

Business VALUES

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Market Update

An Australia wide Roy Morgan Business Confidence Poll, as at July 2023, noted a further fall of 1.3 points since June. The current level of confidence sits at 87.5%, being well below the neutral position of 100. However, this is not uniform across all States in Australia. It also does not necessarily reflect purchaser demand and transactional activity in the small business marketplace. Indeed, some States of Australia are experiencing strong buyer demand. The following market update includes some State by State comparisons.

Whilst there is some variance in transaction activity between the States, brokers also note some common themes throughout Australia, including the following:

State by State Small Business Market Conditions

Currently, economic conditions remain strong in Australia. Unemployment in July was down to 3.4% (the lowest since 1974!) and wages growth was picking up. This has helped households absorb the initial shock of mortgage rate increases.

- Strongest demand is for mid-sized businesses with business customers rather than private.
- Business purchasers are looking to establish a level of maintainable profit based on several years of trading – not just years of 2020/21 and 2021/22, when many business types had stronger than normal profits due to COVID-19 related government stimulus.
- Businesses with long trading histories and good management systems/ processes are preferred.
- An increasing percentage of transactions are now involving vendor terms as part of the financing arrangements.

- Generally fairly good levels of purchaser enquiry – however purchasers and their banks are far more cautious – as such, more due diligence and longer timeframes are required to complete transactions.
- Up to date/accurate financials and documentation is needed to satisfy cautious buyers/ banks.
- Discretionary retail businesses are attracting lower demand.
- A moderate decrease in the number of listings across most States and Territories.

Some particular market conditions in each State/Territory are noted below. The conditions in each State show some correlation to economic performance measures, as noted in CommSec "State of the States Report," published in July 2023.

New South Wales:

- A good volume of purchaser enquiries, particularly for larger businesses.
- The number of businesses listed for sale has fallen over 16% in the past 12 months.
- Businesses must be well priced and with good financials/documentation in order to transact.
- This State is ranked No. 2 overall on CommSec's State of the States Report, given its strength of employment and retail spending.

Victoria:

- Prior to last year, this State had a relatively poor business sales market with low purchaser demand, which followed the long COVID shutdowns.

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- Over the past 12 months the market has improved substantially in terms of purchaser demand, though the number of listings have fallen by more than 10%.
- Prices/multiples achieved are still relatively low compared to pre-COVID levels – businesses must be very realistically priced to transact. Likely presents good buying opportunities.
- Victoria currently ranks a low sixth position in CommSec's State of the States Report of economic performance, though is showing some strength in the construction sector.

South Australia:

- Reasonable level of purchaser demand.
- Very cautious buyers meaning that deals are being lost if financials/documentation are not robust enough to satisfy due diligence.
- Ranks third on CommSec's State of the State Report, benefiting from strong population growth.

Tasmania:

- Very busy small business market.
- Strong purchaser demand and strong transactional activity.
- Good level of businesses listed for sale.
- Rated the strongest performing economy in CommSec's State of the States Report.

Queensland:

- Good demand for solid businesses with longer trading histories.
- Continuing solid transactional activity.

- Very much mid-pack in the overall economic performance based on the CommSec Report, though benefits from second place in both population and economic growth.

Western Australia:

- Good purchaser demand over a wide range of businesses.
- Whilst WA has an overall mid-pack rating of five on the CommSec Report, it leads economic growth and population growth.
- Residential construction activity is low due to trades shortages.

Northern Territory:

- Delayed government and mining projects, as well as distractions of politics/The Voice Referendum, etc, have seen purchaser demand at low levels in the last 12 months.
- Businesses must be very well priced to sell – seemingly presents a good anticyclical opportunity for business purchasers.
- Whilst the Northern Territory currently sits eighth (last) on the CommSec Economic Performance Report, this same report notes that economic growth in the Territory is increasing.

