Relationship in Between House Price and Annual Management Fund in High-Rise Residential in Kuala Lumpur, Malaysia

MOHD-TAWIL N¹, RAMLY A³, MD-N.DAUD³, CHE-ANI A.I.² A. ZAHARIM¹
¹Unit of Fundamental Engineering Studies, Faculty of Engineering and Built Environment
²Department of Architecture, Faculty of Engineering and Built Environment
Universiti Kebangsaan Malaysia
43600, UKM Bangi, Selangor
MALAYSIA
³Department of Real Estate, Faculty of Built Environment,
University of Malaya
51000, Kuala Lumpur,
MALAYSIA
nmtawil@gmail.com, drabr@msn.com, mdnasir@um.edu.my,
adirfan@gmail.com, azaminelli@gmail.com

Abstract: Living in Kuala Lumpur, city centre of Malaysia, bring matters of choosing dwelling as shelter. 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 ensuring 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 done to analyse the relationship in between house price and annual management fund. It was collect among 150 schemes of high-rise in Kuala Lumpur. It also limited to the non low-cost unit with the price RM250,000 and below. Study shows that both house price and annual management fund is linear function with gradient of 0.11 or we determine the relationship is 11% among this two element.

Key-Words: Management corporation, High-rise housing management, High-rise residential, regression coefficient

1 Introduction
Housing is a basic need for all and increased population and income will lead to the increase in housing demand. 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 skycrapers 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 (Adi, 2007). 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 (Tiu, 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. People are beginning to realise that effective facilities management is very important to ensure that everything goes well. Facilities management is an activity with the wide range of businesses; it is not an easy task. It involves proper planned activities to achieve goals and objectives. In the other words, property management plays a big role in sustaining the property value and maintaining high return on their investment (Tiu, 2006). 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.

Under such residential schemes, a multiplicity of owners have their interests over the same parcel of land. Each residential unit is owned by different owners. 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). 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.

A residential high-rise unit is different from other residential property types with regard to its management responsibilities. 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 Tiu, (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 (tero-technology), 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). Service charge is defined as money collected by developer, agent or management body from the unit owners for maintaining and managing all common areas in the residential complex. This charge is also known as a fee which, in addition, all residents are obliged to pay (Government of Malaysia, 2003). For units with strata title, the amount charged by Management Corporation is based on the share contribution of each unit. Nonetheless, some owners are reluctant to pay because they consider the charges to be too high (Jamila, 1994).

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; Sapijan, 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.

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 (Liass, 1998). For this reason, Management Corporation needs to ensure that the quality of services they provide is at par with the fees charged. Further, the management corporation needs to negotiate with owners and seek fee resolutions that owners are comfortable to accept.

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), its 2004 budget summary showed housing accounts as in deficit by RM38 million by the 31 December 2004. Tiun, (2003) claims that there are certain high-rise housing complexes where the arrears are in excess of 60%. When the delivery of services is affected as a result of non-payment, its effect is felt among those who pay the service charge as well. This tends to encourage the latter to take the same action of not paying. Consequently, the Management Corporation has to shoulder the burden of non-payment, to the extent that they may have to draw on their own financial resources or sinking fund to cover the management expenses.

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. According to Teo (1993), although Management Corporation is legally permitted to prosecute in the court of law under Sections 52(2), 53A, 53(2) and 55A of Strata Title Act, the prosecution is rarely resorted to for impracticality reason (Roerup, 1998; Tiun, 2003), such a step might affect overall complex occupants’ pride (Sapijan, 2003). Also, although developer is allowed to resort to the disconnection of electricity or water supplies, again such an action is rarely taken (Roerup, 1998; KPKT, 1999; JPN, 2001). When most occupants default on their payment of service charges, the fund runs out. This impinges on the scheduled execution of most activities and affects the effective management of the complex (Tiun, 2003).
The above scenario portrays the importance of bringing management costs to realistic levels. Owners of high-rise residential complexes are increasingly aware of this, which creates the need for the introduction of some form of an index or benchmark on costs of high-rise housing management. This is so that occupants are better informed on whether or not they have paid reasonable cost, and on whether or not the services they receive are deserving of what they paid.

4 The Model

Gruis and Nieboer (2004), quoting from Priemus et al (1999), contend that there are four main areas in housing management: the technical management, financial management, social management and ownership management. The current study focuses on financial management, and the samples are drawn from the Management Corporation of strata title schemes where first annual general meeting (FAGM) has been held. Such a management body will continue in its function until it is terminated. In Korea there is a housing rental system called as Jonsei deposit. This system has been developed hundred years ago and only practised in Korea. In this system, the tenant will pay the landlord a large lumpsum amount of money of about 25%-70% of the house price. The lump-sum deposit will be deposit in any bank to get the interest as the payment for the house rent. after completing the tenure contract, the deposit will be return back to the tenure (Yeong-Hee Jang, 2001).

The flow of the system can be done to manage the fund deposit. It needs to generate income from the investment to fulfil the management fund and must also have a yearly surplus that must be deposited back to the deposit fund. This is to ensure the fund will supply enough money for the whole life of the building. Starting from the early stage of proposed building by the developer with facilities we can calculate how much money they need to manage the building for one year. Then it will be determined for all units. With the fund deposit model, a deposit can be determined for each house. These will be include in the house price. After that the fund deposit body will invest the money and make sure it will goes as what it should. After a year, the management corporation can apply from the fund. This formula will consider the return and the increase of the management 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 over come 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.

![Conceptual flow chart](image)

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. 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 Fundamental at the model
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 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.

\[
A = \int_{0}^{T} f(t)e^{-rt} dt \quad \ldots \quad (1)
\]

where
- \( A \) = present value
- \( f(t) \) = annuity payment per year function
- \( r \) = return
- \( t \) = time
- \( T \) = payment time period

(Haussler, 1996))

In this paper we want to know what is the relationship in between the home price and the service charge per year. The analysis is done by using Regression Analysis.

4.0 Analysis
Ratio of House Price to Service Charge, \( \alpha \)

Survey was conducted for 150 high-rise residential in Klang Valley's surrounding. The chart 1 below shows the relation between house price and service charge yearly.

Chart 1 : A chart of service charge per year vs house price
Source : This research 2008

Chart 1 above illustrates the ratio for the service charge per year and the house price for 150 high-rise residential falling under RM250,000. From the chart, the gradient is 0.011. That means that the service charge per year is one percent from the house price per year. Therefore we take the coefficient as 0.01.

5.0 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.

References:


