



# An Accountant's Involvement - Management Rights

# About the Presenter



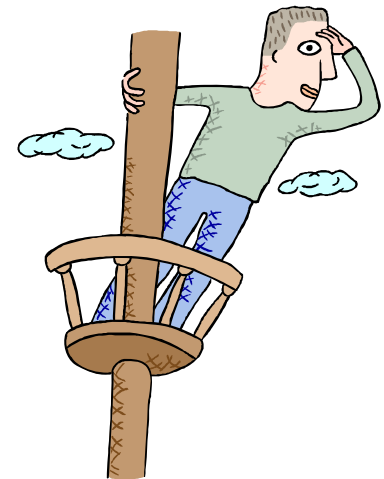
## **Peter Meyers**

- 15 Years in Accounting Public Practice, specialising in Management Rights
- Bachelor of Commerce – University of Queensland
- Bachelor of Hotel Management
- Chartered Accountant
- Registered Tax Agent

# Business Review



**Who here has looked at a  
management rights business  
and how did it go ?**



# Acquisition – Management Rights Business



## Management Rights Business

1. Have you looked at a number of businesses?
2. Would you be happy living in this complex – Does this suit your current family arrangements?
3. Have you reviewed your financial capacity with a bank/finance specialist?

# Business Purchase Price



Management Rights Business Price =  
Net Profit x Multiplication Factor

(Multiple – Supply & Demand – Example of 5)  
Business Price calculated as follows -

$$\mathbf{\$150,000 \times 5 = \$750,000}$$

Add Acquisition Costs

( Disclaimer : Multiple of “5” above used as example only )

# Total Purchase Price



## Total Management Rights Business and Real Estate

Business Price - \$150,000 x 5 = \$750,000

Add Manager's Residence = \$400,000

Total Business + Real Estate = \$1,150,000

Plus Acquisition Costs

( Disclaimer : Multiple of "5" above used as example only )

# Upside Factors (1)



- ✓ No Debtors (In general terms)
- ✓ Draw cheque from the Trust Account into the General Account
- ✓ Ability to verify income drawn from an audited trust account (Versus – a Motel or Fish & Chip Shop).

# Upside Factors (2)



- ✓ Body Corporate Caretaking Income  
(paid monthly and increases by CPI)
- ✓ Long Agreement Terms (compared with other businesses/contracts)
- ✓ Regulated Industry in Queensland  
(Licensing Requirements – ‘Resident Letting Agent’s Licence’)

# Risk Factors (1)

- × Accountant's Verification Report is not thorough and accurate (i.e. Net Profit is overstated)

*For example* – If Net Profit is overstated by \$10,000, then based on a multiple of say 5.2, an 'overpayment' of \$52,000 of purchase price may occur.

## Risk Factors (2)

- × Letting Pool suffers an unexpected ‘reduction’ (60 apartments ⇔ 50 apartments). Determine – why.
- × “Fall out” between the on-site managers and the body corporate and/or owners (Divorce provisions – Protect Manager)

# Managing Risk (1)



## *Strategies to increase net profit*

- ✓ Review additional income streams for the business (plus increase existing)
- ✓ Accountant to assist in 'benchmarking' review comparison
- ✓ Set goals and budgets for future performance of the business

# Managing Risk (2)



## *Strategies to protect the letting pool*

- ✓ Consider obtaining a “full real estate licence” which will enable you to sell within the complex (or Referral Arrangement).  
In addition, you will receive additional sales commission income.



( The REIQ offers upgrade course from the Resident Letting Agent’s Licence)

# Accountant's Involvement



## Business Acquisition Entity:

1. Sole Trader
2. Partnership
3. Company
4. Family/Discretionary Trust
5. Unit Trust

# Management Rights Business Contract



## CONTRACT MANAGEMENT RIGHTS BUSINESS SALE

(FIRST EDITION)

**E** Purchaser/s:

Address:

Facsimile:

Phone:

# Manager's Residence Real Estate Contract



## Contract For Commercial Lots in a Community Titles Scheme First Edition



This document has been approved by The Real Estate Institute of Queensland Limited and the Queensland Law Society Incorporated as being suitable for the sale and purchase of Commercial Lots in a Community Titles Scheme in Queensland.

