

# MANAGEMENT DIFFICULTIES IN MANAGING HIGH-RISE RESIDENTIAL COMPLEXES IN MALAYSIA: THE SERVICE CHARGE ASPECT

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*Abstract: This paper discusses the result of a study on high-rise residential complexes, with particular reference to the financial management aspect. The research focuses on service charges, looking at both sides of the management issue: the amount owners pay and the level of the services the management provides. Literature and field surveys indicate that this issue follows a circular argument to which both the property owners and the management corporation are contributory. The root cause seems to be financial. Owners' failure to keep up payment leads to shortage of fund which affects the corporation's capacity to provide quality services, which in turn causes dissatisfactions among residents who consequently are reluctant to pay the prescribed charges. On the management corporation side, all respondents claimed having difficulty with service charge collection with 50% of the residential complexes achieving only 50% in fee collection. The findings also showed that no standard method exists for determining the rate for service charge in any high-rise housing complex.*

*Key-Words: housing management, high-rise residential complexes, service charge*

## 1 Introduction

Escalating land prices particularly in urban areas makes building high-rise residential a more practical proposition from the economic point of view. Population growths coupled with dwindling land stock make high-rise living an alternative (Jamila, H. 1994). Multi-storey residential schemes are therefore seen as an appropriate choice when it comes to addressing the mismatch of demand and supply. Such schemes usually take the forms of low-cost, medium-cost or high-cost residential.

The main characteristic of this form of property are individual ownership of a unit, shared ownership of common property and membership of a body corporate which responsible for the management of development (Alice Christudason, 2004). This makes managing such complex difficult. Therefore, a management body is needed to manage the building together with the public area (common property) such as parking area, lighting and other common facilities in the building that are shared together.

Unlike the case for single-owner dwellings where responsibilities for managing and maintaining the property lie exclusively with the owner, a high-rise residential complex needs to be organised and maintained by a Management Corporation and, because of that, gives rise to the issue of facilities management (Linariza, H. and Ashok, V. 2003). Adding to the difficulty, owners come from different backgrounds and ethnicity to contribute to the need for proper and systematic residential complex management. This is to ensure that the management serves the interests of the majority of owners and in the same time not neglecting the interests of the minority at the same time (Lias, R. 1998).

According to Ismail, O. (1993), estate management is defined as protecting property interests together with the short- and long-term objectives set by the owners. It also means taking charge of the physical maintenance and improving the property functions. The management needs financial resources to provide the services to residential property. Towards this, each resident is required to pay service charge with regard to the services given. Unfortunately, to collect this fee is not an easy task, therefore this research mainly to analyse

the point of view of management towards difficulties that they face with the residents.

## 2 Issues Regarding Service Charge in High-Rise Residential

House ownership scheme will determine housing management activities. Ownership is classifiable into two categories, i. e. single ownership, and multiple ownerships or one building with different owners. This research focuses on multiple-ownership housing developed by government and private sector. According to Tiun, L. T. (2003), high-rise housing management is governed by two main legislations, the Housing Development (Control and Licensing) Act 1966 and the Strata Title Act 1985 (West Malaysia) (1985 Act).

According to Tan, K. C. & Teo, K. C. (1990), there are three parts to housing management philosophy, i. e. the maintenance management (terotechnology), rental and pledge maintenance, and community development management. This aspect was enlightened by Priemus, H. *et al* (1999) as declared by Gruis, V. & Nieboer, N. (2004) that housing management comprises four categories: technical management (such as maintenance and refurbishment), social management, financial management (such as treasurer and rental policy) and ownership management (such as renting, buying and selling). While Priemus, H. *et al* (1999) look at all aspects, the present research concentrates on financial and management aspects only.

Each building needs to be managed and maintained continuously to reduce wear and tear. Lack of attention to maintenance will contribute to heightened wear and tear (Ines, F. C. & Jorge, D. B., 2002). Tiun, L. T. (2003) argues that housing management plays an important role especially in maintenance activities to keep building in good condition. Moreover, it is important to make sure all facilities are managed wisely in order that they are safe for habitation (Ahmad, B. R., 2003). This aspect is the responsibility of the management corporation as mentioned in Section 43 of Act 318. This charge includes payments for insurance, refurbishment, cleaning, maintenance, lighting for public area and other costs to comply with law, rule and ordinance (Ismail, O., 1993). Without adequate fund, proper management of high-rise housing will be affected. Fee collection and arrears present the two greatest challenges for any management body (such as developer, local authority, management corporation and residence organisations) undertaking the management of strata housing scheme (Liass, R., 1998; Roerup, K., 1998; Jamila, H., 1994; KPKT, 1999; JPN, 2001; Mohd Razali, A., 2001; Sopian, I., 2003; Tiun, L. T., 2003;

PKNS, 2004; Eddy, C. L. L., 2004). These problems are more frequent among low and medium cost housing complexes.

