

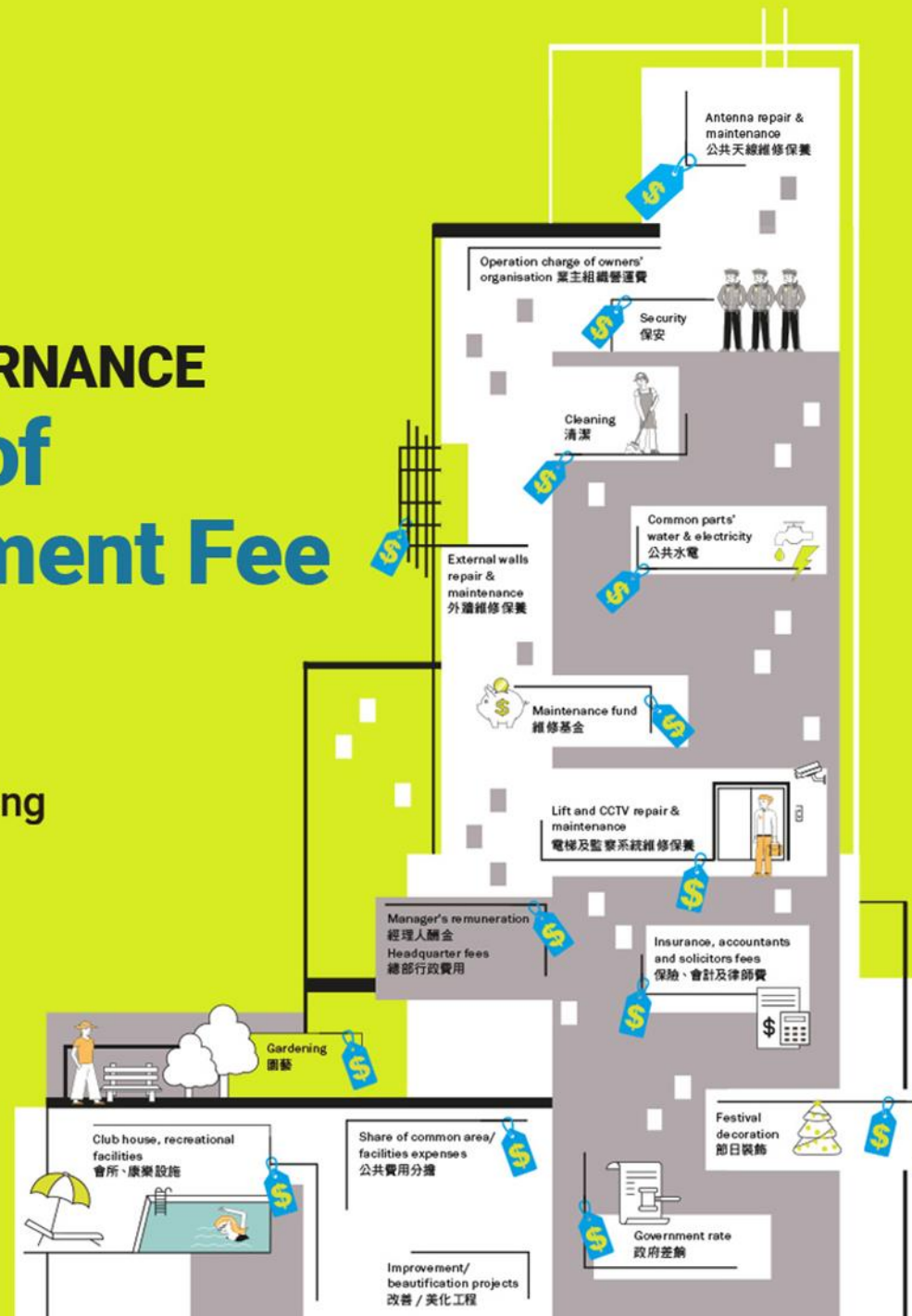
# TRANSPARENCY AND GOVERNANCE

## Optimising Value of Property Management Fee in Hong Kong

A Study on the Private Residential  
Property Management Fees in Hong Kong

### Press Conference

4 May 2023



# Study on Private Residential Property Management Fees in Hong Kong

- 1. The Uniqueness of Hong Kong Property Management Market**
- 2. Study Objectives and Scope**
- 3. Hong Kong Property Management System**
- 4. Study Findings**
  - i. Market Surveys  
(Opinions from Owners, Owners' Organisations & Property Management Companies)
  - i. Desktop Research & Analysis (Information Disclosure)
  - ii. Regulatory Regimes in Other Markets
- 5. Issues & Recommendations**
- 6. Way Forward**

