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## **FINANCIAL BENCHMARKING: NEW ZEALAND REAL ESTATE AGENCIES COMPARE THEIR PERFORMANCE**

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**Abstract:** *This paper examines and discusses the findings of the first publicly available research into the financial performance of real estate agencies in New Zealand. The research is based on a recent (2001) pilot study of agencies conducted for the Real Estate Institute of New Zealand by Robert Bevan and Associates, and Massey University. The study adopted an Australian survey model developed by Robert Bevan and Associates for the Real Estate Institute of Australia. This model has been applied in regular surveys over the past ten years in Australia, the findings have been publicly available, and the results have been widely used as a benchmarking tool by Australian real estate agencies. In the New Zealand study, agencies were provided with a blank template and asked to submit details of their income, expenditure, retained earnings, number of staff and number of principals for the financial period 1 April 2000 - 31 March 2001. Applying financial benchmarking as a management tool is a relatively new development for most New Zealand agencies. It was first implemented by franchise groups and umbrella organisations and has gradually increased in popularity over the past few years. Until now the data on much of the results have been regarded as commercially sensitive and not released into the public arena. The results of this pilot study provide all agencies with an opportunity to compare their individual performance against key financial performance indicators of a number of respondent sub-samples. The sub-samples are based on revenue categories and levels of operating surplus. In addition, the adoption of the Australian model in the New Zealand survey allows for comparison of the results with Australian findings.*

### **INTRODUCTION**

What is benchmarking and why has it become an important business tool for real estate agencies in recent years? Benchmarking is defined in the Oxford Dictionary as ‘to evaluate or check by comparison with a benchmark’ – a reference point. It is a term which has been commonly associated with measuring performance or achievement in business, sport and/or by individuals. Its use in business evolved through the introduction of quality management techniques designed by J Edwards Deming after the Second World War. In the first instance it involves comparison with competitors and/or an established industry standard or norm.

Benchmarking has also been described as the process by which a business measures itself against a better performing business, and then adopts and adapts any functions or procedures shown to be more effective. For many years benchmarking by real estate agencies was limited to production comparisons, e.g. comparing market share or number of listings with those of competitors. The performance of individual salespeople was also (and still is) compared with others within the organisation, e.g. number of exclusive agencies and sales per month, and number of appraisals converted to listings. Norms or standards, now called key performance indicators, were established. Meeting and, where appropriate, exceeding the norms became an objective for individual salespeople.

Financial benchmarking, the comparison or measuring of an agency's financial performance against a better business or an industry norm was seldom practiced in the industry until the past two decades. With the arrival in the 1980's of corporates, franchises and umbrella organisations the group collection of sales and financial data from real estate agencies gradually became established as common practice. The formation of these organisations helped to overcome one of the most important and difficult areas of benchmarking, i.e. obtaining relevant financial statistics to allow the comparison of key areas of a business with market competitors. The development of larger agencies and more complex business structures focussed attention on the need for more sophisticated management tools such as regular monitoring of market and financial performance. In the new, fiercely competitive environment, robust and sustainable market share and financial performance became important key performance indicators for many leading agencies, including independent agencies, which had moved quickly to compete effectively with the groups.

The practice of financial benchmarking amongst New Zealand agencies was introduced by Waikato University which had been offering businesses a benchmarking service since the early 70's. However, it was the franchise groups and the marketing co-operatives which took the first tentative steps in the early 90's to formalise and regularise the process amongst the organisations' membership. A common approach was to bracket the agencies into groups according to turnover ranges and to develop a set of key financial performance indicators, first as a group norm and then for the top 10% of each group. Individual agencies within the groups were encouraged to analyse their business, compare it with competitors (the group norm and the top 10% of the group) and to develop and implement strategies to improve performance. Whilst several sets of key performance indicators were developed from the available data, both the data and the findings were considered commercially sensitive and therefore not available to those outside the participating groups.

Independent agencies<sup>1</sup> in Australia and New Zealand wishing to adopt financial benchmarking tools were unable to access publicly available data for the purposes of making valid comparisons with competitors. Robert Bevan and Associates,<sup>2</sup> working with the accounting firm Deloitte Touche Tomatsu, initiated the first moves to establish a publicly available data set for Australian agencies in the early 90's. Data continued to be collected nationally, and from various Australian states, over the decade and Robert Bevan and Associates regularly released the findings into the public arena. In 1999, under the auspices of the Real Estate Institute of Australia these two organisations conducted an Australian wide real estate agency profitability survey and the findings were publicly released in 2000

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<sup>1</sup> Agencies, which are not part of a franchise, corporate, or marketing cooperative group.

<sup>2</sup> Robert Bevan and Associates are Australasian real estate agency management consultants based in Sydney.

(Bevan, 2000).<sup>3</sup> It remained to duplicate the research in New Zealand. Following discussions between Robert Bevan and Associates and the Real Estate Institute of New Zealand an identical survey for New Zealand was commissioned in 2000. Under the auspices of the Institute, Robert Bevan and Associates and Massey University undertook the survey in New Zealand in 2001. The survey and the findings were publicly released in the same year, and are the prime focus of attention for this paper.

## **METHODOLOGY**

Acting under the auspices of the Real Estate Institute of New Zealand, Robert Bevan and Massey University<sup>4</sup> accepted the brief to conduct a profitability survey of New Zealand residential real estate agencies. The objective of the research was to establish the first publicly available New Zealand inter-firm comparison of real estate agencies' financial performance. The findings would provide an opportunity for financial benchmarking by all residential agencies whether independent or members of a group.

### **Sample**

The sample for the survey consisted of all licensed residential real estate agencies in New Zealand in August 2001, a total of 1263 businesses. As both licensing and membership of the Real Estate Institute are compulsory under statute in New Zealand the sample represented all residential agencies that were currently trading, and on the Institute's records.

