restrictions stopped international students and workers – a significant source of demand for these properties – from migrating to Australia.
- Fewer international arrivals, tighter restrictions on foreign real estate investment and lower demand from townhouse construction during the pandemic reduced this segment's share of revenue. However, higher international student numbers and migration rates will allow this segment to start recovering.

Demand Determinants

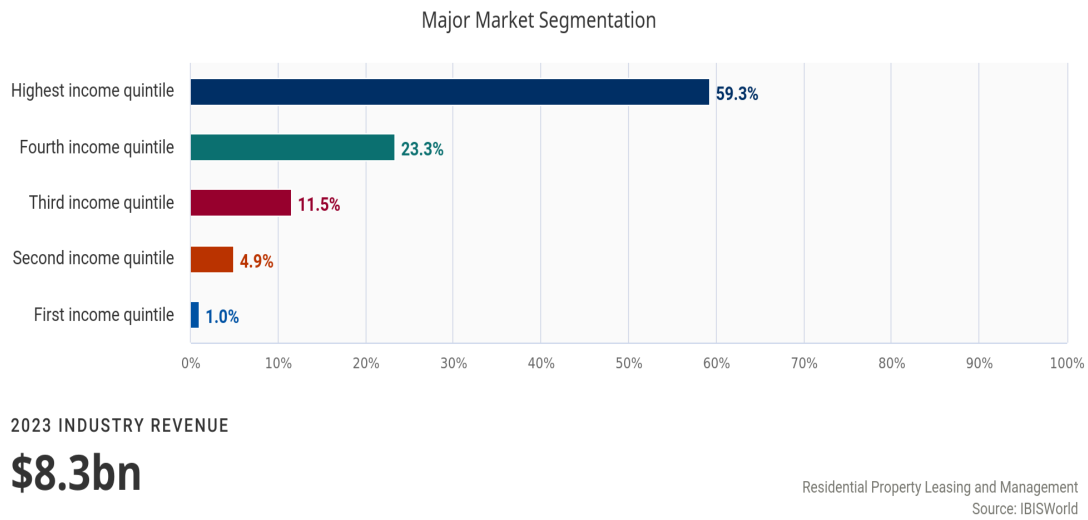
Demand for the Residential Property Leasing and Management industry closely correlates with how financially viable it is to rent residential

investment properties.

People usually want to buy investment properties when interest rates are low, facilitating increased borrowing. Greater residential property yields also support demand for the industry, as people seek ways to acquire passive income.

Rising house prices typically increase the yields that owners can make and the fees that residential property managers can charge. As housing prices increase, home ownership becomes more difficult, which increases the number of renters. Falling mortgage affordability also reflects this difficulty. The trend towards renting, particularly in inner city areas where houses or apartments are more expensive, significantly drives industry demand.

Major Markets



Accumulated wealth is enabling high-income earners to establish investment portfolios

- The highest income quintile dominates the industry, as buying and maintaining an investment property requires a large amount of capital.
- Residential housing prices have been rising, preventing people in lower income quintiles from buying houses. High-income earners also find it easier to accumulate wealth and buy additional investment properties.
- While high-income earners have maintained their position as the most significant contributor to revenue, greater household disposable incomes and initiatives to help first-home owners have given people in other quintiles more opportunities to buy houses.

The fourth income quintile is recovering as high house prices price out other brackets

- While people in the fourth-highest income bracket contribute less to revenue than the highest bracket, they still have enough capital to establish a portfolio of investment properties.
- This bracket's share of revenue fell sharply over the two years through 2020-21. Poor economic conditions and relatively weak residential housing prices gave the highest income bracket more opportunity to buy investment properties than other segments.
- The fourth quintile's performance has recovered since the COVID-19 pandemic, as climbing house prices have been pricing lower income brackets out of home ownership.

Rising house prices are boosting the value of the third income quintile's existing properties

- The third income quintile relies heavily on equity in existing property to fund investment in additional properties that need managing.
- The pandemic's economic effects weighed on this segment's performance. This bracket's revenue share therefore dropped over the two years through 2020-21.
- Elevated household discretionary income has enabled people in this segment to expand their wealth, and rising house prices have boosted existing properties' value. These factors are fuelling recovery in the third income quintile's share of revenue.

Low mortgage affordability is pricing the second income quintile out of the property market

- Residential property prices have surged, pricing the second income quintile out of the property market.
- Mortgage affordability is falling, making it even more difficult for low-income earners to accumulate the capital they need to buy a house or build a property portfolio.

Government home ownership initiatives have benefited low-income earners more than other segments

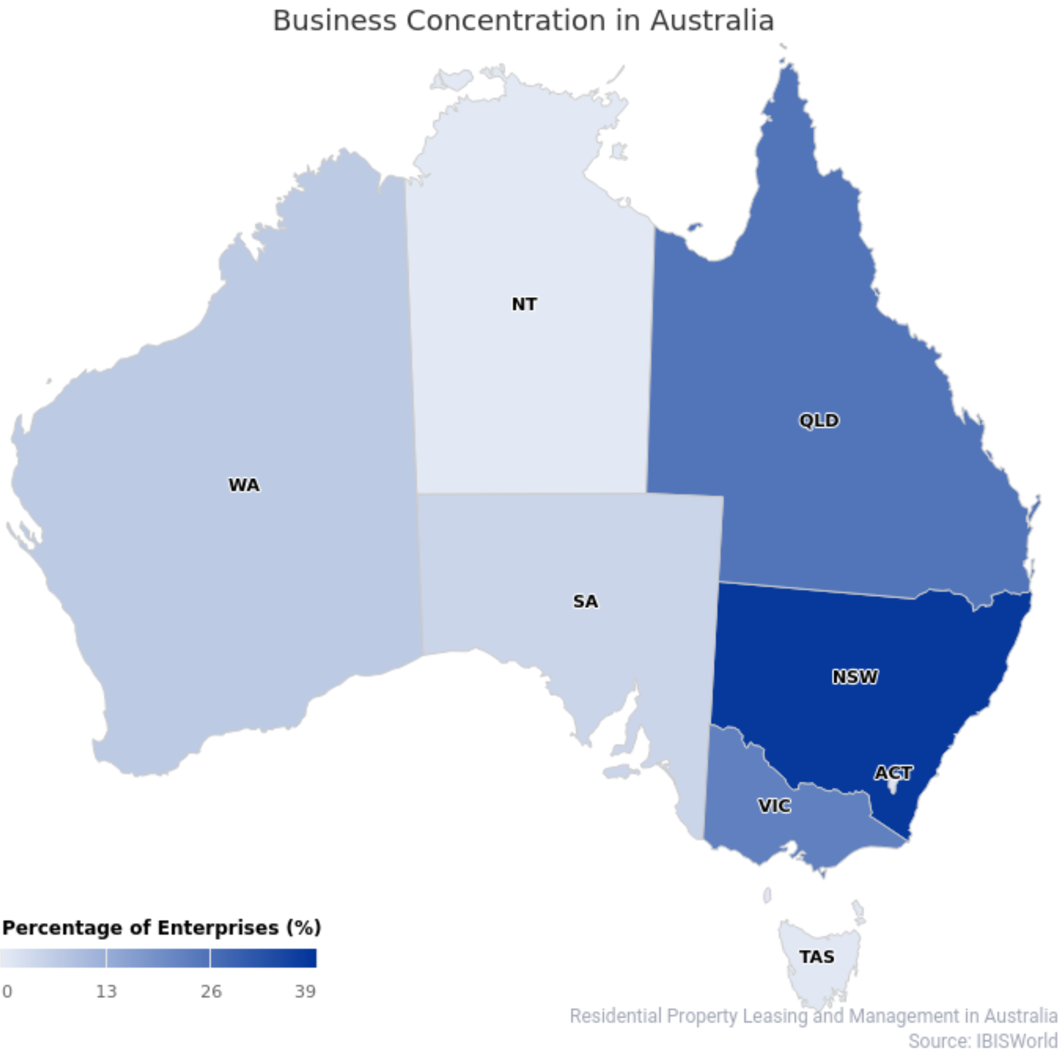
- People in the first income quintile have the smallest contribution to industry revenue. Since they generally lack significant wealth and capital, they tend to rent houses rather than buy homes or investment properties.
- While the segment remains small, the highest income quintile's shrinking share of revenue has slightly elevated the first income quintile's contribution. Government initiatives like the First Home Owner Grant have also benefited people with low incomes more than higher-income earners.

Exports in this industry are ⊘ Low and Steady

Imports in this industry are ⊘ Low and Steady

The industry is a service industry and does not physically transfer goods. Transactions for the Residential Property Leasing and Management industry also occur domestically. As the industry does not account for instances of Australian operators leasing and managing international residential properties, no international trade occurs in the industry.

Business Locations



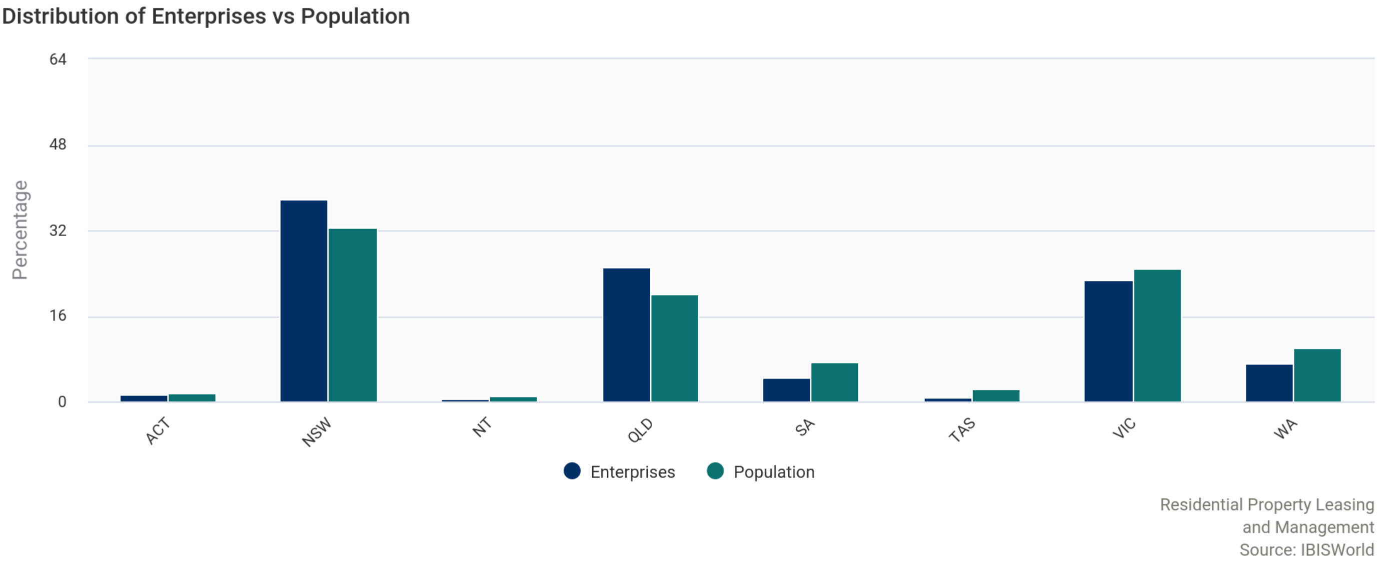
The eastern seaboard: where housing prices and population numbers are high

- Melbourne and Sydney are highly populated and urbanised, and have some of the most expensive property markets worldwide. Therefore, leasing and management operators in these areas can generate significant turnover.
- New South Wales, Victoria and Queensland account for over 85% of property management firms in the current year – an overrepresentation of their population.
- While large industry players like Ray White Group and LJ Hooker Limited have country-wide networks, their office locations are concentrated in New South Wales, Victoria and Queensland.

Western Australia: a high concentration of businesses

- Western Australia has a high concentration of residential property managers, particularly in Perth.

- The state has a large amount of mining activity, which generates significant wealth. Therefore, the state's high business concentration is partly attributable to the mining sector's performance.



Competitive Landscape

Market Share Concentration

Concentration in this industry is ⊘ Low

Large residential property leasing and management firms contribute a small share of revenue

- The industry's top four companies account for less than 20% of industry revenue. The market is highly saturated and has a large amount of competition, which prevents the industry's market share concentration from rising.
- The industry is sizeable and enables larger companies to establish large economies of scale, even though its concentration is low. Wide-reaching firms can use their broad networks and workforces to manage and lease many properties, driving down per-unit costs for each property under management.

Word-of-mouth recommendations are crucial for small businesses to attract clients

- Smaller businesses tend to specialise in providing services to relatively minor geographical areas. These small property leasing and management firms have smaller workforces and leaner cost structures, focusing on retaining property portfolios and capitalising on their expertise.
- Market recognition is important for small firms to attract and retain clients. However, word-of-mouth referrals are also vital, enabling property management firms to gain more available listings.

Key Success Factors

IBISWorld identifies over 200 Key Success Factors for a business. The most important for this industry are:

Control inventory:
Firms that effectively manage their assets and tenants are more likely to maintain high occupancy rates.

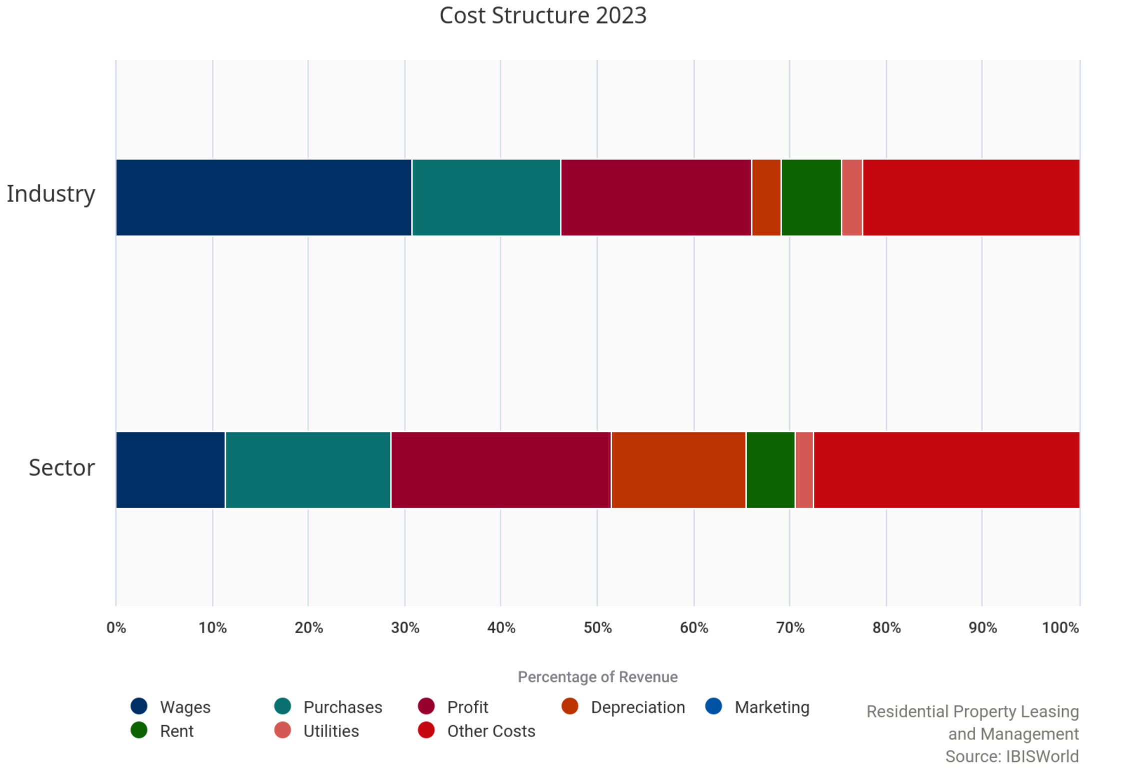
Carry out all necessary maintenance to keep facilities in good condition:
Firms that provide sites with timely maintenance can generate a good reputation among downstream customers.

Understand government policies and their implications:
Firms that understand landlord-tenant law, and government approval regulations and processes, are better able to provide timely service to clients.

Develop a strong market profile:
Firms must be well recognised in the market to attract new clients and properties.

Adopt a high-volume, low-margin strategy:
Larger firms that operate expansive networks can generate economies of scale to reduce per-unit costs, which they can pass onto customers to increase overall turnover.

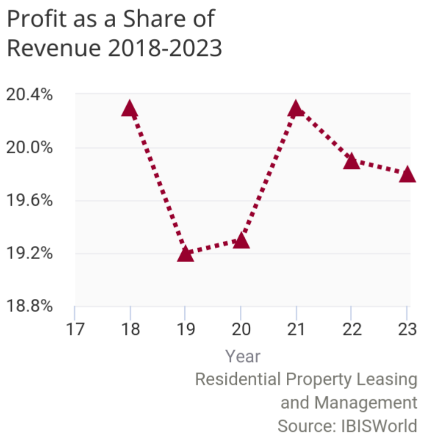
Cost Structure Benchmarks



Profit

Profit margins have contracted because of lower property yields

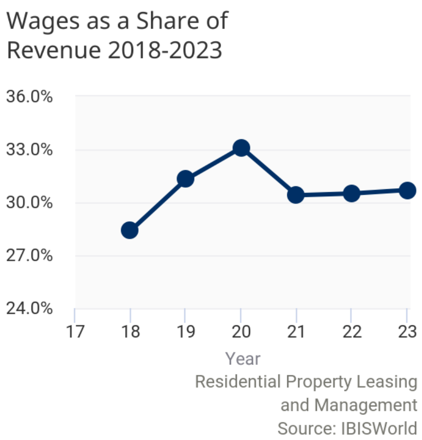
- Residential property leasing and management firms generate high profit margins. Since the industry is service-based, firms incur few fixed costs. Variable costs like wages and marketing therefore move with demand.
- Owner-operators in the industry draw their income from profit, so imputed wages lift profitability. Agency principals can draw additional income from profit, which is also classified as imputed wages.
- Profitability tends to rise with the number of managed properties, since property management is a volume business.
- Residential property yields have dropped as housing prices climb. Lower rent price growth has therefore pinched profits to account for 19.8% in 2022-23.



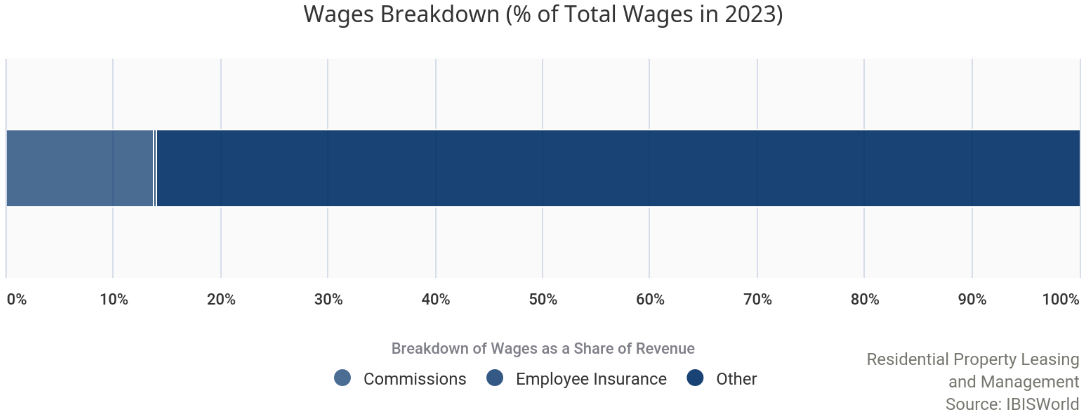
Wages

Growing industry participation has kept wage costs high

- Property management is labour-intensive, and staff must collect rent, liaise with tenants and landlords, and address their concerns.
- Large property management firms with significant portfolios often incur high wage costs, as they must employ many property managers.
- Wages include commission fees that employees are paid to lease residential properties. The share of revenue from commissions tends to remain stable, but fluctuates alongside housing prices. The industry's large number of owner-operators limits wage costs, as they draw imputed wages from profit.
- Higher enterprise and establishment numbers have boosted employee numbers, meaning that wages have risen to 30.7%



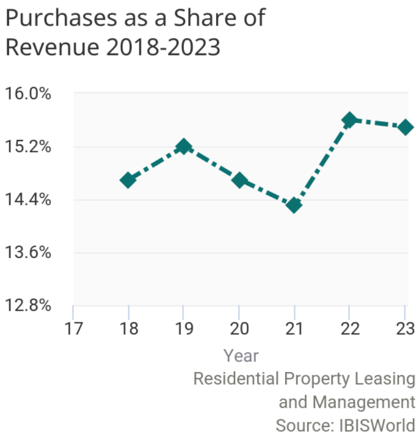
of revenue in 2022-23.



Purchases

More spending to account for higher employee numbers has elevated purchase costs

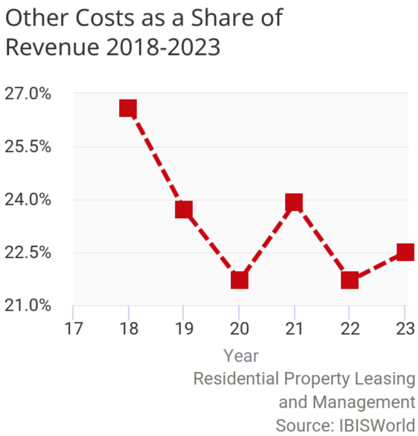
- Purchase costs for industry firms include expenditure on stationery, software subscriptions and consumables.
- Residential property management firms are hiring more staff to account for greater enterprise and establishment numbers. This trend has meant that companies have had to buy more suppliers for staff, which has pushed purchase costs higher.
- Since using administrative software is becoming customary in the industry, firms have had to spend more to keep up with these standards.
- Purchases have climbed to account for 15.5% of revenue in 2022-23.

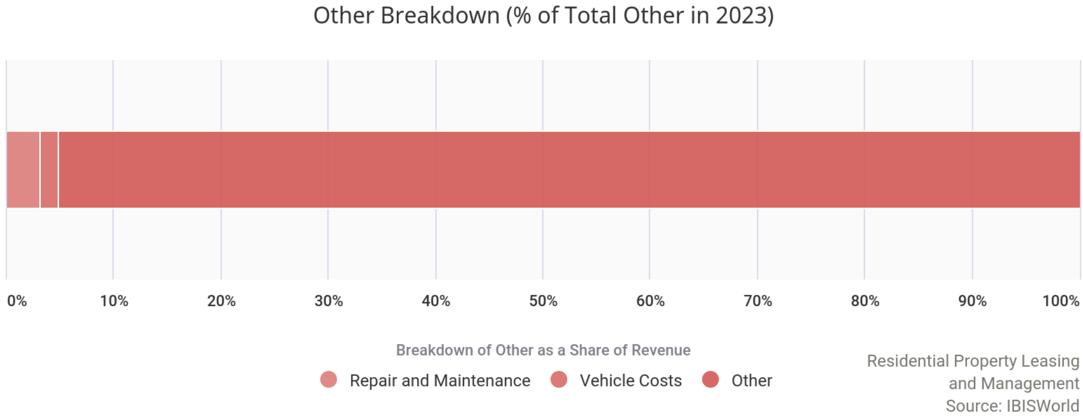


Other Costs

Other costs have dropped, in part because automation has quelled administration costs

