

WHAT ARE THE PREREQUISITES TO PURCHASE?

before purchase

1 Search for the right property

A discussion with a NAB Management Rights Specialist can give you a preliminary overview of your financial position and provide a guide to your level of borrowing. This will help you to search for properties in the market according to your preferred location and type of unit complex (ie permanent or holiday etc). This discussion does not represent a pre-approval as there can be some variables in looking at the value of the Management Rights and the residential unit.

Generally the greater the value of the Management Rights, the higher the income level will be. This means that you have a greater capacity to afford repayments. At the same time we acknowledge that there can be a long lead-time to actually entering the industry. It will usually mean that you have to liquidate your major assets and make a commitment to relocate. You need to know what you can afford before you make these commitments.

We are happy to discuss your borrowing levels and indicative repayments so you can gain comfort with your planned purchase, knowing the surplus money you have to meet living costs etc.

2 Consult your Accountant and Solicitor

Arrange a preliminary meeting with your specialist Accountant and Solicitor. Your Accountant can discuss the appropriate legal structure to operate under (ie sole trader, partnership, company and/or Trust). This will vary according to your individual circumstances. In the case of Companies or Trust these can be established before you sign contracts for the purchase etc. Both the Accountant and Solicitor can provide you with matters to be attended to and expected time frames that they require to complete their duties.

From a legislative perspective, you will need a residents letting agents license under the Property Agents and Motor Dealers Act 2000. These can be obtained in various ways that range from online learning, done at your own pace, to scheduled on-site courses that run for a week.

3 Keep up with the latest in the industry

Look to become a member of industry groups such as ARAMA to gain a broader knowledge of the industry.

upon selecting a suitable management rights business

1 Finalise the legals

Discuss the contract with a solicitor who is a specialist in the industry. You can be protected by ensuring that the appropriate conditions are included in the contract and if you have already arranged for your legal structure to be established, there should be no delays in preparing a contract with the correct entities as purchasers of the unit and Management Rights.

2 Engage your Accountant

You should speak to your accountant to prepare a verification report that confirms the accuracy of the profit figures provided to you by the vendor. Your Accountant does not need to complete this report until you have finalised the negotiation of the contract with the vendor. We will also require the completed report as part of the loan application.

3 Let us know your purchase details

Once you know the details of the purchase, we can start a formal application with the borrowing structured to your requirements. We'll need to know the details of what you are buying in terms of the contracted price for the Management Rights, Managers Unit, Profit figures, whether the Accommodation or Standard module applies, number of units in the complex and letting pool, permanent or holiday letting etc.

prior to settlement of the business

1 Solicitor will complete a due diligence report that is presented to the bank.

2 Apply to the Office of Fair Trading for an authority to operate a Trust Account and complete the Restricted Letting Agents licence (if not already done).

3 Determine the software program that the business will operate to manage the payment of income from tenants and expenses. This will usually be done in conjunction with your Accountant.

4 Review the level of insurance that is required in terms of Professional Indemnity and Public Liability, Life Insurance, Income protection etc. We can offer an insurance plan that can be tailored to your business needs through our wealth management arm MLC.

5 Arrange your Trust and General accounts, EFTPOS facilities and electronic payment options with us. In terms of your total loan package, insurances and EFTPOS, we have discounted packages that relate solely to the Management Rights industry.

like to know more?

For all your Management and Letting Rights requirements, speak with one of our Management Letting Rights Specialists.

Or contact your local NAB Business Banking Manager and they'll put you in touch with one of our Specialists.

You'll find a business card enclosed in your folder.

FOR THE BUSINESS YOU WANT

management and letting rights

SPEAKING YOUR LANGUAGE

When you're managing a business with specific financial needs, you need to be able to speak to someone who understands your industry.

We've been a long-term supporter of the Management Rights industry, providing financial services for over 20 years. We understand that this is a unique industry and have a dedicated team of Management Rights Specialists who can talk to you about your situation and needs.

