



BDO IN SOUTH AUSTRALIA

REAL ESTATE AGENCY SURVEY 2021

IDEAS | PEOPLE | TRUST

BDO

WELCOME

BDO has unrivalled experience in the real estate industry.

Our depth of practice supports the industry and expands well beyond our highly capable teams, giving BDO a comprehensive ability to deliver quality services.

Our passion is in assisting real estate businesses grow and reach their full potential. By using cloud software, innovative solutions and an eye on benchmarks and data, BDO can bring forward thinking to the industry.

Developing strong, personal relationships with our clients is at the forefront of our service.

The BDO approach is designed to focus on key issues and areas and provide clients with constructive ideas for improving their operations - *with the ultimate aim of adding value to businesses.*



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OVERVIEW

BUILDING THE 'AGENCY OF THE FUTURE'

The Australian property market is a fundamental pillar of the Australian economy and community, represented by nearly 50,000 real estate agency businesses around the country and employing some 130,000 real estate professionals.

Over the last 18 months, businesses have faced one of the most tough and changing landscapes ever encountered.

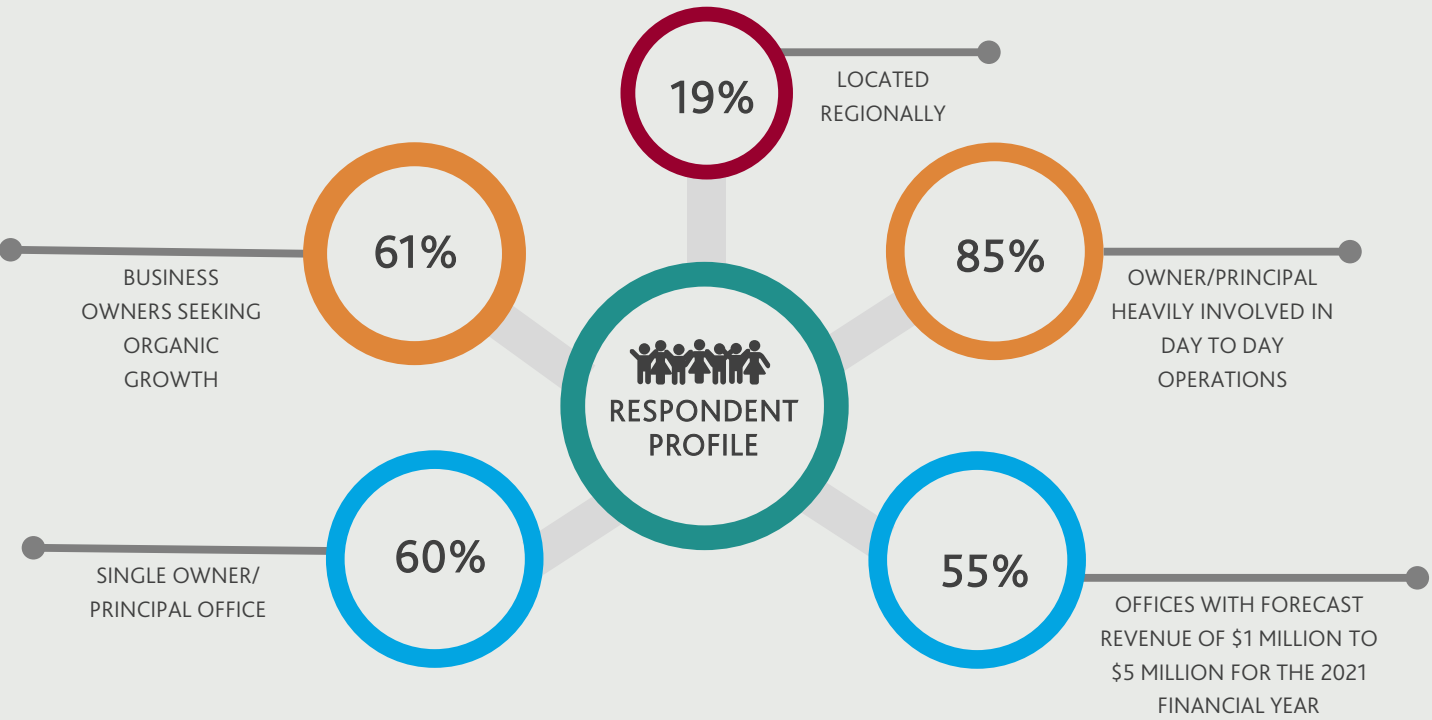
All businesses were affected and the need to adapt to new technologies, new ways of working and implementing new strategies to ensure real estate transactions could continue was paramount.

