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Positive Signs

A number of Articles have been written in recent times regarding the positives in purchasing Management Rights in the current economic climate. While I may be biased I believe it is always a good time to purchase Management Rights, with the assistance of the good people at PCS Finance of course.

The positives that have been mentioned include that the industry can have built in safety barriers of Caretaking Income being adjusted for inflation and Letting Pool income also will be increased in line with inflation. It also has been said that while interest rates increase people are less likely to be able to purchase owner occupied properties which keeps tenants in the rental market. Also, to a lesser extent the interest you pay is included on your Profit & Loss as an expense which brings your net income down therefore you pay less tax. At a seminar I recently attended it was suggested that owners will more likely to look for a longer tenancy agreements, with up to two years suggested which should give the Letting Manager more confidence in their business investment. For the Holiday Managers they may look forward to higher occupancies as the travelling public to go on local holidays rather than overseas holidays due to tighter purse strings. Also for the Holiday Managers the ancilliary charges remain constant and do not reduce regardless of any price war to attract holiday makers.

Now that you have decided that there is enough positives to purchase Management Rights there is the age old question of, do I fix or go variable with the interest rates.

A crystal ball would be another positive here. If you look at some of the Fixed 3 to 5 year rates they are still on a par with the current variable rates. (retail and Commercial) This would indicate that the powers that be at the Banks believe rates will come back within two years. If you are going to fix then maybe it should be for not more than two years. As for rates not coming down well history shows that they do. Rates are currently at their highest for twelve years we are told. Between two high points there must have been a low.

When it is all said and done to fix or not to fix is a personal choice. If you fix then you have a degree of certainty for that period. Should you stay on variable then you just have to keep your cash flow in check to cover the bumps.

If you are in Management Rights then your owners will direct you when rents should rise thereby increasing your commissions and the Body Corporate salary will be CPI'd for you. You have now received a pay rise without going cap in hand to the Boss like I will have to after yet another interest rate increase.

Mark Harvey
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