Since service charge and more specifically maintenance charge and sinking fund, are a form of investment expenditure from owners' point of view, it is paramount to pay attention to the value returned from the investment. Viewed in this manner, owners obviously would expect to get the best services out of the fees they pay (Liias, R., 1998). Although the Strata Title Act was introduced in 1985, owners' awareness of the importance of service charge payment is still very poor. This is evident from the substantial arrears that have accumulated over the years. PKNS as a housing management body, for example, claimed that their service charge arrears have risen to RM8.1 million by March 2003 (Berita Harian, 2003). In the case of DBKL (Kuala Lumpur City Council), its 2004 budget summary showed housing accounts as in deficit by RM38 million by the 31 December 2004 (DBKL, ---). Tiun, L. T., (2003) claims that there are certain high-rise housing complexes where the arrears are in excess of 60%.

## 3 Research Methodology

The research adopts a quantitative approach and the field survey is by personal interview. There are three types of answers that lead to the real scenario towards the seriousness of the service charge problems. The respondent can either agree, disagree or neutral. The Survey respondents are classified into two groups that are related to each other, the management and the residents of high-rise housing in Malaysia. The first group of respondents comprises of 57% management executives and 43% of assistant managers who are involved directly in the management of multi-ownership property activity.

High rise housing area are located 80% in Kuala Lumpur and Selangor. For vital few trivial many, this two state can represent the whole problem in high rise residential in Malaysia. Furthermore state that have documented stratified houses with FAGM are only 4 stated not included Pulau Pinang. Consequently this is the rational in choosing this 2 state for this research. All respondents come from the private sector that manage multi-ownership properties in Kuala Lumpur and Selangor and have experiences longer than three years. The second group of respondents comprises occupants who own and stay in high-rise residential properties.

## 4.0 Research Analysis and finding

The results from this survey on management and residents show several findings as below:

#### 4.1 Management responses on service charge

Figure 1, shows that 60% of the management asserted that service charge was calculated according to the management cost for each facility and distributed per square foot for each individual holding according to the share units for each dweller while others charge average fees. 80% of them claim that they have informed buyers specifically on each charge while 20% neglect buyer needs. It also shows that all of the management respondents have difficulties in fee collection despite having tried various means. Only 10% agree that the fee is sufficient to cover management costs. However, none of the management was in favour of making a lump sum provision in house price in lieu of service charge payments, despite acknowledging that a solution to the non-payment problem could lie in this approach.

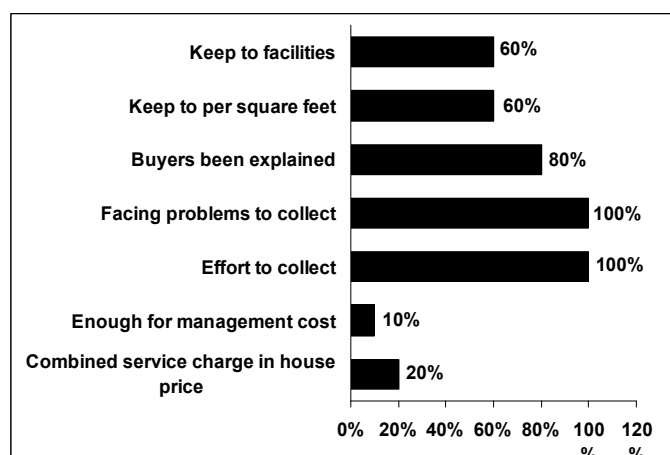


Figure 1: Management responses on service charge  
(Source: this study)

#### 4.2 Percentage breakdown of residents paying service charge in housing complex

Pie chart in figure 2, displays the critical financial deal with the management. It shows that 50% of housing complex obtain less than 50% payment of service charge, whereas no complex gets collection above 80%. In the other words, 100% collect less than 80%.

