Best Management Group was established in 1999. The company specializes in Hotel and Resort management.

The group operates and markets a portfolio of hotels and resorts. Project specific management solutions are also provided to an even wider range of clients on a consultancy basis.

David Catterall is Managing Director of Best Management Group. He has been directly involved in the management of 93 different hotels, resorts and tourism operations in and around Australia. The range of properties has included residential apartments, apartment resorts, apartment hotels, and full service hotels and motels. David's involvement has encompassed finance, operations and marketing. Owners of these establishments have included corporate entities, private individuals, financiers, receivers and administrators and developers.

INDUSTRY COMMENT by David Catterall

The 1980's saw a boom in hotel and resort development. When I started my career in Tourism 25 years ago, there were no five star hotels in Queensland. There was one international airport, which was previously a wartime hangar. Top names in the industry included TAA, Air Queensland, Parkroyal, Telford and Flag. Travel agents booked their clients' itineraries by telex.

The large hotels were built later in the decade; however a range of financial factors resulted in the banking industry losing faith in financing hotel projects in Australia.
To this day, it is unattractive for a 'one-line' investor to build a new hotel. My direct experience is that banks provide much more favourable lending terms for investors in other commercial property such as offices, car parks and shopping centres.

At this time new apartment hotels were built to 'sell' but not always fill. The new apartment structured products are filling this gap. The elements necessary in apartment hotel and resort developments today may typically include:-

- Consistent standard across all rooms
- In room entertainment and security
- Access to a selection of Food &Beverage facilities, and charge back
- Mini Bars and Room Service
- 24 Hour Reception
- Courtesy transport
- Porterage services and concierge

- Daily Room Service
- Sophisticated Front Office Systems including guest recognition systems and “hospitality by design”
- High Quality in room consumable amenity products

In addition to the above, in order to satisfy the expectation of unit purchasers (and their lenders) the apartments typically need to feature large living areas, balconies, multiple bathrooms, kitchen and laundry typical of a residential apartment even in short stay hotel or resort properties. In other words these new complexes are typically being “built to sell” more so than “built to fill”. I predict that future developments will see an increase in combo residential and short stay complexes with each segment being specifically catered to separately.

All of the above is delivered from a split ownership structure including a separate Management and Letting Right (MLR). Historically the MLR was sold by the developer as early as possible; ideally off the plan to the highest bidder. However experienced developers are now seeing merit in retaining ownership and therefore control of the MLR until the exit of all their interest. This strategy keeps management control and eliminates the conflict that can emerge between the objective of the developer, the MLR owner and the individual unit owners.

Australia’s excellent tourism growth rates (actual and forecast) are well documented. A current dynamic of the industry is how the rooms will be developed to cater to this potential growth. Apartment resorts are meeting much of this gap. So modern apartment resorts are hybrid hotels. They are sometimes branded, but at the very least are increasingly offering resort or “hotel” guest stay experiences in an apartment ownership scheme. Recent examples include:

- Peppers at Salt
- Outrigger Resort at Salt
- Twin Towns Resort at Coolangatta
- Legends Surfers Paradise
- Rydges at South Bank
- Mantra at South Bank
- Quay West Brisbane
- Domain Resort, North Stradbroke Island
- Sea Temples

Holidaymakers don’t usually know the ownership structure of their chosen resort. Most Holidaymakers don’t realise that Managers such as Accor, Sheraton and Break Free don’t actually own the hotel. They don’t know if the complex they are staying in is strata titled, one line ownership, under administration or time-shared. And it is not the Managers’ job to educate them. It is the Managers’ job to secure their patronage.

The increasing expectation of range and quality of services and facilities represent extra cost for the Manager in order to remain competitive. They are passed on to the individual unit Owner.

UNIT OWNERS OPTIONS AT SETTLEMENT TIME

A variety of options exist for Owners around settlement time. These options include:

- IMMEDIATE ON-SALE – Some Owners will have taken a speculative approach and intend to not actually hold or operate the investment in any way. Their unit is immediately for sale again. These Owners wish to keep their unit in mint condition as if it becomes used, it will be less attractive to some potential buyers. Their unit will not be available to the Manager for the rental pool.

