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PROPERTY MANAGEMENT FEE COMPARISON – DETACHED HOUSES

REPORT PRODUCED FOR DEFENCE HOUSING
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TABLE OF CONTENTS

Executive summary	4
1. Introduction	6
2. Cost comparisons with a traditional real estate agent management agreement	7
2.1 Real estate agent's management fee	7
2.2 Rent	9
2.3 Repairs	9
2.4 Vacancy	10
2.5 Hassle	11
2.6 Costs outside both the DHA and traditional real estate agent model	12
3. Results of the cost comparison	13
4. Comparison with managed funds	18

TABLE OF FIGURES

Fig. 1. Real estate agent vs. DHA service fee costs for detached houses (per annum)	5
Fig. 2. Indicative real estate agent management fees (percentage of gross rent)	8
Fig. 3. Property type by rental management, Australia, 2021	8
Fig. 4. Average vacancy rates by capital city, 2005 to 2024	11
Fig. 5. Medium and most likely cost scenario for detached houses (current dollars per annum).....	13
Fig. 6. Low cost scenario for detached houses (current dollars per annum)	14
Fig. 7. High cost scenario for detached houses (current dollars per annum).....	15
Fig. 8. Share of standard annual tenancy costs \$650 per week – medium scenario	16
Fig. 9. Share of standard annual tenancy costs \$650 per week – low scenario	16
Fig. 10. Share of standard annual tenancy costs \$650 per week – high scenario	17
Fig. 11. Annual fees charged on member account balance by superannuation fund sector (%), 2014 to 2024	18
Fig. 12. Annual fees charged on member account balance by superannuation fund sector (%), 2013 to 2024	19
Fig. 13. Alternative investment fees as a % of assets	20

EXECUTIVE SUMMARY

Defence Housing Australia (DHA) provides housing and related services to Defence members and their families in support of the operational, recruitment and retention goals of the Department of Defence.

To meet Defence housing obligations, DHA is active in Australian residential housing markets, acquiring and developing land, and constructing and purchasing houses.

DHA implements various programs to secure leased properties direct from private landlords. These properties are then used to house Australian Defence Force (ADF) members and their families.

As part of its lease agreement, DHA manages the property under the terms of the Property Care Contract. The comparison presented in this report is reflective of the DHA lease agreement edition 7. The service fee for managing a detached house is 16.5% (inc. GST) of the gross rent.¹ While this appears high in relation to quoted real estate agent management fees, in the range of 6.1% to 10.3% (inc. GST), DHA's service fee includes a number of costs that would otherwise be borne by a landlord on top of the fee paid to a real estate agent under a traditional agreement.

Under a traditional real estate agent management agreement, there are many fees, charges, and costs in addition to the percentage charged to manage an investment property. The landlord is responsible for any necessary repairs of the property in order to achieve market rent and, in order to achieve good capital growth, undertake other required maintenance (such as repainting, new floor coverings, etc.) through the life of the property.

Moreover, the landlord bears the cost of foregone rent if the property is vacant for a period of time, the cost of re-letting and finding a new tenant, costs of a delinquent tenant, and the hassle of approving and dealing with issues as they arise. DHA allows for most of these costs, including most non-structural repairs, in its lease agreement and Property Care Contract.²

Fig 1 on the following page highlights the total costs that can be incurred with a traditional real estate agent's management agreement to match the benefits of a DHA leased property (detached house). This allows a direct comparison of the costs associated with the two management types. The table draws from the analysis in this report and considers six scenarios for rent achievable as well as a low, medium, and high cost scenario to allow for possible variations in costs. The medium scenario is around the mid-point of the range of costs identified and is considered the most likely scenario.

The cost of managing a comparable investment property (detached house) per annum is typically lower under DHA's service fee than a traditional real estate agent's fee. This is the case at six tested rent levels; \$550, \$600, \$650, \$700, \$800 and \$1,000 per week and under each of the low, medium, and high cost scenarios. Only under the highest rent and lowest cost scenario were DHA costs marginally higher than a traditional real estate agent management agreement. Under this scenario, all costs associated with management totalled 15.7% of the gross rent (compared to 16.5% for a DHA lease agreement) representing only \$443 less than the fees associated with an equivalent DHA managed property. Please

¹ For Flats, Units, Apartments; properties where a body corporate is responsible for some items DHA charge 13% (including GST).

² Refer to the DHA Property Care Contract for a full list of inclusions

note that end of lease restoration services are excluded from calculations presented. If required, DHA, at its discretion, may re-carpet and re-paint the interior of the premises at its cost during the term of the lease if the premises is in a state of disrepair that was not caused by fair wear and tear.

The DHA service fee also compares well with the costs associated with alternative investment vehicles, such as managed funds. Managed fund fees are expressed as a percentage of member balance (akin to total assets under management), not as a percentage of gross revenue, which would be more comparable to the way management fees are expressed by a traditional real estate agent and DHA.

When expressed as a percentage of the estimated average value of assets under management, DHA's service fee (0.76%) is lower in general when compared to traditional real estate leases on houses (1.18%), retail superannuation funds (0.96%), and industry superannuation funds (0.98%).³

Fig. 1. Real estate agent vs. DHA service fee costs for detached houses (per annum)

