



## MANAGEMENT RIGHTS

***The intention of this article is to provide a brief overview of the operation of Management Rights in New Zealand. There are many variables in the way these businesses operate and, it is beyond the scope of these notes to cover all of those. Suffice to say, that Management Rights have been operating in Australia for many years, often on a smaller scale by ex-pat Kiwis but also on a large scale by publicly listed companies.***

Essentially the operation of Management Rights is the operation of an accommodation business, similar to running say a motel. Usually the units or apartments are let as casual travellers accommodation, however in some cases they are let as residential tenancies.

The units or apartments are usually on their own titles, with the collective owners making up what is called the Body Corporate. In Australia, where the industry is regulated, most contracts operate on more or less the same basis. In New Zealand, at least in these early days, the industry is not regulated and subsequently there are many variables and different types of contracts.

The main difference between operating under this arrangement, compared to say leasing a motel or any other building, is that the Manager is not paying a set rental. The revenue is split between the Owner of the apartment and the Manager, with the costs of operation being shared between them. The income for both the Owners and Manager will therefore vary depending on the tariff and level of occupancy for the apartments. This can be less onerous for the Manager than a set rent when business is slow, however when it is brisk then the holder of a lease on a set rental would reap the benefit of any revenue above expectations.

The Manager's share can be anything from 10% to 50% of accommodation receipts. The split of revenue between the Owner and the Manager varies according to how the operating costs are allocated. Typically, the Owner would receive directly the bills for rates, insurance and electricity. The Manager would account to the Owners on a monthly basis with a statement outlining the revenue from the apartment, less the Manager's share and less other items such as proportion of common area electricity, telephone line rentals, Sky TV and in many cases consumables and cleaning and laundry services. The Manager will generally pay the cost of operating his own business, including office expenses, phone charges, cleaning and laundry costs (depending on the split), accountancy, bank charges, postage and stationery etc. The Manager may also earn additional revenue from ancillary services provided directly to the guests, such as valet services, arranging of transport and provision of additional food and beverages and commission on the sale of third party tourist activities.

The Owners would also pay an annual Body Corporate levy, which would contribute to overall Body Corporate costs, including payment of either a Manager's salary or remuneration for looking after the common areas of the property. The Owners are usually levied for a sinking fund for repairs, chattel replacements and refurbishment as required. A small percentage can also be levied against Owners income for advertising and marketing. Often this is topped up by the Manager who naturally has an incentive to promote the property.

The security of the Manager's tenure can vary. Ideally, the contracts would be secured by way of a three-way relationship. The Manager would have a long term contract with the Body Corporate and, the individual Owners are bound by the Body Corporate rules and constitution. Each Owner then has an



individual contract with the Manager, drawn up within the parameters of the Body Corporate – Manager contract.

In most cases, the Owners have some rights to use their own apartment and can if they wish withdraw from the letting pool. Often they are restricted from making private arrangements for the alternative letting of their apartments. In such cases, they can live in them or leave them empty. In purchasing a Management Rights business, there can technically be a risk that the letting pool would dwindle, however in reality this is seldom the case. Anyone wishing to own and occupy an apartment, would probably look for a better environment than that provided by a managed apartment complex. A recent trend has seen agreements which are secured by individual registered leases from the Owners to the Manager, providing the manager with total security of tenure.

In addition to the purchase of the Management Rights contracts, the Managers usually own their own apartment as well, however there are some exceptions.

There has been some resistance in New Zealand to this method of operation, possibly due to a lack of knowledge and understanding. This has created some imbalance in the market, resulting in some very good returns for those who do take the plunge. Like the lease of a motel, the businesses will often change hands a number of times throughout the tenure of the contracts. The value of the contracts will remain relative to the profits generated and also to the prevailing rate of return accepted by the market at the time.

Borrowing can be more difficult in this situation. In the case of a motel lease, this is usually registered against the title and can be mortgaged by a lender. It is more difficult to secure borrowings against Management Rights, other than of course the freehold title to the Manager's apartment. Banks in Australia commonly lend 50% to 60% of Management Rights contracts, so hopefully the New Zealand banks will soon catch on to the concept. (The reluctance of New Zealand banks to lend on Management Rights is ironic when considering most of them are Australian owned.)

In summary, the industry offers good returns and in many cases has advantages over the more traditional ways of operating in the accommodation industry. We expect to see the growth in the New Zealand market continue in the future.

*Kelvyn Coffey is the Principal of Coffeys Tourism Property Brokers Ltd based in Christchurch. He has specialised in the sale of tourism properties since 1984. He can be contacted at [kelvyn@coffeys.co.nz](mailto:kelvyn@coffeys.co.nz)*