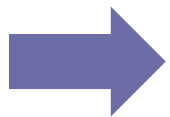
# 1. The Uniqueness of Hong Kong Property Management Market

## Property management involves complex and far-reaching issues:

- In a multi-owned residential building, **collective actions** from owners are required to exert influence in decision making related to property management matters.
- **Management fees are recurring and in large sums on cumulative basis**, even larger sum when considering ad-hoc one-off contributions to capital expenditures.
- **Absence of official information** on property management market structure and fees makes it difficult for owners/consumers to exercise choices.
- **Complicated laws on property management** for lay owners/consumers to understand.
- Property owners have relatively **less bargaining power** vis-a-viz property developers/managers, they may lack knowledge or wherewithal to protect themselves.

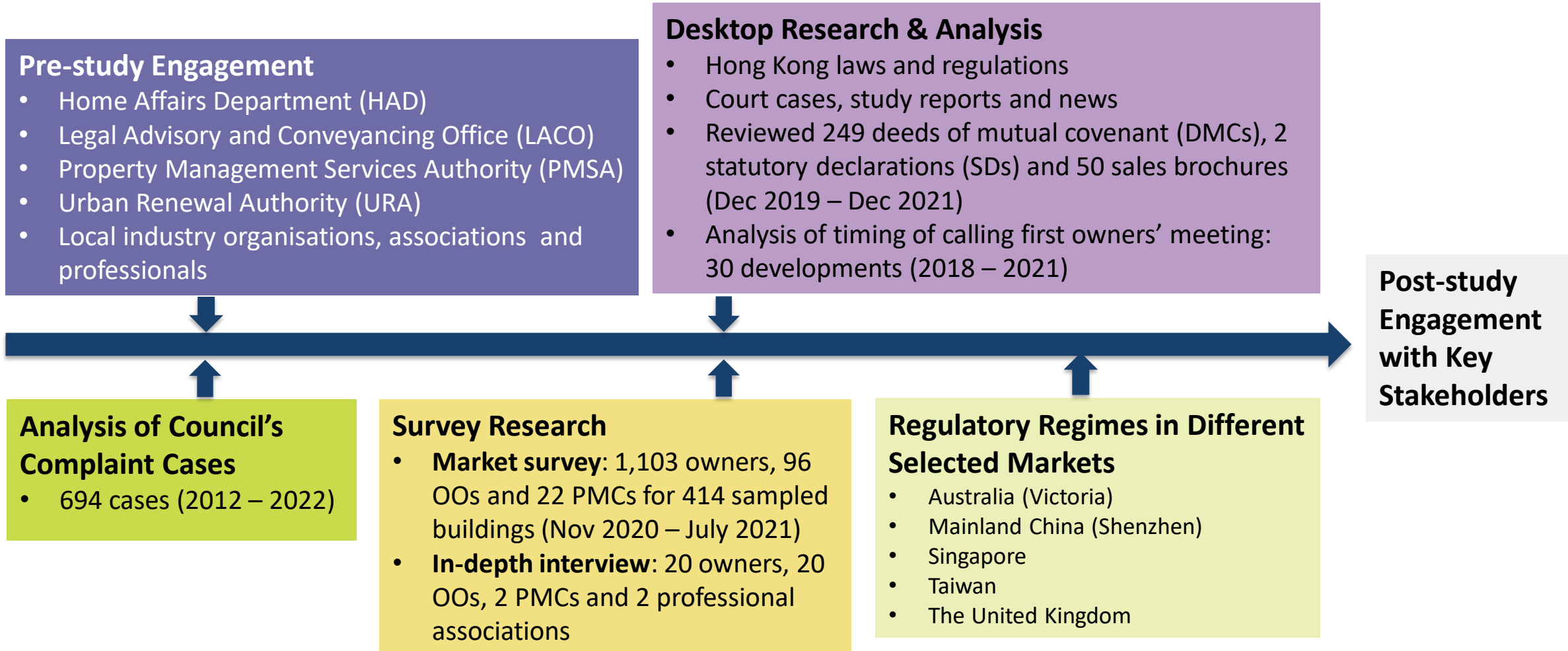
## 2. Study Objectives

- To gauge **consumers'** levels of awareness, understanding and influence on private residential property management fees in Hong Kong;
- To find out the roles of **owners organisations (OOs)** in property management and their experiences and opinions in choosing and switching **property management companies (PMCs)**;
- To identify the prevailing issues of **management fees** and related expenses in the market; the nature and extent of market competition among PMCs and their views; and
- To review the current state of safeguards for **consumer protection**.