- Other costs include franchise fees, and administration and insurance costs.
- Administrative costs have dropped as management firms are increasingly automating some processes using listing sites like realestate.com.au.
- Many firms operate under a franchise structure, giving them a recognisable brand name and improving their earning potential. These fees tend to remain fixed and are therefore rising in proportion to falling revenue.
- Overall, other costs have shrunk to 22.5% of revenue in 2022-23.





Basis of Competition

Competition in this industry is ⊖ Medium and the trend is Increasing

The Residential Property Leasing and Management industry has moderate and increasing competition, due to subdued demand conditions stemming from the COVID-19 pandemic.

Internal competition is primarily based on reputation and pricing. Owners that manage and lease their properties themselves present external competition.

INTERNAL COMPETITION

Residential property leasing and management firms compete with one another on price and reputation primarily.

Firms can display high price-competitiveness by offering low commission rates. These firms typically reduce per-unit costs by operating large portfolios with many properties, generating economies of scale. Casualising the workforce and automating specific administration processes can also reduce per-unit costs, enabling firms to draw business from price-conscious property owners.

Other firms can compete with high price-based competition through their strong reputation. Word-of-mouth referrals from satisfied customers and strong advertising campaigns establish property management firms' reputations. High-value personalised services to customers can generate strong perceptions of quality, justifying higher commission rates than other firms. However, previously crucial competitive advantages, like having a strong brand name or a high budget for advertising in popular newspapers, are becoming less important. Instead, online real estate aggregators are becoming a more popular listing platform.

EXTERNAL COMPETITION

Owners leasing and managing their own properties causes property management firms to lose potential earnings, and owners can save on commission rates.

This is increasingly possible through the rise of sites like buymyplace.com.au, which only takes a flat-rate fee. Residential property owners can list on platforms like realestate.com.au through these agencies. Some owners also use websites like Gumtree.com.au to organise subletting arrangements. However, leasing and managing can be time-consuming, and time-poor owners that prefer the ease of using property management firms' services for a commission benefit property management firms.

Barriers to Entry

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

Legal

Some property management firms provide services to foreign investors that own domestic residential properties. Legal restrictions apply to international property ownership in Australia, and these restrictions have been tightening.

Start-Up Costs

Start-up costs in the industry are low, meaning that owner-operators dominate the industry. Start-up costs include marketing, advertising and research expenses.

Differentiation

Property management firms mainly compete with one another based on reputation and pricing. Offering low commission rates makes owners more likely to outsource property management to operators rather than doing it themselves, enabling operators to differentiate themselves from competitors.

Labour Intensity

The industry is labour-intensive, and employees must perform various administrative and organisational tasks. The industry is based on managing relationships with landlords and tenants, and dealing with the daily tasks of property management.

Barriers to Entry Checklist

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

Industry Globalization

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

Industry globalisation is low. Most residential property leasing and management services are provided to domestic customers. However, some property management firms provide services to foreign investors that own domestic residential properties. For example, Ray White Group operates offices in New Zealand, Indonesia, China, Hong Kong, the Middle East and the United States. Tightening restrictions on international property ownership in Australia have dampened industry globalisation.

Major Companies

There are no major players in this industry

Other Companies

The Residential Property Leasing and Management industry is highly fragmented and primarily composed of self-employed owner-operator property managers. Furthermore, many boutique firms manage moderate-sized portfolios and employ fewer than 20 employees. Most large industry players operate through a franchise structure to gain a large revenue share.

Ray White Group

Market Share: 5.0%
Description

Ray White Group is an Australian real estate company that was established in 1902 in Crows Nest, QLD. It has almost 1,000 offices across Australia, New Zealand, Indonesia, China, the Middle East and the United States, and is headquartered in Melbourne. The company reportedly employs approximately 8,000 staff through its combined franchise offerings. The company's overseas offices enable it to manage investment properties on international investors' behalf.

