

Market Report

The Property Sales Software Market

March 2021

This report has been commissioned from Frost & Sullivan by Openn Negotiation Ltd. (hereafter known as Openn Negotiation or the Company) to support its initial public offering (IPO) process. The report covers the property sales software market in Australia. As Openn Negotiation has also commenced operations in New Zealand (NZ) and is considering entering the United States (US) market, the market opportunity in these two countries is also described.

1. Background, Definitions and Methodology

1.1 Background

Openn Negotiation provides a proprietary cloud-based digital software platform that supports estate agents in the property sales process. The platform supports property being sold through private treaty via a transparent bidding process, providing a number of benefits for property vendors and buyers, and for the estate agent managing the sales process. The Openn Negotiation platform combines aspects of private treaty and auction and falls under auction law. The platform can be defined as a property technology (PropTech) application.

1.2 Definitions

1.2.1 Estate Agencies/Agents

Real estate agencies are businesses that manage the sale of properties or vacant land on behalf of the vendor, and undertake the letting and ongoing management of rental properties on behalf of the owner. Whilst real estate agencies as described in this report largely focus on the sale and letting of residential properties, they may also participate in small scale commercial, agricultural and industrial property sales and management (such as shops, farms, factory units and small offices). Commissions from property sales, letting fees and ongoing property management fees are the main revenue sources for real estate agencies. Real estate agencies employ individual estate agents who appraise properties for sale and manage the sales process, and who may be engaged on a salary plus commission or commission-only basis.

1.2.2 Auction/Private Treaty

Agencies manage the sale of residential property through two main processes: private treaty and auction. In private treaty sales, a property is listed for sale normally at a nominated price or price range, with buyers submitting bids and the vendor able to accept his/her preferred bid. Whilst private treaty sales provide more flexibility than auction sales (for example, in the ability of vendors and buyers to adjust contract terms, the timing of the sales process and the cooling-off period for buyers), and are less expensive for vendors than auctions, they lack price transparency for buyers and may result in a property that is mispriced relative to the market. Conversely, auctions involve full price transparency to both vendors and buyers and result in a property selling for “market price” (i.e. the price that buyers are willing to pay on that day), however, they

are more expensive for vendors, offer less flexibility and may result in a property being passed-in. Whilst sales via auction is common in the major capital cities (particularly Sydney, Canberra and Melbourne), private treaty is more common in other locations, and overall is estimated to account for 80% of residential property sales nationally.¹

1.2.2 PropTech

PropTech is defined as information technology used in the research, buying, selling and management of real estate. The range of applications falling within the proptech market is illustrated below. Openn Negotiation falls into the Sales Agent Services category of applications, which includes a range of applications designed to support agents through the sales process, including auction tracking applications, auction streaming and remote bidding applications, marketing/email platforms and applications to support agents in creating content.

Figure 1: PropTech Applications, Australia, 2021



Source: Frost & Sullivan based on Pielab, accessed from <https://www.pielab.com.au/the-growth-of-real-estate-technology-in-australia/>

1.3 Methodology

Data provided in this report is based on publicly-available data sources, including governmental statistics and reports, company reports and presentations, press articles and reports, and analyst reports. Market size estimates are based on data reported by industry participants, industry analysts and Frost & Sullivan's own estimations.

All financial data in the report is given in Australian dollars (\$). Years referenced are calendar years, unless otherwise stated.