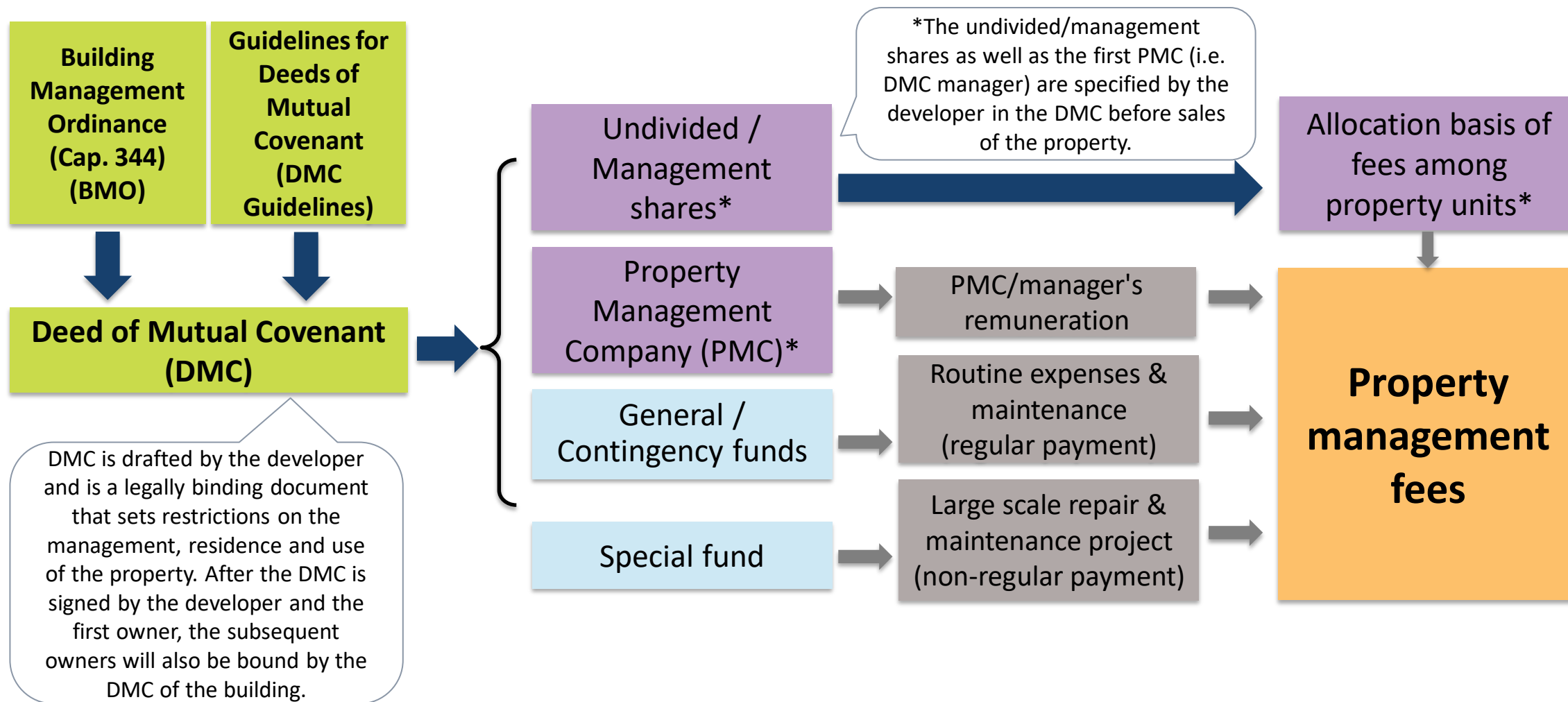
The Study aims to promote a healthy, competitive and sustainable marketplace in property management.