Weekly Rent	\$550	\$600	\$650	\$700	\$800	\$1,000
DHA property management fee (\$ p.a.)	4,735	5,166	5,596	6,027	6,888	8,610
DHA property management fee (% of gross rent)	16.5	16.5	16.5	16.5	16.5	16.5
<i>Low scenario</i>						
Real estate agent fee plus additional costs (\$ p.a.)	5,569	5,805	6,197	6,432	7,223	8,166
Net gain of DHA lease (\$ p.a.)	834	639	600	406	335	-443
Real estate agent fee plus additional costs (% of gross rent)	19.4	18.5	18.3	17.6	17.3	15.7
<i>Medium scenario</i>						
Real estate agent fee plus additional costs (\$ p.a.)	7,899	8,222	8,737	9,060	10,100	11,391
Net gain of DHA lease (\$ p.a.)	3,164	3,056	3,141	3,033	3,213	2,781
Real estate agent fee plus additional costs (% of gross rent)	27.5	26.3	25.8	24.8	24.2	21.8
<i>High scenario</i>						
Real estate agent fee plus additional costs (\$ p.a.)	10,110	10,513	11,147	11,551	12,829	14,442
Net gain of DHA lease (\$ p.a.)	5,374	5,347	5,551	5,524	5,941	5,833
Real estate agent fee plus additional costs (% of gross rent)	35.2	33.6	32.9	31.6	30.7	27.7

Source: Defence Housing Australia, Oxford Economics Australia

Note: Includes GST where applicable. Annual gross rent calculated over 52.18 weeks.

In conclusion, after taking into account all the comparable costs of managing an investment property to the same standard, the DHA service fee of 16.5% provides savings over total costs borne by the landlord using a traditional real estate agent management agreement.

³ The information contained in this report is of a general nature and does not take into account your objectives, financial situation or needs. It should not be relied on as advice, nor take the place of professional advice. Before making any decision in relation to DHA or any particular financial investment strategy, you should consider your own financial position, objectives and requirements

1. INTRODUCTION

This report compares the cost of Defence Housing Australia's (DHA's) service fee under lease agreement edition 7 (referred to in its lease as DHA Property Care) versus the total costs of managing a detached house style dwelling through a traditional real estate agent's management agreement. It also compares this cost with the cost of management of other managed investments.

DHA manages over 17,100 properties in Australia (of which just over 12,000 properties are leased from private landlords) in order to house ADF members and their family. More than 15,400 of these properties are classified as detached houses. DHA's leased properties are managed by DHA, for which it charges a service fee of 16.5% (inc. GST) of the gross rent (applicable to detached houses). At first glance, the service fee appears higher than the headline fees offered by traditional residential managing agents (typically 6.1%–10.3% inc. GST). However, traditional residential management agents do not provide the same level of management.

DHA's service fee covers a number of typical costs and expenses which are borne by the landlord in a traditional real estate agent managed agreement. These include:

- most non-structural repairs;
- rent lost during periods of vacancy;
- administration and re-letting fees; and
- hassle (quantifying the cost of the time required by a typical landlord to address repairs and other issues that are covered under the DHA lease agreement).

As a result, the management fee charged by a real estate agent is not directly comparable to the service fee offered by DHA. Similarly, the fee charged for other managed investments (percentage of assets under management) and the DHA service fee (percentage of gross rental income) are not directly comparable.

This analysis considers all the likely costs associated with traditionally managed residential investments to place them on par with the costs accounted for by the DHA service fee in order to enable potential investors to make a better "like-for-like" comparison across alternative investments. The second component of this report converts the DHA service fee to a fee as a percentage of the asset value to enable a better comparison with the management fees for an alternative investment such as superannuation funds.

As typical annual costs to a landlord can vary from year-to-year and from property-to-property, this report provides three cost scenarios for six indicative rental levels of an investment property (detached house). The medium scenario represents the middle, or indicative cost, while the high and low scenarios represent the upper and lower ranges.

2. COST COMPARISONS WITH A TRADITIONAL REAL ESTATE AGENT MANAGEMENT AGREEMENT

This section examines the additional costs borne by a landlord when renting out a house that are incorporated into a DHA lease agreement (i.e. but not covered by a real estate agent management agreement).

2.1 REAL ESTATE AGENT'S MANAGEMENT FEE

Traditional real estate agent management fees can potentially vary from location to location, as can the cost and inclusion of various administrative fees. Real estate institutes, who are the professional association for real estate agents, rarely provide advice to agents regarding their residential management fees, and therefore there is no standard recommended fee. Rather, real estate institutes provide ethical guidelines and advice as to the current legislation influencing the industry.

In order to ascertain an indicative real estate agent management fee cost structure and any other associated costs, Oxford Economics Australia contacted a sample of 20 local real estate agents spread across the locations in which DHA has concentrations of leased properties. The fees were indicated as a percentage of the gross rent received and ranged from 6.1% to 10.3% (rounded). The management fees (as a percentage of gross rent) for the locations covered are indicated in **Fig 2**. Prices were quoted either inclusive or exclusive of GST and we have adjusted all fees to include GST.

Additional fees included letting fees, which is largely expressed as between one to two weeks gross rent plus GST, and administration fees, which were found to range from \$5.50 to \$6.60 per month. This administration fee is for the preparation and provision of a monthly statement. In addition, a number of other fees are often charged over and above these fees and include advertising, database fees, preparation of lease fees, leasing renewal fees and others.⁴

⁴ Depending on the lease edition and property location, some additional fees may be charged by DHA. Please refer to the lease agreement for all inclusions.

Fig. 2. Indicative real estate agent management fees (percentage of gross rent)

