

## The benefits of onsite management to lot owners in a management rights complex

Onsite management rights models operating in strata and community title properties are understood to offer owners numerous advantages, including higher rental yields and lower caretaking costs.

In June 2012 Deloitte Touche Tohmatsu conducted a survey of lot owners who own lots in a variety of different complexes which operate under a management rights business model. The survey was completed by 294 lot owners throughout Australia.

The results of this survey, as outlined in this factsheet, have highlighted the key benefits of onsite rental management in a management rights context and estimate the added value that management rights brings to lot owners.

### The major findings show that:

- Over 75% of respondents surveyed estimate that an onsite letting agent generates higher yields than an offsite letting agents; and that
- Over 97% of respondents surveyed estimate that onsite caretaking directly reduces costs for owners.

### Approach

The purpose of this study, which was commissioned by ARAMA<sup>1</sup> was to identify the value added to owners of:

- Onsite letting agents; and
- Onsite caretakers.

<sup>1</sup> Australian Resident Accommodation Managers Association

The approach adopted for this study began with a desktop review to analyse current market trends and the positioning of management rights models in the broader rental market. Following this, consultations were conducted with various stakeholders. Informed by the consultation results, a survey was developed by Deloitte and undertaken by the ARAMA membership base. The survey results provided the data on which to base an estimate of the added value of resident managers to owners.

### Who are resident managers?

Typically, resident managers who manage a premises under a management rights model, also maintain an office onsite and own (or lease) a unit on-site.

A resident manager has two major functions:

- To act as a letting agent for investor owners within the complex; and
- To fulfil a caretaking service contract with the body corporate of the complex.

As the management rights owner has a significant financial investment in the complex, they have a strong incentive to ensure high amenity levels and occupancy rates, encouraging high rental returns for the complex.

This study sought to determine the benefit to owners of these two activities in terms of rental yield and dollar values respectively.

*'They are hands on and the eyes and ears of your investment property. They have a true vested interest with a lot larger investment in the business than that of an individual owner.'*

Survey Respondent 2012

### Context

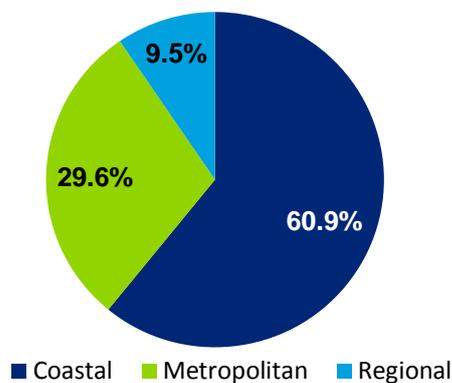
In the year ended March 2012, there were an estimated 1,131 tourist accommodation establishments operating in Queensland, with a total of **61,329 rooms available** per night. This included hotels and resorts, motels, private hotels, guest houses and serviced apartments. This accommodation averaged

64.9% room occupancy and an average rental yield of \$98.16.<sup>2</sup>

Members of ARAMA currently manage over **43,000 units**, predominantly situated in Queensland and all operate under a management rights model. The holiday letting business managed by ARAMA members is estimated to generate over **\$330 million** in revenue annually.<sup>3</sup>

Complexes operating under management rights are predominately located on the coast, highlighting the importance of the management rights sector to the tourism industry.

**Chart 1.1 Geographical distribution of survey participants (Nationally)**



Source: Deloitte Resident Management Survey 2012

## Value added by onsite letting

The survey respondents identified that the most common area in which an onsite letting agent added value to the owner was in their intimate knowledge of the complex. 96% of the respondents strongly agreed that this enabled onsite letting agents to be proactive in addressing owner concerns.

Over 85% of respondents strongly agreed with the following three statements:

- An onsite letting agent adds to the customer experience through being

<sup>2</sup> Tourism Queensland, *Tourist Accommodation Data Sheet*, 2012.

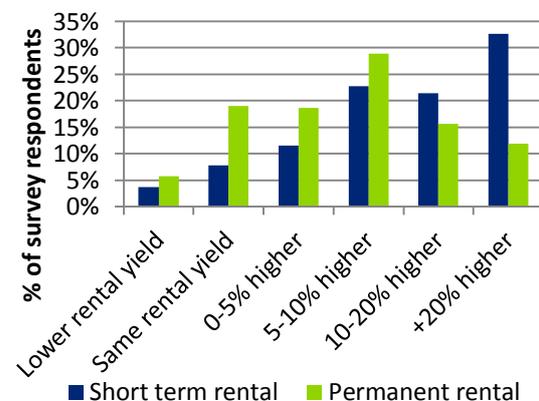
<sup>3</sup> ARAMA Queensland Inc (2010).

available for 24 hour assistance and offering **first-hand knowledge** of the complex and surrounding areas. This increases the customer return rate and results in higher occupancy rates.

- Through **constant supervision**, onsite letting agents monitor activities within the complex. This decreases the probability of rental breaches and results in a higher level of information available for owners.
- Onsite letting agents have **financial and vested interests** in keeping costs down and therefore strive for the most cost effective means of marketing and maintaining the business.

As illustrated in the graph below, the survey respondents estimated that these stated benefits result in higher yields for onsite letting agents as compared to offsite agents.