ACT:

- Relatively strong purchaser demand.
- The ACT ranks sixth on the CommSec Report but this belies strong rankings in individual parameters of retail spending, construction and renovation activity

LISTINGS

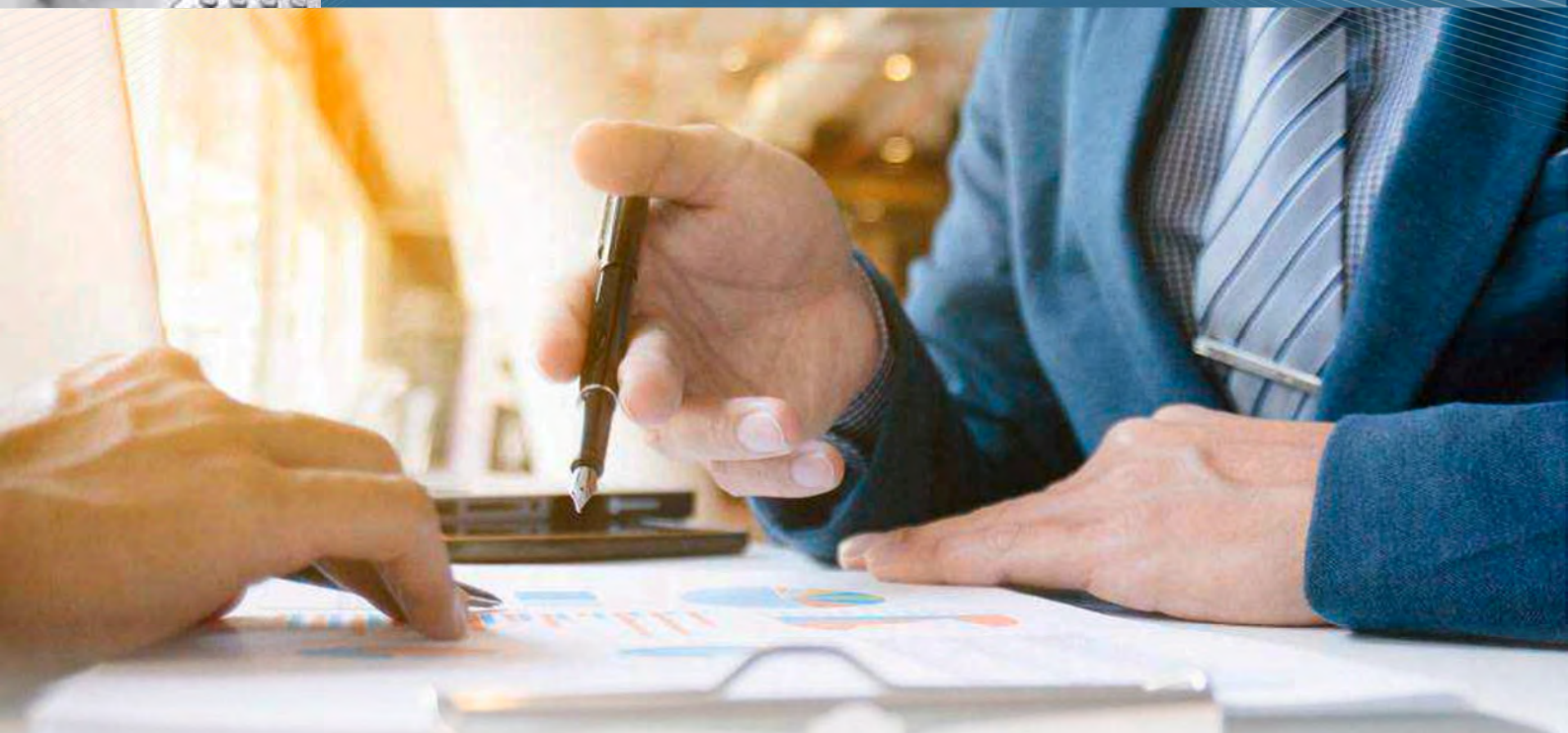
Business Values Newsletter uses data from leading business listing website "Seek Commercial," to report on the number of listings in each state of Australia. It is noted that Seek does not pick up all listings and that some listings are duplicated. What it does provide however, is a consistent basis of data from which to measure change.