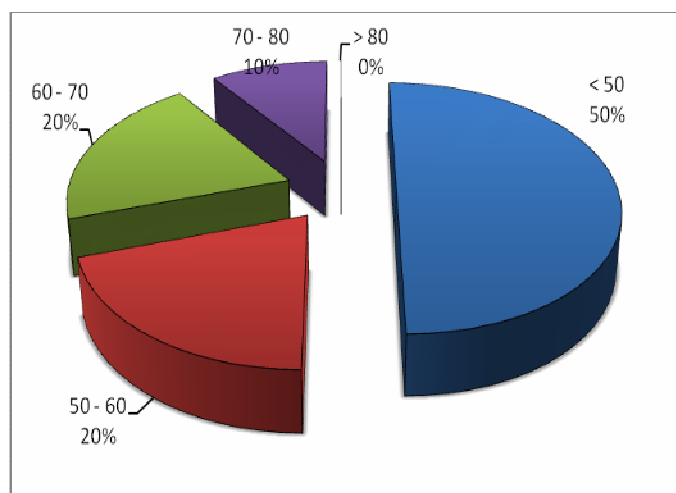


Figure 2: Percentage breakdown of residents paying service charge in Housing complex  
(Source: This study)

#### 4.3 Management problem in giving service

Figure 3, illustrates the problem faced by the management. The reason for inefficient service is that some of the owners refuse to pay the service charge causing financial problem to the management. As mentioned above, it is difficult for the management to run their activity without adequate fund. From figure 5, data shows that 50% of housing complex obtain below 50% payment of service charge. To resolve this issue, management body needs to use their own fund, but it has limitations. Finally, the service activities cannot be performed on time and this leads to inefficient delivery. When this occurs, complaints come from the residents that can be seen in figure 8 below.

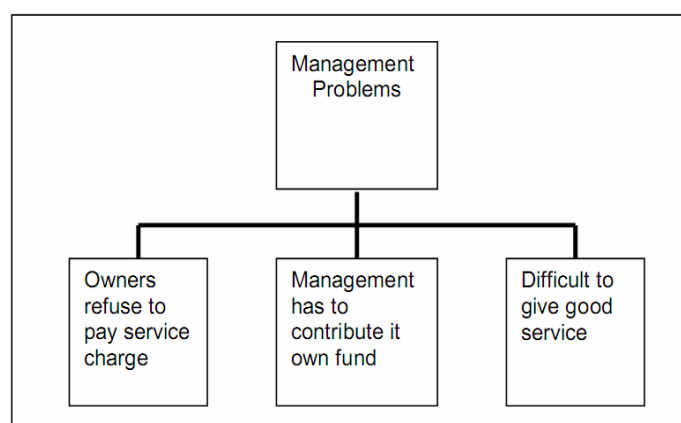


Figure 3: Management problem in giving service  
(Source: This study)

#### 4.8 Findings from this study

Several findings can be concluded from the study, where management and also residents need to consider adopting with harmonies and better living in stratified houses complex. It is real that Management has problem in service charge collection due to the owner's refuse to

pay the service charge. Where the tenants claim that it is because they feel that the facilities and services are not commensurate with what they pay.

Besides these circumstances, the management is not able to run the activity efficiently without adequate fund but in the other hand it is not fair to the buyer since there is no standard method for determining the service charge to cover facilities available. Evidently, shown in figure 6. Nevertheless, from this study 73% of owners are in favour of paying for the service charge as a lump sum to be included in house price to avoid the problematic task of collection but 80% of the management are not in favour of the lump sum approach although they see the benefits of it. And it is also found that 50% of housing complex is only able to collect less than 50% service charge from the residents.

## 5.0 Conclusions and Suggestions

Living in high-rise multi-ownership properties has increasingly become an accepted reality of the today's society particularly in town areas. An important attraction is the access to facilities such a living offers, either within its compound or in the vicinity; these facilities may include swimming pool, indoor game room and gymnasium for some of the luxurious schemes. The management corporation has the responsibility to ensure that the facilities are properly managed and maintained according to the design standards. The residents have to contribute to this maintenance through the payment of service charge.

Fee collection is not easy. The Strata Title Act was introduced in 1985 mainly to resolve this problem; today, twenty years later, the problem persists as though the legislation has not made any impact. In an ideal situation, there should be partnerships and cooperation between residents and Management Corporation towards the desirable aim of protecting the property investment. Again, this is not easy to attain, especially when it comes to low and medium cost housing complexes. An increasing number of high-rise residential schemes are on offer that provides high-end facilities at more affordable prices. This should bring ownership of such properties within the affordability of the middle class. However, there is often the danger that this breed of owners is unaware of the service charge obligation that the ownership entails. This potentially leads to difficulties later on, particularly if the means at the disposal of this group are not sufficient to meet the service charge obligations.

A suitable approach needs to be found which will resolve the conflicting issues and address the problem effectively in the long term.

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