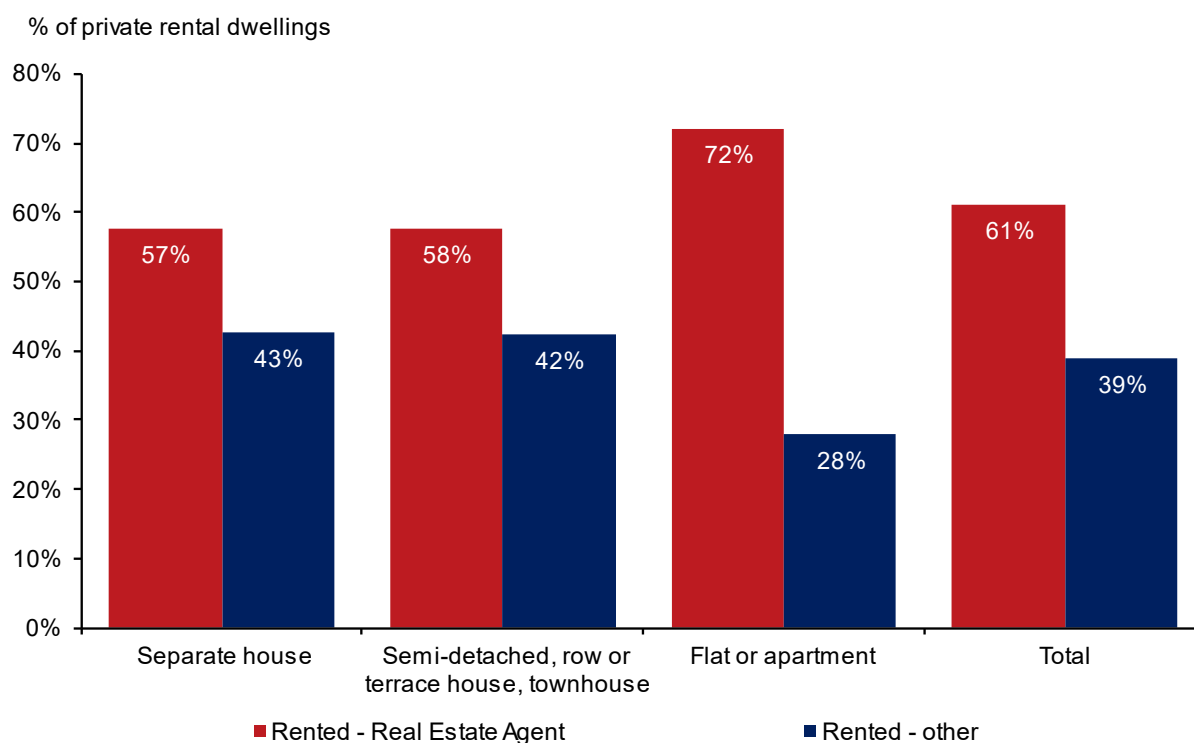
Agent location	Indicative management fee
Capital city	
Sydney	6.1%
Melbourne	6.6%
Brisbane	8.0%
Adelaide	9.7%
Perth	10.3%
Canberra	7.7%
Darwin	9.4%
Regional	
Ipswich	8.8%
Toowoomba	8.8%
Townsville	9.9%
Wagga Wagga	8.6%
Hunter	6.6%

Source: Oxford Economics Australia

Note: Fees include GST

While there is the alternative for a landlord to self-manage the property, the majority of landlords use a real estate agent. Analysis of the 2021 Census indicates that 61% of privately rented properties were managed by a real estate agent, varying from 57% of separate houses, to 58% for semi-detached, row and terrace houses, and up to 72% of all flats, units and apartments (indicated in **Fig 3**). As a result, the analysis in this report is based on a comparison only with the costs of those who manage their property using a real estate agent.

Fig. 3. Property type by rental management, Australia, 2021



Source: Australian Bureau of Statistics, 2021 Census of Population and Housing

This report takes a bottom-up approach, whereby we break down the value that the DHA model provides to highlight the costs that a typical landlord may pay over and above a traditional agent's management fee, and which are absorbed by DHA.

2.2 RENT

The gross rent achieved by a typical rental property can vary significantly due to the quality of fixtures and fittings, number of bedrooms/bathrooms, overall size and location. An analysis of all the detached houses that have been leased by DHA over the 2023–24 financial year (10,100 properties) revealed that the properties are largely clustered within six distinct rent bands:

- at or close to \$550 per week;
- at or close to \$600 per week;
- at or close to \$650 per week;
- at or close to \$700 per week;
- at or close to \$800 per week; and
- \$1,000 and above.

Therefore, we have used rent of \$550, \$600, \$650, \$700, \$800 and \$1,000 per week in each of our low, medium, and high-cost profile scenarios.

2.3 REPAIRS

Under a traditional real estate agent management agreement, landlords are responsible for any repairs to their detached houses while tenanted and are likely to undertake further repairs during, or in-between tenancies, in order to keep their property competitive in the marketplace. DHA incorporates some of these costs – including most non-structural repairs - into its service fee.

DHA has comprehensive data of actual expenditure on repairs for their properties and at different rental price points. We have analysed this data to determine average costs and the magnitude of any potential variations. The data is based on approved expenditure for the 2023–24 financial year.

While DHA's property repair costs apply to its properties only, there is no reason why these would differ substantially from a traditional residential rental, assuming that the landlord would keep their property well maintained. Given the extensive number of properties under management, DHA's sample should provide a strong indicative cost of repairing properties within Australia. The costs provided include only those covered under the Property Care Contract. There may be other costs which could be incurred by the owner in addition to this sample.

The higher rent properties have different repair costs due to the quality of fixtures and fittings, number of bedrooms/bathrooms, and overall size of the dwellings being managed. We have taken the average costs of repairs within the relevant rental bands for each of properties at the \$550 and \$600 a week rent level, the \$650 and \$700 a week rent level and the \$800 and \$1,000 rent level.

Given the variation in the repairs cost per property due to location as well as due to rental cost, we have provided three cost scenarios for repairs costs based on the standard deviation from the average across all 16 major regions that DHA leases properties. These are as follows (costs inclusive of GST):

- Low cost scenario — \$2,976 for \$550 and \$600 per week properties, \$3,132 for \$650 and \$700 per week properties, and \$3,451 for \$800 and \$1,000 per week properties;
- Medium cost scenario — \$3,685 for \$550 and \$600 per week properties, \$3,878 for \$650 and \$700 per week properties, and \$4,273 for \$800 and \$1,000 per week properties; and
- High cost scenario — \$4,394 for \$550 and \$600 per week properties, \$4,624 for \$650 and \$700 per week properties, and \$5,096 for \$800 and \$1,000 per week properties.