**The Seller and Buyer agree to sell and buy the Property under this contract**

**Buyer:**

ABN  
Address:

Telephone:

Email Address:

Facsimile:

# Confirm Business Plan



Confirm “Residence’ Intentions with your Accountant and Solicitor:

- i. Living in the Manager’s Residence, or
- ii. Living ‘off-site’ and providing Manager’s Residence to staff or a tenant

[Licensing, Taxation and Legal Implications and Duty Cost on Acquisition]

# Main Residence Capital Gains Tax Exemption



The property, (including a manager's residence), in which you live is generally free from CGT – tax free profit!



# Management Rights Business Purchase Contract



## Item K – Verification of Financial Records

### ITEMS SCHEDULE

Clause 12

**K**

#### VERIFICATION OF FINANCIAL RECORDS:

- (a) Date by which Verification of Records is to occur:
- (b) Period for which verification is to take into account:
- (c) Amount to be verified as minimum net operating profit:

# The Standard Conditions of Contract



## THE STANDARD CONDITIONS OF SALE MANAGEMENT RIGHTS BUSINESS SALE



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of Queensland

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— Adopted by THE REAL ESTATE INSTITUTE OF QUEENSLAND LIMITED  
— for conveyances of Management Rights businesses only

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# The Standard Conditions of Purchase



Clause 12.1(a) Extract – “Net Operating Profit” shall be calculated by deducting from the gross income of the business for the relevant period the actual expenses of operating the business for that period (excluding....any payment for labour related to work which would normally be performed by a two person resident management team)

# Profit Verification Report



Verification of Financial Records (limited scope due diligence) includes:

- i. Independent Calculation of Income and Expenditure Statement ;
- ii. Identification of Risk Factors ;
- iii. Physical Review of the complex and the income from the Body Corporate.

# Preparation of Verification Report



Experienced accountant will also review items such as :

- Movement in the Letting Pool (downwards trend in particular).
- Sustainability of income streams moving forward such as 'owners outlays/repairs'.
- Confirmation of all income to bankings.

# Form 20A's- Appointment of Agent



*Because the Accountant attends the business premises on-site, the Verification Report includes confirmation of :*

-> The existence or non-existence of executed Form 20A's.

( Reports should also comment on whether a valid 'assignment clause' is executed )

# Form 20A Example



**Queensland Government**

Department of Justice and Attorney-General

ABN: 13 846 673 994

## **PAMD Form 20a**

*Property Agents and Motor Dealers Act 2000*

This form is effective from 4 February 2008

### **APPOINTMENT OF AGENT - LETTING AND PROPERTY MANAGEMENT**

#### **WARNING**

**THE CLIENT IS ADVISED TO SEEK INDEPENDENT LEGAL ADVICE BEFORE SIGNING THIS FORM.**

**This form must be completed and a copy given to the client before the agent performs any service for the client. Failure to do so may result in a penalty and a loss of commission.**

This form enables a person ("the client") to appoint a real estate agent or a resident letting agent ("the agent") to perform one or more letting, leasing or property management services for the client.

# Tricks and Traps



- × Insufficient wages included in Holiday Letting Buildings.
- × PI Insurance not included.
- × Reduction in Letting Pool during the Verification period must be disclosed & net profit moving forward reviewed if this has a material impact.
- × “Common Ownership” should be identified.

# The Way Forward



Once the Business Purchase Price is reviewed post Accountant's Verification Report, (generally within 14 days from signing the contract), then :

- ✓ Legal Due Diligence
  - ✓ Finance Requirements
  - ✓ Body Corporate Approval
- (ensure 'Licensing' requirements met)

# Licensing Requirements



1. Required to operate the business.  
(Upside is that 'regulation' keeps out  
out  
the bad players and protects the  
industry and values. )
2. Completion of the 'Resident Letting Agent's Course' will allow you to also work in the industry.

# Taxation Consequences on Eventual Sale



Confirm with your accountant the taxation consequences on the eventual sale and will the 'capital gain' be tax free based on your structure ?



# Motor Vehicles & Management Rights



Taxation savings can be achieved based on business use of the vehicle – This is an area which is “underclaimed”. (Tax benefits can exceed \$8,000 pa).  
Home is a ‘place of business’.

# Strategies to Improve Net Profit



## *Holiday & Permanent Complex*

- ✓ Bank all Cash Income.
  - ✓ Broadband / Internet Income.
  - ✓ Increase income streams - Benchmark
- >Good News is that if you can increase net profit by say \$20,000 over two years, the business sale price can be increased substantially more. (i.e. on the multiple)

# Comparison – Other Businesses



Management Rights Business  
compared with  
Other Businesses.