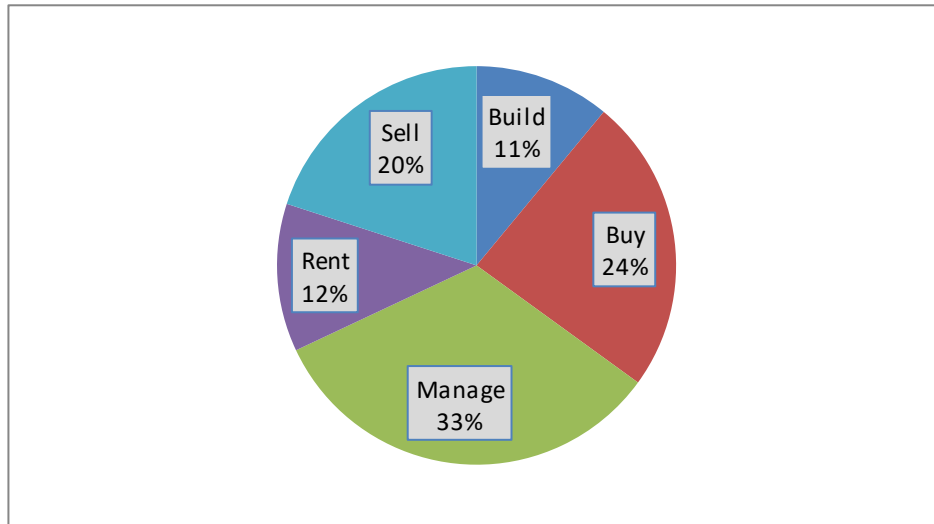
¹ CoreLogic, accessed from <https://www.corelogic.com.au/news/which-properties-sell-at-auction>

2. PropTech in Australia

2.1 Size and Growth of the PropTech Sector

PropTech is an area of significant investor interest, with US\$20 billion (\$26.0 billion) anticipated to be invested in 2020,² and an estimated 265 proptech companies operating in Australia.³ Sixty-one percent of PropTech companies operate in the residential segment, and within this one-fifth (20%) provide applications that support the sale of residential properties.⁴

Figure 2: Residential PropTech Companies by Property Lifecycle Stage, Australia, 2020



Source: Unissu, accessed from <https://www.unissu.com/proptech-resources/proptech-in-australia>

2.2 Market Drivers for PropTech

Whilst the real estate industry has been slower to adopt technology than many other sectors, the use of PropTech applications across all property lifecycle stages is growing, driven by a number of factors;

- Very high levels of Internet and especially mobile Internet usage amongst consumers (property buyers and vendors);
- The competitive nature of the real estate sector that drives agents to differentiate themselves through factors such as use of technology;
- Use of technologies such as artificial intelligence (AI) and data analytics that supports the personalisation of customer contact; and
- Increased desire by agencies to automate aspects of property sales and management.

² AFR, accessed from <https://www.afr.com/property/20-billion-in-proptech-globally-by-2020-taronga-and-kpmg-20170523-gwb6h6>

³ Unissu, accessed from <https://www.unissu.com/proptech-resources/proptech-in-australia>

⁴ Ibid

3. Residential Housing

Australia's housing stock consists of approximately 10.6 million dwellings. Residential real estate is the most valuable asset class in Australia. For example, in September 2020, the total value of residential real estate in Australia was \$7,283 billion.⁵ This compares to a total market capitalisation of the ASX of \$1,944 billion at the same point.⁶ The buying/selling of residential real estate, as well as the management of private-sector leased properties, comprises a very large market. The total transaction value (transactions x average price, excluding stamp duty) of residential real estate in Australia in 2019 was approximately \$298 billion.⁷

In addition to the total transaction value, services provided to facilitate residential real estate transactions also form a very large market. For example, in Australia the market size is estimated at over \$20 billion (including estate agency commissions, property management fees, property advertising, valuations, conveyancing, legal and taxation services, property inspections, commissions for mortgages, insurance and utilities, removals, and repairs & maintenance of rental properties). Of this total, real estate agency income is just under 50%.⁸

4. Residential Estate Agents

4.1 Overview

Real estate agencies form the end-user market for property sales software. The agency industry is fragmented, with most businesses operating on a single-office basis, although there are groups operating nationally or regionally with multiple offices, either company-owned or franchised, or a combination of the two. In all markets, the majority of property sales and letting transactions are managed by agencies, with direct sale or letting by owners relatively uncommon (estimated at less than 1% of total transactions).⁹ Most agencies derive revenue from property sales commissions, as well as letting fees and ongoing property management fees, although some agencies may focus exclusively on either sales or lettings.