### **Questionnaire**

The questionnaire was a one page survey form based on the form developed by Bevan (2000), and used previously in the 1998/99 Australian survey conducted by Robert Bevan and Associates and Deloitte Touche Tohmatsu for The Real Estate Institute of Australia. One question only was modified to more accurately reflect the different employee/independent contractor relationships applying in New Zealand agencies. The survey consultants limited any changes to the form to ensure validity of Australian/New Zealand survey comparisons. The survey forms were mailed to all members (the sample) in June 2001 by the Real Estate Institute of New Zealand via the Real Estate Journal. An explanatory memo, inviting members to participate and to return the form by fax or mail to Massey University, accompanied each survey form. Respondents were asked to complete the form using data from their financial records for the year 1 April 2000 to 31 March 2001

### **Data Collection**

Of the 1263 questionnaire mailed out to the survey sample a total of 140 responses had been received by 25 August 2001. 5 responses were either blank, or unusable. Valid responses totalled 135 (10.69% of sample size). Four further responses, received after the close-off date, were unable to be included in the analysis.

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<sup>3</sup> The Australian report, "Australian Residential Estate Agency Practice: Profitability Report 1998/1999 is available from [www.bestpractice.au.com](http://www.bestpractice.au.com).

<sup>4</sup> Massey University's contribution was undertaken by the Department of Finance, Banking and Property.

## RESULTS AND DISCUSSION

The following are highlighted extracts from the survey findings (Bevan and Crews, 2000).<sup>5</sup>

From the statistical data collected twelve model businesses<sup>6</sup> were derived, consisting of four main models based on revenue categories and eight models, which were sub-groups of those categories. Each model is a representation of the average level of personnel, revenue, expenses, operating surpluses and surplus per principal in each category. The eight sub-group models were based on the top and bottom 10% responses by operating surplus for each main model. The four main model businesses by revenue category were:

Model 1- Revenue under 250,000

Model 2 - Revenue \$250,001 to \$500,000

Model 3 - Revenue \$500,001 to \$800,000

Model 4 - Revenue above \$ 800,000

Bevan (2000): Bevan & Crews (2001)	
REVENUE CATEGORY (\$p.a.)	PERCENTAGE OF RESPONSES
Under \$250,000.00 (Model 1)	21.48% (20.8% A)
\$250,001.00 - \$500,000.00 (Model 2)	22.96% (26.5% A)
\$500,001.00 - \$800,000.00 (Model 3)	14.08% (20.6% A)
Above \$800,000.00 (Model 4)	41.48% (32.1% A)

**Table 1: Model Businesses by Revenue Category**

Figure 1 represents the percentage of respondents by the four main model business revenue categories. Businesses trading over \$800,000 represented 41.48%, the largest group in the survey sample. Figure 1 reports the Australian response percentages (Bevan, 2000) in parenthesis. The average real estate agency business in New Zealand is larger than that in Australia.

<sup>5</sup> The full report, "Residential Estate Agency Practice: Interfirm Comparison 2000/2001" can be downloaded from <http://property-group.massey.ac.nz/staff.asp?staffid=1107>.

<sup>6</sup> The models were based on those previously represented in the Australian report.

Bevan & Crews (2000)

<b>AVERAGE REVENUE \$500,001.00 TO \$800000 (Average By Total Revenue) – Model 3</b>				<b>AVERAGE REVENUE ABOVE \$800,000 (Average By Total Revenue) - Model 4</b>			
<b>PERSONNEL</b>				<b>PERSONNEL</b>			
Principals		1.20		Principals		1.49	
Sales Consultants		6.70		Sales Consultants		15.29	
Property Managers		0.40		Property Managers		1.30	
Admin/Clerical		1.40		Admin/Clerical		3.54	
<b>Total</b>				<b>Total</b>			
<b>REVENUE</b>				<b>REVENUE</b>			
	<b>\$</b>		<b>%</b>		<b>\$</b>		<b>%</b>
1.00 Sales		586,187	91.9 %	1.00 Sales		1,635,786	86.9 %
2.00 Property Management		28,544	4.5 %	2.00 Property Management		107,207	5.7 %
3.00 Recoverables/ Advertising		18,575	2.9 %	3.00 Recoverables/ Advertising		103,174	5.5 %
4.00 Other		4,336	0.7 %	4.00 Other		36,315	1.9 %
5.00 <b>TOTAL REVENUE</b>		637,642	100.0 %	5.00 <b>TOTAL REVENUE</b>		1,882,482	100.0 %
<b>EXPENSES</b>				<b>EXPENSES</b>			
	<b>\$</b>		<b>%</b>		<b>\$</b>		<b>%</b>
6.00 Advertising, promotion		80,965	12.7 %	6.00 Advertising, promotion		233,108	12.4 %
7.00 Bank charges		1,092	0.2 %	7.00 Bank charges		2,862	0.2 %
8.00 Equipment, plant, I.T.		7,029	1.1 %	8.00 Equipment, plant, I.T.		21,285	1.1 %
9.00 Group fees		20,955	3.3 %	9.00 Group fees		49,149	2.6 %
10.00 Insurance		3,096	0.5 %	10.00 Insurance		7,780	0.4 %
11.00 Interest		4,079	0.6 %	11.00 Interest		7,042	0.4 %
12.00 Motor vehicles		5,426	0.9 %	12.00 Motor vehicles		11,648	0.6 %
13.00 Personnel/training		16,542	2.6 %	13.00 Personnel/training		13,610	0.7 %
14.00 Postage,couriers		2,302	0.4 %	14.00 Postage,couriers		6,861	0.4 %
15.00 Premises		30,325	4.8 %	15.00 Premises		77,427	4.1 %
16.00 Printing		10,116	1.6 %	16.00 Printing		29,149	1.6 %
17.00 Professional fees		5,062	0.8 %	17.00 Professional fees		11,208	0.6 %
18.00 Recoverables		546	0.1 %	18.00 Recoverables		9,229	0.5 %
19.00 Referrals, conjunctions		6,267	1.0 %	19.00 Referrals, conjunctions		53,460	2.8 %
20.00 to 23.00 Salaries/Comm-Employees/ Contr's		315,798	49.5 %	20.00 to 23.00 Salaries/Comm-Employees/ Contr's		1,014,589	53.9 %
24.00 Salaries- principals		(n/a)	(n/a)	24.00 Salaries- principals		(n/a)	(n/a)
25.00 Subs, licenses, donations		3,735	0.6 %	25.00 Subs, licenses, donations		7,992	0.4 %
26.00 Telephone, fax		16,127	2.5 %	26.00 Telephone, fax		38,263	2.0 %
27.00 Travel, parking		1,369	0.2 %	27.00 Travel, parking		5,286	0.3 %
28.00 <b>TOTAL EXPENSES</b>		530,831	83.4%	28.00 <b>TOTAL EXPENSES</b>		1,599,948	85.0%
29.00 <b>OPERATING SURPLUS</b> Includes 24.00 salaries principals		106,811	16.6%	29.00 <b>OPERATING SURPLUS</b> Includes 24.00 salaries principals		282,534	15.0%
30.00 <b>SURPLUS PER PRINCIPAL</b>		89,009		30.00 <b>SURPLUS PER PRINCIPAL</b>		189,620	

