



NEIGHBOURHOOD WATCH OUT!

Beware dangers of malpractice in running flats, warns industry expert
Conference hears of dangers of financial abuse facing flat-residents whose blocks are run by Residential Management Companies. Disturbingly the perpetrators are neighbours they should be able to trust. Examples cited include:

- Asset stripping**
- Artificial price inflation**
- Enforced market value reductions offering bargain property to management company directors**
- Theft of block funds.**

The Association of Residential Managing Agents (ARMA) says training and professional management is the only way to protect your property.

Gone are the rogue landlords in blocks of flats. Step in Resident Management Companies (RMCs).

However, whilst most RMCs manage blocks of flats ethically and well, the system is open to abuse. The form of abuse has changed, but abuse is evident.

This was the stern warning from Bruce Maunder Taylor* speaking to the members of the Association of Residential Managing Agents (ARMA) at their annual conference in London today (5th October 2006).

Mr Maunder Taylor went on to say:

“In one example of bad practice, directors of an RMC delayed pre-contract inquiries to such an extent that would-be buyers lost interest. A Board member then visited the vendor offering a reduced price. One Board member in this particular West London block has bought some 35 flats in this way”. As the case is being investigated by the LVT (Leasehold Valuation Tribunal) he could not name the block in question.

This was by no means an isolated incident. Mr Maunder Taylor cited several examples of malpractice including:

- Asset stripping involving a porter’s flat leased to the freeholder by a RMC and store rooms leased to a company connected with a director of that RMC; parking spaces marked out and again leased to the freeholder; plus agreement that a new flat should be built by the freeholder on the roof of the building.**
- £20,000 missing from the reserve fund resulting in the arrest of the ‘Right to Manage’ company director.**

More...

- ❑ A director in a block with a no-pets policy arranging for herself to have a licence to keep cats.
- ❑ Directors arranging repayments of all reserve fund monies to all lessees immediately before they put their own flats on the market.
- ❑ A block of flats whose chairman kept service charges low and flat values high as a result. When he sold and retired, the lessees were horrified to discover that there were £1.2m of essential works, many of them urgent. The reserve fund contained only £20,000.

The answer says Mr Maunder Taylor is not just to understand company law and the Memorandum and Articles of Association. ARMA has a key role to play in guiding RMCs just as they guide managing agents. In particular, ARMA provides training so that expert managing agents may guide their clients in this respect.

“RMCs are no less vulnerable to management abuse than blocks managed by traditional landlords and perhaps more so,” said Bruce Maunder Taylor.

David Hewett, Executive Secretary of ARMA added: “Too often the emphasis in managing a block of flats is on the compliance with Landlord & Tenant legislation but now that there are some 54,000 RMCs in existence managing agents are going to need to acquire additional understanding of corporate management and responsibility. We are meeting this need for ARMA Members in the form of additional training courses and materials which will be made available to Directors of Resident Management Companies. Details are on the ARMA website”.

www.arma.org.uk

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