**Chart 1.2 Estimated higher average yields for onsite agents as compared to offsite agents**



Source: Deloitte Resident Management Survey 2012

As illustrated in Chart 1.2, it is estimated that the difference between expected average returns where there are onsite managers is higher for short term rental than permanent rental.

It was estimated by 33% of survey respondents that the difference in rental yields between onsite and offsite letting agents was in excess of 20% for short term rentals. Similarly, it was estimated by 12% of survey respondents that the difference in rental yields between onsite and offsite letting agents was in excess of 20%.

## Value added by onsite caretaking

There are numerous ways in which resident managers approach their caretaking duties. These are summarised in Table 1.2 below.

**Table 1.2 Summary of survey respondent's management of caretaking duties**

| Type of caretaking agreement   | % of use |
|--|----------|
| Under a 'supervisory' agreement you supervise others undertaking all caretaking tasks                  | 4.4%     |
| Under a 'do-all' agreement you engage others to undertake some of the non-specialised caretaking tasks | 33.3%    |
| Under a 'do-all' agreement you undertake all non-specialised caretaking tasks                          | 56.8%    |
| Under a 'do-all' agreement you engage others to undertake all non-specialised caretaking tasks         | 5.4%     |

Source: Deloitte Resident Management Survey 2012

In regards to the key benefits added by onsite caretakers, over 85% of the survey respondents strongly agreed with the following identified areas:

- Onsite caretakers are **proactive** in ensuring the amenity levels of the complex are high as their income is dependent on return customers.
- An onsite caretaker can **immediately attend to issues**, even on weekends or late at night. This high level of responsiveness reduces damage costs.
- An onsite caretaker significantly reduces the costs of maintenance through **taking on duties themselves**. This is considerably less expensive than contracting due to no minimum payments or higher charge out rates.

*'Onsite letting agents are available to act swiftly 24/7 on any guest requirements, repairs and maintenance issues. The cost is kept to a minimum as these issues are usually completed by the onsite agent. As the onsite letting agent has financial interest, they usually have a pride and passion not seen in an offsite agent.'*

Survey Respondent 2012

The key area identified by survey respondents where onsite caretakers add value was through the immediacy in which they can attend to issues and through their taking on of duties themselves. As onsite caretakers are personally vested in the complex, there is also an incentive to minimise costs.

Of all the survey respondents asked to estimate how much value onsite caretakers directly add to owners through the areas identified above:

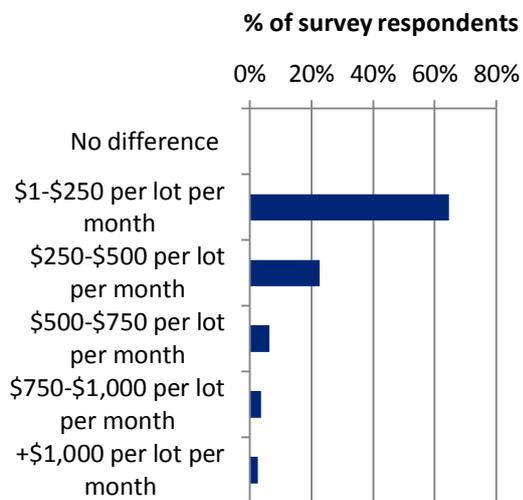
- 61% estimated that onsite caretakers save lot owners between \$1 and \$500 per lot per month for short term rentals;
- 26% estimated that onsite caretakers save lot owners between \$500 and \$100 per lot per month for short term rentals; and
- 7% estimated that onsite caretakers save lot owners between \$1,000 and \$2,000 per lot per month for short term rentals.

*'The onsite manager can arrange for maintenance to be carried out much quicker and usually much cheaper than that arranged by offsite agents. An onsite manager interacts with tenants and can quickly identify a problem with a tenant or the unit which can result in less financial loss to the owner.'*

Survey Respondent 2012

Similarly, Chart 1.3 illustrates that almost all survey respondents estimated that onsite caretaking added value to the owner in regards to permanent rentals. 35% of survey respondents estimated that this added value was in excess of \$250 per lot per month.

**Chart 1.3 Estimated value added by onsite caretakers in permanent rental lots**



Source: Deloitte Resident Management Survey 2012

## Conclusion

Overall, the survey responses indicated that a resident manager delivers a better weekly rental return than an outside agent and also performs the caretaking functions in a more cost effective manner when compared to other professional alternatives.

In particular,

- 76.9% of respondents surveyed consider onsite letting agents produce yields in excess of 5% higher than offsite letting agents for short term rentals ;
- 56.5% of respondents surveyed consider onsite letting agents produce yields in excess of 5% higher than offsite letting agents for permanent rentals;
- 61.3% of respondents surveyed consider they receive added value of up to \$500 per lot per month for short term rentals due to onsite caretaking; and
- 64.7% of respondents surveyed consider that they receive added value of up to \$250 per lot per month for permanent rentals due to onsite caretaking.

### Statement of Responsibility

This report was prepared for ARAMA solely for the purpose of informing the ARAMA membership on the benefits of resident managers. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. You should not refer to or use our name or the advice for any other purpose.