2.4 VACANCY

While a DHA managed property may be vacant in-between occupants, DHA continues to pay rent during this period, subject to the terms and conditions of the lease agreement. In contrast, rent is foregone under a real estate agent management agreement.

The loss of rent in-between tenants over a period is calculated by determining how often there is a change of tenant, and how long the property is empty in-between tenants. The state residential tenancy authorities keep data on registered leases, and we can estimate the turnover of tenants by the turnover of leases.

A consistent 9% of all rental bonds are refunded each quarter. However, in areas where there is an oversupply of properties, we have found that bonds turn over more frequently as tenants choose to upgrade their property to either newer or better-quality stock at a similar rental level. In contrast, in areas of undersupply and low vacancy, turnover is slightly lower, as tenants choose to stay in their existing property to avoid competing for fewer properties and paying higher rents. This suggests that a little over a third of all tenancies turn over every year. This is backed up by data sourced from bond authorities in NSW which indicates that approximately 30% of tenancies run for 12 months or less, a further 31% run for between 13 and 24 months, with the remaining 39% running for 2 years or more.

As a tenant turns over, a landlord under a traditional real estate agent management agreement would pay a letting fee and advertising fees would be charged until the property is tenanted. Additionally, as the property turns over, the property is likely to be vacant. This could be due to the time taken to find a new tenant, or a natural gap between a lease expiry and the date that the new tenant will commence. In a weak rental environment, the landlord may undertake maintenance work or upgrade the property in order to secure a new tenant.

Since the beginning of the pandemic, typical tenancy durations have increased. Data from NSW, QLD and VIC indicate that the average tenancy for houses increased from near 18 months to around 21 months from 2020 through to late 2022 and have remained elevated since. A combination of travel restrictions, supportive government policy and dwelling supply constraints are all likely to have contributed. However, recent data has suggested a slight moderation back towards the long-term average has begun as of the end of FY2024. To account for the recent increase in tenancy duration, we assume a 24, 21 and 18 month tenancy duration under the low, medium and high cost scenarios respectively.

Fig 4 shows the average vacancy from 2005 to June 2024 by capital city. Vacancy rate data is not separated by dwelling type and the data in **Fig 4** refers to vacancy rates for all dwellings. Vacancy rates fluctuate over time and by capital city. While results have varied across cities and there have been

periods of notable fluctuations, average vacancy rates at a national level have been broadly similar over the 2015-2024 period compared to the decade prior.

Based on the average vacancy rate in each capital city between 2015 and 2024, the average period of vacancy ranges from 0.7 weeks in Canberra and Adelaide, to 2.5 weeks in Darwin. Across Australia between 2015 and 2024, an average property is vacant for 1.3 weeks per year.

Fig. 4. Average vacancy rates by capital city, 2005 to 2024

Financial year	SYD	MEL	BRI	ADL	PER	HOB	CAN	DAR	AUS
2005-2024	2.0	2.8	2.2	1.7	2.9	2.4	1.9	3.7	2.4
2005 - 2014	1.6	2.7	2.3	2.0	2.8	2.9	2.4	2.7	2.2
2015-2024	2.4	3.0	2.0	1.3	2.9	1.8	1.3	4.8	2.5
Average weeks vacant per year									
2015-2024	1.3	1.6	1.0	0.7	1.5	1.0	0.7	2.5	1.3
Vacancy cost (\$)	963	876	615	392	963	503	445	1,590	775

Source: Oxford Economics Australia

Based on median house rental levels at June 2024 in the capital cities, the average cost of vacancy to a landlord can be between \$392 per annum in Adelaide and as high as \$1,590 in Darwin. We have therefore based our low cost scenario on a vacancy of just 0.7 weeks per year, our medium and most likely cost scenario with vacancy of 1.3 weeks per year and our high cost scenario as 1.8 weeks per year.

2.5 HASSLE

An analysis of the repairs costs provided by DHA show that on average there are approximately 13 unique items per property per year requiring repair across the whole portfolio. This does not necessarily amount to 13 “call outs” per property per year, as a number of items can be fixed at the same time. Consequently, there are likely to be less than 13 actual “call outs” per property per year. Nevertheless, a landlord of a real estate agent managed property in most cases would be required to approve and sometimes organise this work, whereas most non-structural repairs are paid for and handled within the DHA service fee. Some properties would have no issues arise during the year, while others would have many and require a considerable number of hours of the landlord’s attention.

To cost this ‘hassle’ component, we have determined three scenarios for landlords leasing their property through a traditional property management agreement:

- in a low cost scenario, there would be no time required by a traditional landlord;
- in a medium and most likely situation, a landlord would require three hours per quarter (12 hours per year) to manage repairs tasks; and
- in a high cost scenario, the time required would be six hours per quarter (24 hours per year).

Based on weekly ordinary earnings of a full-time working adult in Australia, the average pay rate is \$49.9 per hour, which we have adopted as an estimate of the value of the time required by a landlord to fulfil the same duties performed by DHA when organising and managing repairs of an investment property.

2.6 COSTS OUTSIDE BOTH THE DHA AND TRADITIONAL REAL ESTATE AGENT MODEL

It should be noted that there are a number of costs that both the DHA lease and traditional real estate agent agreements do not cover. These include council rates, strata and sinking fund levies (where required), provision of service charges by utility companies, pest inspections and building insurance. These are all costs which will impact on the final cash flow position of a typical residential investment. However, for identical properties, they will be identical whether they are under a DHA lease or a real estate agent management agreement.

3. RESULTS OF THE COST COMPARISON

By calculating all the identified additional costs that DHA's service fee covers and adding these costs to a traditional real estate agent's fee, we can determine the comparable 'like-for-like' cost of management.

