

MANAGING EXPECTATIONS

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In various articles in recent months I have referred to the abundance of disputes between resident managers and bodies corporate since the onset of the GFC. There are various reasons for that, none the least of which has been owners watching the capital value of their units (and other assets) decrease and investor owners watching their returns diminish yet at the same time observing that the resident manager's remuneration keeps increasing each year. Even worse, they may have bought into a new complex where the resident manager has successfully used the statutory review provisions to dramatically increase the remuneration.

Not surprisingly, owners are looking closely at what they are getting for the money they are paying out. Unfortunately they usually look just at the manager's total remuneration, rather than look at the actual cost to them. It sounds much more dramatic to say "*What are we getting for the \$150,000 we pay our manager?*", than "*What do I get for the \$25 per week that I pay the manager?*" Even so, there is justification for owners to look at the manager's total remuneration package – just as a manager does when having a remuneration review undertaken.

I have been involved in dozens of remuneration reviews and have observed first hand the conflict they can cause to owners, particularly those that are ill-informed. I do though have empathy for those owners who have been putting up with substandard performance from their resident manager but are subjected to an increase in the manager's remuneration. Whilst I am very much in favour of the "time and motion" concept utilised by the small number of independent consultants that carry out remuneration reviews, I do object to the abuse of the concept by a small number of managers.

It is one thing for a detailed remuneration review to set out the various tasks required of the manager, allocate the time taken on a daily, weekly, monthly and annual basis to perform the tasks and then apply an hourly rate to that time. However it is unfortunately sometimes an entirely different matter as to whether or not the manager actually performs all the tasks or does them well enough that they actually take the estimated time.

You can not blame a body corporate that has been through a review process where the manager's remuneration has been increased because of stated tasks and times to perform them, being thoroughly annoyed to find that the manager is spending nothing like the stated time to perform the manager's duties. It is not surprising to find a number of complexes where there is genuine concern about the overall poor presentation of the complex coupled with anger about the manager's level of remuneration.

Regrettably, many intending sellers and some brokers go to great lengths to sell management rights on the basis that there is minimal hours involved in the management/caretaking side of the business. Management rights ads claiming "*You'll be playing golf 5 days a week*" or "*Only 10 hours a week for caretaking*" are examples of misleading claims that inevitably lead to problems if the unsuspecting buyer relies on them.

The reality is, or at least should be, that bodies corporate and owners have a valid expectation that a resident manager will put in the hours needed to perform all the duties required and that, at a reasonable hourly rate, the value of the time taken will roughly equate to the remuneration received.

I have seen a number of cases where a buyer looks at buying the rights but believes that the amount of work needed to do the caretaking are much more than the seller indicates. In those cases I suggest that the buyer work out from the remuneration being paid what the body corporate might reasonably expect in the way of hours per week. As an example, using the dollar hourly rate of approximately \$30 that Barry Turner from Building Management Consultancy and Services uses, a remuneration of \$125,000 equates to 80 hours per week. So in that example if the seller is claiming that it only takes 6 hours a day to do the work, and that is all the buyer intends putting into the caretaking, then the buyer can expect to have problems with the body corporate.

I see similar problems where existing managers have conflict with their bodies corporate or owners who perceive that the manager is doing a bad job and/or not putting in the hours expected. In such cases I suggest that the manager does a rough calculation of the hours that might be required to earn the remuneration being paid, and compare that to the actual hours being spent doing the work. If that shows that the manager is working many more hours than the remuneration indicates then it is likely that the body corporate's expectations are too high. Conversely if the calculation indicates that the manager is working many less hours than the remuneration suggests, the body corporate is likely to be justified in believing that its expectations are not being met.

Any manager, and especially any buyer of management rights, needs to understand the expectations of the owners and the body corporate. Doing the rough calculations referred to above is a simple rule of thumb exercise that is a good starting point. Of course much also depends on the nature of the complex – is it an upmarket scheme in a prestige suburb with well manicured lawns and gardens or is it an outer suburban complex where the expected standards are not as high? Whatever the case, the manager needs to establish and understand the reasonable expectations of the owners.

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