**Table 2: Two Main Business Models – Revenue Categories \$500,001 to \$800,000 (Model 3) and above \$800,000 (Model 4)**

Figure 2 (previous page) reports the findings of two of the main business models – revenue categories \$500,001 to \$800,000 (Model 3) and above \$800,000 (Model 4), each represented as average revenue by category. Respondents in the two categories represent 55.56% of total responses. With the operating surplus percentage of the larger business model slipping from 16.6% to 15% there is little evidence of achieved economies of scale on the basis of revenue/expenses. The improvement in operating surplus<sup>7</sup> (\$282,534 [Model 4] against \$106,811 [Model 3]) is largely driven by turnover (\$1,882,482 [Model 4] against \$637,642 [Model 3]), based on the number of sales consultants (15.29 [Model 4] against 6.70 Model 3) and property managers (1.30 (Model 4] against 0.40 [Model 3]). Economies of scale are evident in the revenue performance of sales consultants in the larger business model (\$106,984 [Model 4] per consultant against \$87,490 [Model 3]). Similar findings to the above are also reflected in the Australian report (Bevan, 2000) where the equivalent ratio was \$173,408 [Model 4] per consultant against \$129,182 [Model 3]. Refer further discussion following Figures 1-7.

The two highest expense items in both business models are Advertising/Promotion and Salaries/Commission. Advertising/Promotion expenses for the two models are 12.7% [Model 3] and 12.4% [Model 4] of revenue. However, the revenue item Recoverables/Advertising is reported as 2.9% [Model 3] and 5.5% [Model 4], leaving Net Advertising/Promotion expenditure of 9.8% [Model 3] and 6.9% [Model 4]. Indications are that larger businesses are more successful at collecting vendor paid advertising, or sharing advertising costs with their salespeople. Whilst net expenditure of 6.9% [Model 4] on promotion and advertising is a key performance indicator for New Zealand agencies the equivalent figure in the above \$800,000 Australian model is reported as 4% [Model 4]. Refer further discussion following Figure 4.

Salaries/Commission expenses for each of the two business models are reported as 49.5% [Model 3] and 53.9% [Model 4] respectively. Indications are that commission payout percentages are higher in larger businesses, presumably a staff recruitment and retention incentive and/or a reflection of greater administration support for the sales-force. A similar trend is reported for the same business models in the Australian report, where Salaries/Commission expense percentages are reported as 31.4% [Model 3] and 35.9% [Model 4] respectively. Refer further discussion following Figure 3.

In this survey, Salaries/Commissions/Total Revenue and Advertising/Promotion (less recoveries)/Total Revenue are the two key financial performance indicators for expense monitoring. No other expense items exceed 5% of revenue<sup>8</sup>. Revenue/Sales Consultant is another key performance indicator. This ratio increases markedly with the size of the business as reported above. Refer further discussion following Figures 3 and 4.

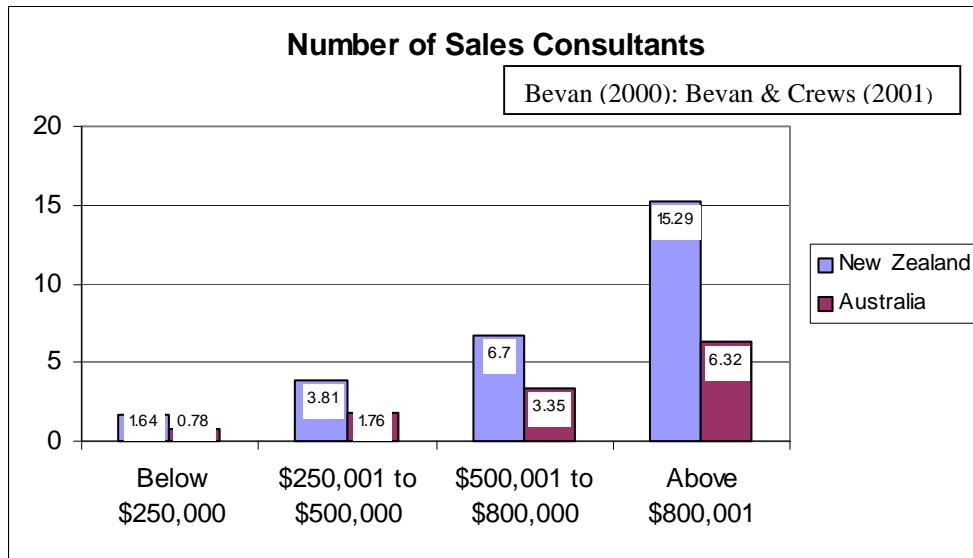
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<sup>7</sup> Payments to principals such as drawings, dividends or share of profits (apart from payments such as sales commission or management salaries) were excluded expenses (see item 24). Operating surplus per principal is reported as item 30.00.