	Sep-22	Jun-23	Sep-23	Jun 23 to Sep 23 % Change	Sep 22 to Sep 23 % Change
NSW	3564	2991	2961	-1.00%	-16.92%
VIC	5775	5619	5114	-8.99%	-11.45%
SA	379	368	357	-2.99%	-5.80%
TAS	139	170	169	-0.59%	21.58%
QLD	2543	2425	2376	-2.02%	-6.57%
WA	810	800	768	-4.00%	-5.19%
NT	58	66	70	6.06%	20.69%
ACT	96	102	97	-4.90%	1.04%
Australia	13364	12541	11912	-5.02%	-10.87%

This table reports the number of businesses listed for sale on the Seek Commercial website with listing prices of \$50,000 or greater (excluding new franchises/licences)



2023 PRICE UPDATE



Subscribers can calculate a ballpark estimate of a business's value using the below ROI table. Please refer to the below instructions on "How to calculate an estimate of business value using Business Values Newsletter (BVN) price list document." BVN members can also refer to the index sheet in the online library of past newsletters to find the latest article about a particular business type.

HOW TO ESTIMATE A BUSINESS VALUE USING BVN PRICE LISTS

1. Calculate the business profit – see points 2 and 3 below.
2. For small businesses with profits of less than around \$500,000, the industry standard for most business types is to use an "Owner Profit" or "PEBITDA" (Proprietors Earnings Before Interest Tax Depreciation and Amortisation). This is the profit prior to 1 of the working owners being paid a salary. Allowances must be made for 2nd and 3rd working owners to be paid market salaries within the business expenses.
3. For larger businesses with profits of over \$500,000 either a PEBITDA or EBITDA standard of profit can be used – though when profit is over \$1,000,000, EBITDA it is the most common industry standard. Where the EBITDA standard of profit is calculated, this should be done after adjustments, to allow for all working owners to be paid fair commercial replacement salaries, within the business expenses.

4. Look up the business type in the BVN price list, which is closest to your business type, to find the ROI range that applies – note the ROI range is also sensitive to the level of profit so look for the profit level on the price list that is closest to your businesses profit. For larger businesses, use the price list in each years April edition of the newsletter – other smaller business types are in the January, July and October editions.
5. Now that you have the profit and ROI percentage (for this example adopt 50%), apply these in the following formula:

$$\frac{\text{Profit} \times 100}{\text{ROI} \%} = \text{Business Price}$$

$$\text{Example: } \$200,000 \times \frac{100}{50\%} = \$400,000$$

In the small business market, the price includes goodwill, average stock/ work in progress, plant and equipment. ie. the business assets – as these are normally the only assets sold. It does not include other company assets or liabilities on the balance sheet, such as cash at bank, trade debtors, trade creditors or loans that would form part of a company valuation.

Note: The ROI ranges provided in the BVN, are for typical businesses, with average risk profiles, in each industry type only. Any calculations done using this information and the formula shown above should be considered to provide a broad estimate only.

If financial decisions are to be made in respect of a business value, professional valuation advice should be obtained. Jarot Business Valuers would be happy to provide a quote for a professional valuation report.