Understanding how real estate businesses have adapted and how their counterparts compare is key information to build for the 'Agency of the Future'.

BDO's Real Estate Survey targeted valuable insights from business owners and operators to provide a report of our findings and the current state of play in terms of: Resilience, governance, financial stability and recovery techniques.

We thank all those who took some of their valuable time to respond to the survey, sharing their insights and experience of doing business in the Real Estate sector, as well as their thoughts on rethinking our future direction.

SURVEY PERIOD: 26 APRIL - 31 MAY 2021



HEALTH CHECK & FINANCIAL STABILITY

DESPITE THE CHALLENGES OF THE LAST 18 MONTHS, THE REAL ESTATE SECTOR HAS HELD UP STRONGLY AND THIS HAS BEEN EVIDENT THROUGH BUSINESS CONFIDENCE.

81 per cent of business respondents have confidence in the solvency of their business which is further supported by 76 per cent of those businesses reporting they were in a position to pay their suppliers and liabilities on time.

If recent history has taught us anything, it has been that 'cash is king' and having a strong underlying balance sheet is critical to this.

Business stability is evident through the majority of our respondents, with over 55 per cent of real estate businesses having less than 35 per cent leverage on their rent roll assets.

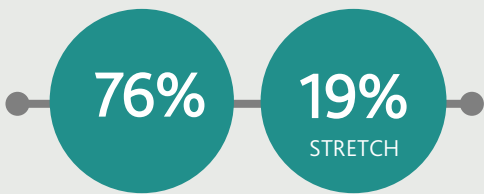
This has enabled many to be in a strong position to build for the future and acquire.

Underpinning well balanced property management portfolios, all respondents also understand the necessary settled sales required to break-even, **which in the current environment is a must.**



LIABILITIES

THE ABILITY TO PAY
CREDITORS ON TIME



HEALTH CHECK & FINANCIAL STABILITY

The sales aspect of the market has experienced some of the greatest price increases we have seen for some time, and even at times with a limited listings market, we have seen 60 per cent of respondents maintain a commission rate of between 1.8 per cent and 2 per cent and 15 per cent of respondents in the range of 2 per cent and 2.5 per cent.

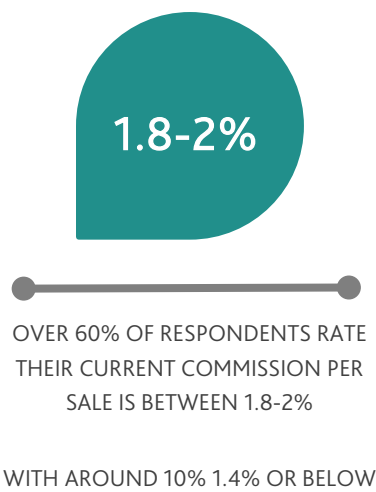
When we couple this with the market price increases, this has created an environment of average professional fee increases across the board.

Building resilient real estate businesses for the future, however, is extremely important.

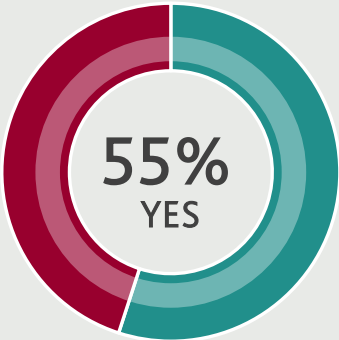
With cashflow being a critical element to success, it is surprising to see that 45 per cent of business respondents did not have a budget in place and cashflow forecast for the 2021 FY, and over 55 per cent had not prepared a budget and cashflow forecast for the 2022 FY.

This coincides with only 62 per cent of respondents suggesting they anticipate making significant changes to cashflow, financial resilience and funding for growth to support their own business resilience.