4.2 Industry Size

There are an estimated 11,000 real estate agency offices in Australia, with around 35,000 individual agents estimated to be active.¹⁰ Whilst the majority of agency businesses are single-office operations, there are a number of national and regional chains operating a combination of company-owned and franchised offices. Major agency groups include Ray White (~1,000 franchised offices, mainly in Australia, but also in 10 other countries), LJ Hooker (~600 offices), Harcourts (~400 offices) and McGrath (~110 offices).

Agency revenue from letting and property management fees has gradually increased over recent years, reflecting an increased number of rental properties in the market. However, around 60% of

⁵ Australian Bureau of Statistics (ABS), 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Sep 2020

⁶ ASX, Market Statistics, End-of-month Values

⁷ ABS, 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Sep 2020

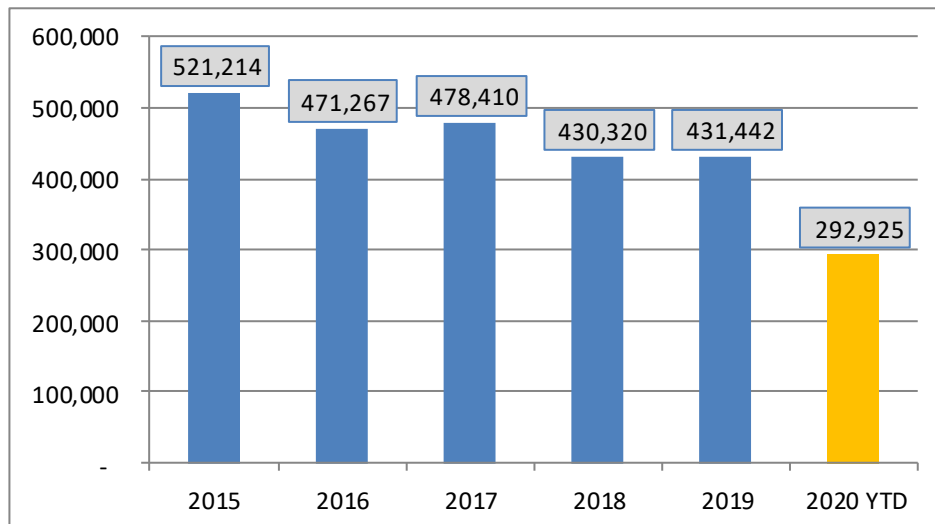
⁸ Frost & Sullivan

⁹ Urban.com.au, accessed from <https://www.urban.com.au/expert-insights/buying/49005-homes-sold-without-an-agent-make-up-only-1-percent-of-australia-s-property-market-research>

¹⁰ Frost & Sullivan

total agency revenue is based on sales commissions, determined by the number of transactions and average property prices. Whilst residential property prices in Australia overall have risen by 13% between December 2015 and December 2019 to reach a mean of \$690,000 in September 2020, this has been accompanied by a reduction in transaction volumes, with only around 431,000 housing transactions (established houses and attached dwellings) occurring in 2019, compared to over 520,000 in 2015.¹¹ Hence, despite the increase in mean prices, total agency revenue has been stable or in slight decline over recent years, and is estimated at around \$9.4 billion in 2019.¹²

Figure 3: Number of Residential Property Transfers, Australia, 2015 to 2020YTD



Source: ABS, 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Sep 2020. 2020 data is year to September

4.3 Industry Trends

Whilst the residential estate agency sector in other countries such as the UK and US has been impacted by new entrants with disruptive business models, the industry in Australia to date has been little-affected, and the traditional model of individual agents working from local offices and selling property via private treaty or on-site auctions still prevails for most transactions. For example, for-sale-by-owner (FSBO) business models (the practice of a vendor selling a property without involvement by an agent) have been offered by many companies that support vendors to sell their homes for several years, yet penetration of all housing sales is estimated at less than 1% in Australia.¹³

