Bankwest Future of Business: Focus on Real Estate

2019 release
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Key insights

Foreword

Understanding factors impacting your industry, and how other businesses in your industry are performing, can be a great gauge for how your business is tracking.

The Bankwest Future of Business: Focus on Real Estate Services Report is designed to give you a snapshot of the current and expected future state of your industry, which could help you plan and spark ideas. The report covers Australia’s real estate services industry, providing insight on specialised property selling and management services, summarising trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

The real estate industry endured a challenging 2018, as regulatory restrictions, falling house purchases, and lower house prices drove a revenue decline of 4.6% across the industry. The downturn follows strong growth of 39.6% in the five years to June 2017.¹

Contributing to the challenging year was a 4.5% decline in purchases of new and established owner occupied housing in the year to November 2018. However, it wasn’t for a lack of first home buyers, who over the course of the year, increased the amount of housing purchased by 9.6% to now occupy 20.5% of the national home buying market.²

Despite also undergoing a challenging period, Western Australia’s housing prices have experienced the least volatility of all states in the past five years. Local real estate agents should be buoyed by low rental vacancy rates of just 2.6% in the December 2018 quarter, which sat at 5.5% a year ago, as well as recent mining construction announcements which will help drive economic activity in the state.³

Developing relationships and trust remain key factors in the success of real estate businesses, but significant opportunities are available for adopters of new technology. Advancements in real estate fintech, social media marketing, research methods, and customer tools can increase value and efficiency for clients. These opportunities also exist on the operations side, with new software automating administrative requirements so employees can focus on the more value-adding tasks.

The real estate market is forecast to bottom out in 2019 as revenue is estimated to fall by 9.7% in the two years to June 2019. However, beyond 2019, revenue is expected to stabilise and return to growth, increasing by 16.0% in the five years to June 2024.⁴

¹IBIS 2018
²ABS 5609
³REIWA 2019
⁴IBIS 2018
Industry overview

After steady revenue growth of 39.6% between 2012 and 2017, Australia’s real estate industry endured a challenging year in 2018, as declining house purchases and housing values drove a 4.6% decline in industry revenue.

Year to June 2018

- Revenue: $26.4bn
- Number of businesses: 39,925
- Employment: 136,991
- Industry value added: $12.6bn

Despite corrections in housing prices, the value of annual housing commitments remained resilient across Australia, growing by a marginal 0.4% in the year to November 2018. Growth has been positive in Tasmania (12.4%), the Australian Capital Territory (7.7%) and Victoria (5.6%), where buyers remain in the market.

Value of annual Australian housing commitments, 2000–2018

Source: ABS 5609

Commercial property

Commercial property vacancy rates across Australia remained at 9.2%, in line with the 10-year average. Vacancy rates are lowest in the Melbourne (3.6%) and Sydney (4.6%) CBD.6

Australia CBD commercial property, September 2018

- Total stock: 17.9 m
- Total vacancies: 1.6 m
- Vacancy rate: 9.2%

* Savills 2018
Spotlight on Australia

Real estate agents experienced a tough year in 2018, with purchases of new and established houses by owner-occupiers declining by 4.5% in the year to November 2018. Despite the recent fall in purchases, housing purchases remain 6.8% higher compared to the previous five years.

Number of purchases for new and established dwellings, 2000-2018

Despite a reduced number of purchases, the number of listings increased by 5.9% in the year to February 2019. The highest listing growth across capital cities occurred in:

- **Melbourne**: 30.9%
- **Sydney**: 19.0%
- **Hobart**: 12.8%

In WA, listings remained relatively stable, modestly declining by 0.4% during the same period.

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*CoreLogic 2019*
What’s driving industry growth?

Record low housing interest rates are providing stability to declines in real estate revenue. Housing loan rates remain at record lows despite slight increases during 2018, with owner-occupier rates averaging 5.37% and investor rates 5.94% in January 2019.¹

Housing loan lending rates, owner occupier vs investor, 2015–2018

Tech disruption has found its way into the real estate industry in all facets, from applications and transfers being wholly online to VR tours, allowing agents to show multiple houses in one place.

Recent sector innovation includes:

- Virtual reality home viewing tours
- Providing clients with online tools to view information themselves and ‘self-service’
- Drone photography of listed properties to spark interest with potential buyers

“Perth housing stock for sale is still oversupplied, however there is significant variation between suburbs and types of product. With the expected rent increases, we anticipate we will see investors return to the market and tenants return to buying, which will eventually soak up the oversupply through 2019.”

Damian Collins, REIWA President

¹RBA 2019
Spotlight on Western Australia

Western Australian property prices have been the most consistent of all states during the last five years. The transition of the mining sector from the construction to the production phase, and declining population growth, have contributed to a 5.8% fall in median property prices in the five years to September 2018. Recent major mining project announcements, as well as the trend of net migration moving towards positive territory, bodes well for Western Australia's property market.

Perth median house prices, 2002–2018

Perth’s rental market is beginning to turn around, with vacancy rates near halving to 2.6% in the December 2018 quarter. The two-year low vacancy rate is a positive sign for residential real estate agents in Perth, signalling a likely increase in rental prices and increasing buyer demand as the opportunity cost of renting rises.