BDO's view would be that this should be closer to 90 per cent.

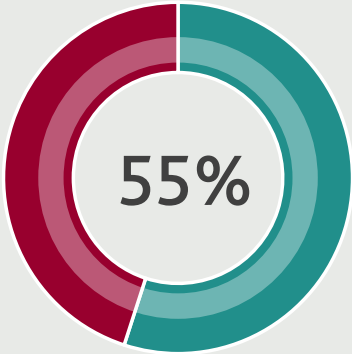


DO YOU HAVE A DOCUMENTED FUTURE CASHFLOW BUDGET?

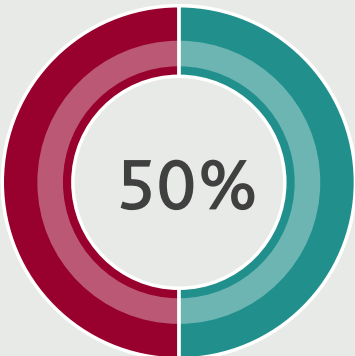


55% OF RESPONDENTS RATE THEIR CURRENT DEBT/EQUITY RATIO ACROSS THEIR RENT ROLL AS LESS THAN 35%

(*18% OF RESPONDENTS HAVE NO RENT ROLL)



ONLY 50% OF BUSINESSES STATED THEY HAD PREPARED A BUDGET FOR THE 21/22 YEAR



GOVERNANCE

NOW MORE THAN EVER, BUSINESS GOVERNANCE AND PLANNING IS ONE OF THE MOST IMPORTANT ASPECTS OF RUNNING A BUSINESS.

Whether it is developing a formal business plan, day-to-day cash flow reporting, or forecasting future performance, **effective business governance can be the difference in the viability of your business.**

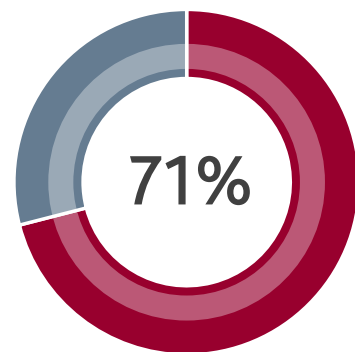
However, continuous business development takes time, and for 71 per cent of survey respondents means that they feel they never have time to themselves, meaning they are working 'in the business' rather than 'on the business'.

BDO's view is that it is vital to have that time to contemplate the future and build the roadmap.

Still, with 61 per cent of business owners favouring organic growth as their main growth strategy, this time spent is often necessary to ensure these goals are achieved.

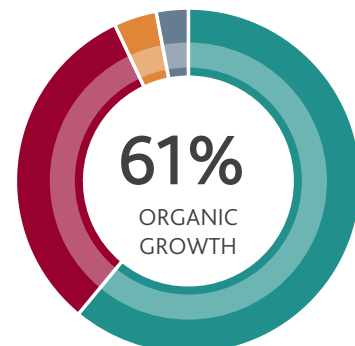
Additionally, all respondents identified 'Client Experience' as the key factor for success in their real estate business. Ensuring that clients have the best experience with their business, whether that is as a vendor, purchaser, landlord or tenant, can be a defining factor in future business success, given the impact that referrals can have in building positive brand awareness.

HOW MUCH FREE TIME DO YOU FEEL YOU HAVE?



FEEL AS THOUGH THEY NEVER HAVE A MINUTE TO THEMSELVES AND SPEND THEIR TIME DEVELOPING THE BUSINESS

WHAT IS YOUR BUSINESS GROWTH STRATEGY?



