

FIRST-TIMERS MANAGEMENT



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Management companies have taken their share of flak in recent years. But the government should urgently introduce legislation to regulate the residential property management sector, says **Brian Keenan** of Keenan Property Management

THE Dublin property market is over-supplied with apartments. More than 40,000 are lying vacant at the moment, many of them probably for sale, according to the Irish Auctioneers & Valuers Institute (IAVI), the largest representative body for estate agents.

Developers who can't wait to sell are placing their new-builds on the rental market, which means supply is out-stripping demand. And as a result, both prices and rents are falling.

It's not a pretty picture. And it gets worse. Because there's every indication that many apartment developments have woefully inadequate "sinking funds" – the accounts into which management companies should deposit a realistic amount of money from every owner every month to be held for the short and long-term maintenance of the development.



Anyone can set up and offer the same services at half the price without any expertise

And if the fund is inadequate the work won't get done. And if the work isn't done, then it's only a slight exaggeration to say that the apartments – depending on location – will inevitably begin the slippery slide to becoming Dublin's new post-property-boom tenements, hemorrhaging value as they go. Yet despite all this, management charges continue to rise.

So who's at fault? Brian Keenan is managing director of Keenan Property Management (KPM), one of the country's largest property block

management companies, with offices in Dublin and Cork, more than 9,000 apartments on its books, and turnover heading for €4.5 million this year. So you might expect him to deny that there's a problem – but he doesn't.

"We would be completely in favour of legislation to regulate the residential property management sector," says Keenan. "An independent regulatory body for the entire property services industry has been promised by the government for several years now, but we still don't have it. I firmly believe that the combination of a regulator and new legislation would, at the very least, reduce any negative perceptions people have of managing agents."

And those negative perceptions certainly exist. Keenan argues that a core problem is a misunderstanding of the different roles of management companies and managing agents. "Each apartment development is a company with directors whose role is to manage that company effectively. Until the development is handed over to the owners, the directors of the development company usually maintain control of that management company and there are various reasons why that situation can lead to a negative perception of the managing agents.

"For instance, in year one the budget for a development can often be set at an unrealistically low level by the developer-controlled management company – with the result that in year two the owner-controlled management company will often have to increase it. In KPM, we insist on having an input into the level of the service charge in year one, so that we don't get into that situation."

But it does go on. "In today's climate people are more cost-sensitive. Buyers don't have as much money and interest rates have gone up over the last couple of years. So a developer may be tempt-

ed to say: this is the service charge, it's unrealistic but we'll deal with it in year two. At the moment there's absolutely nothing to stop that happening. And we would welcome any regulation by the government or any suggestions from the Irish Home Builders' Association (IHBA) or the Director of Consumer Affairs that would prohibit that practice."

The IHBA, in fact, has introduced a new code of practice from May 15 which says buyers must be advised about their role in a management company, and says developers should no longer be able to "pluck an arbitrary service charge figure out of the air", but must get a "suitably-qualified professional" to draw up a budget documenting recommended sinking fund contribution levels.

"Reputable companies like ours already do all of that. We have professional indemnity insurance of €7 million, along with public liability and employers' liability. We're IAVI members. We have accounts, administration, credit control and maintenance departments. Our systems are correct. But the return is small; you need volume. And yet this sector is unregulated. Anyone can set up beside us tomorrow and offer the same services at half the price without any safeguards or expertise. We welcome the IHBA code, but it's several years too late – considering we've just had a boom which started in the mid-Nineties."

He's equally sceptical about Dublin City Council, who issued a report recently showing that property management charges had increased by 63 per cent in the past 15 years – and that sinking funds were totally inadequate.

"Speaking for ourselves, our fees go up every year by the rate of inflation. And as to the sinking funds, I agree that without a proper sinking fund a development will go downhill. But it needs an active management committee working with the managing agents. And it needs legislation. Because people, even owners, will always take the easy option.

"On top of which, it's okay for Dublin City Council to issue these reports and say these are the facts – but why don't they do something about it? They have it in their power to make these issues the subject of planning requirements."

The bad news is that the cost of running apartments is increasing, says Keenan. "Electricity, labour, security against crime, new planning requirements to install lifts in developments of 10 or 12 apartments, they're all expensive. The cost of insurance in particular has been unrealistically low and I believe that will rebound and increase substantially in the next 12 to 18 months." ●



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