Two Topics of Interest from Australia

By Gary Bugden*

Management Fees for Australian Bodies Corporate

Residential managing agents in Australia are typically remunerated on a fee per unit per annum basis, but a closer analysis suggests that this is only the tip of the iceberg.

The average "base fee" charged by Australian managing agents for medium and large size buildings ranges from $100 to $130 per unit per year. A medium size building comprises 12 to 30 units and a large building comprises 30+ units. However, the full range of base fees is between about $60 to $600 per unit per year. Managers charging at the bottom end of that range generally fall within the "back yard" operator category while the top end generally involves very small buildings. For example, some managers apply a minimum fee of $1,200 for 2-4 unit schemes.

Base fee work

The base fee covers the basic management functions; budgeting, levy imposition and collection, accounting, insurance renewals, keeping statutory records, secretarial, the annual meeting and a specified number of committee meetings. These functions are clearly scoped in a written management agreement and additional work is charged for on an hourly basis. Typically, the manager will charge their time out at $80 - $90 per hour and support staff will be charged at $40 - $45 per hour.

Other revenue

But the manager's revenue source does not stop there. Typically, they reserve the right to receive a commission on insurance premiums (although recent changes in the law have challenged this practice) and they charge for providing certificates and information to prospective purchasers of units. This charge (which can be as high as $100 to $130 per unit sale) is a particularly lucrative revenue source, mainly because of the usual high turnover of unit owners. Some managers also provide a consultancy service (mainly for developers) for which they charge on an hourly basis.

Disbursements

Disbursements and some overheads are charged as extras. These include telephone, postage, photo-copying and stationary. But they may also include a computer charge or secretarial fee. These extras are not purely a cost recovery exercise. The addition of a healthy margin, particularly for photo-copies, can make them a profit centre in their own right. Most managers keep a record of these extras and charge on the basis of actual usage. However, some charge a flat annual fee of around $55 per unit and accept the "over and under" risk.

Profitability

This probably makes the management business in Australia sound very profitable. It is true that some management businesses in Australia are very profitable. But they are the exception. Generally speaking, Australian managers are underpaid for what they do and the level of expertise they have. Their businesses are only marginally profitable. The underlying reason is the competitive nature of this line of business, fuelled in particular by the one-person operators who have few overheads. Another reason is the relatively small size of the buildings – the average size Australia-wide is thought to be between 10 and 12 units. The reality is that a certain amount of work is involved for every body corporate, irrespective of its size and the smaller buildings are reluctant to pay a loading simply because they are small.

Cost to owners

All of this equates to a typical cost to an individual owner in the range $200 to $230 per year for their managing agent. If the building has a building manager, as most of the larger complexes do, then the cost of the building manger is additional. The building manager's costs usually fall within the range of $500 to $1000 per unit per year. The result is that management is a significant cost to Australian unit owners, yet not particularly profitable for most managing agents.

Future outlook

Unfortunately, the outlook for improved profitability is not good. In the early 1970's fess ranged from an average of $35 to $55 per unit per year. In 30 years they have only moved to an average of $100 to $130. Despite the fact that managers are a lot more astute in applying "extras", they have still only managed to keep pace with inflation. Nothing is happening in this country that suggests there will be scope for improvement in the short to medium term. The Australian experience suggests that the secret is to get the level of charges right when the industry is first established. Therein lies a message for the new "commonhold industry".

Late Payment of Maintenance Levies

One problem that is common to all common interest communities world-wide is the recovery of maintenance levies from unit owners. Australia has approached the problem by imposing financial penalties and incentives.

When strata titles legislation was first introduced in Australia, non payment of maintenance contributions by the due date attracted a simple interest charge of 10% and loss of voting rights. Not surprisingly, this proved to be little incentive for unit owners to pay their levies on time, particularly when market interest rates exceeded that level in the early 1980's. So, the obvious occurred. The interest rate was increased, eventually to 2.5% per month (i.e. an annualised rate of 30%), and the cancellation of voting rights remained.

The incentive approach

In Queensland, where there are large numbers of non-resident unit owners, many of whom live overseas, this still proved to be an inadequate incentive.

Legislators then considered introducing liens enforceable by sale of the offending owner's unit (similar to the mechanisms used in the United States), but this was thought to be too draconian for a country where "the man's home is his castle" principle still applied. So attention turned to providing an incentive for unit owners to pay on time. Queensland led the way by introducing a discount for early payment. That discount now stands at 20% of the total levy amount. In New South Wales, the discount rate is 10%, as is the interest rate.

The result

The end result in Queensland is that an owner who fails to pay their levies on time potentially forfeits their 20% discount and then gets charged interest at the annualised rate of 30% on the total (pre-discount) levy amount. But that may not be the end of the matter. Scheme by-laws often provide for the addition of any recovery costs incurred by a body corporate, which potentially add another substantial percentage to the total amount ultimately payable.

Unfortunately, levy arrears are still a problem. However, Queenslanders are consoled by the fact that legislators did not opt for a draconian solution.

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