A more recent development has been the emergence of pure online or hybrid estate agencies, of which UK-based Purplebricks is the main example. These businesses offer to sell a property for a fixed fee which is generally paid on listing, and provide a mainly online service which does not involve interaction with an agent. Businesses offering a “hybrid” service (such as Purplebricks) also include the services of an estate agent (local property expert), for example in providing valuations and ongoing support through the sales process. The vast majority of property vendors

¹¹ ABS, 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Sep 2020

¹² Frost & Sullivan

¹³ Urban.com.au, accessed from <https://www.urban.com.au/expert-insights/buying/49005-homes-sold-without-an-agent-make-up-only-1-percent-of-australia-s-property-market-research>

still prefer to deal through a local agent, despite the higher commission payable than through an online agent. By 2019, online and hybrid agents had an 8% share of property transactions in the UK.¹⁴ Market share in Australia is estimated to be significantly smaller (for example, Purplebricks exited the Australian market in 2019 after three years, after gaining a share of less than 1% of transactions).¹⁵

Another disruptive business model that has developed in other markets but has yet to impact Australia is the emergence of instant buyers (iBuyers) – online businesses that purchase and resell residential properties (such as Zoopla, Redfin and Opendoor in the US) in specific geographic markets, allowing vendors to sell properties more efficiently without the use of agents and at lower transaction costs through submitting property details online and receiving an instant offer. iBuyers have a growing share of the US property market. For example, in the first six markets it entered, Opendoor has 3.2% of property transactions.¹⁶ To date, this business model has not gained a significant presence in Australia, although Sydney-based start-up Sellable has launched a similar service in some geographic markets.¹⁷

5. Property Sales Software

5.1 Property Sales Software Applications

Property sales software includes a range of applications that support agents to market and sell properties. These include;

- Sales management applications (e.g. Openn Negotiation, Market Buy, FinalCall)
- Customer Relationship Management (CRM) applications (e.g. MyDesktop, Box + Dice)
- Virtual inspections and auction streaming applications (e.g. Gavl, Auctions Anywhere)
- Auction tracking applications (e.g. eAuctionslive, Bidtracker)

Providers of these applications utilise a variety of pricing models, including monthly subscription fees (generally based on the number of individual users) and fees per listing/upload.

5.2 Expenditure on Property Sales Software

Overall, expenditure on information technology (IT) by agencies is estimated at approximately 5% of revenue, or around \$470 million in 2019. This includes expenditure on software licensing, depreciation and leasing of IT hardware, and IT services. Within this total IT expenditure, spending on software licensing is estimated at approximately \$100 million, or around 1% of industry revenue. This includes general business software (such as finance & accounting), as well as industry-specific software such as property management and property sales software.¹⁸

Many property sales software applications are still relatively nascent in their take-up by agencies, although CRM applications represent an established market with annual expenditure of

¹⁴ TwentyCI, Property and Homemover Report, Q4 2019

¹⁵ Purplebricks FY2019 Results Presentation

¹⁶ Opendoor, investor presentation, September 2020, accessed from <https://www.opendoor.com/w/wp-content/uploads/2020/09/Opendoor-overview-investor-presentation.pdf>

¹⁷ Sellable website, accessed from <https://www.sellable.com.au/how-it-works>

¹⁸ Frost & Sullivan estimate, based on McGrath Limited annual report, 2020

approximately \$35 million.¹⁹ Overall, Frost & Sullivan estimates that expenditure on all property sales software applications is currently between \$40-50 million.²⁰

6. Addressable Market

6.1 Property Uploads

Openn Negotiation currently adopts a pricing model based on a fee per upload (currently \$500/upload excluding GST). The addressable market for Openn Negotiation is defined as the total number of national uploads x \$500. As a proxy for the number of uploads, Frost & Sullivan has used the number of residential property transactions in 2019 as reported by the ABS (whilst this may slightly understate the market opportunity, as some properties may be uploaded but not sold, this is believed to be relatively immaterial). Only the estimated number of properties selling via private treaty has been used in the calculation. Using this calculation, the addressable market in Australia is estimated at \$173 million.