32% GROWTH THROUGH ACQUISITION
4% PROTECT THE STATUS QUO
3% FROM REFERRAL WORK



GOVERNANCE

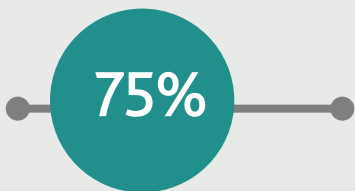
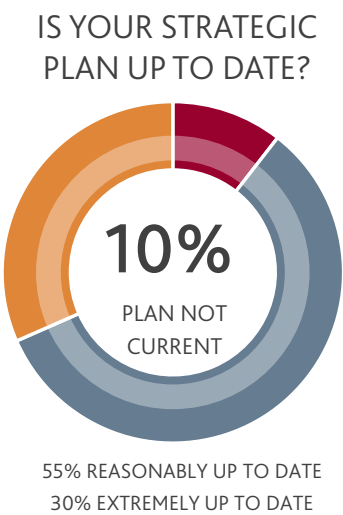
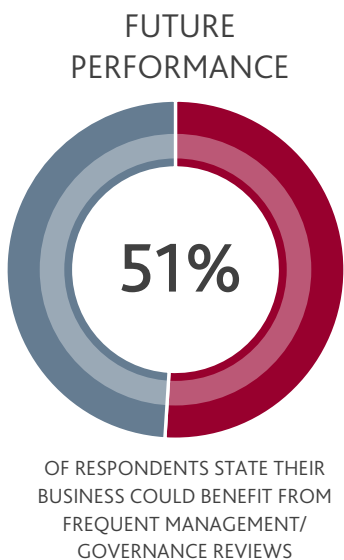
While time consuming, frequent governance/management reviews have proven to have a positive impact on future performance, something which 51 per cent of respondents believe their business could benefit from.

The introduction and continuity of management accountability through external advisers and also through advisory boards has seen many real estate businesses prosper, and is something that BDO see as being a vital ingredient to growth and success.

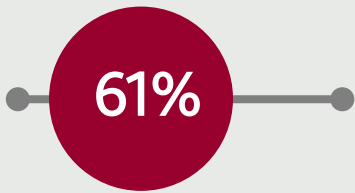
According to 75 per cent of respondents, being resilient while managing your business, especially in uncertain economic stability, is one of the most important factors for future success.

Although it can sometimes feel like continuous business management and development is not an immediate necessity, taking the time to ensure your business has an up to date business plan and frequently monitoring performance and future projections can lead to improved future performance and business viability.

BDO's view is that defining a clear strategy for the future should be critical, and with only 35 per cent of respondents having a current strategy and plan, there is more work to be done.



VALUE RESILIENCE AS THE MOST IMPORTANT QUALITY FOR FUTURE SUCCESS



FEEL PASSIONATE AND ARE REALISING THEIR BUSINESS DREAMS, BUT ADMIT, THEY NEED TO MAKE MORE SALES

COVID-19 IMPACT

COVID-19 HAD AN UNPRECEDENTED IMPACT ON BUSINESS AND TRADING CONDITIONS ACROSS THE PAST 12-18 MONTHS.

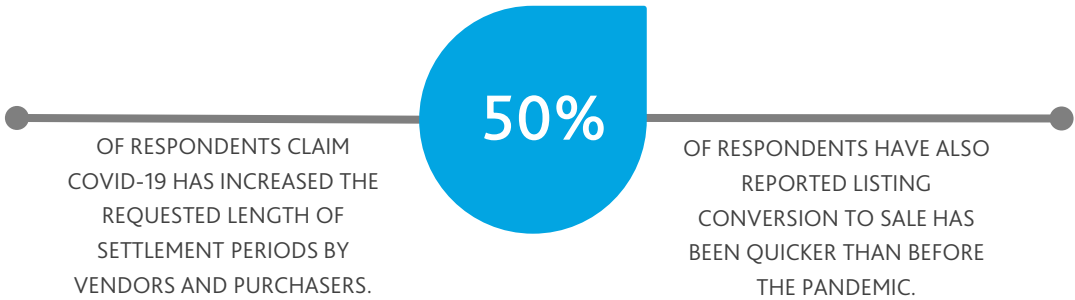
Evident from business owners was the ability to be agile and quickly adapt to social distancing and government restrictions, with 86 per cent of survey respondents indicating only a minor disruption on the business.

This was seen through staff working from home, leveraging technology and revised approaches to facilitating open inspections and auctions.

The initial onset of the pandemic period saw a reduction in buyer confidence, which lead to reduced appraisal, listings and sales volumes in the market.

This aligned with introduction of the Federal Government's JobKeeper and Cash Flow Boost stimulus packages in April 2020, where 82 per cent of survey respondents indicated that they had received the JobKeeper stimulus at some point over the past 12 months.

