

Why Do Contracts sometimes get the Wobbles?

As most of our readers would know, RAAS RIGHTS is in the business of selling Management Rights complexes. In fact, we like to think we are pretty good at it, as our results suggest. However from time to time, a sale into which an awful lot of effort has gone, crashes! The problem for all concerned is, by the time the contract is terminated, it will have cost the buyer and the seller substantial sums of money.

Since I am a believer in the old adage about history repeating itself, I figured that if we can analyse the reasons contracts normally get into trouble, we might be able to take steps to avoid the trouble spots in the first place and save everybody dollars and grief.

Firstly, let's talk about that hoary old chestnut --- "buyer's remorse", and touch on some of the misconceptions about "selling"!

In my 25 years in the property business I have seldom seen a salesman who could **sell** a million dollar home or business to someone who didn't like it and didn't want it. Yes, it is possible for a slick salesman to sell you a set of encyclopaedia (or steak knives) you didn't really want, and it's in those cases that the "buyer remorse" can hit. The next day you suddenly realize you have done something really stupid, and want out!

This seldom happens in Management Rights, because believe it or not, we are not REALLY salesmen. We are introducers, we are facilitators, we are consultants, we are problem solvers, we are prompters, we are cajolers, we are friends, we are soul-mates, we are match-makers, we are taxi drivers --- but in that Americanised, foot in the door sense, we are not salesmen! This is important to understand, because if we have done our job properly and have matched the right buyer with the right property, there will be no "buyer remorse".

What many people mistake for the mythical remorse is the "jitters" that suddenly appear

when the due diligence turns up things that were not as they first seemed.

The most common jitter inducer is the verifying accountant's report. The contract says the nett profit is \$120,000; the verifying accountant says \$110,000! --- OOPS! **This should never happen!**

While some managers keep impeccable books and understand their financial position to within an inch of their lives, there are others who, when they ask us to put a price on their business, have absolutely no idea of their nett profit as defined in the Standard Contract. One might as well arrive at a figure by examining the entrails of chickens as the Romans might have done.

As a vendor, it is in your best interests to have a recognized Management Rights accountant prepare a pre-sale Profit and Loss; as a purchaser it is imperative you have a recognized Management Rights accountant do your financial due diligence. There is nothing that brings a chill to the soul of a Management Rights salesman more than a phone call from the purchaser's accountant asking for the last three years figures, because the salesman knows immediately that this contract is in great danger of going down the gurgle. (For the information of readers who are new to Management Rights, we always use the most recent TWELVE MONTHS' figures. No bank or specialist accountant would ever ask for three years' worth of P & Ls.)

If all vendors and purchasers each did as we recommend above, 50% of contract problems would vanish overnight!

The other major area of contention is in the legal perusal of the agreements and the body corporate. When both vendor and purchaser are using expert Management Rights lawyers many of the problems that arise can be sorted out; when they are not, contracts can crash for silly reasons.

I have always believed that when two parties

enter into contracts to sell and buy a Management Rights complex, and initial deposits are paid, it is their joint intention that the sale should settle! They are not going to all that trouble just for fun; or some exercise to see who can waste the most money. It is therefore incumbent on all the professional advisors involved, be they lawyers, accountants, bankers or agents to do all in their power to solve any problems that arise and satisfy their client's desire for a successful outcome.

In the main, specialist Management Rights lawyers fall into the category of "deal-makers" rather than "deal-breakers" because their industry experience has exposed them to every niggling little problem that can occur in a legal due diligence, and exposed them also to the solution that can be applied. They know, for example, whether a problem is serious enough to warrant an EGM prior to settlement or the amendment can wait until the next AGM.

Non-specialist lawyers can sometimes lack these "street smarts", turn a mole-hill into a mountain and still sincerely believe they are acting in their client's best interests. The client gets the jitters, and another contract that should have successfully settled, will crash and burn.

Space prevents me writing more, but in summary, proper preparation of your financials, followed by the use by both parties of industry specialists and the willingness to adopt a spirit of compromise, will prevent 90% of contract failures.

STOP PRESS: **RAAS RIGHTS** has been appointed by **Australand** as exclusive agents for the sale of the Management Rights to **Milton EDGE**. Further details can be found on the reverse of the RAAS Report.

If you would like to comment on anything you have read in the RAAS Report, please send an email to mike@raas.com.au or write to The RAAS Report, PO Box 1325, Sunnybank Hills Q 4109.



MAURICE TULLY
Sales
Specialist Gold Coast
Mob 0405 355160
mauricet@raas.com.au



PETER DOMAGALA
Sales
Specialist Brisbane
Ph 0733525777
Mob 0411 213651
peterd@raas.com.au



DON BRADY
Sales
Specialist Brisbane
Ph 07 3219 5772
Mob 0400 211 505
donb@raas.com.au



BARRY DAVIES
Sales - Specialist
Sunshine Coast
Ph 07 5448 2329
Mob 0438 554 995
barryd@raas.com.au



JIM PRENTICE
Sales
Specialist Brisbane
Ph 07 3272 6991
Mob 0412 984 684
jimp@raas.com.au



GEOFF GLANVILLE
Sunshine Coast
Founder
RAAS Real Estate &
Director RAAS RIGHTS
Ph 07 5444 4017
Mob 0418 740 495
geoff@raas.com.au



MIKE BUTLER
Brisbane
Co-principal
RAAS Real Estate
Brisbane
Director RAAS RIGHTS
Ph 07 3219 0910
Mob 0418 157 113
mike@raas.com.au



RUSTY LUSH
Gold Coast
Co-principal of RAAS
Real Estate Brisbane &
Director RAAS RIGHTS.
Ph 07 5593 0007
Mob 0416 161 831
rusty@raas.com.au