Table 1: Addressable Market, Australia, 2019

Number of Property Transactions	Percentage Sold Through Private Treaty	Estimated Number of Private Treaty Uploads	Fee per Upload	Addressable Market
431,422	80%	345,138	\$500	\$172.6 million

Sources: ABS, 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Sep 2020; Openn Negotiation

6.2 Property Data Sales

In addition to fees for property uploads, Openn Negotiation has the opportunity to further monetise its platform through sale of property data, as well as potentially through serving property and property-related advertising on its platform and through lead referral fees.

There is an established market for property data which includes marketing-related data such as ownership data, historical sales records, automated valuations, photographs, aerial images and electronic mapping. This data is primarily used by estate agents, valuers, property developers and financial institutions (generally on a subscription basis) and consumers (generally via one-off online purchases). Additionally, data providers may also provide data inputs to computer models for a range of analytical services, such as use in automated valuation models which are used by financial institutions in lending processes.

In Australia the two dominant data providers are CoreLogic (formerly RP Data) and APM PriceFinder (Domain), with Residex and SQM also active. The total marketing-related property data market in Australia is estimated at approximately \$200 million.²¹

6.3 New Zealand and US Market Opportunity

Openn Negotiation is currently operating in NZ, and is considering operating in the US market. Using a similar approach to estimating the market opportunity for property uploads as in

¹⁹ Frost & Sullivan estimate, based on aggregation of vendor revenues

²⁰ Frost & Sullivan estimate

²¹ Frost & Sullivan estimate based on reported revenues of main property data service providers

Australia, the addressable market in New Zealand and the US is indicated below. The same fee per upload (\$500) has been assumed in both markets.

Table 2: Addressable Market, NZ and US, 2019

	Number of Property Transactions	Percentage Sold Through Private Treaty	Estimated Number of Private Treaty Uploads	Fee per Upload	Addressable Market
New Zealand	84,195	70%	58,936	500	\$29.5 million
US	5,340,000	90%	4,806,000	500	\$2,403 million

Sources: Real Estate Institute of NZ, Monthly Property Report, March 2021; National Association of Realtors (accessed from <https://www.nar.realtor/research-and-statistics/quick-real-estate-statistics>)

7. Conclusion

PropTech is an area of growing investor interest with an increasing range of applications designed to automate and increase the efficiency of processes across the various stages of the property lifecycle. The majority of PropTech applications target the residential property sector, which includes over 430,000 transactions annually in Australia at a total value of almost \$300 billion and an estimated \$20 billion in transaction costs.

A range of applications have been developed to support residential estate agencies in the marketing and sale of properties, including sales management applications such as Openn Negotiation. These applications help to address many of the inefficiencies that exist in the property sales process through the use of technology. The market for these types of applications is still relatively nascent, however the potential market opportunity (total addressable market) is significant. The total addressable market for Openn Negotiation is estimated at approximately 11,000 estate agency offices, and 345,000 listings with fees of up to \$173 million. Additionally, Openn Negotiation may be able to further monetise its platform through sales of property data, which is a \$200 million market in Australia. The potential market opportunity for property uploads in NZ and the US is estimated at \$29 million and \$2,403 million respectively.

8. Disclosure

This is an independent report prepared by Frost & Sullivan. Save for the preparation of this report and services rendered in connection with this report for which normal professional fees will be received, Frost & Sullivan has no interest in Openn Negotiation Ltd. and no interest in the outcome of the IPO. Payment of these fees to Frost & Sullivan is not contingent on the outcome of the IPO. Frost & Sullivan has not and will not receive any other benefits (including any commissions) and there are no factors which may reasonably be assumed to have influenced the contents of this report nor which may be assumed to have provided bias or influence. Frost & Sullivan consents to the inclusion of this report in the Prospectus in the form and context in which it is included. As at the date of this report, this consent has not been withdrawn. Frost &

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