



FIRST INVESTMENT

If you're on the fence about buying your first investment, let us share advice on what to look for – and what to avoid.

When you purchase an investment property in a resort under management rights it is important to understand exactly what you're buying into. Several variables can make your investment either a success or a failure. Along with the regular research that comes with purchasing property (e.g. recent sales, condition of the property etc) holiday letting has other elements to consider:

- **Reputation of resort, property or managers:**

What's the reputation of the property and the management team in the local market? Are a lot of units for sale in the same complex? Why? Is the Body Corporate harmonious? Is there an adequate sinking fund?

- **Body Corporate Committee**

The Body Corporate Committee can either make or break a building. The BC committee acts on behalf of all lot owners and manages the budget, building repairs/maintenance, common area renovations etc with both the resort manager and the strata manager.

It is important when buying a unit in any strata title building that the buyer is confident the Body Corporate are acting in the best interest of all owners and have strategic plans in place to ensure the longevity of the building.

Ask to read the committee meeting minutes, understand where the sinking fund is sitting and also the relationship the committee has with managers.

Many new owners and potential purchasers are unclear about their responsibilities as body corporate members. The government has produced a one-stop information guide that provides valuable information about community titles schemes, bodies corporate, the obligations and rights which people have as owners and body corporate members.

- **Outgoings**

Are resort levies and fees reasonable? Are potential rises planned for levy costs?
Are buildings taking a responsible, greener approach to building, utilities and waste management in the Noosa area?

- **Seasonality**

Consider the peak seasons you are buying. Tourism is seasonal so in some months the rental return can be considerably lighter.

Compare the average returns in January and June to see significant differences. Focus on renting your property in peak and shoulder seasons to maximise returns. Work with your Property Manager during off peak months to enhance occupancy and add value.

Holiday Letting vs Permanent rentals

This is the great debate for investors in Noosa. Stay Noosa cannot advise officially as we are not registered Financial Planners, however it all depends what the market is doing at the time.

Currently in Noosa the holiday industry is booming. The domestic holiday market is staying within Australia and traveling to well known holiday destinations.

The international market also considers Australia a safe place to travel so International traveller numbers are also up.

With this in mind it would be safe to assume holiday letting would be bringing in a great return.

However, for those investors who are conservative and want to know exactly what return they will be getting each and every month the permanent option is easier to budget.

Buying and Rights

Management Rights is a very young industry starting on the Gold Coast in the 1970's. Many apartment blocks were built and the Body Corporate companies required staff on site to manage the complexes.

The Body Corporate appointed the Managers and they resided in the buildings. Enquires to rent automatically came to the onsite managers and the Management Rights industry was born. The industry has expanded to become an essential part of Australia's tourism development.

This is how Management Rights Australia explains it:

When a developer builds units or town houses of a reasonable size, it makes sense for the developer to provide for the long term caretaking of the common property (like the gardens and the pool) and for there to be an on-site letting service for owners who might want to let their property. These arrangements are called Management Rights.

People choose to invest in Management Rights businesses for numerous reasons, but you will often hear a Management Rights business described as "A home with an income" ie a business opportunity comprised of a home plus an investment return on the business component of the purchase price.

Often these are significant businesses with significant net income, but in other instances, Management Rights have been chosen by people seeking a home with some part time work; a home that will enable a retiree to keep active or a home that will allow a single parent to be at home with the family. Management Rights is often seen as buying a home that allows for a better lifestyle.

How Do Management Rights Operate? See overpage

How Do Management Rights Operate?

Management Rights is a business that gives the right to the resident owner of a property lot contained within a community living complex, to fulfil the role of Caretaker and to operate a business letting the units within the complex on behalf of non-resident owners to:

- live at the complex as a Resident
- take care of common property on behalf of the Body Corporate as the Caretaker
- let units in the complex on a rental basis as a Letting Agent. Depending on the complex, the type of letting will predominately be either:
 - Permanent (Long Term) Letting
 - Holiday (Short Term) Letting

When you buy Management Rights you are buying the rights contained in contracts (agreements) with the Body Corporate (the collective body of owners within the complex).

These contracts differ from building to building. Sometimes all the rights are in one contract; in other cases caretaking and letting are dealt with separately.

When you purchase, you take a transfer or an assignment of the Rights under those agreements. You will buy either from the developer (off the plan) or from an outgoing manager. Usually you will also buy:

- The manager's unit
- The right to occupy an office/reception area if there is not one contained within the freehold title of the manager's unit
- The plant and equipment necessary to run the letting office and do the caretaking work.

The person who owns the Management Rights is usually referred to as the Resident Manager. As the Manager is in regular communication with owners and/or tenants and is on-site most of the time, the Manager is the most influential person in the complex and is in a position to exercise real leadership.

The Four Components

1. THE MANAGER'S UNIT

The Manager's unit is usually located in the most central position in the complex to allow the Manager to service the needs of residents and guests. Usually the Manager has the exclusive right to occupy another part of the common property to use as an office or reception or alternatively this area will be included as part of the Title to the Manager's unit.

2. A MANAGEMENT AGREEMENT

The Body Corporate will appoint the Manager as the Manager or Caretaker of the complex pursuant to a long-term agreement for a minimum of seven years and often with options to extend the term past that period. The Agreement will provide that the manager carry out certain duties within the complex and for this the Manager will be paid remuneration. The remuneration is usually reviewed in accordance with increases in the CPI index.

3. A LETTING AGREEMENT

Under this Agreement the Body Corporate appoints the Manager as the exclusive on- site Letting Agent for those non-resident owners who wish to appoint someone to let their unit.