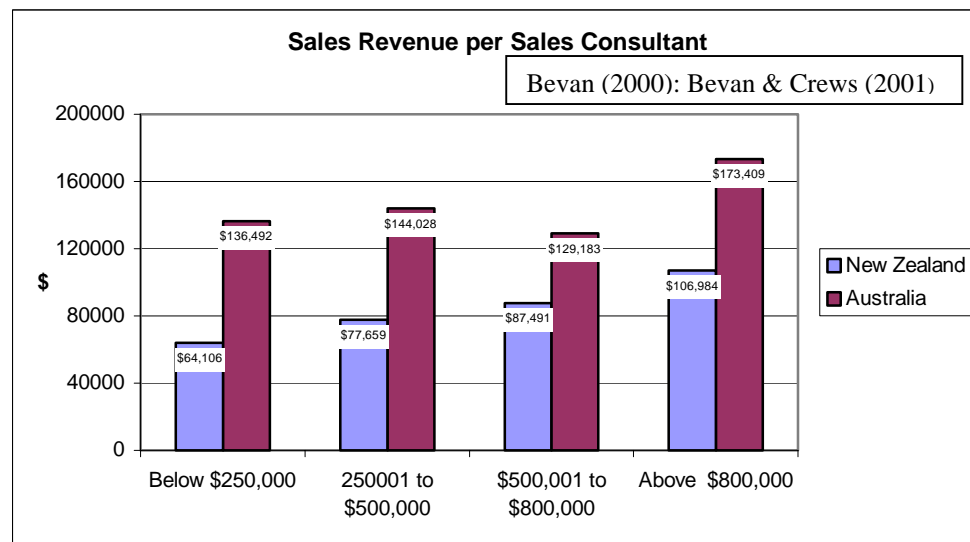
<sup>8</sup> The respondents were a mix of franchise and non-franchise businesses. Had the sample been limited to franchise businesses, group fees as an expense item would be expected to exceed 5%.

### Further Highlights and NZ/Australia Comparisons

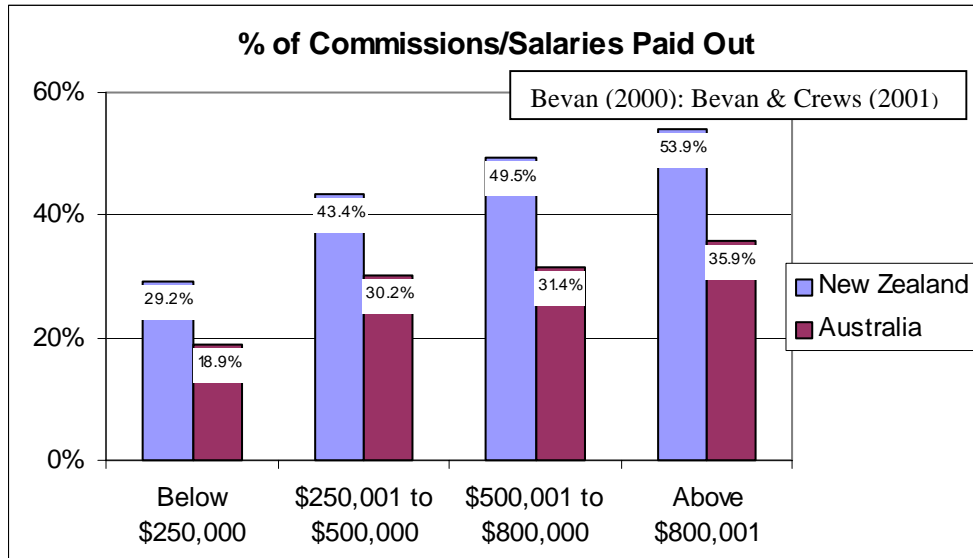
Figures 1-7 explore a number of key revenue streams, expense items and returns achieved by the businesses, expressed as operating surpluses and operating surpluses per principal. Comparisons between the New Zealand and Australian surveys are also explored. Currencies are expressed in real dollars, i.e. no allowance is made for exchange rate differences. Figure 8 explores the extent to which revenue is earned from Property Management activities.



