

# Separating to sell



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**With the changing economic conditions over the past few years, it has become increasingly difficult for owners of certain types of management rights businesses to sell their unit and business together.**

Problems arise where the caretaking and letting agreements require the manager to own and/or reside in a unit in the complex and:

- the business is netting a relatively low net profit; and
- the value of the unit is disproportionately high in comparison to the value of the management rights business.

This has been a problem in small to medium size complexes where the value of the manager's unit has increased dramatically but the income of the business has barely changed or increased at a much lower rate. This has, in many cases, made a combined purchase of the unit and business unviable.

## **What can a manager do in such a circumstance?**

Inevitably the question is almost always, "can I separate the business from the unit and sell them both separately?"

### **The answer?**

Put simply, the answer is yes, provided that everybody is happy to do so, and that doesn't just mean the manager. In most cases, the owners will need to vote on such an arrangement at a general meeting. Rather than diving into the mechanics of how that can be achieved the first question that should be asked is whether this is a good or a bad idea. Like most things in life, it depends on a vast array of factors. One that immediately springs to mind is the question of service.

### **Can a manager living off-site offer a high standard of service to the building and owners?**

Management rights is, at its core, a service industry, and a manager that resides on-site is thought to be in a unique



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position from which to offer a far better service than someone who is not. That is why lot owners will usually have a preference for an onsite manager over a manager who resides off-site.

A big selling point for a resident manager is that as a fellow resident the manager will be very careful about the types of tenants allowed to rent units and that the manager is always around the complex to deal with issues as they arise, at whatever time of night or day.

### **Is this true?**

For bigger buildings almost certainly. For small buildings, the answer to that question is more nuanced. It will depend on the layout of the building, the length of time the caretaking duties are expected to take, the number of lots in the letting pool (if any) and of course the skill and dedication of the manager.

### **What is the answer?**

Well, in my view, in the case of small buildings, it comes down to a question of service. If you have a good manager that is providing a high level of service, then it won't matter whether they're living on or off-site. The same can be said for a bad manager, if they're providing poor service then living onsite won't make them any better.

In the past, we have had considerable success in achieving the above for clients and we are generally able to arm them with a strategy for achieving the outcome sought.

We expect that given the continuation of the current economic conditions, there will be many more managers of small to medium size management rights businesses looking closely at this option. ■