

Chapter 1



WHAT ARE MANAGEMENT RIGHTS? Finding What's Best For You

How did you hear about them, and did you even know they existed? Did you know when staying at your favourite complex it was operated by way of Management Rights?

Do you look at large complexes, and hotels, differently now? I know in our case it was twelve years before actually purchasing (yes, Management Rights have been around for years!) after we were over on holiday from New Zealand and looked at a few high rises on the Gold Coast. We would have had to have taken a mortgage of HORROR OF HORRORS, \$300,000. Today the Management Rights of the same complex are worth three million plus!

We originally looked with a friend, who asked all the right questions. Incidentally this same friend went into Management Rights about eight years later and we went in three years after that. We retired after managing three complexes and eight years in the industry.

Oh, how the industry has changed. I still remember that original Real Estate Agent saying if you wanted to make lots of money just charge the owners for light bulbs every week!! Now Management Rights are sold by professionals, who for the most part are specialists in their field and everything is strictly regulated. Some shonky operators made it necessary to bring in tighter regulations.

When we originally looked there were smaller permanent and holiday high rises around and were for the most part all on the Gold Coast; however the \$300,000 mortgage (we were mortgage free at home) put us off. We didn't understand the principle of Management Rights, hadn't looked properly and didn't understand the concept.

When we finally made the serious decision that the Management Rights LIFeStyle (the four letter word we would get to know very well!) was what we wanted, we still took three years to do it! This was also influenced by selling our businesses and home in New Zealand, as well as the deaths of my elderly parents. I have to say here that it was the best decision we ever made. Financially, of course it secured the comfortable retirement we now hopefully, can look forward to. We have also made many good friends from within the industry.

Deciding on the type of Management Rights that suit you will depend on what circumstances you are in at the time you decide to buy. Keep in mind the average length of time in a complex is approx 2.4 years! We in total had eight years in three complexes, but remember this is not the norm, and this is why you will see that I have said that, when buying, you buy with an idea of what growth a complex will give you when you get out. More explained on that later.

Management Rights are, put simply, a group of houses, or apartments, which are individually owned (Strata Titled) that has a manager. To be the Manager he or she purchases the Caretaking and Letting Agreements together called Management Rights. The Body Corporate (made up of all the

owners) pays the Manager a salary for the caretaking part of the agreement, and the Manager makes money from letting out apartments on behalf of owners under the letting part of the agreement.

The manager lives in the Managers accommodation (unless he has a night manager) and usually has the office and reception areas on title, or exclusive use thereof. Again this is describing Management Rights very simply. In a new complex the Management Rights are usually sold off the plan by the developer, before the building has even commenced. Established developers' normally will only sell to established Management Rights operators, who have proven track records. These Management Rights are sold on projections. This means the developer works out approximately how many of the premises will be occupied by resident owners, how many will be bought for investment and what the projected return will be. There are no guarantees as he may think 50% will be sold to investors but it could turn out to be only 25%, or even lower. When selling apartments in the complex sales staff are gone after the sale, and whether a buyer is going to live in, or be in the investment pool, is of little consequence to them. There is the exception where the developer will instruct his staff to sell only, if possible, to investors, but even then an owner can choose to live in, or leave the premises unoccupied when not using, if he/she wants. After all he/she owns the property.

This is something you will need to always remind yourself of. The owner of a property is just that, the Owner. As the owner they have the final say on what they will, and will not do, with their premises. Managers at times may find owners a pain, but without them there would be no Management Rights.

There are different types of complexes that are run through Management Rights. Permanent Letting Management Rights is where all the premises are let to permanent tenants. There is Holiday Letting where the premises are used for holidays and there is Residential, where they are all live in owners. Having said this you will usually find a mixture in most, except residential, where holiday letting is not allowed and this is written into the By Laws.

Holiday Letting usually has a mix of all three. Holiday Letting is in an area where people want to both holiday and live, and usually by water. A great percentage may be holiday but one of the dangers is more and more people want to live there. Even though you may have purchased a holiday letting business that is no guarantee that real estate agents or owners won't sell to non investors. You have no control over what an owner does with their property. Some owners do not want their property let out and prefer to keep it locked up when not using it themselves.

I do not have the exact numbers of complexes operated under Management Rights in Queensland. According to ARAMA (Australian Resident Accommodation Managers Association) the estimated number is 2,300+. In New South Wales the number is thought to be between 300 and 400. There is a smaller number in Victoria and Western Australia.

When it comes time for you to start looking at Management Rights there will be several variables that will decide which is right for you. The most important will be family circumstances. It is no accident that by far the greatest numbers of managers around have grown up families. Unless you have the right complex a family will make your job more difficult and stressful. You will have noticed that a great number of managers are from New Zealand or other states. This is a way of purchasing a business and also having somewhere to live. The size of the complex you buy into will also depend on circumstances and finances. We will cover finance in another chapter and explain where to go to obtain it, and what you can achieve by extending your finances that bit further.

