Housing downturn could send real estate agents to the brink

Jirsch Sutherland Partner Sule Arnautovic

Australia's rapid property market downturn is set to have a severe impact on residential real estate agencies, with some experiencing the first signs of financial stress.

With property values having dropped by as much as 15 per cent over the past 12 months, some agencies located in former powerhouse markets are considering mergers or insolvency as their incoming revenue declines rapidly.

Industry insiders say the drop in house prices is being exacerbated by longer marketing periods, lower-commission competitors, difficult credit access for buyers, and the fact that many younger sales agents (who found success easy during boom times) are now finding they lack the skills to cope in a far more challenging marketplace.

Consequently, it's believed that some agencies are already struggling to meet their fixed overheads, with the likelihood of staff redundancies, consolidation, mergers or insolvency now firmly on the horizon.

Jirsch Sutherland Partner [Sule Arnautovic] says the future of numerous agencies around the country is likely to come into question, with declining revenues set to bite hard.

"With the real estate market tightening in most states, it's already increasingly clear that many agencies will feel the pinch in terms of reduced and deferred revenue," he says. "And with house prices tipped to drop much further in certain key markets over the coming months, we believe we may only be looking at the tip of the iceberg in terms of the challenges faced by agencies."

Rent rolls may not be the saviour

Adding to potential difficulty is the fact that many agencies have not invested adequately in their property management divisions, preferring instead to focus a majority of their resources on sales. As a result, few property management teams have been allowed to adopt new technologies that would make the process more efficient and easier for both landlords and tenants, thus allowing companies to better capitalise on the revenue potential of their rent rolls.

"In previous downturns and, indeed the recession in the late 80s/early 90s, rent rolls helped keep many agencies afloat," Sule says. "But today, as rents fall in some parts of the country, some agents will find they longer have the income to service the loans they arranged to originally buy the rent roll. It could be a perfect storm: decreasing property management fees and lower volume of sales, which would make it difficult for some agencies to cope with their own property and asset leases, not to mention wages and entitlements.

"With these new realities in mind, it's vital for stressed agencies to consider action early if they find themselves in financial difficulty.

"The key thing to remember is that early action is vital. By deciding to adopt an appropriate strategy as soon as possible, highly adverse outcomes can most likely be avoided. Importantly, Jirsch Sutherland is able to offer a range of solutions, working with businesses to facilitate the necessary adjustments and formulate a new direction."

Seeking Safe Harbour

Sule says the 2017 changes to Safe Harbour laws are one example of how worst-case scenarios can be avoided.

"The Safe Harbour changes give directors breathing space, providing them time to consider the position of the company early in the piece, without the potential threat of insolvent trading," he says. "In turn, this may improve the position for creditors, enabling them to explore the possibility of restructure or sale, which may subsequently lead to more of the company's value being preserved."