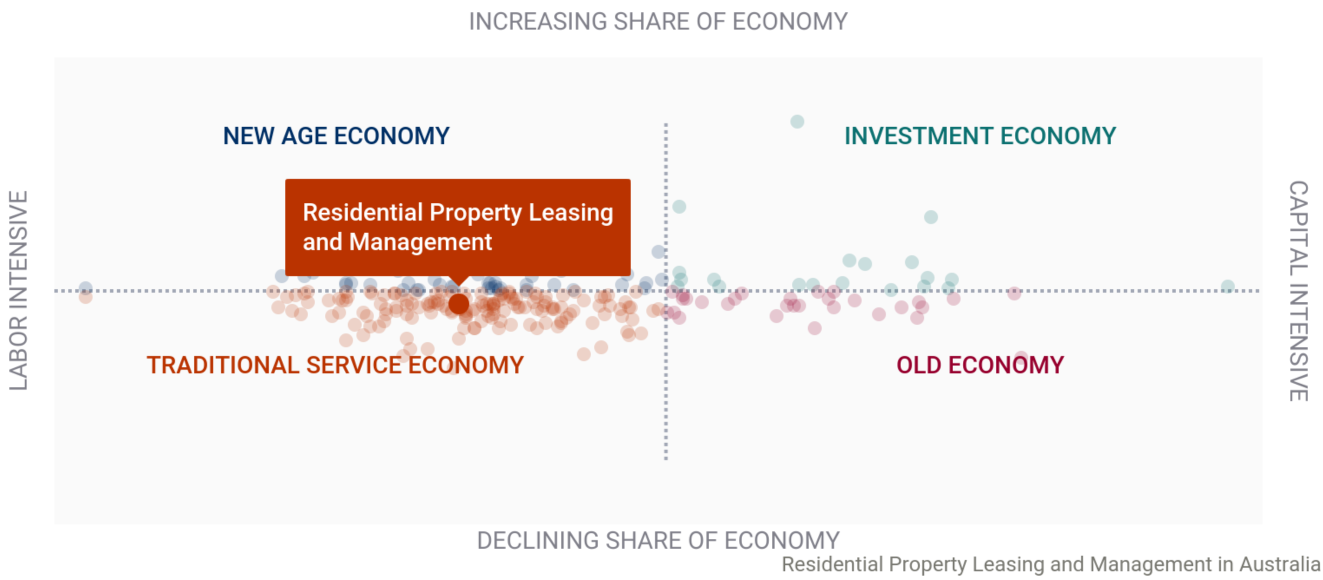
LJ Hooker Pty Limited

Market Share: 4.0%
Description

LJ Hooker Pty Limited was founded in 1928 and is one of Australia's largest real estate services providers. The company is headquartered in Alexandria, NSW and operates through a franchise network and has more than 480 offices in six countries. The company employs approximately 6,000 people globally. LJ Hooker provides residential, commercial, rural and land real estate services in Australia, New Zealand, Fiji, Indonesia, Papua New Guinea, Vanuatu and China.

Operating Conditions

Costs of Growth: Targeting Capital vs. Labor

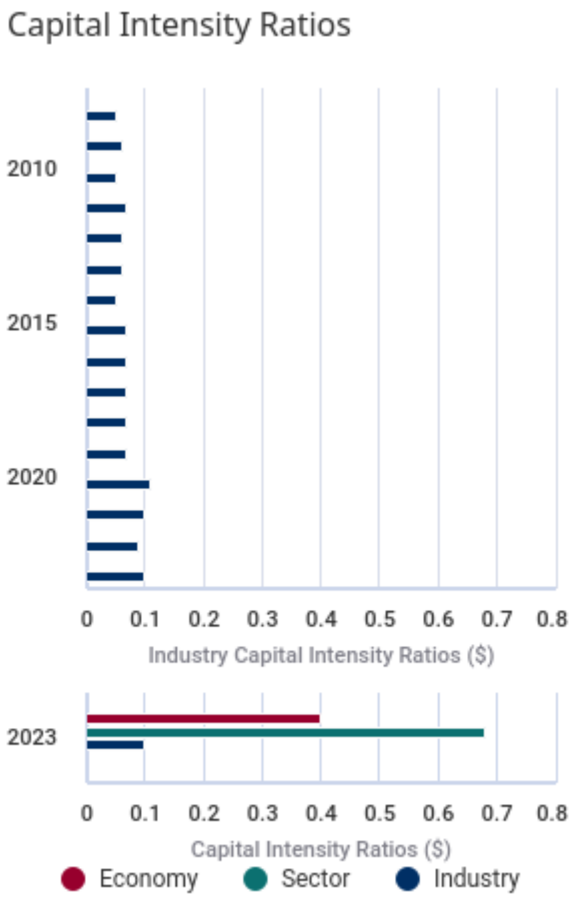


Residential Property Leasing and Management in Australia
Source: IBISWorld

Capital Intensity

The level of capital intensity is Low

The Residential Property Leasing and Management has low capital intensity, as it is labour-intensive and has low deprecation costs. For every dollar spent on wage costs, $0.10 will be invested in capital in 2022-23. Employees must undertake various administrative and organisational tasks. The industry is based on managing relationships with landlords and tenants, and dealing with property management's day-to-day tasks. As a result, wages account for most industry revenue. The industry's capital intensity has remained relatively stable. While increased investment in electronics has marginally lifted depreciation costs, the trend is negligible in the face of relatively high wage costs.



Residential Property Leasing and Management
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.
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.

Leasing and management administration are becoming more automated, disrupting many firms' operations.

Property management firms have increasingly used sophisticated property management software to increase efficiency in administration tasks. In the future, more development and marketing of this software for consumer applications may disadvantage companies that do not keep pace with the changes.

Recently specialist residential market research sites like Core Logic RP Data, and online real estate aggregators like those that REA Group offer, have become more popular. These websites have given property management firms and customers in-depth insights into the residential property investment market. Advertising and information aggregation platforms like realestate.com and domain.com have become more popular among renters. This trend has changed how potential renters can identify and compare properties. As these platforms are popular, nearly all industry operators use them to promote the properties they have available for lease. Firms that have not adopted these advertising formats have likely experienced reduced interest in their properties.