Usually the way first time managers become interested in Management Rights is when on holiday. They realize that there are no individually owned complexes around and that they are all managed by Managers living on site working their complexes.

If I had a dollar for every person who said to us over the years "I would love your job," I possibly wouldn't have needed to work. Guests (rightly so) see the best part and look at it as lifestyle (that four letter word again!) If you are doing your job right, that will be said to you many times. They

should see you enjoying your work and helping them enjoy their holiday as much as possible. It helps if you are a people person and experienced in this area. This is not a prerequisite as Management Rights is made up of individuals from all walks of life.

In the earlier days many unsuited people came into the industry and lost big money with having to get out too soon. They were cash rich from redundancies, and selling farms etc. There were many unscrupulous agents who sold them into complexes that no homework had been done on. You do not see this happening now, or only very rarely. Buyers are more astute. If an agent is doing his job properly he will qualify his buyers and give them professional advice. The industry has been tightened with better (sometimes restrictive) laws.

Potential managers and current managers have ARAMA to thank for a lot of the good work done on behalf of the industry. I would strongly recommend joining the association when in Management Rights.

A good magazine to subscribe to, before and when in Management Rights is the Resort News based in Noosa in Queensland. Their internet address is www.resortnews.com.au. It is written for potential and current managers. There are lists of Management Rights for sale, and preferred suppliers. Very handy and well informed with details of new legislation, etc. it also has a list of relief managers with years of experience. Over the years we have used relief managers from this publication. My recommendation would be, to anyone even remotely interested in Management Rights, to subscribe to this magazine.

Do you feel you are suited personality wise? No one but you can really answer that. If you are prepared to work for, and with, people you should be fine. Smaller to medium complexes are usually managed by a husband and wife or partner team. Obviously both of you will have different skills that you will sort out and utilize as you start operating. If neither has basic computer skills a suggestion would be to take a basic computer course as soon as possible. A few years ago there were complexes operating with a booking book only, and no trust accounting computer system. There would be very few, if any, without a computer trust accounting system now.

Our experiences have all been with holiday letting complexes. The first being eighteen apartments, the second thirty-six, and finally, in partnership with another couple, we had sixty-eight apartments. This suited us but others who are in permanent letting complexes swear by them as well. It is all horses for courses. In permanent complexes you have less office and reception work, with generally more grounds and caretaking to look after. The letting side is finding long term tenants, vetting them, collecting bonds and rents. Processing entry and exit condition reports. The return per premises on a yearly basis is less than holiday letting and that is usually why permanent complexes are much larger. With a family this would possibly suit better. A residential complex is all mainly caretaking work, and would also be ideal for a family situation. There are some very large permanent letting complexes around. One of the reasons we stuck with holiday letting was of all the guests you have 99.9% are great, but the other 0.1% you are very happy to see go at the end of their stay. If that happened in permanent letting Management Rights you would be stuck with the unhappy tenants for the six months, or year, of their tenancy agreement.

To be successful in Management Rights you must be able to get on with, and like, people. Where getting on with people is more important by far, would have to be residential complexes, as it is all owners you are dealing with. You will always have a percentage of owners that think they are your boss. This is an aspect you must get used to and be able to deal with. The same happens in permanent and holiday letting because, obviously, you will always have owners holidaying, or residing, in their premises. They are where your income comes from so this is an area you need to develop skills in. Owners at times can be difficult but most realize what an asset you are and will work with you. Utilize your skills in this area and it will pay huge dividends in avoiding stress later.

So, you have decided this is what you want to do. How does a seller or agent come up with the price they have put on a complex?

For the purpose of this exercise we will talk about Holiday letting. The price that is being asked should fit in a formula. Basically the price of the managers accommodation is based on what other premises of the same size have been averaging, plus 10 to 15% on top of that for office, storage on title, etc. Some lending institutions will not allow for this 10% or 15%. With the Management Rights it is a little different. Depending on the area you are looking at, the nett, and does it face water etc the Management Rights value is usually anything between 4.5 and 5.5 times the nett (known as the "multiplier"). Some complexes have sold for even higher multipliers but there have been special circumstances and/or special complexes. At present those higher multipliers will rarely be achieved.

How it works is if the complex that you are looking at has a nett profit for the year of \$180,000; and it is right on the ocean, and is a modern 4.5 star complex, the multiplier for arguments sake may be 5.2. This means the Management Rights part of the complex would sell for \$936,000, plus the accommodation.

Say the managers' accommodation is a two bedroom premises where the office and reception are on title. The last three sales of two bedroom premises' in the complex have averaged \$380,000. This would make the managers worth approx \$418,000 (average plus 10%). This would have the Management Rights listed with the agent for around \$1,354,000.