As discussed, there is considerable variation in costs, due largely to the location and age of the dwelling, but also in vacancy levels, quoted percentage of rent rates and additional charges by real estate agents, and rental ranges. Therefore, we have provided three scenarios, which provide a low, medium and most likely, and high range of costs associated with a residential investment property. We have also provided each of these scenarios for six different rent levels, which most reflect the stock of properties leased by DHA, and are reflective of common rents across Australia's capital cities and regional areas.

Fig 5 shows the medium cost scenario (i.e., most likely) based on the assumptions discussed earlier for each cost item. It shows what the total (explicit and implicit) cost would be for a real estate agent to manage a typical investment property which provides all the benefits associated with DHA's lease, including GST where applicable:

- \$7,954 per annum for a property earning \$550 a week, equivalent to 27.7% of gross income;
- \$8,282 per annum for a property earning \$600 a week, equivalent to 26.5% of gross income;
- \$8,802 per annum for a property earning \$650 a week, equivalent to 26.0% of gross income;
- \$9,130 per annum for a property earning \$700 a week, equivalent to 25.0% of gross income;
- \$10,180 per annum for a property earning \$800 a week, equivalent to 24.4% of gross income;
- and
- \$11,491 per annum for a property earning \$1,000 a week, equivalent to 22.0% of gross income.

Fig. 5. Medium and most likely cost scenario for detached houses (current dollars per annum)

Weekly rent	\$550	\$600	\$650	\$700	\$800	\$1,000
Gross rent per annum (52.18 weeks)	28,699	31,308	33,917	36,526	41,744	52,180
Cost item (\$)						
Traditional agent						
Management fee (8.25%)	2,368	2,583	2,798	3,013	3,444	4,305
Vacancy costs (1.3 weeks p.a.)	715	780	845	910	1,040	1,300
Admin fee (\$5.50 per month)	66	66	66	66	66	66
Letting fee (1.5 weeks rent every 19 months)	521	568	616	663	758	947
Repairs	3,685	3,685	3,878	3,878	4,273	4,273
Hassle (12 hrs per annum at full time average hourly wage)	599	599	599	599	599	599
Total	7,954	8,282	8,802	9,130	10,180	11,491
% of gross rent	27.7	26.5	26.0	25.0	24.4	22.0
Defence Housing Australia						
Fee	4,735	5,166	5,596	6,027	6,888	8,610
% of gross rent	16.5	16.5	16.5	16.5	16.5	16.5
Cost saving through DHA management agreement	3,219	3,116	3,206	3,103	3,293	2,881

Source: Defence Housing Australia, Oxford Economics Australia

Note: includes GST where applicable

Under all of these rent ranges the DHA service fee of 16.5% of gross income is notably lower, producing considerable cost savings per annum.

However, due to variations in potential costs it is important to consider the low and high cost scenarios.

Fig 6 and **Fig 7** show the summary outcomes of the low and high cost scenarios respectively, based on observed divergences in ranges of costs from the medium scenario.

Fig. 6. Low cost scenario for detached houses (current dollars per annum)

Weekly rent	\$550	\$600	\$650	\$700	\$800	\$1,000
Gross rent per annum (52.18 weeks)	28,699	31,308	33,917	36,526	41,744	52,180
Cost item (\$)						
Traditional agent						
Management fee (6.6%)	1,894	2,066	2,239	2,411	2,755	3,444
Vacancy costs (0.7 of a week p.a.)	385	420	455	490	560	700
Admin fee (none)	0	0	0	0	0	0
Letting fee (1 week rent every 21 months)	314	343	371	400	457	571
Repairs	2,976	2,976	3,132	3,132	3,451	3,451
Hassle (none)	0	0	0	0	0	0
Total	5,569	5,805	6,197	6,432	7,223	8,166
% of gross rent	19.4	18.5	18.3	17.6	17.3	15.7
Defence Housing Australia						
Fee	4,735	5,166	5,596	6,027	6,888	8,610
% of gross rent	16.5	16.5	16.5	16.5	16.5	16.5
Cost saving through DHA management agreement	834	639	600	406	335	-443

Source: Defence Housing Australia, Oxford Economics Australia

Note: includes GST where applicable

In a low cost scenario, the real estate agent costs (including GST where applicable) to manage a typical investment property and provide the extra benefit covered by DHA Property Care are:

- \$5,569 per annum for a property earning \$550 a week, equivalent to 19.4% of gross income;
- \$5,805 per annum for a property earning \$600 a week, equivalent to 18.5% of gross income;
- \$6,197 per annum for a property earning \$650 a week, equivalent to 18.3% of gross income;
- \$6,432 per annum for a property earning \$700 a week, equivalent to 17.6% of gross income;
- \$7,223 per annum for a property earning \$800 a week, equivalent to 17.3% of gross income;
- and
- \$8,156 per annum for a property earning \$1,000 a week, equivalent to 15.7% of gross income.

Only under the highest rent and lowest cost scenario were DHA costs marginally higher than a traditional real estate agent management agreement.

The high cost scenario (**Fig 7**) shows that, at the opposite end of the spectrum, costs using a traditional real estate agent can become significant. Under a high cost scenario, the real estate agent costs (including GST where applicable) to manage a typical investment property and provide the extra benefit covered by DHA Property Care are:

- \$10,165 per annum for a property earning \$550 a week, equivalent to 35.4% of gross income;
- \$10,573 per annum for a property earning \$600 a week, equivalent to 33.8% of gross income;
- \$11,212 per annum for a property earning \$650 a week, equivalent to 33.1% of gross income;
- \$11,621 per annum for a property earning \$700 a week, equivalent to 31.8% of gross income;
- \$12,909 per annum for a property earning \$800 a week, equivalent to 30.9% of gross income;
- and
- \$14,542 per annum for a property earning \$1,000 a week, equivalent to 27.9% of gross income.