- SETTLEMENT ESCAPE – Other Owners will have formed a less positive view as their commitment matures. This can be for reasons of changed personal circumstance – finances and family or a mood shift about the nature of the investment. They will attempt to avoid their commitment and minimise penalties. If these people are successful, their unit will not be available to the Manager for the rental pool.

- LOCK UPS – This appears to be an increasing segment and more common in up-scale complexes. These investors take the view that the bulk of the upside for them long term is capital growth. For this group it is a waiting game until the property cycle turns and large gains are made. They view the small yields for the wear and tear and operational headaches of renting as not being compelling enough to participate. Their unit will not be available to the Manager for the rental pool.

- LIVE-INS – Owners who will take up residence in their unit. Their unit will not be available to the Manager for the rental pool.

- HOLIDAY HOME – These Owners have purchased the unit for the exclusive use of family and friends. They house personal items such as surfboards, swim ware, books, toiletries and family photo’s there. Their unit will not be available to the Manager for the rental pool.

- PERMANENT RENTALS – These Owners have decided they prefer to have a permanent tenant. This usually provides a lower weekly income, but a more reliable cash stream. These Owners have a wide range of letting agents at their disposal but sometimes handle arrangements themselves.

- HOLIDAY RENTAL POOL – These Owners rent their unit out to Holidaymakers. , Holidaymakers have more erratic occupancy patterns and higher operating costs. However, this is normally offset by a higher tariff. Many of these Owners take the opportunity to sometimes utilise their unit for themselves, ideally at times when the unit would not otherwise be occupied by a paying customer.

STRATEGIES ADOPTED BY MLR OWNERS

In the Manager's mind at this time is the need to maximise the profitability and value of his asset, the Management Rights. In larger complexes, it is prudent for the Manager to have a healthy mix of the above Owner options exercised. For example, a component of permanent rentals will provide much appreciated cash flow during quieter trading periods and cause the resultant smaller pool of holiday units to enjoy higher occupancies.

Supporting the value of the Management Rights is a component of both fixed and variable income. The most substantial component of fixed income is the Caretaking Fee paid by the Body Corporate for *all* Lots in the building. The Manager then adds variable income levels primarily through the contracting of (Letting) Management Agreements with individual Owners. As these Agreements can be terminated at short notice (90 days normally), it is important the Manager quickly "performs" for his Owner otherwise he runs the risk of having an unhappy Owner who terminates his Agreement.

Executing these Agreements can be a very time-consuming process for the Manager, as many Owners require detailed discussions about their Agreements as part of the process. If the Owner terminates early the whole process is unprofitable as the means is greater than the ends. These factors make it compelling for the Manager to try to strike a happy, simple (and mutually profitable) balance to the Management proposition.

FIXED FEES Vs PERCENTAGE FORMULAS

In a bid to achieve simplicity, there is an emerging trend towards fixed margin management fees such as 30% (plus 12% Letting Fee) level in the Agreement. They are sometime referred to as 60/40 or 50/50 terms.

As a rule of thumb, the industry often reckons about half of revenue flowing through to Owners is about the norm. Poor performing, or new resorts do worse than this; good ones do better.

I have observed that the simplicity of the flat percentage option attracts some Managers. Detailed schedules of charges tend to make Owners' monthly statements very complicated. This can result in many questions being asked by Owners after each statement arrives. I am not convinced the concept of a simple formula actually works in favour of the Manager longer term, as it does not provide her the opportunity to specify the range of services being provided and illustrate the value the Manager is providing.

Considering the above the percentage management fee model certainly has some advantages for the Owner concerned with month to month yield. It is not uncommon for Owners of units in new developments to have negative income months in the first year or two. Fixed charges for management services at this time can result in Owners having to write cheques rather than bank cheques. Under the percentage model the Manager absorbs more risk. The commission only reward provides incentive for the manager to maximise revenues, rather than collect "lazy" fixed fees.

OPERATIONAL CHALLENGES

There is aggressive competition, and new complexes can finding it tough to establish. The early months and years of trade often show substantial losses in a Letting business. The only hotel to my knowledge to achieve more than 60% occupancy in its first year of trade on the Gold Coast was the Conrad, and it obviously had a unique marketing advantage.

So Managers need to apply extraordinary levels of marketing to gain early patronage. Pre-opening management and launch marketing expenses, along with initial management trading losses in the early months (which Owners are not levied for) are commonly six, sometimes seven figure expenses.