



# Onsite and out of mind

What rights do you have when you buy into a community of properties that operate under management rights? CLAYTON GLENISTER

**PROPERTY** investors who purchase units, townhouses or a house in a gated community often engage with onsite managers or caretakers and onsite letting agents. This concept is broadly known as 'management rights'.

This involves the owners corporation or body corporate granting to people – usually a couple – the right to exclusively conduct an onsite caretaking and letting business for owners, and has a significant impact on the property investor.

Management rights are found predominantly in Queensland and to a lesser extent New South Wales.

In these states developers would build a complex, be it a high-rise, low-rise or townhouse complex.

The developer would market their stock to individual owners and then sell, at a considerable price (up to about \$15 million in exceptional cases), the right to conduct an onsite caretaking and letting business.

This 'right' is a contract between the owners corporation or body corporate and the purchaser of the management rights to be the exclusive onsite caretaker and letting agent for a period usually between 10 and 25 years, depending on which state your property exists and the type of building it's located in.

The onsite caretaker and letting agent usually pays a significant sum of money to buy this right and many times their life savings are tied up with the business.

In return the resident unit manager (RUM) receives a salary for performing the caretaking duties, which is dependant upon the size, location, facilities, and amenities that exist for that particular scheme and the frequency which the contract requires those duties to be performed.

In some cases this salary can be large and may well account for the largest single item of expenditure that the owners corporation incurs.

The RUM will also buy a unit in the complex and reside onsite.

This fee is usually increased in accordance with at least CPI (consumer price index) increases although it isn't uncommon to find a provision for a minimum increase of 5 per cent per year in the management agreements.

The benefits of having a caretaker/letting agent live onsite are obvious. They can attend to maintenance and minor repairs to the common property well before the usual tradesperson would be able to attend. They also help maintain security in the complex.

## ARE MANAGEMENT RIGHTS SUITABLE FOR ALL COMPLEXES?

Cindy Harrison from RAAS Rights, a specialised management rights selling agency, says

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complexes larger than 25 lots should have an onsite caretaker and letting agent.

"If the complex has less than 25 lots then it usually isn't very economical for either the owner or the RUM, but once you have about 25 lots, then it really becomes important that the owner's investment is properly managed by someone who lives onsite and has an investment in the building, just like the owners," she says.

The upkeep of the garden and common facilities by the RUM are essential if you want to ensure that your property value is preserved.

No matter the standard of your unit or townhouse on the inside, if the gardens are overrun, the pool is green and the common property is filthy your rental returns will decrease and your capital gains will reduce due to the complex not being attractive to potential renters and buyers.

Herein lies a major advantage of having onsite caretakers and letting agents; they too have a significant investment in the building and are also lot owners, usually owning the manager's lot where they reside together with their initial and ongoing investment in the business.

This means they should be just as motivated as you to keep the building and common property in its best condition.

The RUM has an obvious interest in the presentation of a building, as appearance and facilities will influence the manager's ability to market the building to guests and tenants.

Managers should be concerned with the lawns and gardens so that the building looks attractive. The swimming pool and similar facilities must be clean and pleasant to attract guests.

Garbage disposal, cleaning of garbage bins, cleaning foyers and stairwells, windows and doors in the common areas, barbecues and outdoor areas are all attended to by the RUM on behalf of the owners corporation or body corporate.

The RUM is reimbursed for this work by the caretaking 'salary' (the term is loosely used in the industry, as strictly speaking the RUM is an independent contractor and not an employee).

The onsite caretaker and letting agent receives two income streams from you, the investor. Firstly, as an owner you contribute to the running costs of the owners corporation or body corporate. Therefore you contribute to the caretaking salary. Secondly, if you choose to let your unit through the onsite agent, they will charge you a commission for this service as well as other charges and expenses.

The commission on the rent received is capped by legislation. For example, in Queensland the maximum commission is 7.5 per cent of the rent collected for tenancies longer than

three months and 12 per cent for those units in the holiday letting pool (short-term stays).

In addition to the onsite letting agent charges there are other charges and expenses such as cleaning, linen hire and promotion fees for units that are holiday-let. These charges can amount to up to 45 per cent of the nightly or weekly rate.

It's essential as a property investor that you're aware of all of these commissions, charges and expenses. They must be disclosed to you in the contract that you have with the RUM and these should be read carefully to ensure your returns are preserved.

## INTO THE LETTING POOL OR GO IT ALONE?

Often a property investor is posed with the question of whether to use the services of the onsite letting agent, manage the property themselves or use the services of another real estate agent in the area who specialises in property management.

If the unit is one which is let for holiday purposes almost exclusively, the property

concerns and is in a position to take action. The RUM doesn't need to attend to any maintenance issues or queries that arise for units that aren't within their letting pool and rarely would the RUM assist those guests if the owner of the unit isn't utilising the onsite letting agent. This poses the greatest problem for investors wanting to manage the letting of the property themselves or grant that obligation to an outside agent.