**Figure 1: Number of Sales Consultants**



**Figure 2: Sales Revenue per Sales Consultant**

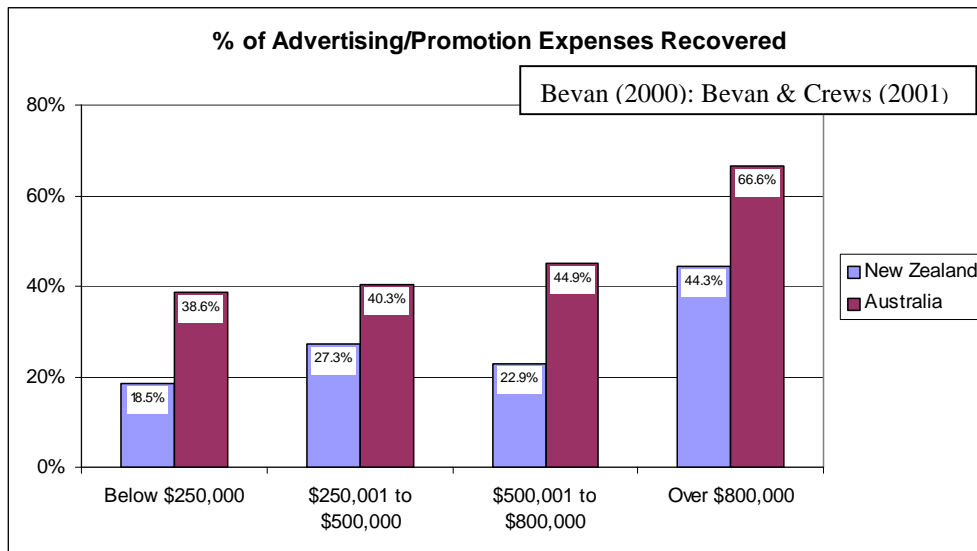


**Figure 3: % of Commissions/Salaries Paid Out**

Figures 1-3 explore the relationship between the sales-force, sales-force earnings and levels of compensation. The number of salespeople is a clear determinant of levels of turnover in real estate agency practice and the effectiveness of their production is a key performance indicator for the industry. Figure 1 reflects the number of salespeople reported in each of the four business models for both New Zealand and Australia. The sales-force in the average New Zealand real estate business is larger than its Australian equivalent.<sup>9</sup> Most real estate agencies began as small businesses but many have grown to much larger enterprises over the past two decades. As indicated earlier, under discussion attached to Table 2, Figure 2 reflects the extent to which economies of scale are evident in individual sales consultant revenue in the larger business models. Sales revenue per sales consultant lifts from \$64,106 (\$136,492 Australia) in the smallest business model – Model 1 to \$106,984 (\$173,409 Australia) in the largest business model – Model 4. Australian sales consultants also clearly achieve higher sales revenues than their New Zealand counterparts. Figure 3 demonstrates the extent to which Salaries/Commission paid out as a percentage of Total Revenue increases as the business model gets larger. The continuum ranges from 29.2% (18.9% Australia) for the smallest model – Model 1 to 53.9% (35.9%) for the largest model – Model 4. No split between payments to salespeople and to other staff is available. However, as indicated earlier, under discussion attaching to Table 2, it is presumed that the larger payouts are part of staff recruitment and retention incentives and/or a reflection of greater administration support for the sales-force.

<sup>9</sup> Australian residential real estate sales agencies have a much larger Property Management component than is common in New Zealand sales agencies. Consequently Australian Property Management staff numbers and revenue streams are larger. See Figure 8.

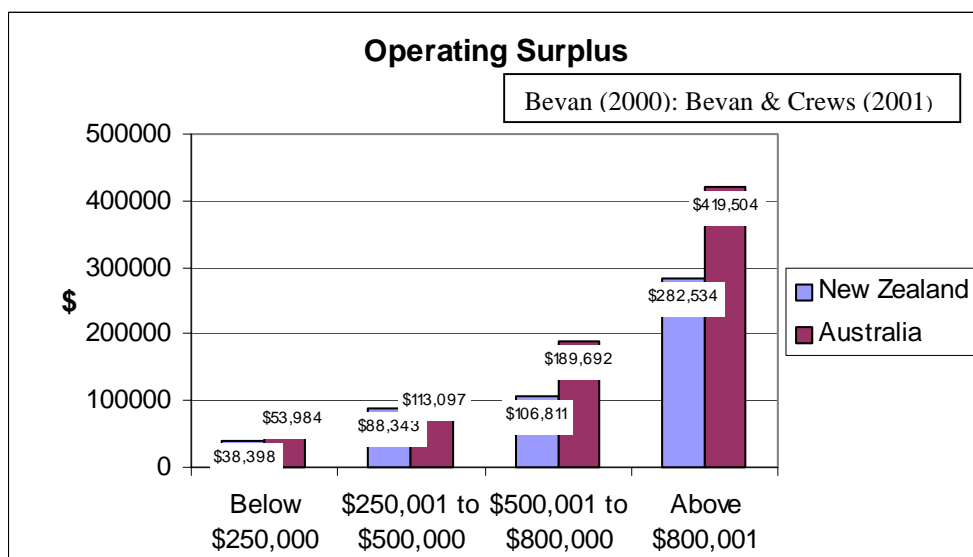




**Figure 4: % of Advertising/Promotion Expenses Recovered**

Figure 4 records the percentage of advertising expense recovered in each of the four business models. The continuum ranges from 18.5% (38.6% Australia) in the smallest business model – Model 1 to 44.3% (66.6% Australia) in the largest business model – Model 4. As discussed earlier, under Table 2, indications are that larger businesses are more successful at collecting vendor paid advertising, or sharing advertising costs with their salespeople. As the second highest<sup>10</sup> expense item reported in the survey, Advertising/Promotion is a key performance indicator for the industry. An increasing number of real estate agencies in both countries are targeting zero budgeting for advertising. The extent to which businesses recover advertising costs through vendor paid advertising is critically dependent on the role played by sales consultants in achieving agreement from vendors to contribute.

<sup>10</sup> Commissions/Salaries is the highest reported expense item.