Non-resident owners are still free to let their units through an outside real estate agent, however it is the exception that an owner would choose an off-site letting service rather than someone on the spot who has a vested interest in the same complex.

4. THE BY-LAWS

The By-Laws are the rules that govern the operation of the complex and set guidelines for community living. The By-Laws usually contain some very important provisions that protect the Manager's "exclusivity" within the complex as the only person who can operate a Management and Letting Business. They usually provide that no other unit can be used for Management and Letting except the one owned by the Manager.

ARE YOU PERSONALLY SUITED?

When you consider purchasing a Management Rights business you need to honestly assess whether you're a suitable fit to be a Resident Property Manager.

IDEAL SKILLS TO EXCEL AS A RESIDENTIAL PROPERTY MANAGER

People Skills are Important!

You have many bosses in a Management Rights business - every unit owner, particularly if you let their unit on their behalf - and the Body Corporate Committee who is responsible for day to day running of the complex on behalf of the unit owners. Plus a flow of people coming in and out of the complex including suppliers and trades people. You need people skills to excel!

Life Skills

80-90% of people purchasing Management Rights have never done it before but are able to handle the job competently by drawing on their life experiences. Most have had families, bought and sold property and had alternative employment experience.

A common sense approach plus diplomacy encourages stakeholder support in the complex: property owners, the Body Corporate Committee and the Body Corporate Manager and ensures that appropriate business relationships are established with tenants and suppliers.

Can you work with your partner?

Many Management Rights owners operate as a "Mum and Dad" business or family team. You must be confident that you can work with your partner every day of the week.

Computer Skills

Whilst not essential, it is preferable to have some computer skills when entering Management Rights. Excellent software programmes exist to assist with the letting business and Trust Account. On-line marketing systems exist to find tenants for permanent letting or guests for holiday letting.

Consider Some ‘NEGATIVE’ Aspects:

Multiple Bosses

The collective body of owners within the complex will elect a Body Corporate Committee to represent them and you will be answerable to this Committee. In addition you will be required to deal with tradespeople and the many other people who flow through the complex. You must therefore have reasonable people skills and enjoy dealing with people.

Servant of the Body Corporate

The bottom line is that you are there to serve the Body Corporate, just as a solicitor, accountant or bank manager is there to serve the needs of their clients. As Bob Dillan said, “We all have to serve somebody”. If you are not comfortable with this concept, don’t buy a Management Rights Business.

Problems stay with you – Your home is your business

Most people, when they have a bad day, simply retreat to their home and after a couple of beers or wines, the problems are soon forgotten. In a Management Rights complex the problems are still all around you as your home is your business and, in the case of a high-rise complex, the problems are also above you. You have to be able to live with this fact.

YOUR RESPONSIBILITIES

Duties of a Resident Manager include:

- Caretaking as defined in a documented agreement between the Resident Manager and the Body Corporate
 - Mowing lawns and gardening maintenance
 - Monitoring the Body Corporate By-Laws
 - Pool maintenance
 - Monitoring the general safety of the complex; and
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- Letting
 - as defined in a documented agreement between the Resident Manager and the Body Corporate
 - as defined in a documented agreement between the owner of each individual lot for which the manager is undertaking a letting service

WHERE DOES THE MONEY COME FROM?

Income from the Business

Income from a Management Rights business ranges up to a 20% return on your purchase price of the business component of your investment. This income includes:

- Remuneration from the Body Corporate for the caretaking role
- Commission from the letting of units on behalf of non-resident owners
- Miscellaneous maintenance activities on behalf of tenants, owners and the Body Corporate

Monies paid to you the Body Corporate for Caretaking

The range of remuneration depends on the Manager's duties. It also depends on whether the caretaking agreement entered into with the Body Corporate is a "do" Agreement or a "supervisory" Agreement. Under a "do" Agreement the Manager must undertake all tasks within the complex that a Caretaker/Manager would undertake, down to changing light bulbs and mopping the reception floor. With a "supervisory" Agreement the Manager will do very little and often nothing other than supervise everyone else who carries out caretaking duties within the complex.

The range of remuneration for these services varies, but a realistic guideline would be between \$800 per lot (dwelling) per annum up to a high of approximately \$1,500 per lot per annum and will depend on many factors. The Caretaking Agreement may provide for the Manager's remuneration to increase annually by a fixed %, the Consumer Price index or provide for whichever is higher.

Importantly, the remuneration from the Body Corporate is secure income; it is paid monthly, in arrears, on a nominated day of the month.

Income from the letting of units

On average, commission on permanent rentals in a complex is 7 to 8%. In a holiday let complex the average commission is 12%. In order to collect this income you must obtain a licence to act as a Letting Agent and have a signed agreement with the lot owner (Property Agents and Motor Dealers Act Form 20a) before letting the unit on behalf of the owner. The PAMD Form 20a must state the commission and other relevant fees and charges.

Owners don't have to let their units; they can live in them or lock them up. If an owner chooses to use the Manager's letting services the owner pays commission from the rental collected by the Manager. You "pay yourself" at the end of each month.

Extra income

You also have an opportunity to earn extra income from tenants and owners by providing such services as cleaning, repairs and maintenance and gardening.

In the case of holiday letting complexes, other income is derived from linen hire, hire of equipment, the sale of tours and theme park tickets.

A LOT TO THINK ABOUT!

There is a great deal to consider with your first investment property. And we're here to guide and share our extensive experience.

Stay Noosa grown out of a need in the community for transparency in real estate especially sales involving holiday rentals and investment properties. Our very personalised service aims to give you peace of mind.

Start with an informal chat with Liam or Russell to talk about your needs and thoughts.

Contact us on ph 5447 5277

