

TIPS FOR PURCHASING MANAGEMENT RIGHTS

Selecting What Type of Business You Want

Management rights is one of the most successful businesses in Queensland. Over the past 13 years I have sold them to people from all walks of life such as teachers, farmers, trades people, accountants, bank managers, public servants, moteliers and even solicitors! The main attributes are people skills and common sense. A lot of clients are 'baby boomers' wanting a lifestyle change. So, you are interested in buying management rights? Well first, let's look at a breakdown of the options available to you.

- Holiday (a strong return business with guests staying between one night and three weeks);
- Corporate (long-term business accommodation);
- Permanent (three months or longer leases)
- Mixed (combination of holiday and permanent)
- Student (long term accommodation usually in the vicinity of a university).

Each of these five types of management rights has its own advantages but the main points of difference to be aware of are:

- A holiday or corporate complex usually obtains a higher level of income than a permanent, student or mixed property. Not only are the commissions higher (12% of rent collected) but also extra income can be made on linen, Internet and tours and such.
- Also, corporate or holiday properties thrive on repeat business. So with these two types of complexes, public relations skills are imperative!
- Permanent complexes involve less work hours and less interaction with guests or tenants.
- While the commission for permanent properties is only 5% of rent collected and a 3% management fee, it is important to remember that permanent complexes run at almost 100% occupancy as opposed to the 75% a

majority of corporate and holiday properties will run at.

In management rights there are usually two types of agreements. These are: caretaking; and letting.

With a caretaking agreement it is the manager who does the work of a contractor employed to do the caretaking of the complex and attends the pool, spa, gardening, lawns, paths, foyer and the general cleanliness of the property themselves.

In a letting agreement, the manager is in an agreement with individual owners that allows the manager to be the only person on-site to conduct business.

The income generated from each agreement varies accordingly. In a caretaking agreement, the manager is paid a monthly salary but also obtains additional income from:

- Re-let fees;
- Letting commissions;
- Linen supply;
- Apartment cleaning;
- Tour sales;
- Equipment hire.

The manager's monthly salary is dependant on the size of the complex and is normally CPI linked. It is the body corporate that pays for the general complex expenses for things such as materials, pool chemicals, equipment and tradesmen.

Once you have considered the above criteria and have an idea of the type of complex desired and the letting agreement that best suits your needs, it is time to find a management rights agent who truly specialises in this field. You want an agent who only sells management rights because they are more likely to be able to give you sound advice; be up-to-date with current property valuations; and more likely to direct you to other specialists such as financiers, lawyers and accountants.

A good management rights agent will be able to match you with your perfect property. But to do this, they must understand what it is you are ideally looking for. This can be determined by answering question such as:

- Do you have a house or property to sell?

- What assets do you have to contribute to your purchase?
- Do you want a permanent or holiday rental complex?
- Are there any strong preferences for location?
- How large do you need the manager's unit to be?
- What level of income do you require?
- Do you want a low or high maintenance property (lots of lawn, pools and so on)?

Now with the type of letting agreement and specific complex requirements firmly decided, the next step is to source finance for this dream. Because of the long and successful track record of the management rights industry, most major banks are more than happy to assist with finance. But how much they will lend you depends on two things: The freehold value of the manager's unit; and the value of the management right's business itself.

The banks will view the manager's unit as the principal place of residence and therefore will provide a housing loan of 80% of the value of the apartment over 25 years. To finance the business, the banks will provide loan of 50% of the business value over 10 years at the business rate.

But this does not include acquisition expenses such as stamp duty, solicitors and accountants. These expenses often total to 5% of the purchase prices so it is important to keep this in mind and perhaps source a bank that will lend this additional 5%.

Many entering the management rights industry for the first time are probably not used to borrowing such large amounts of money so when it comes to deciding how much to borrow remember in management rights that living expenses are low, you are working from home and the cost of finance is only around 8% to 9% while the net return of the business is often 25% to 30% - meaning the difference is your's.


The other benefits of management rights – especially with today's

interest rate rises – is that you aren't affected by inflationary pressure in our economy.

With your own management rights business your caretaking income is adjusted to inflation and so is your permanent letting pool income.

Generally, when interest rates increase, a manager receives three benefits:

- Rental values increase and therefore increase a unit owner's return and, subsequently, a manager's remuneration package.
- People are less likely to buy their own homes or purchase owner occupied properties keeping tenants in the rental market and therefore increasing the size of letting pools.
- The interest the manager pays is included in their profit and loss as an expense, which therefore brings down the manager's net income and results in them paying less tax.

Hopefully, this article has created some insight to the intricacies of the management rights industry but we really only have touched the tip of the iceberg. 



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MANAGEMENT RIGHTS

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