**Figure 5 Operating Surplus**

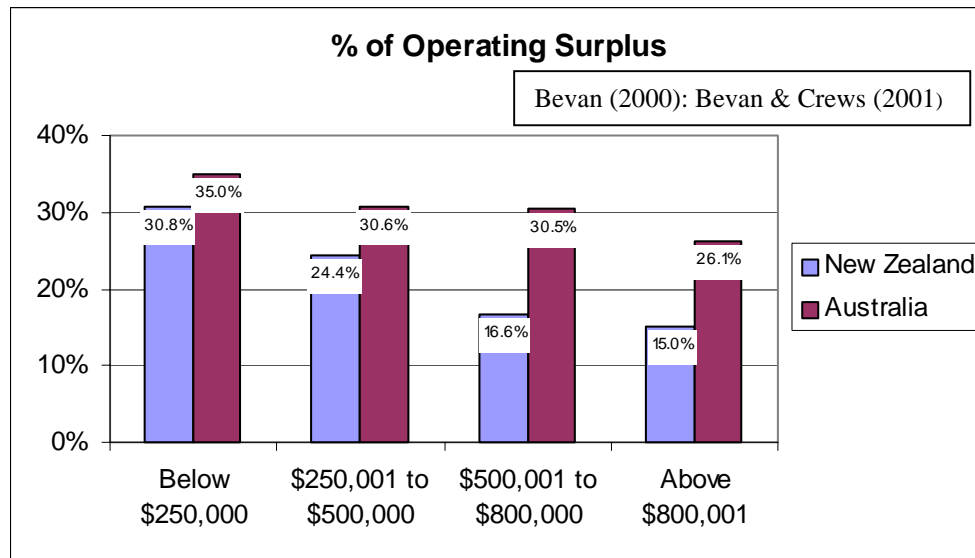
Figures 5-7 explore both the reported operating surpluses and the reported operating surpluses per principal<sup>11</sup> for the four business models. The operating surplus is calculated by deducting the expenses from the revenue of the business. Regarded as a key financial performance indicator, the operating surplus, or “EBITDA”,<sup>12</sup> is a benchmark commonly used a basis for valuing the business as a going concern asset, i.e. the higher the operating surplus the greater the value of the business. Figure 5 reflects the Operating Surplus reported for the four business models. The continuum ranges from \$38,398 (\$53,984 Australia) in the smallest business model – Model 1 to \$282,534 (\$419,504 Australia) in the largest business model – Model 4. As could be expected (but by no means guaranteed for any individual business), the reported operating surpluses increase with rising revenue in both the New Zealand and Australian models. Operating surpluses for all four Australian models are higher than their New Zealand counterparts. The economies of scale evident in individual sales consultants’ revenue in the larger business models (as indicated earlier (refer discussion under Figures 1-3) is now reflected in the reported operating surpluses. The financial performance effectiveness of larger businesses, as reflected in the findings, is interesting in light of attitudes currently prevailing in some sectors of the industry. Described in the hard vernacular of the industry as ‘putting more bums on seats’, the practice of forming larger sales teams has been more recently criticised as threatening the quality of service delivery to consumers. The prolific American real estate author Tucillo (2002), also refers to employing greater numbers of salespeople as putting more “feet on the street” (p 25). He suggests that income derived solely from that practice is now insufficient to sustain a business.

The success of larger businesses at collecting vendor paid advertising, or sharing advertising costs with their salespeople (Refer discussion under Figure 4) is also reflected in the operating surpluses. A further factor enhancing the higher surpluses reported for the Australian models is the extent to which Australian agencies are engaged in Property

<sup>11</sup> A principal can be defined as a working proprietor (or investor) who, in theory, is entitled to the operating surplus. In the case of more than one proprietor it is assumed that the operating surplus would be shared equally.

<sup>12</sup> EBITDA is an accounting term defined as earnings before deducting interest, taxation, depreciation and amortisation. Note, however, that interest is included as an expense item in the data for this survey.

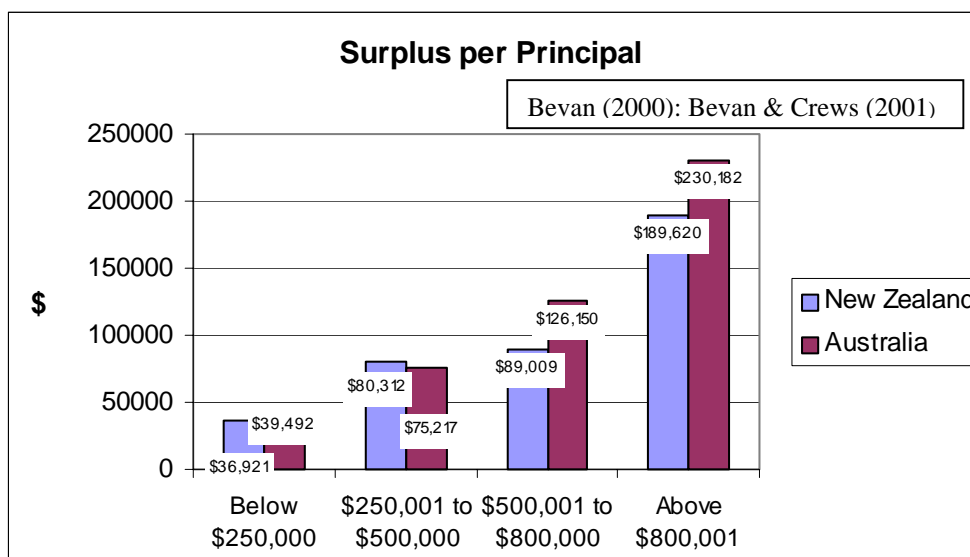
Management compared to their New Zealand equivalents. Property Management is discussed further under Figure 8. Considering the established link between revenue and operating surplus it is also interesting to compare Average Total Revenues for the four business models. Model 1 - \$124,748 (\$154,167 Australia), Model 2 - \$363,305 (\$369,429 Australia), Model 3 - \$637,642 (\$621,524 Australia), Model 4 - \$1,882,482 (\$1,606,646 Australia). New Zealand revenues are lower in the two smaller models and higher in the two larger models.