The level of technology change is Low

There is low technological change in the Residential Property Leasing and

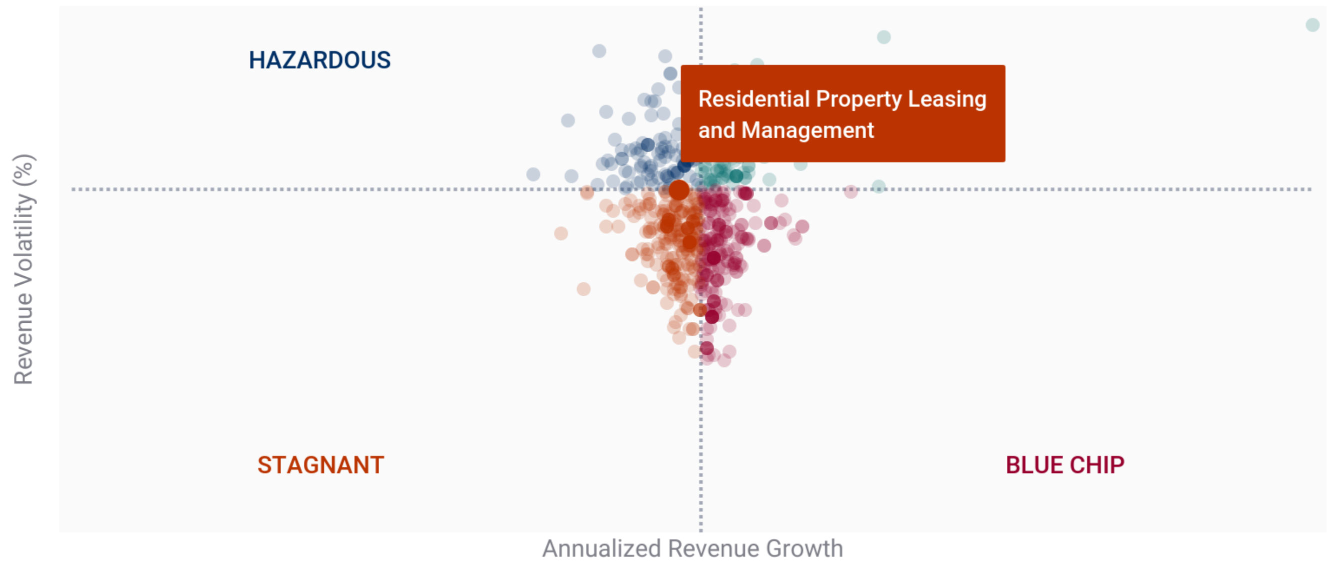
Management industry.

The industry's labour-intensive aspects involve communication between landlords and tenants, which have remained relatively unchanged over the past five years. Greater web presences and establishing automated leasing processes indicate that technological change is increasing. More recently, the company 1form.com has produced a tool to allow people to send multiple applications for different properties using the same application form, cutting down on paperwork and administration time.

Revenue Volatility

The level of volatility is ⊝ Medium

Volatility vs. Growth



Residential Property Leasing and Management
Source: IBISWorld

Fluctuating residential property yields are driving revenue volatility

- Property yields have been fluctuating, but have fallen overall. State governments introduced rent freezes and eviction moratoriums during the COVID-19 pandemic, which subdued demand and property yields.
- Residential housing prices have risen overall but remained volatile, which has caused demand for housing to fluctuate. Variable demand for property management services, which has made revenue inconsistent, has reflected housing price trends.

Residential property generates stable demand

- Buying residential property is considered a safe and lower-risk investment in Australia.
- Since housing is a necessity, demand for rental properties remains stable and maintains demand for property management services. Property leasing and management firms usually have little room to adjust their fees, as the market is highly saturated with smaller players that can provide similar services at lower prices.

Regulation & Policy

The level of regulation is ⊝ Medium and the trend is Steady

Residential Tenancies Act 1997

Residential property managers must comply with the act, as it outlines what a tenancy agreement must include. For example, a tenancy agreement must include the amount of bond; conditions and rules of renting the premises; the tenancy's length and type; the amount of rent; and how rent should be paid.

Modern Slavery Act 2018

The act has minimally affected the industry, as most residential property managers do not meet the revenue threshold. The act will moderately affect residential property management firms that do meet the threshold. While commercial property managers have released statements identifying their subcontracting practices as having a potential slavery risk, residential managers do not engage subcontractors in the same way. Therefore, risks of modern slavery in the industry are low.

Rent freezes and eviction moratoriums

State governments introduced temporary rent freezes and eviction moratoriums in response to the COVID-19 pandemic. These directives have reduced residential property yields for operators over the past five years, and firms' commissions have fallen as fixed percentages. A decision by the Supreme Court of Victoria, Court of Appeal, Markiewicz V Crnjac [2021], found that evictions made due to overdue/underpaid rent as a result of the pandemic were not valid.

Industry Assistance

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

Public

Negative gearing and capital gains tax

Negative gearing arrangements and capital gains tax concessions indirectly assist the industry. Negative gearing arrangements allow property investors to deduct property-related expenses from their earnings in rental payments. Capital gains tax concessions give investors a discount on their marginal tax rate on profit derived from selling a property. These incentives increase investment properties' value.

COVID-19 assistance policies

During the COVID-19 pandemic, the Federal Government's JobKeeper payment scheme benefited industry operators. Businesses that were eligible for the scheme received up to $1,500 per fortnight for each eligible employee, which was then paid to the employee in lieu of normal pay. The scheme ended on 21 March 2021. Several Australian states also introduced rent relief legislation, easing the burden paying rent for tenants and supporting owners' income.

Private

The Residential Property Leasing and Management industry doesn't receive any private assistance.

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	5,765	3,252	9,916	8,363	23,119	N/A	N/A	1,844	N/A
2014-15	6,236	3,536	10,608	8,768	23,702	N/A	N/A	2,002	N/A
2015-16	6,974	3,829	11,335	9,452	24,161	N/A	N/A	2,130	N/A
2016-17	7,559	4,104	11,506	9,709	28,344	N/A	N/A	2,203	N/A
2017-18	8,805	4,473	11,582	9,867	33,614	N/A	N/A	2,503	N/A
2018-19	9,184	4,831	12,320	10,426	39,711	N/A	N/A	2,871	N/A
2019-20	8,399	4,695	11,805	9,838	36,954	N/A	N/A	2,781	N/A
2020-21	8,236	4,423	12,219	10,290	33,453	N/A	N/A	2,505	N/A
2021-22	8,560	4,554	12,786	10,725	32,367	N/A	N/A	2,608	N/A
2022-23	8,285	4,441	13,630	11,400	34,353	N/A	N/A	2,547	N/A
2023-24	8,348	4,449	13,462	11,273	35,147	N/A	N/A	2,605	N/A
2024-25	8,552	4,549	13,559	11,333	34,727	N/A	N/A	2,667	N/A
2025-26	8,741	4,581	13,764	10,944	34,720	N/A	N/A	2,693	N/A
2026-27	8,918	4,646	13,318	10,789	34,936	N/A	N/A	2,754	N/A
2027-28	9,102	4,760	12,643	10,536	35,009	N/A	N/A	2,818	N/A