While these comparison rates seem high, they are not the most extreme. As stated previously, some agents charge management rates above the 9.5% (incl. GST) rate used in the scenario above, admin fees and letting fees in many cases are higher, vacancy can often occur for more than 1.8 weeks per year and repairs, particularly in the Northern Territory, can be significantly higher. Therefore, while this provides a typically higher cost scenario, many properties would have higher costs than those illustrated.

Fig. 7. High cost scenario for detached houses (current dollars per annum)

Weekly rent	\$550	\$600	\$650	\$700	\$800	\$1,000
Gross rent per annum (52.18 weeks)	28,699	31,308	33,917	36,526	41,744	52,180
Cost item (\$)						
Traditional agent						
Management fee (9.5%)	2,726	2,974	3,222	3,470	3,966	4,957
Vacancy costs (1.8 weeks p.a.)	990	1,080	1,170	1,260	1,440	1,800
Admin fee (\$6.60 per month)	79.2	79.2	79.2	79.2	79.2	79.2
Letting fee (2 weeks rent every 17 months)	776	847	918	988	1,129	1,412
Repairs	4,394	4,394	4,624	4,624	5,096	5,096
Hassle (24 hrs. per annum at full time average hourly wage)	1,199	1,199	1,199	1,199	1,199	1,199
Total	10,165	10,573	11,212	11,621	12,909	14,542
% of gross rent	35.4	33.8	33.1	31.8	30.9	27.9
Defence Housing Australia						
Fee	4,735	5,166	5,596	6,027	6,888	8,610
% of gross rent	16.5	16.5	16.5	16.5	16.5	16.5
Cost saving through DHA management agreement	5,429	5,407	5,616	5,594	6,021	5,933

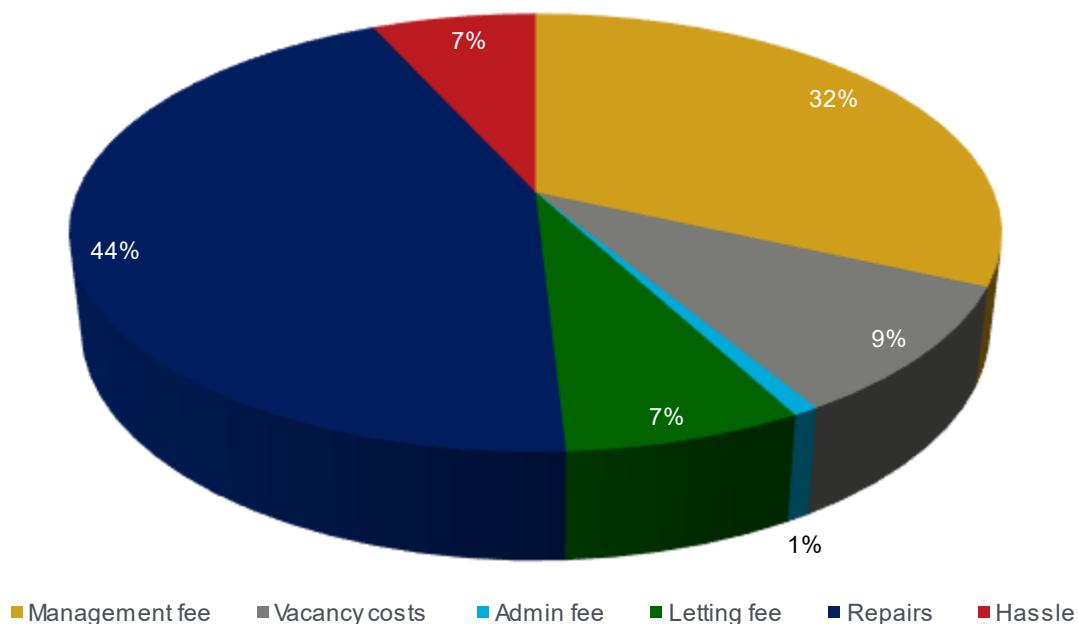
Source: Defence Housing Australia, Oxford Economics Australia

Note: includes GST where applicable

Fig 8 shows the breakdown of costs for a \$650 per week rental property assuming the most likely, medium cost scenario during each year of the lease term. It shows that while management fees make up 32% of the total costs associated with a traditional rental property, ongoing repairs make up a larger proportion at 44%. The value of the remaining expenses identified represent 24% of total costs.

Assuming the average vacancy rate experienced over the last ten years broadly continues, the cost of rent foregone during periods of vacancy will comprise an average 9% of total costs. The value of the landlord's time to address issues in repairs and other incidental issues (i.e. hassle), contributes 7% to costs, and letting fees and administration fees make up a further 8%.