INDUSTRY	Net Profit	(a) Current ROI % Range	Approx.Price (b) Sept 2022	Buyer Demand
Advertising Agency	250,000	70-100	290,000	Poor
Auto Workshop	150,000	70-90	190,000	Fair
	250,000	60-80	360,000	Fair
Bakery (Non-Franchise)	150,000	80-110	160,000	Weak
	250,000	70-90	310,000	Fair
Bookshop	150,000	65-85	200,000	Poor
	250,000	50-65	430,000	Fair
Boutique	150,000	80-110	160,000	Poor
	250,000	70-90	310,000	Fair
Butchers	150,000	60-75	220,000	Fair
	250,000	55-70	400,000	Fair
Car Dealer	150,000	55-75	230,000	Weak
	250,000	50-70	420,000	Fair
Caravan Park (Leasehold)	150,000	40-50	330,000	Weak
	250,000	25-35	830,000	Fair
Caterers	150,000	70-110	180,000	Poor
	250,000	60-90	330,000	Fair
Childcare Centres	150,000	35-55	330,000	Good
	250,000	24-34	860,000	Good
Cleaning	150,000	60-80	210,000	Weak
	250,000	50-70	420,000	Fair
Café/ Coffee Shop - Non-Franchise	150,000	65-100	180,000	Weak
	250,000	50-75	400,000	Fair
Café/ Coffee Shop - Franchise	150,000	55-75	230,000	Weak
	250,000	45-65	450,000	Fair
Consultants	150,000	70-110	160,000	Weak
Couriers	100,000	70-100	120,000	Fair
Delicatessen/ Convenience	150,000	75-100	170,000	Poor
	250,000	70-80	330,000	Weak
Equipment/ Machinery Dealer	150,000	45-65	270,000	Fair
Fast Food - Non Franchise	250,000	38-53	560,000	Fair
	150,000	50-85	220,000	Weak
Fast Food - Non Franchise	250,000	45-65	450,000	Fair
Fast Food Franchise	250,000	35-60	600,000	Fair
Fish and Chips	150,000	65-100	210,000	Fair
Florists	150,000	65-85	200,000	Weak
Foodhall Stalls	150,000	55-85	210,000	Poor
Footwear - Retail	150,000	75-90	180,000	Fair
Fruit and Vege	150,000	70-90	190,000	Weak
	250,000	65-85	330,000	Fair
Gyms - Franchise	150,000	50-65	260,000	Fair
	250,000	45-55	500,000	Fair
Hairdresser	150,000	85-120	150,000	Fair
	250,000	70-100	290,000	Fair
Hardware	150,000	80-90	180,000	Fair
	250,000	60-80	360,000	Fair
Health Food	150,000	70-90	190,000	Fair
(a) Return on Investment (%) = $\frac{\text{Profit (\$pa)} \times 100}{\text{Purchase Price}}$				

INDUSTRY	Net Profit	(a) Current ROI % Range	Approx.Price (b) Sept 2022	Buyer Demand
Hire - Equipment	150,000	50-70	250,000	Fair
	250,000	45-55	500,000	Good
Hotel (leasehold, no gambling)	250,000	35-55	560,000	Fair
	(leasehold, gambling)	250,000	35-45	630,000
Icecream Parlour	150,000	65-80	210,000	Weak
Jeweller	150,000	75-95	180,000	Poor
Laundromat	150,000	40-60	300,000	Fair
Lawnmowing	75,000	110-130	60,000	Weak
Liquor Store	150,000	35-45	380,000	Fair
	250,000	28-35	780,000	Good
Lotto Kiosk	150,000	40-60	300,000	Fair
Lunch Bar	150,000	60-90	200,000	Weak
	250,000	50-70	420,000	Fair
Manufacturing	150,000	55-75	230,000	Fair
	250,000	40-60	500,000	Fair
Newsagencies - Franchise	150,000	60-70	230,000	Fair
	250,000	45-65	450,000	Fair
Plant Nursery	150,000	70-85	190,000	Weak
	250,000	50-70	420,000	Fair
Pharmacy	150,000	25-35	500,000	Strong
	250,000	20-29	1,040,000	Strong
Pest Control	150,000	60-80	210,000	Fair
	250,000	50-60	450,000	Fair
Registered Training Provider	250,000	60-80	360,000	Fair
Restaurant	150,000	70-100	180,000	Weak
	250,000	60-90	330,000	Weak
Retail General	150,000	70-110	170,000	Weak
	250,000	60-90	310,000	Weak
Retail Online	150,000	45-65	270,000	Fair
	250,000	40-50	560,000	Good
Roadhouse	250,000	55-75	380,000	Fair
Secretarial Service	75,000	80-100	80,000	Weak
Service	150,000	60-85	210,000	Fair
	250,000	45-65	480,000	Good
Service Station	150,000	65-85	200,000	Fair
	250,000	55-75	380,000	Fair
Supermarket - Franchise	150,000	40-55	320,000	Fair
	250,000	30-43	660,000	Good
Trades	150,000	70-100	180,000	Fair
	250,000	60-80	380,000	Fair
Travel Agency	150,000	90-110	150,000	Poor
	250,000	60-80	360,000	Weak
Wholesalers	150,000	40-70	270,000	Fair
	250,000	35-55	560,000	good
Wrecking Yard	150,000	75-95	180,000	Weak
	250,000	65-80	340,000	Fair

(b) The approximate price includes plant, stock and goodwill for an average business making a profit of \$150,000 or \$250,000 before an owner takes out a salary. These figures are only a guideline.



