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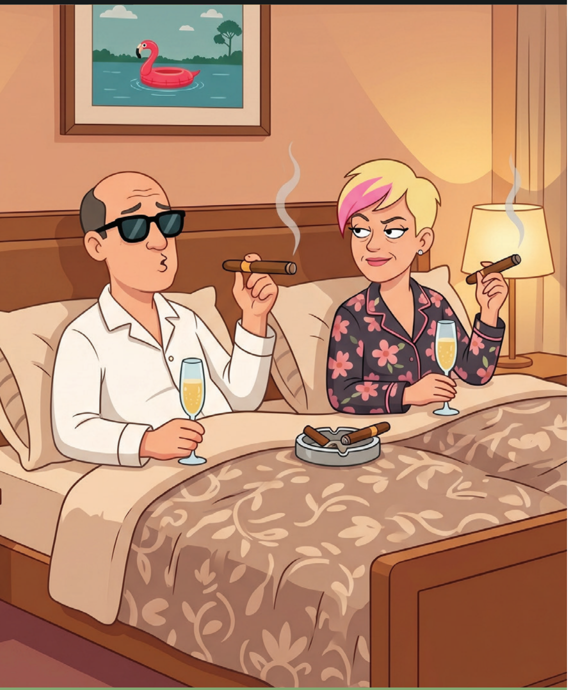

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Be Careful What You Wish For

“All you need to be married are champagne, a box of cigars, and a double bed,”
Winston Churchill

"Instead of getting married again, I'm going to find a woman I don't like and just give her a house."
Rod Stewart

And, with those two quotes from fine upstanding Englishmen, let us begin.

As I’m sure most of you will suspect I’m a prolific reader of biblical publications. Recently a verse in The New Testament, Mark 10.9 caught my eye. The scripture related to marriage and in part reads:

What therefore God hath joined together, let not man put asunder.

Interestingly, our divorce rates are falling, and people are divorcing later in their marriages so maybe I’m not the only one thinking about this stuff. Meanwhile de facto relationships have tripled in recent decades with those living in sin now representing 20% of all couples in Australia. Bugger, there goes that argument. Although, statistics suggest that many de facto couples see the relationship as a test drive which ultimately leads to marriage or a split. The end result statistically is that de facto couples who don’t eventually marry are more likely to part ways. Meanwhile, those who live together first and then get hitched tend to have a lower rate of relationship failure. Amazing what that little piece of paper will do in terms of couples making every effort to get on. Then again, maybe they just don’t want to lose half their stuff.

By the way, take no offence from the living in sin reference. My mother so categorised my relationship with the MD back in the day and we’ve been legally attached for 43 years. As she has reflected on from time to time, if she’d have got rid of me when we first met she’d be out by now. I worry that the MD takes the ‘til death do us part’ bit way too literally.

Anyway, having resisted the urge to spend the rest of this epistle quoting old politicians, burnt out rock stars and supernatural deities let’s move on.

In the management rights industry we have a dynamic that, in many ways, looks like a marriage. A range of parties including managers, owners, bodies corporate and guests need to act for the mutual benefit of each other while maintaining a friendly and cooperative relationship. In most cases the manager lives on site which adds an additional layer of connectivity to an already interesting set of interrelationships. The reside on site dynamic has been a cornerstone of the management rights industry since its inception. The manager living within the community provides a connection not dissimilar to a couple cohabiting in the family home. That connection to fellow owners, guests and tenants has served the industry well and resulted in a unique business model well regarded by regulators and lenders. It is almost received wisdom that a manager owning a unit and living on site will have a strong level of pride in the property while offering letting services and oversight unavailable to an outside agent.

Like marriage, economic circumstances can test these relationships and bring into question business models that we take for granted. So it is with rising manager unit values leading to disproportionate and unappealing prices for combined unit and MLR sales. One need only compare return on investment for properties with higher unit prices as a proportion of the total to see that rising property values are eroding ROI and making some properties unsaleable.

Hence, we arrive at the crossroads that have led to the decoupling trend in the industry. It's not quite a divorce, more a move to a friends with benefits arrangement.

I get it of course, and in fact I'm a fan of investing my money in groups that aren't too top heavy in real estate. However, I think we need to be careful that in pursuing a decoupling trend we don't compromise a very special and unique business model. If a manager doesn't live on site and own a unit I suspect there is a real risk of them not being seen as part of that community. More importantly, how do we continue to sell the MLR proposition while potentially looking a bit like a combination of Jim's Mowing and the local offsite real estate office running a rent roll?

For me it's all about what's best for the scheme and, as a manager, maintaining visibility. I've written previously about the risks of a manager trapped in an unsaleable business due to the unit value. A demotivated manager who needs to move on but can't is most certainly not an appealing outcome. Bodies Corporate need to appreciate that in some cases a management rights with a $2M unit attached is simply not the right business model for the property.

Then it comes down to visibility. If owners and guests really can't tell if the manager owns a unit and resides on site or not, then mission accomplished. Of course, the opposite is also true so beware if your plan is to sell your unit, live off site and kick back. To be honest it's rare for a manager to decouple and retain the MLR. The more prevalent trend is to decouple as part of a sale of the business. This dynamic makes the assignment process even more critical and potentially challenging than it already is, if that's possible!

Put yourself in the BC's position. If we are going to agree to this, we want to know how the incoming manager intends to maintain that visibility and integrate into the community. What's the plan for afterhours service and security? How will the office be resourced? Any plans to rent a unit in the property and have someone reside there?

The end result in many cases is an assignment motion that reads like a combination prenuptial agreement and wedding vow. 'till death do us part. Or, as is becoming a thing, a revised set of caretaking duties for no extra dough as BC leverage in order to agree to the decouple. The MD has suggested just such an arrangement should we ever decouple. Better the devil you know I reckon.

In closing, here's a tip. If you are buying a management rights where the unit is being split off, review the current and any proposed amendments to the agreements. Same goes for recent module change approvals and/or out of character agreement term top ups. I recently saw a Rights for sale with new agreements go from a single line in terms of caretaking to 25 pages, with over 100 pages of detailed annexures describing duties. Onerous changes with no commensurate increase in salary to say nothing of a breach minefield. The vendor agreed 'coz they're selling I suspect. As they say in Rome.... caveat emptor.

What therefore the body corporate hath joined together, let not a desperate vendor put asunder unless it's absolutely necessary and improves return on investment.

Mike: Chapter 3 Verse 7

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No AI or ChatGPT has been used in the writing of this article.