Perth real estate indicators:

<table>
<thead>
<tr>
<th></th>
<th>December 2017</th>
<th>December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy rates</td>
<td>5.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Median weekly housing rent</td>
<td>$355</td>
<td>$360</td>
</tr>
<tr>
<td>Median weekly unit rent</td>
<td>$320</td>
<td>$325</td>
</tr>
</tbody>
</table>

Source: REIWA 2019

Commercial property vacancy rates decline

Despite a modest housing market for residential real estate services in Perth, the commercial market appears to be improving. Commercial vacancy rates across Perth declined to 18.5% in the December 2018 quarter, down from 19.8% the previous year.\(^{10}\)

Full floor availability by Perth business district

13.3% West CBD

8.3% Mid CBD

13.4% East CBD

Source: ABS 6416

8

\(^{10}\) Savills 2019
What does the future hold?

In Western Australia, the announcement of new mining projects will stimulate population growth, wages and gross state product, all of which are likely to have a positive impact on the local market.

However, established businesses face threats from start-ups with real estate fintech investment forecast to lead the expected growth in the online lending space, growing to more than $1 trillion by 2021. Real estate fintech business growth increased by 18.8% per year to 1,372 in 2017.

Number of real estate fintech startups

<table>
<thead>
<tr>
<th>Year</th>
<th>Startups</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>246</td>
</tr>
<tr>
<td>2017</td>
<td>1,372</td>
</tr>
</tbody>
</table>

Technology and data key to success

Relationships will continue to be critical to industry success and building trust with clients, however those businesses that can leverage technology and data to add value and reduce response times are likely to be most successful.

Future trends to shape the industry include:

- **Data** – Leveraging the rich data available to the industry to predict housing price movement and sentiment across the local market
- **Integration** – Integrating with and working alongside new online marketplaces and tools to improve client value regardless of how digitally savvy or engaged they are
- **Automation** – Automating tasks that take employees away from their core-competencies and value-adding functions to drive the bottom line

“Real estate practice will change significantly over the decade ahead. Technology changes will bring some significant efficiencies to the way we list, sell, buy and rent properties. Agencies that focus on relationships with their clients and embrace the new technologies will continue to thrive through the market cycles.”

Damian Collins, REIWA President

"Top real estate fintech startups"¹²

1. Money 360
2. Cadre
3. Reality Shares
4. Fundrise
5. Scalable

¹¹ Deloitte 2018

¹² Deloitte 2018
What challenges does the industry face?

It was a challenging year for real estate agents as purchases of houses and prices declined. In the year to November 2018, purchases of both new and established houses declined by 7.1% and 4.4% respectively. Despite the one-year declines, purchasing activity remains well above five years ago, up 42.1% for new houses and 5.2% for established houses.

Australia’s housing market changes over 1 and 5 year period, September 2018

<table>
<thead>
<tr>
<th></th>
<th>1 year change</th>
<th>5 year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of new houses</td>
<td>-7.1%</td>
<td>42.1%</td>
</tr>
<tr>
<td>Purchases of established houses</td>
<td>-4.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Median prices</td>
<td>-1.6%</td>
<td>30.7%</td>
</tr>
</tbody>
</table>

Source: ABS 6416

Other challenges impacting the market include:

- **Regulatory restrictions**: The introduction of application fees for foreign buyers has significantly decreased foreign property investment into Australia. The total value of approved application values declined by 65.2% to $25.2 billion in the year to June 2017.

- **Declining commissions**: Increased competition in the industry and declining purchases are lowering commissions across the industry.

- **New competition**: Online, technology-enabled commission free models such as Purple Bricks are increasing competition in the sector.
Looking forward, real estate businesses can prepare for future growth by focusing squarely on the customer, including:

- **Improving the customer value proposition**
  - Carefully pricing commissions to the market based on estimated price, lead times and local expectations.
  - Increasing social media marketing to attract potential clients as well as advertise properties.
  - Providing value-add tools and applications for clients, such as electronic brochures.
  - Having a strong social media presence on platforms, such as Facebook and Instagram.

**Where do the opportunities lie?**

As the housing market cools after a long period of sustained growth, first home buyers are re-entering the market. In the year to November 2018, the number of first home buyers increased by 9.6% to 71,724. Growth was highest in New South Wales and Victoria, with increases of 29.9% and 14.2% respectively.

First time buyers now make up 20.5% of the market, up from 18.0% a year ago. Real estate businesses that can engage young home owners, particularly in states where rents are forecast to rise, are likely to be well positioned for future growth. Social media platforms act as a powerful tool for real estate businesses to market potential houses as the market moves away from print-based advertising. Most buyers are coming from Internet traffic when looking for a home.

Source: ABS 5609
Forecasted industry growth

The correction in real estate agent demand is expected to end in 2019 with industry growth predicted thereafter. After solid industry revenue growth of 39.6% during the 2012-2017 period, the industry is expected to record revenue declines of -9.7% in the two years to June 2019. However, it is forecast to rise by 16.0% in the five years to June 2024.

Real estate services revenues, 2007–2025

Despite strong growth, employment is forecast to grow by just 3.5% as real estate businesses begin to automate more administrative processes. In the five years to June 2024, employment, wages and businesses are all anticipated to experience growth:

- **Employment**: 3.5% ↑ Automation of current business processes reducing reliance on employees and driving revenue
- **Wage growth**: 7.6% ↑ Real estate employees with in-demand soft skills that can foster relationships, as well as being able to use technology platforms
- **Businesses**: 4.1% ↑ Growth will be absorbed largely by current businesses

Source: IBIS 2018
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