Our team regularly participates in information seminars where specialists discuss the general issues that you need to be aware of when entering the industry. In addition to that, industry groups such as Australian Resident Accommodation Managers' Association (ARAMA) are a source of contact for anyone looking for information about the industry.

With our team of industry specialists we can provide you with a flexible and competitive finance solution for your Management Rights requirements.

This brochure is designed to give you helpful information and tips about Management and Letting Rights and to let you know more about how we can assist you in the process.

getting the right advice

As the Management Rights industry is unique, it's important you only engage the services of professionals that are specialists in the industry (eg Lender, Accountant, Solicitor, Real Estate Agent and Finance Broker).

Some of the things specialists should know:

- Any **Accountant** that you engage should have a sound knowledge of the industry and know recent trends in terms of what the business is worth and what tax related issues you need to address (both in the formation of the business and ongoing matters).

More importantly, your accountant is your eyes and ears in looking at the business to confirm that the profit figures you have been provided with can be achieved and have not been modified to present a better picture. They can also gauge industry benchmarks to identify relative income and expenses in comparison to similar size Management Rights complexes.

- **Solicitors** who specialise in Management Rights will have experience with caretaking and letting agreements – these are the contracts that you have with the Body Corporate entitling you to act as manager and letting agent for a community title development.

The caretaking agreement also provides a designated income for an agreed term. These agreements are your lifeline to having a business and their importance cannot be subject to a cursory glance.

- It's important that your **lender** understands your industry to tailor the right financial solution to your business requirements. With our team of Management Rights specialists you'll have a single point of contact and someone with the experience, insight and understanding of your industry.

WHY CHOOSE A NAB MANAGEMENT RIGHTS SPECIALIST

Before taking anyone's guidance on something as important as your business, ensure they understand your business and the industry you're in.

NAB's Management Rights Specialists offer this expertise and other service benefits including:

- Discounted loan packages relating solely to the industry. These can extend beyond your traditional loans to include all aspects such as EFTPOS and Professional Indemnity cover.
- Unique proposals. We assess each case and customise a package to your individual needs. Our Management Rights Specialists are not paid a commission – our proposal is based on what is best for you.
- A package that is supported by your Accountant in terms of providing the best package for after tax benefits and cash flow requirements.
- Providing a comparative offer or second opinion if you are in discussion with another lender or finance broker.

- Fast decisions made locally.

We can also provide you with:

- Property valuations. Registered valuations are only required in limited cases depending on the purchase price.
- Lending for Management Rights purchased 'off the plan'.
- Loan documents prepared in house without the need to engage external solicitors.
- The convenience of establishing all your banking requirements in the lead up to settlement. This avoids any shortfalls or problems at settlement as everything is in place.
- A direct point of contact with a Business Banking Manager.

a full range of financial solutions

When running a business there are many things to consider from having the right funding in place for future growth through to having adequate income protection in the event something happens to you. Our Business Banking Managers can assist you with all your business and personal financial requirements to help achieve the business you want.

WHAT IS MANAGEMENT RIGHTS?

Management Rights is a business where you look after the common property of the complex for the body corporate by carrying out designated tasks. These can be daily, weekly, monthly or annual jobs contained in a caretaker's agreement with the Body Corporate.

Another component of the business is to manage the letting of units in the complex (for either permanent or holiday letting) on behalf of the unit owners. Unlike a Real Estate agent who can also run this letting task, you'll usually own a residential unit within the complex and live on site. The Body Corporate must authorise you to do this. At the same time you can provide other services to the owners and occupiers of the units such as cleaning, gardening and maintenance.

