



mikephippsfinance

management rights, motel and accommodation specialists

## Mike Phipps Industry Profile

## About Us

We are a boutique finance brokerage and consultancy service with a focus on client service and access to customized finance solutions. As experienced bankers with contacts among both the professional and financial services industries we can cater for a wide range of our client's requirements. While we specialize in management rights and accommodation finance a full range of products and services are available.

- ◆ Finance for Management Rights and Accommodation Assets
- ◆ Freehold and Leasehold Motel Finance
- ◆ Initial Assessment of Funding Requirements inc Off The Plan
- ◆ Loan Refinancing and Renegotiation
- ◆ Assistance with Lender Annual Reviews
- ◆ Business, Commercial and Equipment Finance
- ◆ Housing and Consumer Finance
- ◆ Case by Case Consultancy

With access to all lenders within the management rights and accommodation sector we will ensure the appropriate funding structure is negotiated for your particular needs. In most instances raising new finance or refinancing existing facilities is provided at no cost to you, in respect of our services. With pressure on costs, lenders are happy to pay a fee to industry experts to ensure transactions are managed in a professional manner. This is the service we offer.

## Personal Profile

Mike Phipps has been a career banker for more than 30 years. Over recent years he has specialized in management rights and accommodation finance. Mike was previously National Business Development Manager, Management Rights and Strata Sector for a large Australian bank.

Over many years Mike has built a network of industry contacts, advisors and advocates. He is uniquely placed to assist both new entrants and existing operators in all facets of management rights and accommodation funding. In an ever more complicated and regulated banking and commercial landscape businesses need well informed, timely and accurate assistance. Mike is able to facilitate smooth transactional capability through an intimate knowledge of the industry and the people who operate within it.

Mike is a Senior Associate of the Financial Services Institute of Australasia (FINSIA). He is a member of the Australian Resident Accommodation Managers Association (ARAMA) and a member of the Mortgage Finance Association of Australia (MFAA). Mike speaks regularly at industry seminars and forums. He has been a guest speaker at various ARAMA and other industry information events. Mike presented and was a forum member at the 2008 Australian College of Community Association Lawyers (ACCAL) national conference.

## Our Service

Our process is highly personalized. If you are new to the industry we will take the time to assess your requirements, explain the purchase and finance process and provide a summary of your likely purchasing range. Introductions to industry professionals will be undertaken and constant support throughout the purchase process is provided.

We understand that the management rights purchase process can be complicated. Our service ensures that each step is closely monitored and any possible problems quickly identified and rectified.

Post settlement we remain in touch to ensure your banking relationship evolves smoothly. It's very reassuring to know that even if your bank manager moves on you will continue to have a trusted advisor providing advocacy on your behalf.

## Management Rights – What Am I Buying ?

In essence management rights are simply the right to provide caretaking and letting services within a community title scheme. Also known as a strata title scheme, a community title scheme is generally made up of a number of individually owned lots located within a defined development that encompasses areas of common property. These schemes can include :

- High rise holiday buildings with swimming pools, gyms and tennis courts
- Inner city apartment blocks
- Suburban town house developments
- CBD short term stay apartments
- Student Accommodation
- Off the Plan

Residents in these buildings could be holiday makers, corporate travelers, permanent rentals or owner occupiers.

When you purchase management rights you are typically acquiring:

- Ownership of a unit in the building. This may include title to an office / reception area. Conversely, the office / reception may be owned by the body corporate and provided to the manager for use on an exclusive basis.
- A contract with the body corporate to provide caretaking services for the property. Basically the resident manager is paid an agreed salary to ensure certain duties are carried out on a regular basis. Gardening, pool cleaning, cleaning of common areas and monitoring of by-law compliance are typical duties.

- An agreement with the body corporate to allow the resident manager to provide letting services to unit owners within the building. This agreement is exclusive insofar as the body corporate will not allow any other party to offer letting services from a unit in the property. The resident manager generates income via letting commissions and associated charges.

## Off the Plan (Greenfield Sites)

Start up purchases either off the plan or direct from the developer should be approached with a clear knowledge of the business model. In most cases lenders prefer experienced management rights operators although other complimentary experience is generally well regarded. Off the Plan purchase contracts will be predicated on a projected net profit which should be the subject of an accountant's report, inclusive of projections and assumptions. The management rights contract should contain appropriate "claw back" provisions to ensure that any short fall in initial letting pool numbers is adjusted in terms of the purchase price. Generally the contract will specify an adjustment amount per unit for any letting pool shortfall. The purchaser then provides the stakeholder (usually the vendor's solicitor) with a bank guarantee for the shortfall (retention amount) on the basis that provided the letting pool shortfall is made up within an agreed time frame (retention period) the balance purchase is paid via a call up of the bank guarantee. If there is still a shortfall at the end of the retention period (the adjustment date) the bank guarantee sum is partly allocated in line with the number of units achieved in the letting pool during the retention period.

