

# Sustainable Management Fund System For High Rise Residential Management, Kuala Lumpur Malaysia

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*Abstract:* Urbanisation begin in early 60's in Kuala Lumpur, city centre of Malaysia. More job opportunities increase employee and indicate the needs of living. Since population parallel with job opportunities, implies to escalate land area. The escalating of land promotes vertical residential building. Sharing lifestyle in this type of dwell needs a pull amount of money to manage and maintain the building. It is to ensure of good condition and also prevent from decreasing value. Therefore, it is very important to have enough fund to bring all facilities in order. Previous study on residential schemes in Malaysia found 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%. In this study, research was to build a sustainable management fund system to obtain a good financial of Management Corporation. This research proposing incorporating of management fund in house price by choosing related elements to ensure it can self funded. With this, it is hope that a sustainable management fund system can be obtain thus reflects to collection's problem can be minimize.

*Key-Words:* Management Corporation, Facilities Management, High-rise residential, Self Funded, Sustainable

## 1 Introduction

The increase of working group indirectly will increase the demand for houses since they are the productive group and have the purchasing power. The concept of high-rise or strata living in this country is not new. It started in 1958 with the two high-rise complexes of Pangsa Sulaiman Court and Pangsa Jalan Loke Yew (Leong, 1980). In mid-sixties, high rise construction was emphasised to reinstate squatters and accommodate urbanisation (Alinah, 2004). However, due to the increasing urbanisation and the scarcity of land the development of sky-crapers and high-rise residential complexes has offered the best solution. Nevertheless, the demand for house differs between the early needs and the demand from house buyers now. The trend now is more towards the quality living. The house price also

increases parallel with the demand for the house (Tiun, 2006).

Conversely, living in this kind of scheme means sharing a lot of things. Conditionally, this is because buyers are now paying more attention to value added features such as security, privacy, covered parking space, swimming pool, landscaped garden and many others. Subsequently, to have a good living in high-rise properties, a good management is needed to ensure everything goes in the right track. And to have a good management, good finance is most critical (Che-Ani, 2007, Mohd-Tawil, N, 2009). Unfortunately, the experience on managing high rise residential properties in the country is very new and inconsistent (Tiun, 2006). While fund collection is not in the good order, a management agent and residence have their own reason

in facing this problem (Jamila, 1994). Management declares that they cannot manage and maintain the property as it should be since they do not have enough capital resources while the residents complain that they refuse to pay because the maintenance done was commensurate with the fee. The problems appear when residents cannot understand the sharing concept. Some of them are declining because they do not use all the facilities (Jamila, 1994). Although extensive effort are being undertaken to collect fees, it seems that collection is a critical issue (Tiun, 2003). Norngainy (2005) found that just about 50% of complexes could only manage to collect less than 50% maintenance fees.

This paper discusses and suggests a way of solving the problem. It will focus on the fund or deposit concept.

## 2 Literature Review

To most individuals housing represents the largest single investment in life. The focus of property management and facilities management is often associated with maintenance job and collecting rent (Singh, 1969). But the continuous growth trend of high-rise residential buildings indicates that there is a need for an effective ownership and property management system to have a quality living experience among high-rise residents in this country.

The main characteristics of this form of property are individual ownership of a unit, shared ownership of common property and membership of a body corporate responsible for the management of development (Christudason, 2004, Mohd-Tawil, 2009). This makes managing such complex is the difficult task. 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 property in the buildings 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 and Ashok, 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 at the same time does not neglect the interests of the minority (Liias, 1998).

The Strata Title Act was introduced in 1985 as to support the National Land Code. This Act is to ensure that all high-rise residential issues can be addressed effectively. An important provision in the Act is the requirement for the establishment of Management Corporation to manage housing complex. To ensure that the building functions properly and complies with the law, residents need to contribute to management fees. All building management tasks are costly, especially the maintenance parts. The high service charges contribute to discontentment among residents who often fail to see the necessity for contributions and flow of the money. The Management Corporation, on the other hand, has responsibility to keep service charges to more realistic levels and find alternatives in reducing maintenance cost.

## 3 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, (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 and Teo (1990), there are three parts to housing management philosophy: the maintenance management (terotechnology), rental and pledge maintenance, and community development management. This aspect was enlightened by Priemus *et al* (1999) as in Gruis and Nieboer (2004) that housing management comprises of four categories: technical management (such as maintenance and refurbishment), social management, financial management (such as treasury and rental policy) and ownership management (such as renting, buying and selling). While Priemus *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 as to cope with normal wear and tear. Lack of attention to maintenance will contribute to heightened wear and tear (Ines, F. C. & Jorge, D. B., 2002). Tiun (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, 2003). This aspect is the responsibility of the

management corporation as mentioned in Section 43 of Act 318.

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. 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).

It is typical with any management activity, finance is the most critical element in effective management of high-rise housing. 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, 1998; Roerup, 1998; Jamila, 1994; Mohd Razali, 2001; Sapian, 2003; Tiun, 2003; PKNS, 2004; Eddy, 2004). These problems are more frequent among low and medium cost housing complexes. In this regard, Ahmad, *et al* (2005) found financial factor as the most important contributor to the effectiveness of facilities management in multiple-ownership management. Therefore, serious consideration needs to be given to this factor if management problem is to be resolved.