The JobKeeper was a welcomed support package for real estate businesses, as it supported the funding of staff and overhead costs across the 6-12 month pandemic period, with 74 per cent of respondents indicating the stimulus assisted with short-term cashflow management.



JOBKEEPER STIMULUS

HAVE YOU RECEIVED JOBKEEPER STIMULUS AT ANY POINT IN THE LAST 12 MONTHS?



COVID-19 IMPACT

Evident from COVID-19 was the pendulum swing in market conditions around mid-2020, which saw an increased demand in buyers and tenants, which was influenced by increased cash in the economy, low interest rates and unlikelihood of international travel in the near future.

This uplift in demand in the market allowed a significant portion of businesses to return to pre-COVID trading levels, with demand driving higher sale prices and commission yields.

50 per cent of survey respondents indicated that demand has reduced listing to sale conversion timeframes, with businesses and agents being able to access income in a shorter timeframe. Another trend from COVID-19 was the impact on settlement timeframes, most notably from lending institutions facing difficulty keeping up with volume and demand.

Unsurprisingly, of the survey respondents who were eligible for the first round of the JobKeeper stimulus, 76 per cent of those were not eligible for the second round and beyond, which supports the financial performance and stability of the industry over the past 6-12 months.

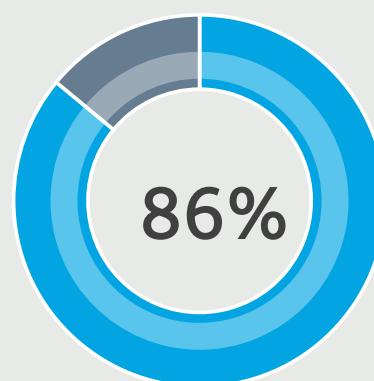
Testament to many businesses has been the ability to reinvest stimulus funds for future success, where we have seen the improvement of balance sheets, via acquisition, organic growth and repayment of debt commitments.

BDO's view is that from the expiration of the JobKeeper stimulus and ongoing impact of lockdowns, it is important that businesses have a financial plan in place to navigate through future headwinds and continue on a going-concern basis into the foreseeable future.

74%

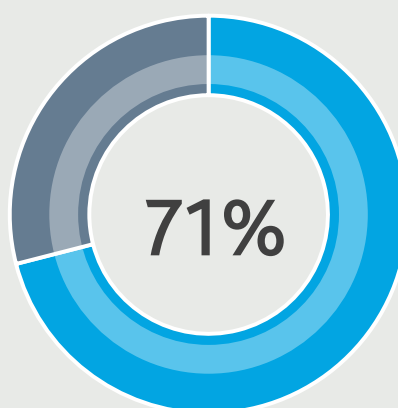
CLAIM GOVERNMENT SUPPORT HAS BEEN SOMEWHAT IMPORTANT TO THEIR BUSINESS IN HELPING SHORT TERM CASHFLOW MANAGEMENT DURING THE LOCKDOWN PERIOD

SOCIAL DISTANCING



REPORTED ONLY A MINOR DISRUPTION IN ADJUSTING TO SOCIAL DISTANCING AND RESTRICTED OPERATION DURING THE COVID-19 PANDEMIC

NO CHANGE



71% REPORTED 'NO CHANGE, BUSINESS AS USUAL' IN RELATION TO THEIR OPERATING COSTS IN COMPLYING WITH COVID-19 GUIDELINES.

RECOVERY & RESILIENCE

AT THE PEAK OF THE COVID-19 PANDEMIC, SIGNIFICANT LOCKDOWN MEASURES WERE INTRODUCED AND UNEXPECTED RESULTS EMERGED.