## 2. Scope of Work



# 3. Hong Kong Property Management System

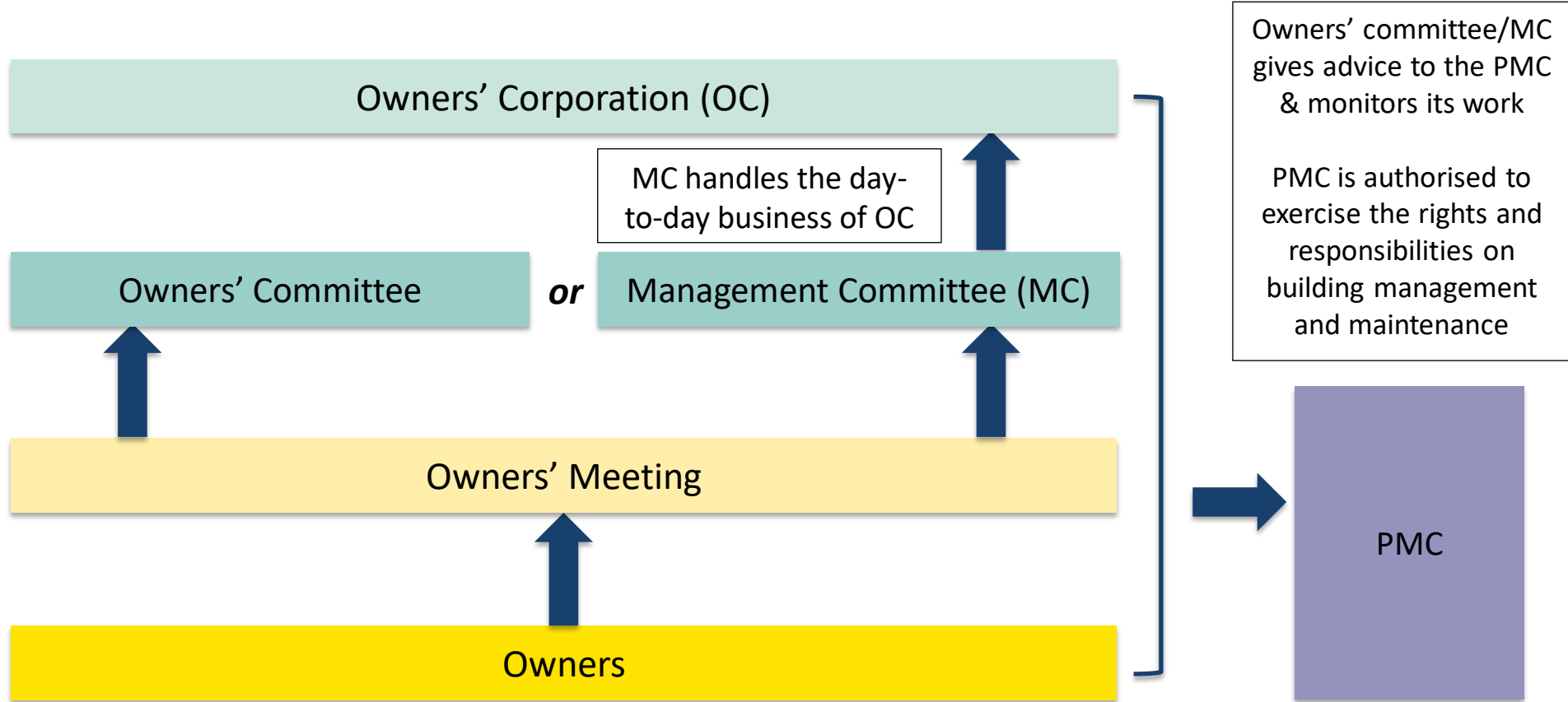
## Deed of Mutual Covenant Determines the Underlying Structure of Property Management Fees



# Relationship, Role and Function of Owners' Corporation, Management Committee, Owners' Committee and PMC

OC is a body corporate set up under the BMO, with its day-to-day business handled by MC

Owners' committee is an owners' organisation (OO) formed under and in accordance with the DMC  
  
 When an OC is formed, members of the MC shall be deemed to be the owners' committee





# Regulatory Bodies Related to Property Management

## Legal Advisory and Conveyancing Office (LACO)



- To examine and approve DMCs submitted by developers, to ensure that the DMCs are in compliance with the Building Management Ordinance (Cap. 344) and the DMC Guidelines.

## Home Affairs Department (HAD)



- To oversee the implementation of the Building Management Ordinance (Cap. 344) and formulate policies in relation to the property management industry.
- To encourage owners of private buildings to form OCs in accordance with the BMO, and provide support to assist owners on building management matters.

## Property Management Services Authority (PMSA)



- A statutory body established in 2016 under the Property Management Services Ordinance (Cap. 626) to regulate the provision of property management services by PMCs and practitioners in Hong Kong.
- The licensing regime will become mandatory (effective on 1 August 2023).