RESIDENTIAL REAL ESTATE RENT ROLLS

Over the past three years there has been strong increases in the median rental levels for housing in all States and Territories of Australia. Vacancy rates have also declined. Given that revenue for residential rent roll businesses is largely derived from a commission percentage of rental paid by tenants, there has typically been strong increases in revenue to the property management departments of real estate agencies. This has not gone unnoticed by the rent roll sales market, which has seen high activity levels.

Changes in Median Rents by Capital City:

City	September 2023 Combined House/ Unit Median Rent Per Week	1 Year % Change	3 Year % Change pa	10 Year % Change pa
Perth	646	19.10%	15.10%	2.10%
Canberra	640	-2.80%	5.60%	3.60%
Sydney	795	17.60%	14.80%	4.10%
Darwin	572	2.50%	9.50%	-0.30%
Brisbane	626	12.60%	13.80%	4.40%
Adelaide	583	11.10%	12.10%	4.90%
Hobart	482	-3.15%	5.10%	5.60%
Melbourne	596	18.50%	10.10%	4.30%

Revenue Derived From Residential Rent Rolls:

Revenue for rent rolls is typically from two main sources:

- Commission on rental paid – this is mainly between 7% to 10% of rent paid excluding GST;
- Ancillary fees: Additional fees for property condition reports, inspections, letting fees, etcetera.

Valuation Methodology:

The predominant method of valuation used in the marketplace is an application of a market multiple to the annual commission revenue (excluding ancillary fees) as follows:

Value = Annual Management Fees Commission (excluding ancillary fees) x Market Multiple.

Main Factors Affecting Market Value Multiples:

The variance in multiples paid within the marketplace for rent rolls is dependent upon their perceived quality profile. Main qualitative factors considered by purchasers include the following:

1. Spread of properties (i.e. all the properties being in a few suburbs versus spread all over a broad area).
2. Spread of ownership, especially if a few owners own a lot of the properties. This increases the risk as if these

owners go elsewhere, the income from the rent roll will fall significantly.

3. The average commission rate (and total annual commission fees per annum per property) and how this it compares to industry rates.
4. Level of ancillary fees – In the past ancillary fees up to around 45% of annual commission fees could be achieved. However, with the strong rent increases over recent years and low turnover of tenants/ low vacancy rates impacting letting fees, the percentage that ancillary fees make up is currently lower.
5. Average rent achieved across the rent roll
6. Trend of rent levels and vacancy rates.
7. Rent Roll Growth or slippage trend
8. Level of rental arrears
9. Points 3,4,5,6,7 and 8 above combine to influence the total annual management income per property – the higher the better!
10. Quality of Management Agreement Documentation/ ability to successfully assign to a new rent roll owner (purchaser).
11. Quality of data/ software/ reporting ability
12. Level of profitability – several banks are now looking more closely profitability – in the longer term future, it

may be that a multiple of profit is used more often to value rent rolls. However, the marketplace currently remains dominated by transactions based on a multiple of commission revenue. This may be due to many purchasers buying a rent roll to add to one they already own – as such they are hoping for economies of scale to increase profit level.

13. Size of Rent Roll – very large size rent rolls can be subject to a significant discount in weaker market cycles.
14. Be careful to adjust for commissions that offer all-inclusive “gross” commission fees (rental commission includes all ancillary fees) or hybrid fees that include some of the ancillary fees.

Current Marketplace For Residential Rent Rolls Throughout Australia:

The best way to examine the marketplace is to speak directly to one of the leading brokers in Australia. Mark Sinclair is the managing director of Pendium Advisory, a specialist real estate agency and rent roll broker covering all States and Territories of Australia. Pendium have sold or consulted on over 700 rent rolls.

Mr Sinclair advises that State by State market conditions and market multiples paid vary significantly. Current price ranges and market conditions are broadly as follows:

Sydney – main market multiple range \$3.30 to \$4.10.

Market is very strong for quality rent rolls in good locations. There is moderately weaker demand for lesser locations.

Melbourne – main market multiple range \$3.30 to \$4.00.