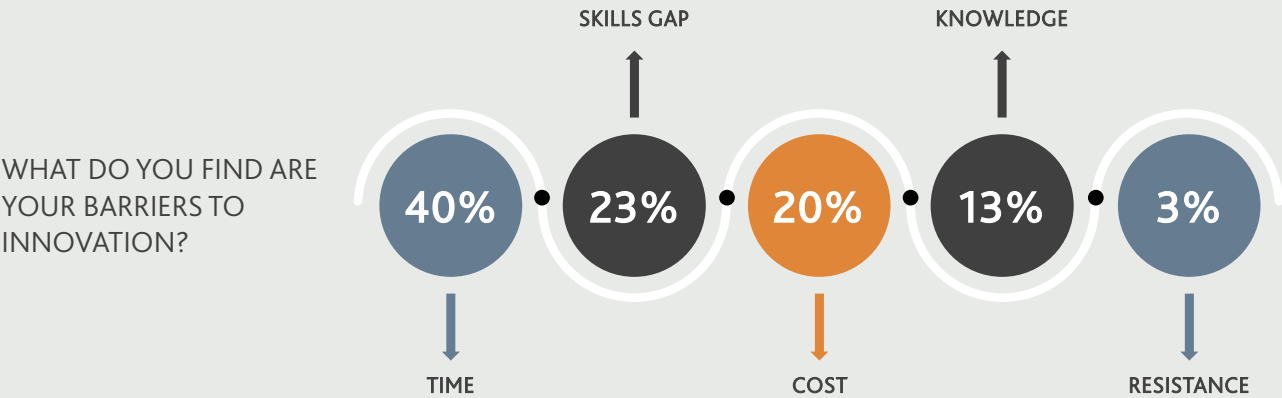
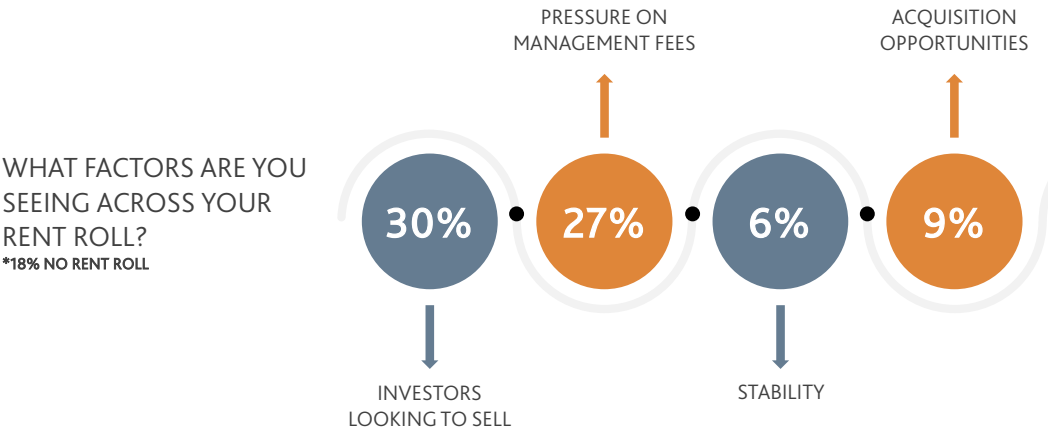
At the peak of the COVID-19 pandemic, significant lockdown measures were introduced by both state and federal governments, which caused restricted activity for the industry with limitations put on property inspections and auctions.

What initially looked like a reduction of trade, with severe financial and trade outcomes expected, the opposite eventuated with increased buyer demand, lower vacancies and price increases across the board.

Over 60 per cent of respondents felt that the stimulus packages provided by Federal Government supported buyer demand, while 55 per cent of businesses felt this combined with a limited number of properties on the market and qualified buyers in the market supported the increase in buyer demand.

The question of how long can this run continue has been asked, with low interest rates and buyer demand all leading to great market prices, which 56 per cent of respondents feel there will be a continuation and expect a slight increase.

19 per cent of businesses feel the market will stabilise as we exit into a 'normal' world.



RECOVERY & RESILIENCE

With selling market conditions at a premium, it is not surprising to see that 30 per cent of respondents were experiencing investors looking to exit investment properties.

Whilst this has stabilised in recent months, there are still a number of real estate businesses looking to take a conservative approach to growth of their rent roll, with 35 per cent of respondents wanting to grow organically. Only 9 per cent of respondents are seeing acquisition opportunities as the way to grow.

27 per cent of respondents suggested they have experienced pressure on management fees from their landlords, even off the back of lower than ever vacancy rates driving increases in weekly rents and yields for rental properties.