**Figure 6: Operating Surplus as a Percentage of Total Revenue**

Figure 6 represents the Operating Surplus expressed as a percentage of the Total Revenue. This is one of the most widely used key financial performance indicators<sup>13</sup> for benchmarking against an industry or industry group standard/norm. The industry group norm is often adopted by a business as a target to be achieved or exceeded. For example, the top 10% by operating surplus of the respondent sample for the four business models reported the following Operating Surplus percentages. Model 1 – 74.6% (66.4% Australia), Model 2 – 69.9% (56.9% Australia), Model 3 – 40% (Australia 58.8%), Model 4 – 34.5% (27% Australia). Averages for all respondents were as follows. Model 1 – 30.8% (35% Australia), Model 2 – 24.4% (30.6% Australia), Model 3 - 16.6% (30.5% Australia), Model 4 – 15% (26.1% Australia). The results reflect evidence of “slippage” in operating surplus percentages reported as businesses grow larger, much of which can be linked to the higher percentage of Commissions/Salaries paid out by the larger businesses.

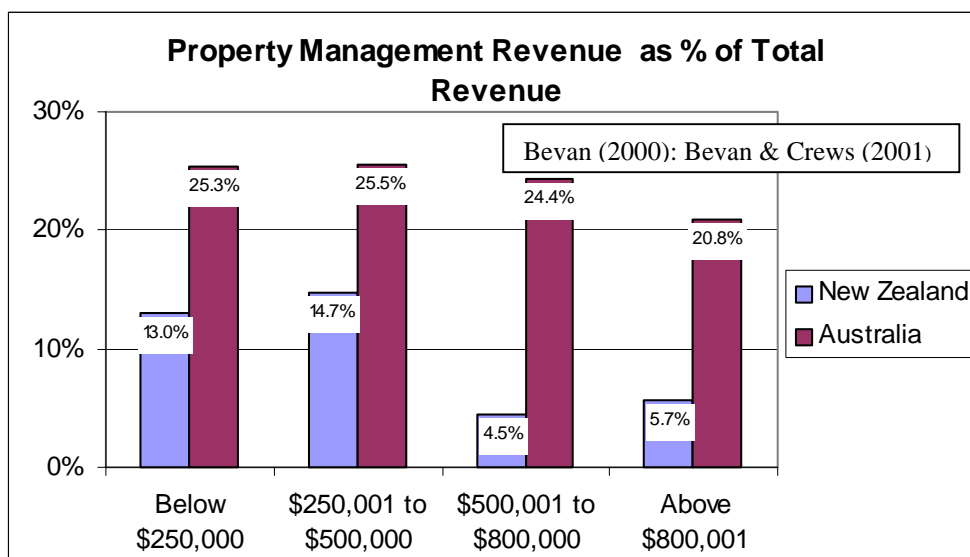
<sup>13</sup> The Operating Surplus Percentage monitors the extent to which increased revenue converts to increased operating surplus. The ideal financial objective is to hold the business’ fixed and other expenses as revenue increases thus lifting the Operating Surplus Percentage.



**Figure 7: Surplus per Principal**

Figure 7 reports on the Operating Surplus available per principal for the four business models. It is an assumption that there are no other shareholders in the business, that any management fee has already been included under expenses and that the operating surplus is divided equally between the principals. The operating surplus per principal represents an important element when calculating the individual shareholder's annual return on risk.<sup>14</sup> The principal's operating surplus is also the basis for valuing the individual's share of the goodwill of business as a going concern asset, i.e. the higher the operating surplus per principal the greater the individual's share of the value of the goodwill. As would be expected the number of principals rose with the size of the business. The average number of principals reported for the four business models was as follows. Model 1 – 1.04 (1.37 Australia), Model 2 – 1.1 (1.5 Australia), Model 3 – 1.2 (Australia 1.5), Model 4 – 1.49 (1.82 Australia). Note that Australian businesses reported a higher number of principals for all four business models than their New Zealand counterparts. Whereas Figure 5 reports Australian businesses as achieving higher operating surpluses than their New Zealand counterparts, Figures 7 reflects the effect of sharing those Australian surpluses with a greater number of principals. A further examination of the Operating Surplus data per principal in New Zealand finds that 7% are in deficit or breaking even, 46% earn less than \$100,000 from their surplus, 28% earn \$100,000 - \$200,000 and 19% earn more than \$200,000. No equivalent data are available for Australian principals.

<sup>14</sup> This is not the same as a return on shareholders equity or capital employed. Due to the non-collection of data relating to capital employed no findings are available on this key performance indicator.



**Figure 8: Property Management Revenue as a % of Total Revenue**

Figure 8 reports the percentage contribution of Property Management towards the Total Revenues of the four business models. The results reflect the extent to which Property Management is a significant contributor to the revenue streams of Australian agencies compared to their New Zealand counterparts.<sup>15</sup> In theory, once revenue from a Property Management portfolio has achieved “critical mass”, i.e. property management income reaches break-even against property management expenses, additional revenue adds to the surplus already achieved by the sales division.<sup>16</sup> Average Property Management Revenues for the four models are as follows. Model 1 - \$16,223 (\$39,002 Australia), Model 2 - \$53,342 (\$94,381 Australia), Model 3 - \$28,544 (\$151,385 Australia), Model 4 - \$107,207 (\$334,900 Australia). Property Management is seen by many agencies as an additional or diversified revenue stream, often regarded as more consistent than sales revenue, i.e. less affected by real estate cycle downturns. There is also strong market evidence that a sizable property management portfolio significantly enhances the value of a real estate business as a going concern asset.

