

## PROS AND CONS OF POOLED LETTING

When an owner lets out their unit through an on-site letting agent, there are two ways that the owner's letting income is typically calculated. These can be described as the "direct income" method or the "pooled income" method.

The method to be used is set out in the letting appointment (i.e. the agreement between the letting agent and the owner of the investment unit).

The majority of letting appointments pay an income to owners using the direct income method, where the income collected from the unit bookings is paid directly to the owner, after deductions of all expenses.

The pooled income method is used predominantly for short term lettings in a hotel style business. When using pooled income, the combined income and expenses for all units in the letting pool are aggregated and then a share of the profit is paid to all the owners in the letting pool.

In a perfect world, the pooling of income would seem the fairest way for Managers to operate their letting businesses. By pooling the income, owners can't accuse the Manager of favouring certain owners over others when allocating bookings, and all owners rise and fall together with the success of the letting business. However, as we all know, we don't live in a perfect world!

There are a number of common issues that can arise when operating a pooled letting business. The types of questions you will encounter include:

- **How to fairly determine the income ratio?** Do you allocate based on the number of beds, unit entitlements (which are designed to reflect value), quality of the unit, sea views or some other unique quality? Or do you divide everything equally regardless?
- **How to share expenses?** Do you share any or all expenses across the letting pool? Do you share expenses only up to a certain cost? Do you use the same ratio for sharing income to also sharing expenses?
- **How to determine who authorises significant expenditure?** Do you ask a committee or one or two owner representatives, or should you be asking all owners - as all owners are sharing the costs?
- **How to operate a maintenance fund?** Do you deduct a maintenance levy each month or just withdraw expenses as and when incurred?
- **What happens when an owner leaves the pool or has only just joined the pool?** Should part of the retained maintenance funds be returned to the leaving owner? What if an owner leaves the pool after the general maintenance fund has just paid out for a new hot water system or installed new carpet in their unit?
- **How to adjust income when the owner uses their unit?** Do you make no adjustment, or do you pro rata adjust for the days used?
- **How to change the terms of the letting appointment?** What do you do if not all owners agree to your proposed change?

If you elect to go the pooled income route with your letting business, all of the above questions need to be thoroughly considered and appropriately addressed in your letting appointments with your owners. Unfortunately, we see a lot of letting appointments providing for pooled income where the issues raised above are not sufficiently answered.

When these issues are not suitably addressed we see unfair scenarios arise where owners are not receiving an income that truly reflects their unit's contribution to the letting pool income. For example, if two bedroom units are in demand far more often than three bedroom units, the owners of the two bedroom units are effectively supplementing the income of the owners of three bedroom units. To add insult to injury, if the distribution of the pooled income is based on unit entitlements (i.e. the value of the units), the three bedroom units will also receive a higher return from the pool than the two bedroom units.

When you look at the questions and examples above, you can see there are many situations where a disgruntled owner could easily start asking some difficult questions. Questions that will be uncomfortable to answer if the terms of your letting appointment are either vague or silent on the issue.

If you operate a letting business that pools the income given to owners and your letting appointment doesn't have the answers to these questions, it's definitely recommended that you prioritise a revision of your letting appointments, as it only takes an issue with one owner to be an issue with all owners.

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