"Never have I seen a RUM willing to sort out problems within a unit when they don't have that unit in the letting pool," says Kim Elliott from Complete Body Corporate Services.

"I can understand that attitude, so if you don't want them handling the management of your unit then you better come up with a solution when a problem arises.

"Don't look to the RUM if you aren't willing to foster their business," she says.

Sandro Zaccaria, an experienced RUM, says its not just the repair and problem sorting service that gives the RUM an advantage.

"Being onsite means we also see marketing trends change more quickly, such as shorter

## THE WAY YOU WORK WITH YOUR RUM CAN HAVE A SIGNIFICANT IMPACT ON YOUR INVESTMENT AND THEREFORE SHOULD BE TAKEN SERIOUSLY BY ANY INVESTOR IN TODAY'S MARKET.

should be placed in the RUM's holiday letting pool. Without doubt the onsite letting agent is best placed to handle this type of letting.

Greeting of guests upon check-in, supervision of guests during their stay and a front-of-house service is a must for those wanting to utilise the returns of holiday rates from their investment unit.

Holiday-makers want as little disruption as possible and don't want to be told by the front desk that their issue "needs to be taken up by the agent who manages the unit down the road".

The major benefit of the RUM over the outside agent for the property investor is that their investment is monitored by a person living onsite and a fellow owner who also shares an interest in the success of the building.

Owners of units which are let for three months or more have the option of managing the unit themselves or having outside agents take up that role.

When items in the common property need repair or attention, the RUM is there to identify and resolve the problem.

Being onsite, the RUM is usually the first person aware of damage, noise or security

holidays and holidays booked at shorter notice."

Zaccaria believes the advantages of using the RUM far outweigh the advantages offered by outside agents.

"For example," he says, "we have just implemented a new voucher system called Australian Holiday Vouchers, whereby holiday-makers can use vouchers towards credits for holidays at a complex. This type of initiative would just not be developed by outside agents who primarily use the property management as an off shoot of their primary business; the selling of property."

In dealing with what he has to do to keep his holiday letting pool owners happy, Zaccaria is very matter of fact: "I know that if I can't deliver to my owners a return that is equal or more income than what they can get as a permanent rental, then I'm going to have trouble keeping them. Besides, if owners are losing money, then I'm losing money."

## THE BAD APPLES

There are, however, traps for investors in using the onsite letting agent, particularly if there has been a falling out with the RUM.

Just like in any cross-section of society, there

are RUMs who aren't particularly good at the jobs they keep. If your unit complex has such a manager, then troubled waters may lie ahead.

How do you find out if this is the case?

If you're currently buying an investment that has onsite managers, then it's integral that you make any purchase contract subject to you carrying out a body corporate or owners corporation search and being satisfied with the results of that search. This will reveal any gremlins that might be brewing underneath the surface.

To best deal with any 'poor performer' manager, it's vital that you keep up to date on what's happening with your investment.

What were the recent maintenance costs for? Are they reasonable? Why was the vacancy rate down last month? What's being done to combat the problem? What forward bookings does the manager have in place for your unit? What new marketing strategies are being implemented?

These are a few of the questions that can be asked of poorly performing RUMs.

If all else fails, the threat of removing your unit from the rental pool should ensure a better

performance. To ensure you have the ability to do so if need be, make sure the Management Authority you sign placing your unit in the manager's letting pool allows you to terminate the services with the *shortest* period of notice possible (ideally 21 days).

Most standard paperwork promoted within the industry requires 60 days' notice – this will be too long to wait before you can give the unit to another agent to manage and works in favour of the non-performing manager.

In some instances, however, replacement of the RUM may be unavoidable, although this is often a difficult and expensive process, depending on the state in which your investment resides.

Here are some useful tips to keep in mind if the complex in which you have your investment has a RUM:

■ Ensure you're familiar with all fees and charges in the *Appointment to Act*.

■ If possible, limit the authority to incur expenses down to a lower level. This avoids any nasty surprises.

■ Keep in contact and be informed with your income and expenses.

■ If your decision is to be in the holiday letting pool, ensure your return is at least what you would receive as a permanent rental (depending on the usage and the impact that it has on wear and tear).

■ If you contribute money towards an advertising/promotion fund, make sure you're aware of where your money is going and whether this is likely to promote better returns and more enquiries for the complex.

There is little doubt that management rights is a concept that will increase in familiarity in every state of Australia in the next 10 years.

The concept can and does work well for every player involved; the developer who receives the sale proceeds, the RUM who buys a business with good returns and the property investor who has their investment managed by a fellow owner in the complex.

The way you work with your RUM can have a significant impact on your investment and therefore should be taken seriously by any investor in today's market. [api](#)

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