Off the Plan contracts should specify a minimum letting pool number in order for the transaction to settle. Generally this is the minimum number of units required to make the proposition viable.

There are a number of industry experts who specialize in the marketing of Off the Plan management rights. We are happy to place potential purchasers in touch with these industry professionals.

## How Are Rights Valued ?

The price asked for a management rights business will typically be comprised of the value of the unit (manager's lot) and the value of the business. The unit price will reflect market values for similar manager's units across a comparable range. Also reflected in the unit price will be any inclusion of an office or reception area. It is not unusual for the manager's unit to command a slightly higher price than other units in the building due to considerations such as exclusive access to common areas.

The management rights value will be determined by the application of a multiple to the net profit for sale purposes. For example, a net profit of \$200K at a multiple of 5 times would equate to an asking price of \$1M for the business. If the unit was valued at \$500K then the total asking price would stand at \$1.5M. It is essential that property value and multiple trends are taken into consideration when purchasing management rights. With a significant sales data base we are able to provide context for intending purchasers.

## Commonly Used Terms – Know the Jargon

See attached

## The Purchase Process – Who's Who in the Zoo

Purchasing management rights can appear complicated and at times confusing. It's essential that all parties work in a coordinated manner and share information throughout the process. Our job is to ensure that everyone is "on the same page" at all times. Think of us as the policeman directing traffic and ensuring there are no nasty accidents. Most importantly, the services of industry experts should be used at all times.

### The Sales Agent :

Will be a management rights specialist undertaking predominantly management rights sales. Provides detailed industry advice and a reliable, knowledgeable sounding board. Assists in negotiating the contract and ensuring your needs are met.

### The Accountant :

Highly experienced in management rights financial statements and operating ratios. Will provide independent assessment (verification) of the net profit for sale purposes.

### The Lawyer :

Community titles law focused with a detailed understanding of industry specific legislation. Will provide due diligence in respect of the validity of the management and letting agreements.

### The Valuer :

Experienced in manager's lot and management rights business valuations. Will have up to date market information and a significant sales data base. Will understand the industry and the asset at the micro level.

### The Financier :

Management Rights focused with industry specific credit policy and product. Will provide an appropriate finance package including lending, insurance, merchant and transaction banking products.

We will ensure that you are introduced to a range of industry experts in these critical areas. From there, the choice is yours.

Intending management rights purchasers should be aware that operating conditions, availability of finance, licensing requirements and legislation differ from state to state. We are able to provide services and introductions across all jurisdictions.

## How Much Can I Borrow ?

Typically, lenders will apply one of two gearing calculations to management rights funding :

Unit value x gearing ratio – usually 80%

Management Rights Value x gearing ratio – usually 65%

Or

Unit and Management Rights Combined Value x 65% to 75% gearing.

Experience suggests that working on an “all up” gearing ratio of around 70% is a good place to start. As an example the calculation then looks like this :

- Unit Value \$400,000
- Management Rights Value \$700,000
- Costs (say 5%) \$55,000
- Total Required \$1,155,000
- Less \$385,000 deposit + costs
- Loan Amount \$770,000 being 70% of the combined purchase price

Of course, gearing is only one part of the equation. Lenders are just as interested in the quality of the asset, the borrower’s previous work experience and the capacity of the asset to service debt. In particular most experienced management rights lenders will consider the following issues when assessing a loan :

- Balance term of the agreements (including options)
- Sustainable net profit
- Future prospects or upside
- Debt Servicing Capacity
- Opportunities to increase net profit
- Composition of the letting pool
- Operating business model
- Legislative Risk
- Economic Trends and Drivers
- Qualifications of the intending purchaser

Before your application is presented to a prospective lender we will go through a thorough assessment with you. Our service ensures that your application is presented in the best possible light. Intending new entrants to the industry should not be deterred by not having had a management rights previously. In most situations “life experience” and an ability to communicate effectively are the most important qualifications.

## Licensing and Compliance

In most jurisdictions operators are required to be licensed and to operate a regulated trust account. For example, in Queensland resident managers must obtain a Resident Letting Agent's License via the Office of Fair Trading (OFT). There are certain licensing educational requirements which must be met prior to the license being granted. Study for the prescribed modules is available via several training bodies as either classroom or remote learning. The modules are not difficult and can be completed in a 5 day course if necessary. An application to operate a trust account is also required to be lodged via the OFT. Without an OFT approval banks are not permitted to allow a resident manager to operate a trust account.

Legislation such as the Property Agents and Motor Dealers Act and the Body Corporate and Community Management Act provide reliable legal frameworks for operators within the industry and underpin industry confidence going forward.