The RAAS Report

October 2004

The first edition of The RAAS Report was apparently well received. Thank you for the encouraging words. In this October edition of The RAAS Report, I want to get away from that introductory blowing of our own trumpet, and raise some topical issues that will impact on the future of our industry.

A WORRYING TREND

As Management Rights owners (and I am one), we all want to maximize our selling price when that time comes. Furthermore, as Management Rights Sales Specialists, **RAAS RIGHTS** has an obligation to help you achieve that --- BUT --- there are some things that are legitimate, and there are some things that aren't!

On a number of occasions recently, **RAAS** has been asked to list quite large, established MR businesses using Nett Profit figures based on "projected income" rather than the previous 12 months figures. Sometimes these projections soared nine months into the future. Of course, this "projected" profit was then multiplied by 5+ to reach an asking price!

One of the reasons our industry has become such a sought after investment medium is that it has a reputation as a safe, regulated business environment where "sharp practice" cannot go undetected. The unjustified use of projections can damage this reputation.

So when are projections acceptable?

Broadly these are two fold:

(a) where the business has not yet been in existence for 12 months, or not in 100% trading mode for 12 months

(b) where there are identifiable and verifiable alterations to the income stream of the business, which would cause the last 12 months' figures to be re-evaluated.

Obviously (a) covers off-the-plan sales and sales where the business is being sold within 12-15 months of establishment --- no argument!

Scenario (b) could cover such things as Stage 2 or 3 of a multi-stage development coming on line and increasing the rental pool --- again no argument!

Where the argument will arise is when a long established complex wants to project, for example, next year's rent increases and next year's salary increase into last year's figures and sell the result on a 5+ multiplier.

Quite a few years ago when I was still a bit naïve about selling MR, I had a grizzled old veteran of the industry (buying his 4th complex) as a buyer.

His first words when I met him were "Don't show me anything that is eighteen months or more old, but has projected figures."

Being not so young, but still stupid, I said "Why?"

"Because when they project the figures, they are trying to steal **MY** capital gain for next year!"

Good answer – and food for serious thought!

Experienced operators wouldn't fall for such sleight of hand, but what about newcomers? I doubt it. Newcomers are much better informed than they were 5 years ago.

If projected income figures are involved, that fact must appear on the Offer & Acceptance document. The purchaser's accountant and/or solicitor will immediately query the reason & need for projections, and your deal will get the wobblies, right there!

More MR contracts fall over because of disputes about the legitimacy of the Nett Profit figure than for any other reason so as a potential seller, what should you do?

The most effective thing you can do is engage one of the recognized MR expert accountants to do a financial due diligence on your business **before** you list it for sale. You will find the right people in the Preferred Suppliers section of this Resort News. When one of these experts has signed off on your P & L, you reduce your "crash & burn" potential by about 95%. You will also reduce your legal bill because your MR lawyer will not be charging you for interminable faxes & letters relating to the problems with your profit verification!

Let's close this item with the words of a prominent lawyer/property developer who taught me a lot of things about property, 25 years ago.

"To succeed and prosper in the property business, you must always leave something in it for the next fellow!"

It was true 25 years ago, and it is true today!

THE SUB-CONTRACTOR KERFUFFLE!

Some people have tried to spread the lie that the recent crackdown on sub-contractors somehow affects **RAAS**! This is not true.

RAAS Real Estate does not, and never has, employed anyone as a sub-contractor.

When you obtain your Real Estate Sales Certificate and join the **RAAS** group to sell in your complex, and protect your rent roll, you become part of a business model that has been examined and approved at the highest levels. When you work with **RAAS** as a part-time real estate salesperson, and holder of a Real Estate Sales Certificate, you are not, and never will be, a sub-contractor!

THE STATE OF THE MARKET

Solid profitable MR businesses are still in big demand. Permanent complexes in the $1,000,000 + range are in short supply, and provided the asking price is in the 5 to 5.3 multiplier range, sell solidly - we have sold two such complexes recently, within 24 hours of listing. Smaller properties are harder to move. Consequently, some very good smaller businesses are available at considerably lower multipliers.

North Queensland continues to offer some wonderful opportunities at multipliers less than what we are used to in the South East corner. **Talk to our NQ expert, Barry Davies.**

RAAS Real Estate reports that investor enquiry for townhouses and units is down about 60%. Investors are looking for yield. $220,000 should get you $220 to $250 per week. If you would like some advice on getting your average rent up, send an email to the address below and I would be happy to help.

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, 13/17 Victor St., Runcorn Q 4113.

BARRY HYDE
Sales
Specialist Brisbane
Phone 07 3841 4649
Mob 0418 783 938
barryh@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
Phone 07 3272 6991
Mobile 0412 984 684
jimp@raas.com.au

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

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

RUSTY LUSH
Gold Coast
Co-principal of RAAS
Real Estate Brisbane &
Director RAAS RIGHTS.
Phone 07 3341 3312
Mobile 0416 161 831
rusty@raas.com.au

RAAS RIGHTS

RAAS RESORTS ACCOMMODATION AND SALES REAL ESTATE

www.raas.com.au • www.raasrights.com.au

13/17 Victor Street Runcorn Q 4113 • Ph 07 3219 0910

PREFERRED SUPPLIER