## Sales of First-hand Residential Properties Authority (SRPA)



- To administer and monitor compliance with the requirements of the Residential Properties (First-hand Sales) Ordinance (Cap. 621) (about the disclosure of property management related information and a summary of the provisions of DMC in sales brochures).



## 4. Study Results

- i. Market Surveys**
- ii. Desktop Research & Analysis
- iii. Regulatory Regimes in Other Markets

# Market Surveys

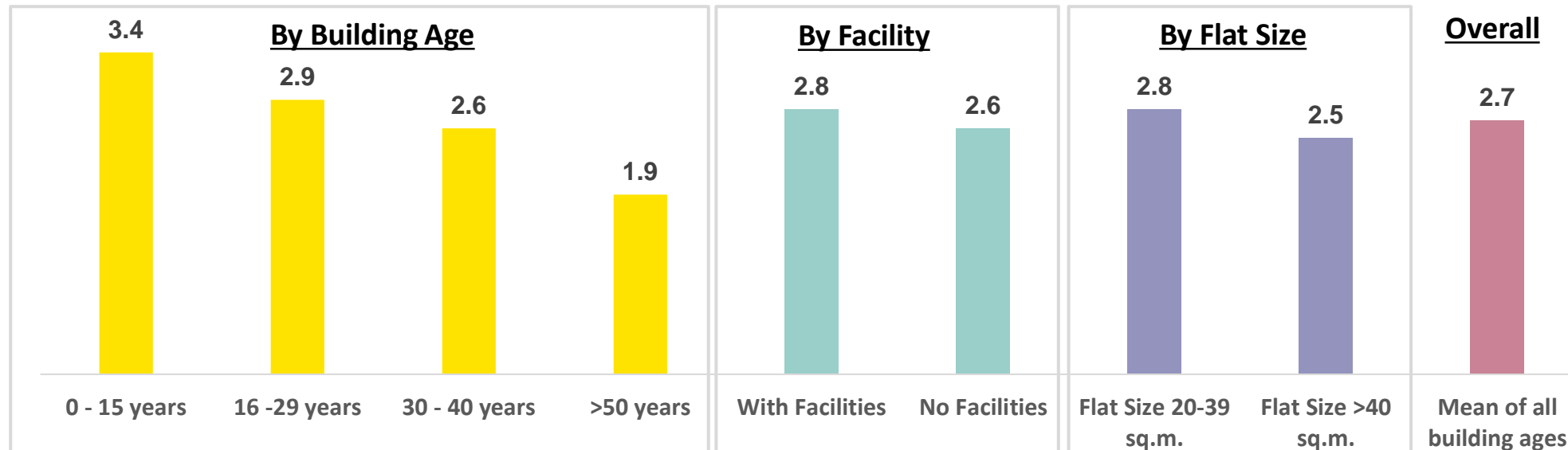
## (1) Management Fees

- **Fee Levels**
- **Adjustment Concerns**
- **Fee Components**
- **PMC Charged Expenses**
- **Determining Factors**

## Management Fee Levels

- Management fee level:** ranged from HK\$200 to HK\$3,700 per month, with the average at HK\$1,108 per month or around HK\$2.7 per sq. ft. On average, owners spent approximately 7.4% of their monthly household income on management fees.
- Whether management fee is reasonable:** 55.4% from responded owners regarded the level was reasonable (Among them, 26.3% paid less than 1% of their monthly household income for management fees); 23.4% considered the level unreasonable, (28.9% of them paid more than 10% of their monthly household income for management fees).
- Fee level affected by various factors:** e.g. the property management fee for younger buildings and those with facilities may be higher.

Mean of Management Fee (HK\$ per sq. ft.)

