

Who's Minding the Shop? The Case for On Site Management

Those who know me well will attest to my obsession with detail. I think the psychiatrists call it being anally retentive, not a particularly pleasant vision to be sure. The managing director calls it a mild mental disorder manifesting itself in a capacity to be a complete pain in the posterior. I justify the way my head works by a need to be highly organised and a desire to drift off each night knowing those I rely on and trust are equally diligent. Yes, my desk is uncluttered and everything has its place. Failure to return said thing to its rightful spot will be punishable by an infantile dummy spit. Oh, the joy of being self-aware!

Needless to say if I am paying for a service and that service is substandard I am a nightmare to deal with. Conversely, I am blind to costs and fees when service is spectacular. Which, in a roundabout and confessional kind of way leads us to property management.

I've owned a bit of investment property over the years but never a strata titled residential lot. We have always used real estate office rent roll based property managers and, with one exception, the experience has been ordinary at best. The reality is that these are businesses driven almost purely by profit with the major overhead being staff. As a result, property managers are expected to look after more and more properties with, to no great surprise, a drop in service standards. It is also true that unlike a strata scheme, owners of properties within a rent roll generally do not know each other so there is seldom an opportunity to present a united front when standards are not met.

Let me be blunt. I would simply never buy an investment unit in a strata scheme unless there was on site management. You can have your outside agents, Air BnBs and Stayz, I want someone on site who cares, has skin in the game and knows who's coming and going. I want someone who understands the by-laws and what is acceptable.

The idea of abdicating the supervision of my investment to a third party with no real commitment to the property when on site management is available is alien to me. Even corporate owned management rights present a better management model than outside or on-line options. These businesses have paid big money for the management rights and understand that the value in the business is, to a large degree, influenced by their relationship with owners. Again, the capacity of the body corporate to influence service standards as a group provides a superior management model and level of investment protection not available via other management models.

All this begs a number of questions. If, as I propose, management rights is the best way to provide caretaking and letting services in a strata scheme, why do owners sometimes use other means of letting their property? Why do bodies corporate sometimes decline to extend agreements and why does the assignment of those agreements to new managers sometimes take on the more unpleasant aspects of the Spanish Inquisition?

In my experience the reasons are almost as diverse as the myriad personalities involved. Rather than try to read the minds of a broad range of investors let's focus on the most difficult type we can think of. The anally retentive control freak with an obsessive organisation and control disorder. You met him in the introduction.



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Let's start with value for money. Owners of units pay a resident manager for two core services. Caretaking is covered by levies while letting services are covered by commissions and the charging of a variety of fees for services. Provided I feel like I am getting value I reckon all is well. That value is not just the money that hits my account each month, it's the presentation of the property, the quality of the tenant, the occupancy rate and the level of communication I get from the manager. If I feel like the manager is really making an effort and that's communicated in a positive manner that, for me, is a big part of the value equation. Take me for granted, fail to justify charges and skip the communication and I am already looking at other options.

Now, things are ticking along and the manager wants a top up. He has failed to stack the committee with compliant and easy going owners and I'm the chairman. Poor buggers! But no, the communication has been great, the place looks a picture and while returns are a bit below expectations the manager is sharing the pain with a few temporary charge concessions. I know a top up will add value to the business and make it more saleable. I don't want to lose a great management team but I know a longer agreement will provide financial stability and certainty for them and it seems a just reward for their efforts. Top up strongly supported at general meeting and gets approved. Fantastic.

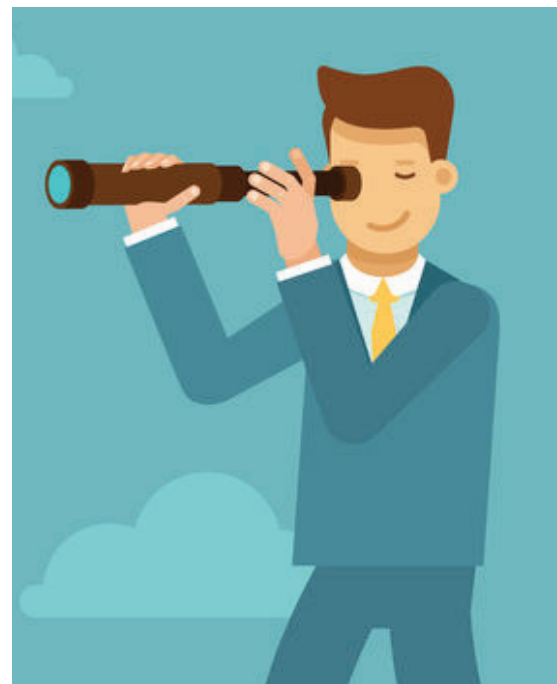
A year passes and the manager comes to me. We are selling and we would like your support. Since the top up things have moved along smoothly, the property is performing and the relationship is great. The managers have continued to care about the place and have maintained effective communication. They have resisted the temptation to implement unsustainable practices just to get the net profit up for the impending sale and are doing a good job. Yes, sad to see you go but happy to support a transition to a new manager. How about we meet your sales agent and have a chat about the standard you have set and the expectations of the committee. Let's make sure that some poor misguided buyer doesn't spend a lot of money only to find the assignment process a nightmare and our expectations inconsistent with theirs. I will brief my fellow committee members and let's work together to ensure we help bring a competent new team into the property.

Seems all so obvious doesn't it? But, I hear you say, Mike, you're dreaming. Things don't work like this. People are unreasonable, maybe crazy. I say it all comes back to one core principle. Communicate.

Communicate your vision for the building. Communicate your successes and your challenges. Communicate your long term plans. Seek input and buy in from your committee. Show your owners you are not just minding the shop, you are managing it. And if you are reading this as a committee member beware of false prophets. The cottage industry of certain lawyers and consultants creating assignment hurdles and then charging to solve them seems to be thriving. I am all for education and qualifications, but we are not asking resident managers to maintain and manage a nuclear power plant for goodness sake.

Footnote. While I am not an owner in any residential scheme I have the dubious pleasure of being on two commercial scheme committees. As they say in Bali, Same Same, But Different.

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