This demonstrates the importance of ensuring the property management side of the real estate business is lean and efficient and inside industry operating benchmarks.

This becomes even more relevant when determining the business focus over the coming 12 months. 25 per cent of respondents are committed to overcoming the challenges presented via the pandemic and protecting market share and profitability.

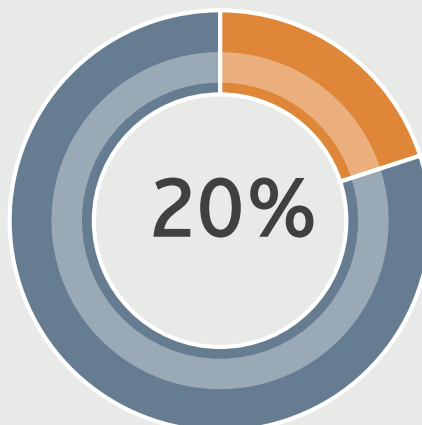
The need to innovate has never been more pronounced, as has been the experience during the pandemic. Innovation must continue to be a pillar of all businesses to ensure they thrive into the future.

Pleasingly, only 3 per cent of respondents felt that their business and their people would resist innovation, and only 13 per cent of respondents saw knowledge as a barrier to innovation in their business.

The major impediments identified were skills gap (23 per cent) and time (40 per cent) being the biggest impediment to innovation. This highlights the need for businesses to ensure they bring in the right people to support their innovation journey.

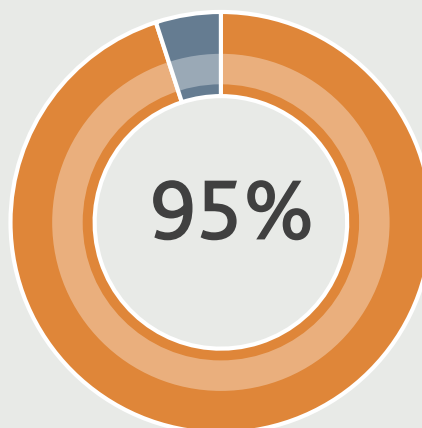
BDO's view is that innovation and controlling costs will be key in ensuring business recovery and prosperity in the future, which will require strong focus and commitment throughout the business.

DISRUPTION



20% OF RESPONDENTS WILL BE FOCUSING ON MINIMIZING THE ECONOMIC AND OPERATIONAL DISRUPTION CAUSED BY THE PANDEMIC, WITH A FURTHER 25% COMMITTED TO OVERCOME CHALLENGES PRESENTED BY THE PANDEMIC AND FOCUSING ON PROTECTING THE PROFITABILITY AND MARKET SHARE

PERFORMANCE



95% OF RESPONDENTS FEEL THE FINANCIAL PERFORMANCE OF THEIR BUSINESS WILL STAY THE SAME OR IMPROVE IN THE NEXT SIX MONTHS, WITH 20% FEARING THE GENERAL BUSINESS CLIMATE IN AUSTRALIA WILL WORSEN

RESOURCE & PERFORMANCE TRAINING

THE STRUGGLE FOR TALENT IN THE REAL ESTATE INDUSTRY IS REAL.

Only 40 per cent of businesses suggested they were moderately confident in attracting and retaining people within their business. This will put a real strain on business operations, not only in relation to the capacity to deliver good service, but also in terms of salary pressures, particularly in the space of property management.

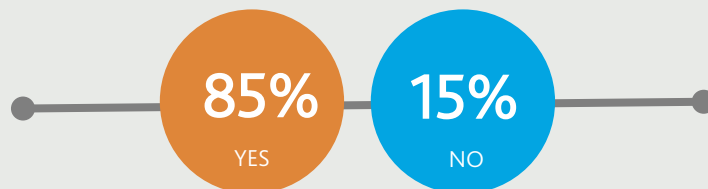
This will become a significant challenge for the future of real estate businesses, with 85 per cent of respondents identifying they want to grow their current staffing levels and recruit new employees.

BDO's view is that this supports the importance of future planning both strategically and financially to understand how these important staffing decisions will impact business performance.

