



National Community Titles  
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The Winds of Change -  
Are you ready?

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“Nothing endures but change.”  
Heraclitus (540BC -480BC)



# The journey so far ...

- The accountants and real estate agents era (pre-1973)
- The start of specialization (1974-1984)
- The start of professionalism (1985-1995)
- “The golden years of professional strata management” (1996-2006)



Where are we now?

Using professional  
services sector  
as a benchmark

(particularly accounting and  
legal firms)



# Where are we now?

(Continued)

- Efficiency issues at both business and portfolio management levels
- Little or no focus on strategic planning
- Customer focus and service level issues
- Basic technology – no strategy or capacity to improve



# Where are we now?

(Continued)

- Low skill levels – lack of qualifications in key roles
- Poor marketing
- No focus on training and skills development
- No defined career paths in the sector
- Low profitability
- Family business profile



# Most likely future scenario

Strata management sector  
is heading into an era of  
consolidation

- Large firms will become larger
- New large firms will emerge
- Large firms will merge with each other
- Large firms will acquire smaller firms



## The “drivers” of consolidation

- Consolidation trends in the service industry sector generally
- Current profile of the strata management sector
- Age and objectives of a significant proportion of principals
- Regular debt free cash-flow



# The “drivers” of consolidation

(Continued)

- Amount of money handled by the sector
- Underperforming nature of the sector
- Opportunity to aggregate and vertically integrate the supply of goods and services to stakeholders
- Rapid future growth profile





# Likely changes

- Strategic and professional business management
- Quantum leap in technology
- Process re-engineering
- More focused portfolio management  
(People + Core asset)
- Aggregation and vertical integration of goods and services supply chain
- Per lot revenue increases (\$500/lot)
- Increased profit margins (40% EBITDA)



# The challenges ....

- Raising on acceptable terms the large amount of capital required
- Limiting the role of adventure capitalists
- Finding executives experienced in managing rapid growth strata businesses
- Funding the technology and systems process infrastructure



# The challenges ....

(Continued)

- Finding sufficient quality businesses to acquire
- Managing the integration process
- Finding suitable portfolio managers
- Increasing revenues per lot without destabilizing clients
- Charting and achieving an exit strategy



# Responding to sector consolidation

## Available choices .....

1. Play in the main game
2. Become a boutique player
3. Aim to be a “seller”
4. Do nothing and just carry on as normal



# Preparing your business for sale

Two important things to keep  
in mind ....

1. Companies will be very fussy about the portfolios they acquire
2. The price will depend on the quality of the portfolio



# The tenets of quality

- Size and nature of buildings in the portfolio
- Total revenue per lot per annum
- Length of management agreements
- State of the body corporate records
- Customer satisfaction levels



# What you can do

- Be strategic in your marketing
  - Geographic spread less important than quality
  - Focus on financial profile of lot owners
- Allow some scope to increase annual per lot revenues
- Insist on 3 year management agreements and tighten up termination provisions
- Include assignment provisions and contractual commitment to appoint an assignee



# What you can do

(Continued)

- Ensure body corporate records and affairs are in good order
  - Complete set of records – up to date
  - Insurance policies and evidence of currency
  - Income tax and revenue laws complied with
  - Certificates of title available
  - Reconciled bank accounts and latest statements
  - Annual meetings up to date





# What you can do

(Continued)

- Establish and maintain business records to monitor critical risk areas –
  - Insurance due dates
  - Annual meeting (and associated) dates
  - Quarterly levy dates
  - Fire safety inspections and certificates
  - Workplace health and safety audits
- Develop good relations with office bearers and lot owners



# About valuations

- The “norm” \$1.60 per \$1.00 of contracted revenue
- The “actual” .75¢ - \$2.80 per \$1.00 of contracted revenue
- Main “driver” will be the term of agreements (International Accounting Standards)
- More conventional approach to valuation is likely – multiple of profit



# Summary

- Sector is rife for consolidation
- The interest is there
- It will not be easy, but it will happen (When?)
- Firms need to strategically plan their response
- If you are a “seller” you need to prepare your business for sale
- The result will be fundamental change in the sector