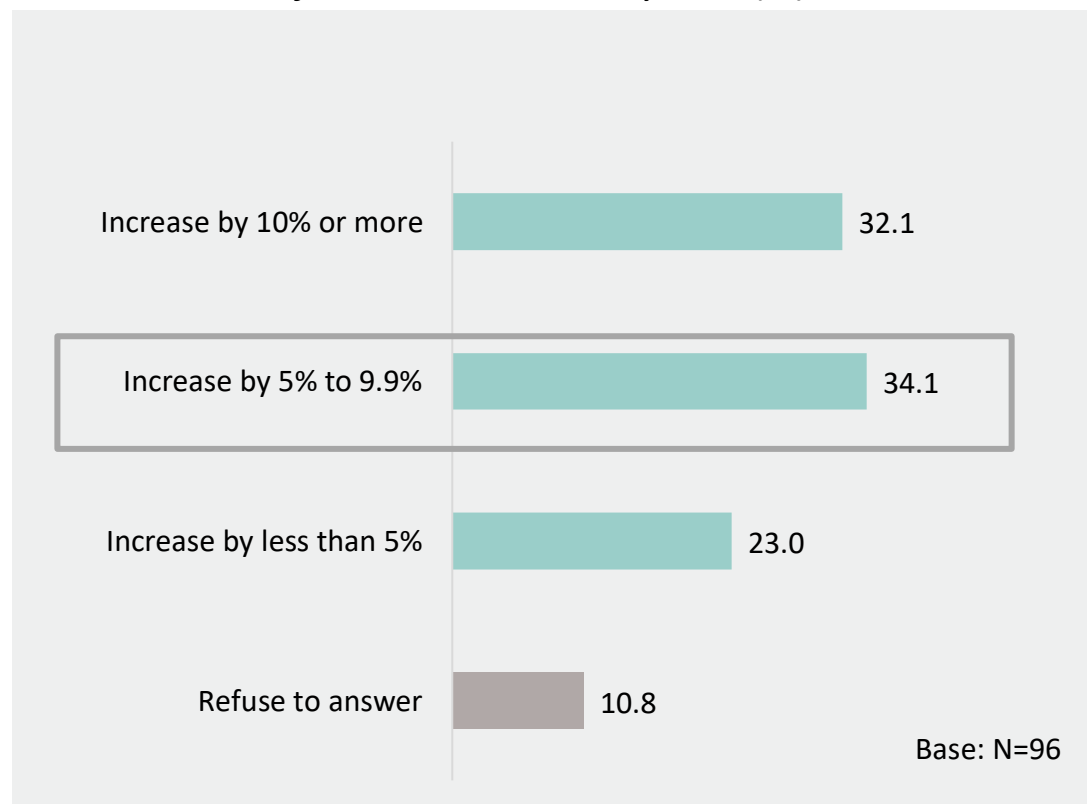


Base: N=1,103

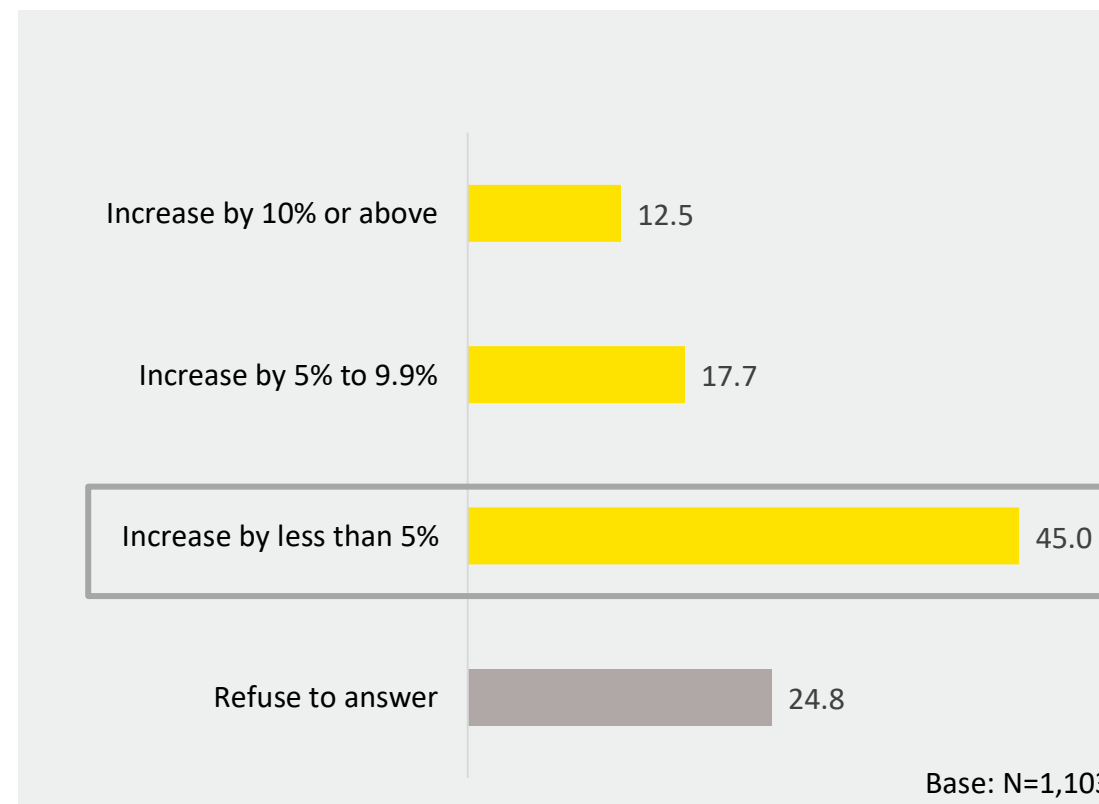
## Adjustment to Management Fees

The actual adjustment magnitude was in most cases higher than the acceptable level of the owners.