Fig. 8. Share of standard annual tenancy costs \$650 per week – medium scenario

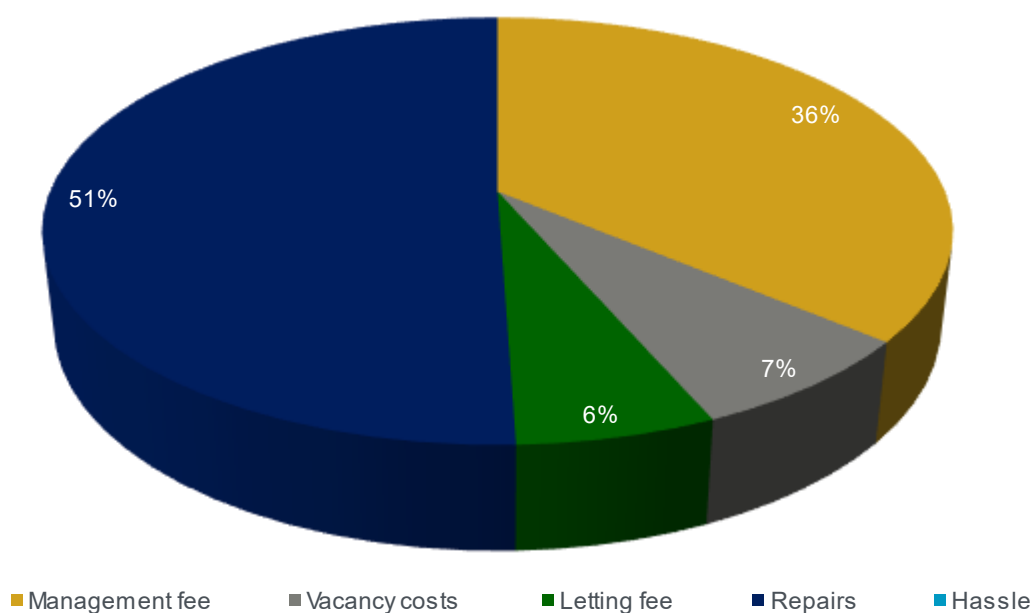


Source: Defence Housing Australia; Oxford Economics Australia

Note: includes GST where applicable

For additional comparison, the distribution of tenancy costs in the low and high scenarios are also shown below in **Fig 9** and **Fig 10**.

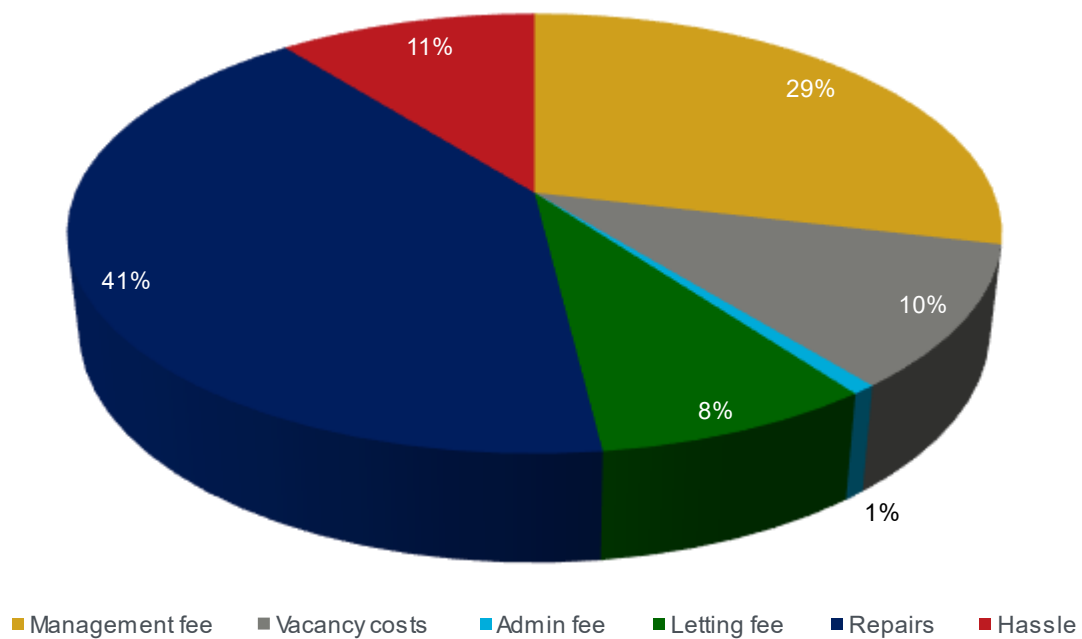
Fig. 9. Share of standard annual tenancy costs \$650 per week – low scenario



Source: Defence Housing Australia; Oxford Economics Australia

Note: includes GST where applicable

Fig. 10. Share of standard annual tenancy costs \$650 per week – high scenario



Source: Defence Housing Australia; Oxford Economics Australia

Note: includes GST where applicable

4. COMPARISON WITH MANAGED FUNDS

Investors have the option of other investments outside of residential property, including managed investments. These include various types of superannuation funds. This section compares the DHA service fee charges as part of a DHA residential investment with the fees associated with managed superannuation investments.

The fee structure of a DHA investment versus superannuation fund is not directly comparable as the DHA service fee is determined as a percentage of gross rental income, while the fees associated with a superannuation fund are determined as a percentage of member balance (akin to assets under management).

The Australian Prudential Regulatory Authority (APRA) published statistics reporting the statement of fees and other costs associated with MySuper superannuation funds for representative members.

The data below has been sourced from APRA Quarterly MySuper statistics publication outlining the average annual fees charged by various superannuation funds across the four main sectors. This data only represents fees charged as a percentage of member balance and does not include any additional activity fees that may be added on an ad-hoc basis, such as switching fees for example.

Fig. 11. Annual fees charged on member account balance by superannuation fund sector (%), 2014 to 2024