## SUMMARY AND CONCLUSIONS

Although regarded as a pilot study, the survey undertaken by Bevan and Crews (2001), and the subsequent findings, provide the first publicly available research into the financial performance of real estate agencies in New Zealand. Adopting the same data collection instrument as had been utilised in Australia by Bevan (2000) also allowed for some useful comparisons to be made between agencies in both countries. For the first time, individual agencies that have no access to shared key financial performance indicators can measure and benchmark their own performance, first against the relevant revenue based business model, and second, against the top 10% of agencies reported as sub-groups of each model. Studying the findings also assists agencies, industry leaders and academics to gain further insights into agency profitability, and the financial characteristics that drive profitability in residential real estate agency practice. Highlights in the findings include the identification

<sup>15</sup> Agencies solely engaged in Property Management services were not included in the survey sample.

<sup>16</sup> The theory only holds true in the case of an agency also engaged in real estate sales, where the Property Management division is treated as a separate profit centre, i.e. property management revenue and expenses can be calculated separately.

of key financial performance indicators in both revenue and expense streams, and also in operating surpluses.

The number of salespeople is a clear determinant of levels of turnover in real estate practice and the effectiveness of their production is a key performance indicator for the industry. Larger businesses in New Zealand are achieving economies of scale in the revenue performance of individual salespeople, through higher earnings per sales consultant. Sales revenue per consultant clearly lifts as the business model (and the size of the sales team) gets larger. There is some indication of a similar trend in Australia (except for Model 3) but Australian agencies report significantly higher revenue per sales consultant than their New Zealand counterparts.

The two major expense items, both key performance indicators, are reported as Commissions/Salaries and Advertising/Promotion, the only two items to exceed 5% of Total Revenue. Commissions/Salaries paid out, clearly the highest expense item, increases as a percentage of Total Revenue as the business model gets larger, a finding that is reflected in both the New Zealand and Australian surveys. The percentage paid out is lower for Australian agencies than for their New Zealand counterparts. Larger New Zealand businesses are also more successful at collecting vendor paid advertising, or sharing advertising costs with their salespeople. Apart from Model 3 this is also reflected in the Australian findings.

As could be expected, reported operating surpluses increase with rising revenue in both the New Zealand and Australian business models. Reported operating surpluses are higher for all four Australian models than their New Zealand counterparts. The higher earnings per sales consultant and the success of larger businesses in advertising cost recovery is also reflected in the reported operating surpluses. The higher surpluses reported by Australian agencies is further enhanced by more extensive Property Management activities than their New Zealand counterparts. When operating surpluses are expressed as a percentage of Total Revenue there is evidence in the findings of “slippage” as business grow larger, much of which can be linked to the higher percentage of Commissions/Salaries paid out by the larger businesses. Reported operating surpluses per principal in the four business models reflected the effect of sharing those surpluses with a higher number of principals in Australian businesses than their New Zealand counterparts.

It is to be hoped that both the survey findings and the discussion will further stimulate interest amongst real estate agencies in identifying key financial performance indicators in their businesses, and in benchmarking their performance against similar sized businesses. Alternative sources of benchmarking data, where available, should also be considered as enhancing the robustness of any comparisons. Principals considering growing their businesses should also examine the findings. Whilst larger businesses can benefit from higher productivity and profitability, careful monitoring of the ratio of staff related costs (the highest expense item) is needed as that ratio also rises with increased size.

Improving the financial performance of individual real estate businesses should remain a key objective for all principals and their financial advisers. Whilst this first New Zealand survey is only a pilot study the findings should prove an important aid in identifying opportunities, and in designing techniques and strategies to meet that objective

## **Limitations**

A number of limitations relating to this study are readily acknowledged

- (i) Whilst a response rate of 10.69% of New Zealand real estate businesses to the survey (Australian rate 7.1%) was considered acceptable as representative, a higher response rate would have lowered non-response bias and enhanced the robustness of the findings. In the event of the survey being repeated further strategies need to be considered to help lift the response rate.
- (ii) The survey was conducted in June/July 2001. Data requested from respondents were related to the financial year ended 31 March 2001. A three-month gap for end of year financial data collection may be regarded as insufficient to ensure responses from many in the survey sample who did not have access to in-house accounting systems, or were simply not yet in a position to supply the data. Response bias here is readily acknowledged. In retrospect, a six-month gap after the end of the financial year (adopted in the Australian survey) may have assured a more representative sample.
- (iii) Dollar values referred to in the findings are reported in the face value of country of origin. Where financial data between New and Australia are compared, no adjustment or allowance is made for exchange differences.
- (iv) Sales commissions/Salaries paid out were listed in the survey instrument as a combined expense item (as in the Australian survey). In collecting the data, separating out sales related staff costs from other staff costs may have provided further opportunities to explore the actual cost of sales, i.e. commissions/salaries paid to sales staff.
- (v) No data were collected on owners' equity or the value of assets despite the importance of return on capital employed as a key financial performance indicator for businesses.
- (vi) Statistical analysis in the study was confined to descriptive statistics. The use of additional statistical techniques would have further tested the robustness of the results.

## **Future Research**

In recent years there has been a growing interest in research on the real estate industry in New Zealand. The building body of knowledge on real estate practice is now beginning to offer much more reliable data. The Bevan and Crews (2001) pilot study on financial performance and profitability of real estate businesses is a direct result of the interest shown by Robert Bevan of Robert Bevan and Associates in extending the already adopted Australian model into New Zealand. The initial findings provide the first publicly available financial benchmarking data for New Zealand agencies. As has been established in Australia, in conjunction with the Real Estate Institute, it is now planned to regularly repeat the New Zealand interfirm comparison survey, thus building comparative financial data on the real estate industry over time. It is hoped that this will not only stimulate further research into the financial performance of agencies but also encourage the release of existing closely held data into the public arena.

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