(i) Rate of Increase in Management Fees of the Last Adjustment Provided by OOs (%)



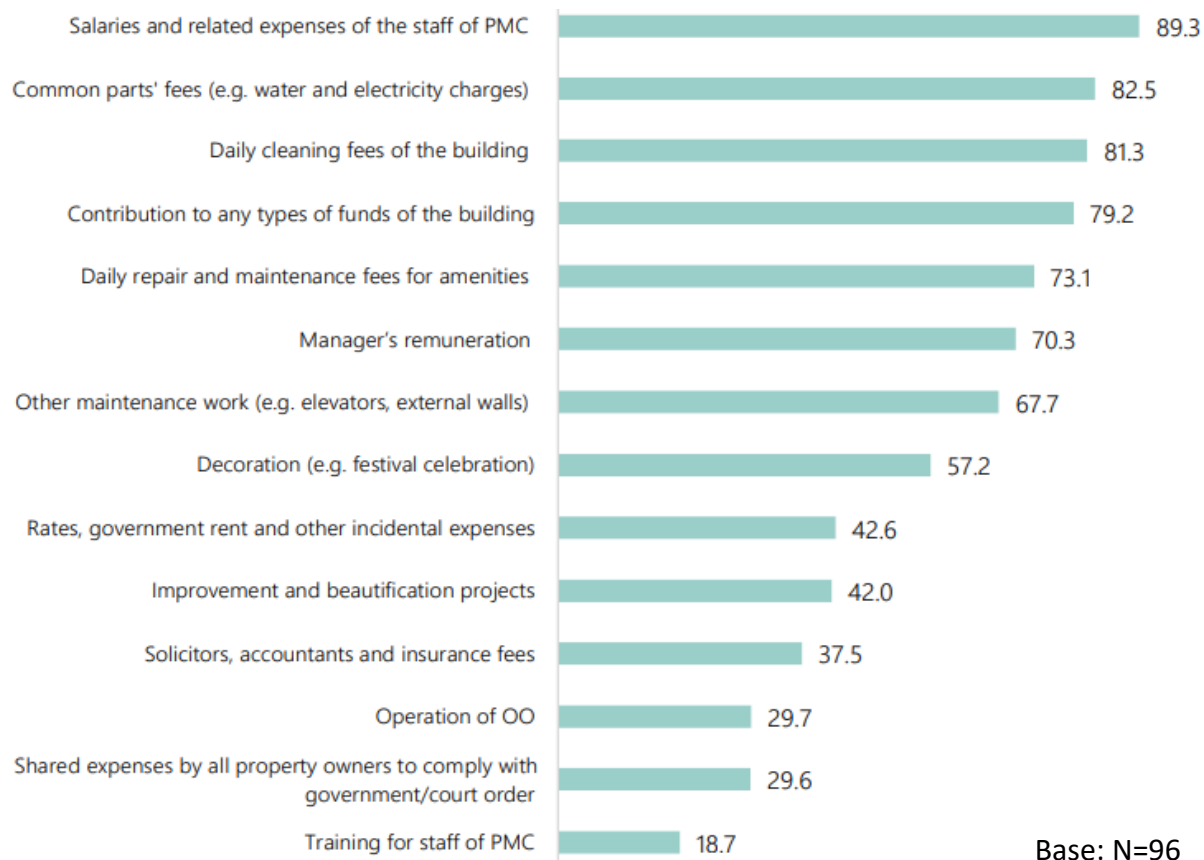
(ii) Acceptable Adjustment Magnitude in Management Fees for Owners (%)