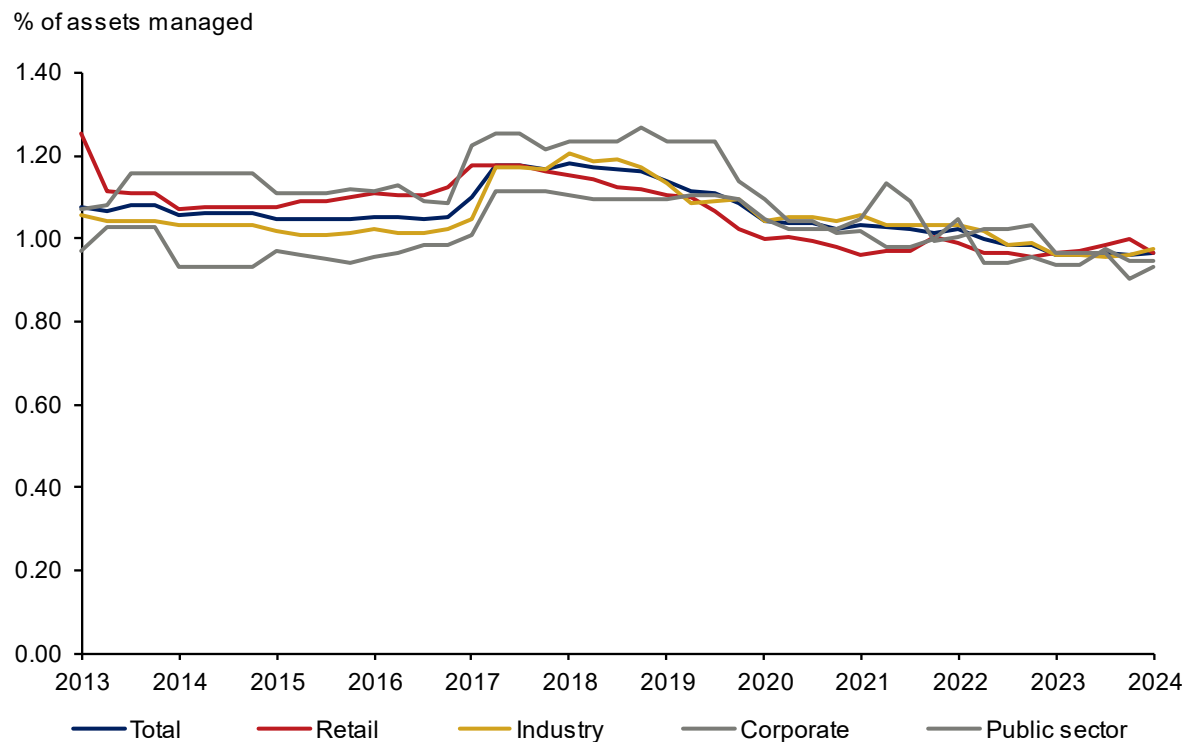
Sector	June Quarter										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Retail	1.11	1.07	1.10	1.12	1.16	1.12	1.02	0.98	1.00	0.96	1.00
Industry	1.04	1.03	1.01	1.02	1.17	1.17	1.09	1.04	1.03	0.99	0.96
Corporate	1.16	1.16	1.12	1.08	1.22	1.27	1.14	1.01	1.00	0.95	0.95
Public sector	1.03	0.93	0.94	0.99	1.12	1.09	1.09	1.02	0.99	1.03	0.90
Total	1.08	1.06	1.05	1.05	1.17	1.16	1.08	1.02	1.02	0.99	0.96

Source: APRA; Oxford Economics Australia

Note: includes GST where applicable

The research shows that superannuation fees increased dramatically in 2017 with the announcement of government reform to the sector. Since then, they have gradually decreased. Overall, the average fees charged by MySuper superannuation funds were 0.96% of member account balances as at June 2024.

Fig. 12. Annual fees charged on member account balance by superannuation fund sector (%), 2013 to 2024



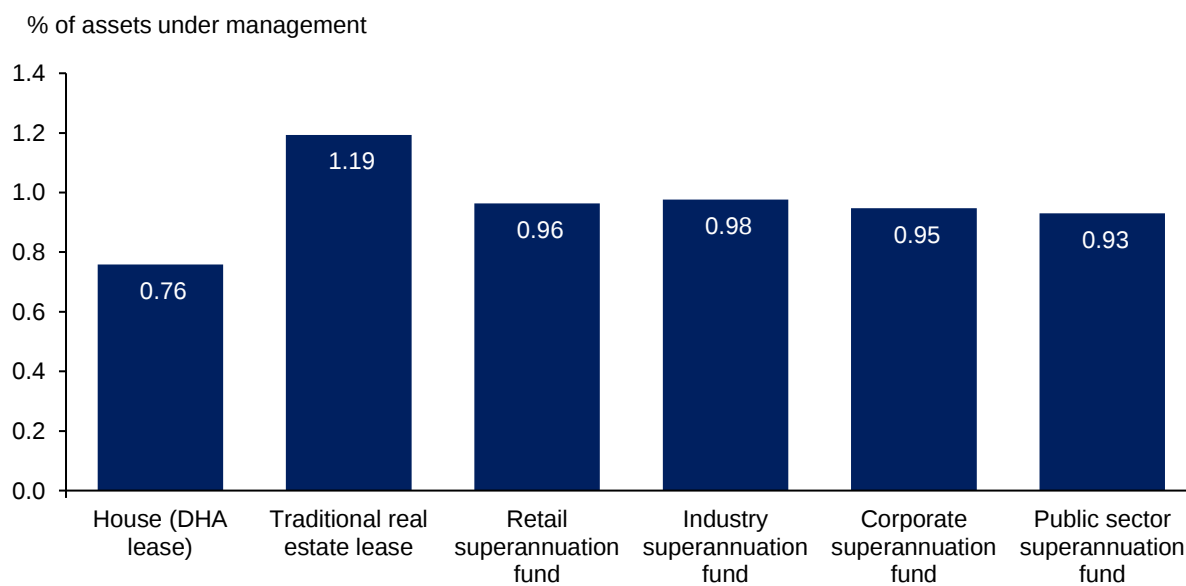
Source: APRA

To provide a meaningful comparison with DHA's service fee, we have analysed all the houses that have been sold and leased back by DHA since from July 2018 through to December 2022 (over 1,200 properties). These properties have a recent market valuation and rental return and therefore the service fee charged by DHA (i.e. 16.5% of rent) can be compared to the value of the properties (i.e. the assets that are under management). The average value of all properties applicable to each rent range is escalated to a June 2024 estimate based on total Australian house price growth since December 2022.

In order to make a comparison with these alternative investment options, **Fig 13** shows DHA's service fee and the total management costs of a traditional real estate agent management agreement (under a medium cost and rent scenario), calculated earlier, expressed as a percentage of the estimated average value of assets under management. In this instance, it represents an indicative value of the dwelling.

The chart indicates that traditional real estate leases on houses and retail and industry superannuation funds have higher management fees in general when compared to DHA's lease.

Fig. 13. Alternative investment fees as a % of assets



Source: APRA, Oxford Economics Australia

Note: includes GST where applicable



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