- 1 Caretaking Fee** – this is paid to you by the Body Corporate. This is usually paid to you on a monthly basis and may be adjusted for example annually in line with inflation etc. In return for this you are required to complete all duties and responsibilities outlined in the caretaking agreement – things like the cleaning of pools, mowing lawns, gardening, cleaning paths, putting community rubbish bins out, locking/unlocking community areas such as gyms, tennis courts and BBQ areas.
- 2 Letting Income** – this is the portion of income that relates to a fee for the letting of units as well as fees charged for providing other services to unit owners or occupiers. The income will vary depending on the type of use of the units in the complex placed with you for letting, that is, for either – permanent or holiday letting:

- **Permanent letting** covers long-term tenancy (usually a minimum of six monthly agreements) where this is the tenant's residence. This generally provides a stable income based on the higher occupancy of the unit and the Management Rights owner receiving a set fee from the letting income. Other income can sometimes be received from cleaning property when a tenant moves out, general handyman tasks. You will usually screen potential tenants, collect rental and operate an office during designated hours.

However, not every unit owner may engage you to be their Manager – some units may not be available for letting (owner occupied or lock up) or they may be managed by outside agents.

Since this is a business you'd expect it to generate profits, which are used to meet the cost of operating the business, servicing any borrowing costs and covering your living costs. This income comes in the form of a Caretaking Fee and Letting Income.

- **Holiday letting** relates to short-term stays by people requiring accommodation that ranges from one night to several days or weeks. In addition to collecting income for letting this unit on behalf of the owner, you can also receive additional income for cleaning rooms in readiness for the next occupant, linen hire, commissions for tour bookings, phone rentals (PABX) etc. Income will vary throughout the year according to how many nights rooms were occupied, room prices (higher over Christmas, Easter and School holidays) and the number of units that you manage within the complex.

You also need to look at how you can market your complex to maximise the potential income to both yourself and the property owner.

Your role is to service the needs of everyone in the unit complex, whether it's managed by yourself or not. This can be a simple thing like providing people with directions to local attractions.

WHAT AM I BUYING?

When you look to enter into Management Rights there are generally two components:

- 1 The Managers Unit** – this is a unit within the complex that you can live in. The office or reception area may be located within the unit or on the complex land. In addition, selected storage or other use areas may be included. It is important that the unit and other rights obtained give you the ability to effectively operate the business. This may also impact on the value of the Management Rights as a whole. You should discuss the impact of this with your Accountant and Solicitor before you sign a contract.

- 2 Management and Letting Rights** – what you are buying is a 'multiplier' or capitalised return on historic or projected profit results. In determining if these profit figures are an accurate representation of business performance, your bank will require an Accountant to provide a verification report. The Accountant will view the financial records provided by the vendor and confirm that the profit figures tabled to you are accurate. This provides your bank with confirmation that the profit figures can be relied upon. From the purchaser's perspective, it also gives them assurances of the viability of the business to meet living and borrowing costs.

calculating profit

The profit figure becomes the base level in determining the purchase price of the business – this is done by applying a 'multiplier' of that profit.

For example, a business reflecting a profit of \$150,000 per annum, with a multiplier of 4.75 times, would sell for \$712,500. The multiplier is not a set number and is affected by several variables, these include:

- 1** The location of the unit complex and the demand associated with that location – such as a holiday complex on the waterfront, that is in close proximity to local shopping precinct would carry a higher multiplier than something a few kilometres inland.
- 2** The number of units in the complex and letting pool – a larger unit complex with more units available for letting (ie not owner occupied) is likely to generate higher profits. Conversely a smaller unit complex may have a lower multiplier and the loss of a unit from your letting could have a bigger impact on your profits.
- 3** Permanent or holiday accommodation.

As part of the purchase of this business, you will also be buying a contract with the Body Corporate which will require you to carry out the caretaking duties. This is in exchange for the caretaking fee from the Body Corporate. The contract will also authorise you to act as letting agent for the complex. The caretaking and letting agreements may be one agreement or separate agreements. The term of this agreement depends on which module the Body Corporate has adopted. The term cannot exceed 10 Years for the Standard Module and 25 years for the Accommodation Module.

This agreement provides you with the surety to operate this business (provided you meet the terms of the agreement) for the agreed term. This agreement gives both the purchaser and the lender comfort in knowing the business may exist for the term of that agreement.