In permanent and residential complexes the multipliers were always much lower. This has changed and the multiplier is now more often based on the nett. The best person to ask what the multiplier is in the area you are looking at, apart from the agent, would be the Solicitor or Accountant you are using. The reason for this is he or she will have sales histories in that area.

Unless you are experienced in Management Rights it would not pay for you to buy "off the plan". Apart from that, unless a very small complex, a developer has usually sold the Management Rights before the building has commenced, to an experienced operator. There is a lot of skill involved and money needed in a new complex, as you will have to pay, and do, all the marketing yourself. There are larger Management Rights operators and developers who work together through many complexes. The developer uses the same Managements Rights operator for each of his complexes. These operators usually buy at a cheaper price and set the complex up. In some cases they have to cover the guarantees the developer has promised the investors. In this case the Management Rights operator would organise marketing, and sometimes even owns the telemarketing company.

These large operators have a proven track record and that is why developers go with them. Then when operating well, they sell on proven and projected profits to an individual Manager. Usually the developer has another complex finished by then and on it goes.

Why is it dangerous to buy on projections unless you are experienced in the market? Projections can never be guaranteed. If a complex is being sold on projections it is usually under 18 months old, as anything over this should be able to be sold on actual financial records. Another reason why projections are used is if the developer hasn't sold all the premises in the accounting year that the Management Rights are being sold on. Like any thing in life there are no guarantees and, especially with buying on projected earnings, you are really paying for the increase "you" are going to make. That is you are not increasing the value of the business above what you paid for it. If you do buy on projected earnings make sure you are paying a lower multiplier. The big danger of buying on projections is if you build the nett up to the projected total, and then sell, you have made no profit.

OK you have decided what type of complex you want to buy. What do you need to look for that is important to your circumstances?

We covered how the value of the managers' accommodation is worked out for sale purposes earlier. Here are some ideas to help you get the feel of the complex you are looking at. Your agent should be able to tell you what other premises, the same size as the managers, have sold for. He has access to various data. There are also places you can go to yourself. On the Sunshine Coast you can go to The

Department of Natural Resources in Nambour and pay a fee for each search. This can even tell you what the selling manager paid for his accommodation; he is now hoping to sell to you.

Obviously you will have in mind certain things you will not compromise on when looking for the right complex. It may be three bedroom accommodation (you have children). It may be it has to face the water (you will pay more). It may be a newer complex (less maintenance). All these things are what are important to you.

You should make a list of what these important requirements are and give it to your agent. It is no use, him wasting yours, his and the sellers time if he shows you a one bedroom managers accommodation when you have two children.

The agent is being well paid and this is where he needs to qualify where you are coming from. Then he can show you, or keep an eye out for, the complex that is right for you. We at one time told an agent what our wants were, and while he had nothing on his books, he walked the streets of where we wanted to be located and found us the complex that had what we were looking for. He was well paid, yes, but he deserved it and all parties were happy. Some agents are just order takers and expect the clients to come to them and buy one of the only complexes they have listed. You will soon judge an agent by what he is showing you. If everything is not what you have specified he hasn't any listings that fit your profile, or he hasn't done any homework for you.

Another thing that may be important is how far from the office is the managers accommodation. It is more practical to have the office attached to the accommodation for convenience, unless you have a night manager living on site or the complex is being run by partners. Then it may be a complex that can afford extra staff, so being away may be a bonus? One complex that friends had was in a fabulous spot and their apartment had wonderful water views. The snag was it was on the fourth floor so the office had to be manned all the time, no ducking up to the apartment for lunch or when quiet to do a spot of ironing. For them though, the view far out-weighted the inconvenience. Everyone is different.

Maybe another must have is water views. This was always one of ours. Once you have managed a Holiday Letting complex you will know that nearly every prospective guest, when enquiring about a booking, will ask "Can we see the water?" You will pay a larger multiplier for a complex with water views but your returns will usually be better. In quieter times if a guest has a choice of "with" or "without" water views for the same money which will they take? They will usually be prepared to pay more for the water views.

Most complexes will have some premises that haven't got views and there is a market for those too. One reason will be price wise and, if not near the front, will also be quieter. Some guests with children like to be on the ground floor, so again every situation is different. There is also the older guests who may want peace and quiet away from the hustle and bustle of the busier areas.

Another item on your lists of wants may be an office on title, and storage areas. There are complexes around where there is not even a linen room, but just a cupboard in the manager's accommodation. A large linen or cleaners room is a bonus but if everything else on your list suits then maybe this is one of the things you have to give on. While I have said to make a list, remember the perfect complex doesn't exist, you will have to give up on some things. As long as the most important items to you are covered, then you are ready to go further.

We talked about Management Rights agents briefly. To pick the right one is very important. In the next chapter we will look at agents and try and sort the wood from the trees.