Inconsistent demand, which is likely due to an exodus of property investors in the marketplace, given factors such as a high level of compliance, rising mortgage rates, etc.

Perth – main market multiple range \$2.90 to \$3.60.

Strong demand, well over available supply, given what is currently a confident marketplace and economy.

Brisbane – main market multiple range \$2.80 to \$3.50.

A solid market, though not quite as strong as other cities such as Perth and Sydney.

There is a more limited volume of transactional data available in other capital cities, though as a broad perspective market multiple ranges throughout Australia, range mainly from \$2.00 to \$3.60 per dollar of rental commission revenue. Lower values can apply for some smaller regional cities/ towns.

Mr Sinclair advises that there is generally good demand for rent rolls ranging in size from 100 to 500 properties. Demand can reduce for rent rolls above this level, as the size of investment required, sees a reduced pool of purchasers. He also notes that banks are currently tightening credit policies and starting to look at the level of profitability that rent rolls are producing.

Mr Sinclair advises that transaction terms are most commonly based on a payment of say 80% of converted (successfully assigned) management agreements, with the remaining 20% after four to six months, subject to slippage (non-converted managements). He points out that it is important to have an experienced broker to take clients through the sale process/assignment of management agreements/staffing transfers/provision of information to mortgage brokers/banks, etc, to ensure a smooth transition of ownership.



THE FOLLOWING BUSINESS TYPES ARE CURRENTLY IN DEMAND OR PROVING DIFFICULT TO SELL

IN DEMAND

- Accountancy Practices
- Medical Practices
- NDIS Businesses
- Caravan Parks (Large, profits over \$400,000)
- Service (5 Days)
- Online businesses/ work from home
- Information Technology Businesses (with strong maintenance contracts)
- Manufacturing – selected sectors
- Mining Services - Fabrication and Maintenance
- Labour Hire
- Supermarkets
- Liquor Stores
- Service Stations
- Real Estate Rent Rolls, most states/ territories of Australia

DIFFICULT TO SELL

- General Discretionary Retail
- Clothing Boutiques
- Bookstores
- Newsagencies
- Travel Agencies
- Hospitality/ Entertainment
- Non-Franchise Bakery
- Gyms
- Printing
- Profits less than \$150,000



FINANCE RATES – Commentary from Southshore Finance.

The Reserve Bank of Australia (RBA) held firm on rates in October in spite of inflationary pressures continuing. Cost of Living pressures are impacting on the Australian economy, particularly on the Eastern seaboard, and we are seeing this impacting on the credit appetite of the major lenders. There has been a gradual tightening of credit policy in recent months which appears to be driven by the economic downturn on the east coast, by far the biggest market for the lenders. The general sentiment that we receive from our client base is that business trading conditions in WA are still sound, though businesses are taking a cautious approach. Unfortunately the major lenders are ignoring local trading conditions preferring to set policy restrictions on a national basis.

We have seen continued strong interest in the mid-sized B2B businesses as buyers are being attracted to well-run business that have performed well in the post Covid era. Some forms of retail have also started gathering interest though the shopping centre retail market is still very soft with the reduction in foot traffic and high rents being the major concern. Lenders are paying close attention to funding requests and focusing on applicants industry experience.

The following borrowing rates, as at 2 October 2023 were provided by Hadmor Pty Ltd t/as Southshore Finance ACL 393 334 (Phone 08 9474 1999).

Interest rates are indicative at the above date and subject to a formal application meeting the lenders criteria.

October 2023

Business Loan - Secured

Variable	6.29
Fixed 1 Year	6.65
Fixed 2 Year	6.45
Fixed 3 Year	6.65

Leasing

Chattel Mortgage (equipment) 7.50

Commercial Property

Variable	6.29
Fixed 1 year	6.70
Fixed 2 Year	6.80
Fixed 3 Year	6.70

October 2023

Residential Property

Owner Occupier - Principal & Interest

Variable	5.89
Fixed 1 Year	6.49
Fixed 2 Year	6.39
Fixed 3 Year	6.39

Residential Investor – Principal & Interest

Variable	5.99
Fixed 1 Year	6.59
Fixed 2 Year	6.29
Fixed 3 Year	6.49

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