The retention of good people is also a crucial element, which is why constant feedback on performance is vital to supporting staff growth and retention. Only 56 per cent of respondents highlighted that they had a management tool in place to track the performance of staff, suggesting there is room for improvement.

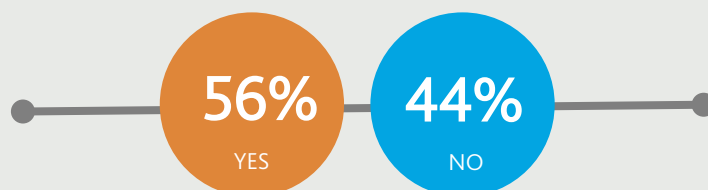
CYBER ATTACKS

HAVE YOU CONSIDERED THE NEED TO ASSESS THE RESILIENCE OF YOUR BUSINESS TO CYBER ATTACKS?



PERFORMANCE MANAGEMENT TOOL

DO YOU HAVE A MANAGEMENT TOOL TO TRACK THE PERFORMANCE OF YOUR STAFF?



RESOURCE & PERFORMANCE TRAINING

Business confidence was, however, very strong in the areas of risk and compliance, with 75 per cent of respondents very confident they will be able to maintain compliance with regulations even in this environment of increased elements due to COVID-19.

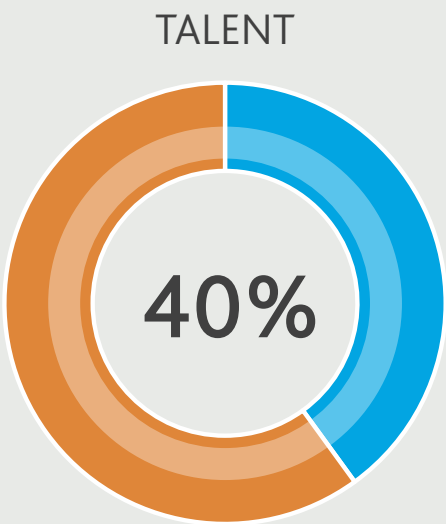
We experienced the biggest working from home experiment at the height of COVID-19 which has introduced more flexibility to all businesses, so it is not surprising to see that 23 per cent of respondents feel they will be prioritising investment in technologies to increase productivity when working remotely and 20 per cent anticipate making significant changes in digital transformation.

With the increase in technology and cloud platforms, it is not surprising to see that 85 per cent of respondents have considered the need to assess their business and the possibility of cyber attacks. However, only 11 per cent anticipate aiming significant changes in cyber security and data privacy.

BDO's view is that this will continue to be a moving minefield and vigilance on changes required and regular reviews will be needed in the future.

Alarminglly however, only 55 per cent of respondents suggested they would be investing in wellbeing programs to reduce stress and burnout.

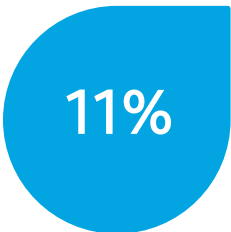
It is BDO's view that in the next 12 months particularly it will be incredibly important to invest in mindset and wellbeing programs to support staff through these constant environment changes we are experiencing.



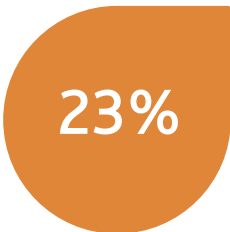
40% OF RESPONDENTS ARE ONLY MODERATELY CONFIDENT IN ATTRACTING AND RETAINING TALENT ENTERING THE REAL ESTATE INDUSTRY, WHILE 75% FEEL THEY ARE VERY CONFIDENT IN MAINTAINING COMPLIANCE DURING THIS UNCERTAIN TIME



OF RESPONDENTS ANTICIPATE MAKING SIGNIFICANT CHANGES IN DIGITAL TRANSFORMATION



OF RESPONDENTS ANTICIPATE MAKING SIGNIFICANT CHANGES IN CYBER SECURITY AND DATA PRIVACY



WILL BE PRIORITISING INVESTMENT IN TECHNOLOGIES TO INCREASE PRODUCTIVITY WHEN WORKING REMOTELY



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