Annual Change

Year	Revenue (%)	IVA (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2013-14	6.94	7.51	8.05	5.67	3.36	N/A	N/A	8.75	N/A
2014-15	8.16	8.73	6.97	4.84	2.52	N/A	N/A	8.57	N/A
2015-16	11.8	8.28	6.85	7.80	1.93	N/A	N/A	6.34	N/A
2016-17	8.38	7.20	1.50	2.71	17.3	N/A	N/A	3.43	N/A
2017-18	16.5	8.97	0.66	1.62	18.6	N/A	N/A	13.6	N/A
2018-19	4.31	8.00	6.37	5.66	18.1	N/A	N/A	14.7	N/A
2019-20	-8.56	-2.82	-4.19	-5.64	-6.95	N/A	N/A	-3.16	N/A
2020-21	-1.94	-5.80	3.50	4.59	-9.48	N/A	N/A	-9.90	N/A
2021-22	3.92	2.95	4.64	4.22	-3.25	N/A	N/A	4.11	N/A
2022-23	-3.22	-2.49	6.60	6.29	6.13	N/A	N/A	-2.37	N/A
2023-24	0.76	0.19	-1.24	-1.12	2.31	N/A	N/A	2.27	N/A
2024-25	2.44	2.24	0.72	0.53	-1.20	N/A	N/A	2.39	N/A
2025-26	2.21	0.68	1.51	-3.44	-0.03	N/A	N/A	0.95	N/A
2026-27	2.02	1.43	-3.25	-1.42	0.62	N/A	N/A	2.27	N/A
2027-28	2.05	2.45	-5.07	-2.35	0.20	N/A	N/A	2.33	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	56.4	N/A	N/A	249	32.0	2.33	79,770
2014-15	56.7	N/A	N/A	263	32.1	2.23	84,482
2015-16	54.9	N/A	N/A	289	30.5	2.13	88,138
2016-17	54.3	N/A	N/A	267	29.1	2.46	77,710
2017-18	50.8	N/A	N/A	262	28.4	2.90	74,466
2018-19	52.6	N/A	N/A	231	31.3	3.22	72,300
2019-20	55.9	N/A	N/A	227	33.1	3.13	75,245
2020-21	53.7	N/A	N/A	246	30.4	2.74	74,893
2021-22	53.2	N/A	N/A	264	30.5	2.53	80,588
2022-23	53.6	N/A	N/A	241	30.7	2.52	74,130
2023-24	53.3	N/A	N/A	238	31.2	2.61	74,103
2024-25	53.2	N/A	N/A	246	31.2	2.56	76,799
2025-26	52.4	N/A	N/A	252	30.8	2.52	77,552
2026-27	52.1	N/A	N/A	255	30.9	2.62	78,827
2027-28	52.3	N/A	N/A	260	31.0	2.77	80,496

Figures are inflation adjusted to 2022-23

Additional Resources

Additional Resources

National Association of Residential Property Managers
http://www.narpm.org

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

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

Industry Jargon

FIRST HOME OWNER GRANT
A government grant designed to aid first home buyers entering the property market.

PROPERTIES UNDER MANAGEMENT (PUM)
The total number of properties being leased, including empty properties advertised for lease.

RENTAL YIELD
The rent that an investor can get from an investment property, expressed as a rate of return.

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 can your firm differentiate itself from its competitors?

Industry competition has increased over the past five years.

Most real estate agents compete for clients, unless they specialise in niche areas.

What advertising does your business undertake?

Most industry properties are now offered through online platforms like realestate.com.au and domain.com.au.

Strategy & Operations

How can your company ensure that it remains competitive?

Firms that offer a range of services to clients can gain greater market share.

How strong are your company's contacts within key markets, like residential investors?

Maintaining strong relationships with large residential investors can ensure more stable revenue sources.

Technology

How many online property platforms does your company use?

Operators can choose from numerous online property operators. The two largest online property platforms are realestate.com.au and domain.com.au.

How extensive is your company's online presence?

Most industry operators now have an online presence, and this is becoming an expectation for property management firms.

Compliance

What legislation must your company comply with?

Industry operators must comply with the Residential Tenancies Act 1997.

How do indirect regulations and policies influence your business?

Negative gearing arrangements and capital gains tax concessions indirectly assist industry firms.

Finance

How can your firm minimise its wage costs?

Wages represent the highest cost for residential property management firms.

Process automation can reduce a firm's reliance on administrative job functions.

How has technological change affected your firm's depreciation costs?

Increased use of online platforms and computers has increased depreciation costs over the past five years.

External Impacts Questions

Impact: Residential property yields
How does your firm react to falling property prices?

Falling residential property prices can reduce rental prices and commission incomes.

Impact: Mortgage affordability
Is your property portfolio more heavily weighted towards smaller apartments or larger houses?

As house prices have increased over the past five years, a growing number of people are renting property rather than buying.

Impact: Demand from residential property operators
How can you expand your client base?

Property operators are a large market for industry operators.

Internal Issues Questions

Issue: Understanding government policies and their implications
How does your company maintain a safe working environment?

Real estate agents can face many dangerous conditions and each state sets out safe working guidelines.

The Victorian Real Estate Agent Out-of-Office Safety guide helps establish how real estate agents should deal with cash, and remove electrical hazards from a property.

Issue: Having a high profile in the market
What strategies do you use to increase the strength of your brand name?

The strongest purchase motivator for consumers is positive word-of-mouth reviews, which should be encouraged whenever possible.

Issue: Ability to control stock on hand
What stock control measures does your company have in place?

Occupancy rates depend on how effectively a firm manages property assets.