For this reason, Management Corporation needs to ensure that the quality of services they provide is at par with the fees charged. Thus, this is difficult to achieve without the commitment of residents (Mohd-Tawil, 2009). 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. In the case of DBKL (Kuala Lumpur City Hall), Tiun, (2003) claims that there are certain high-rise housing complexes where the arrears are in excess of 60%.

Studies show that owners give various reasons for their reluctance to pay service charges. Their reasons range from the fact that they do not fully utilise the facilities (Roerup, 1998), to that the charge for service quality does not match the fees charged (Tiun, 2003). Jamila, (1999) contended that owners regret paying the management fee. In the case of the gymnasium usage, for example, the initial fee was announced as maintenance fee and the monthly fee as gymnasium

management fee. Residents find this burdensome and eventually refuse to declare ownership of the facilities. fund needs. We will also assume that the building will remain for infinity. This is to ensure the deposit have enough money as long as the building exists.

This can be shown from diagram below where the lump sum amount of service charges for a management fund can overcome the criticality in collecting those funds. Tiun (2003) and Norngainy (2005) find out the critical indebtedness amongst the unit owner. Although various methods used to collect that charges, the management still face difficulty such as facing with black mail and vandalism of their property ( Tiun, 2003 ). If this concept can be accepted, therefore this challenge can be managed.

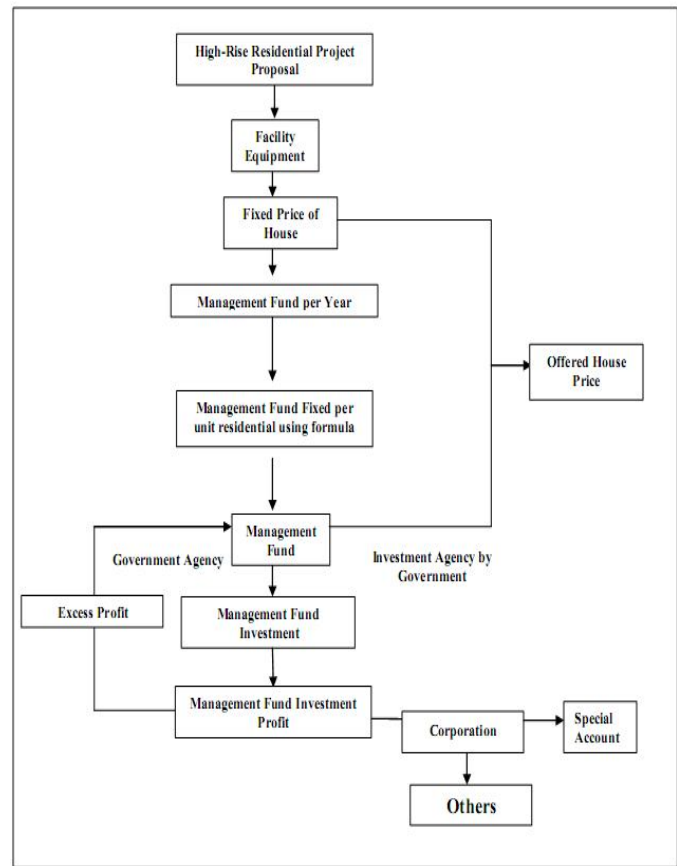


Figure 1: Conceptual flow chart Lumpsum Deposit Management Fund

Figure 1 shows the process of integrating the lump sum amount of service charge as management fund deposit. This is to build a sustainable management fund system that can cope with collection problem. When the developers proposed the building, they are also proposing the facilities for residential complex. The house price offered consists of residential location and

type of facility provided. In this stage the amount of the management fund per annum must be determine. Through this the amount of the deposit will be derive by the formula which consider the fund itself is perpetuity and sustained as the building itself. With this, we hope that the challenge in collecting management fund will no longer be a gap to both parties.

### 3.1 Model Fundamental

In managing fund, the management financial principle must be followed. In developing this model, we assume that the service charge already known. This model is based on annuity concept. Annuity is constitutes a stream of over a period of time. Since, we assume the management fund has an annual increment, it is not suitable to use normal annuity. So, researcher used continuous annuity which is actuarial science formulation to get the cycle of deposit fund. This function is well known in insurance and pension scheme. Continuous annuity will give us present value. In this study, present value is the deposit amount that needs to be incurred in the house price.

$$A = \int_0^T f(t)e^{-rt} dt \quad \dots \quad (1)$$

where

A = present value

f(t) = annuity payment per year function

r = return

t = time

T = payment time period

(Haussler, 1996))

## 4.0 Conclusion

The challenge in collecting fee from the residents of high-rise residential has been seen as a critical issue in our country. Although many legislations have been introduced, it seems that there is a gap in persistence. Both parties, the management and the residents, are pointing at each other. In this paper, the study shows that if a fund can generate income for the management fund yearly, both parties will get the benefit. The residents will only pay the fee up to the period of the repayment loan (not for the whole of their live) whereas the management will not suffer depletion of the management fund.

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