

The value of Management Rights

What are management rights really worth? This is one of the most commonly asked questions in the management rights industry.

The definition of value that all licensed valuers refer to is:

Market value is the estimated amount for which an asset should exchange (sell) on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion (does not include a receiver or bank sale).

The overall price paid for management rights will consist of two parts:

- the purchase price of the management rights business (a going concern business)
- the purchase price of the manager's lot (being real estate).

How to calculate a purchase price for Management Rights

As a going concern business, the purchase of management rights is the purchase of an income stream. Essentially, the price is calculated as:

Net Profit For Sale (Income) by Years Earning Factor (Multiplier) equals Value/Price

Example:

Net Profit For Sale \$150,000 x Multiplier 4.75 = \$712,500 value

So, where any two of Net Profit, Multiplier and Value/Price are known, the third can be worked out.

Important factors to consider

To determine the value of a management rights business, you should consider the following factors:

- business type - permanent/holiday/student/short stay corporate
- location - CBD/suburban/tourist destination
- income – both overall income and the income being generated for each lot in the letting pool. Businesses at both ends of the income scale (low and high profit businesses) will have a smaller pool of willing buyers, so they may achieve a lower multiplier than a complex with a mid-range income
- number of lots in the complex and the letting pool
- body corporate salary – the salary amount and the way in which the salary is reviewed or adjusted.

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- occupancy rates – for holiday complexes
- the 'upside' or potential to grow the income through improved business practices, better profit margins on services provided, increasing the letting pool or improving the occupancy rates.

How to calculate a purchase price for the manager's lot/unit

In most cases, management rights are sold in conjunction with the manager's lot. This will generally be a residential unit that may have other areas associated with it, by either being part of the property title, or by way of an 'exclusive use' arrangement. These associated areas may include any or all of the following:

- office and/or reception space – these can be either physically attached to, or separate from the residential unit
- storage spaces
- car parking spaces - almost always 'exclusive use'. Often the manager is assigned an additional space.

Important factors to consider

When valuing or setting a price for a manager's lot, the following points should be considered:

- overall condition, size and fit-out of the lot
- comparison to values of other lots within the complex
- comparison to values of similar manager's lots in other complexes
- size, location and amenity of any spaces held by way of an 'exclusive use' arrangement.

For any significant non-residential space (office on a separate title, conference room or kitchen/restaurant), a separate value should be assessed and assigned.

What else do you need to consider?

With so many variable factors to consider when assessing the value of a management rights business and associated real estate, no two purchase prices or assessed values are likely to be the same. And remember, as with any asset, values aren't static. They will rise and fall over time, as market forces change.


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