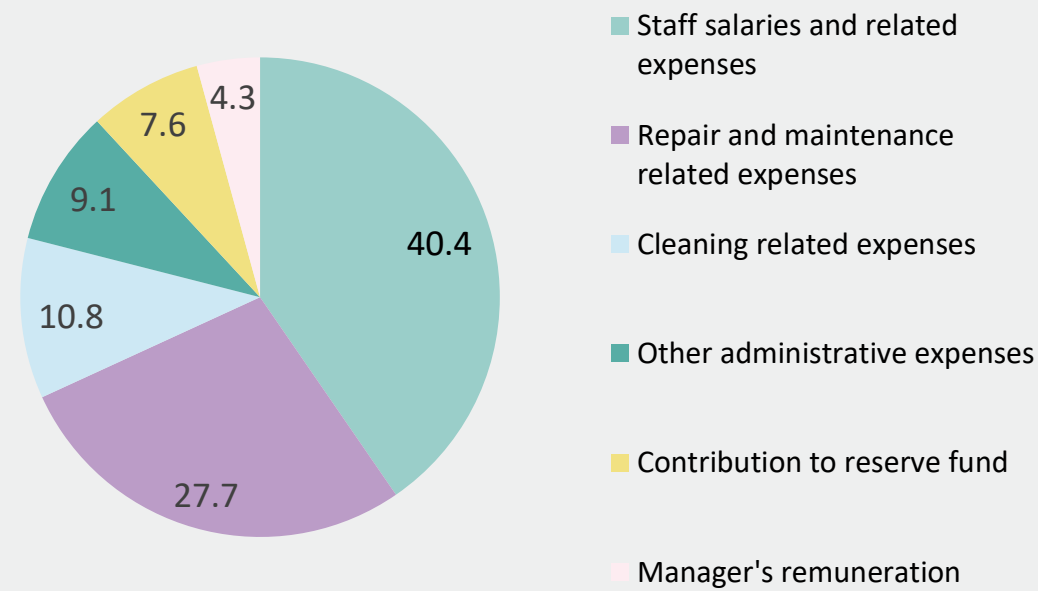
## Components & Distribution Share of Management Fees

Around 40% of management fees were used for “Staff salaries and related expenses” (40.4%). Other expenses included “Repair and maintenance related expenses” (27.7%), “Cleaning related expenses” (10.8%), “Other administrative expenses” (9.1%), “Contribution to reserve fund” (7.6%) and “Manager's remuneration” (4.3%).

(i) Types of Expenses Items Covered by the Management Fees (%)



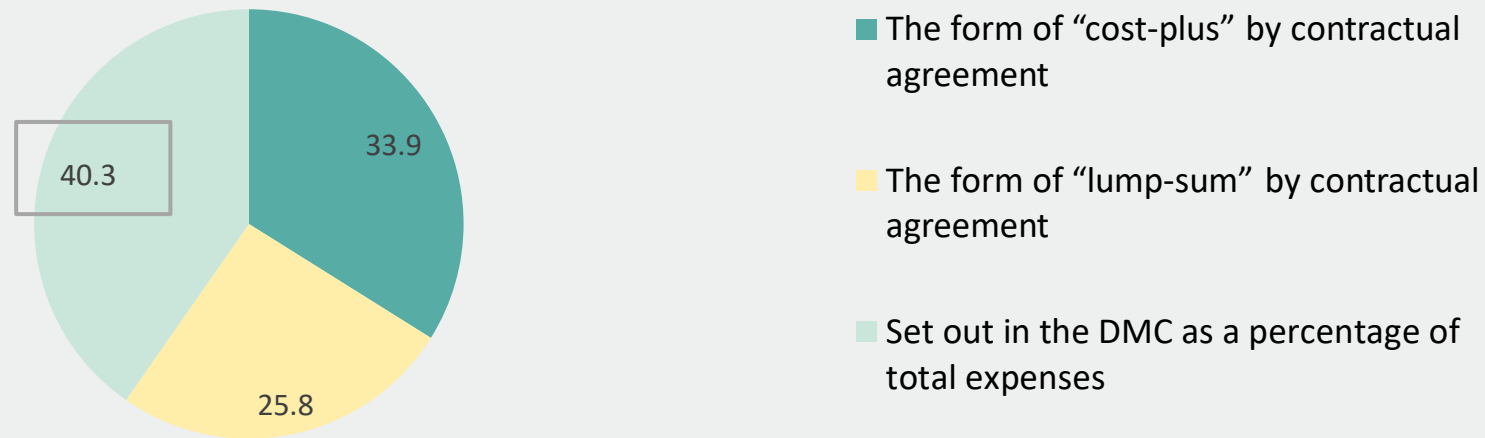
(ii) Major Expenditure Components (%)



## PMC Charged Expenses

40% of the PMCs charged the percentage of the total property expenses stipulated in the DMC as the manager's remuneration.

Forms of Manager's Remuneration (%)



Base: N=46

### Headquarter Fees

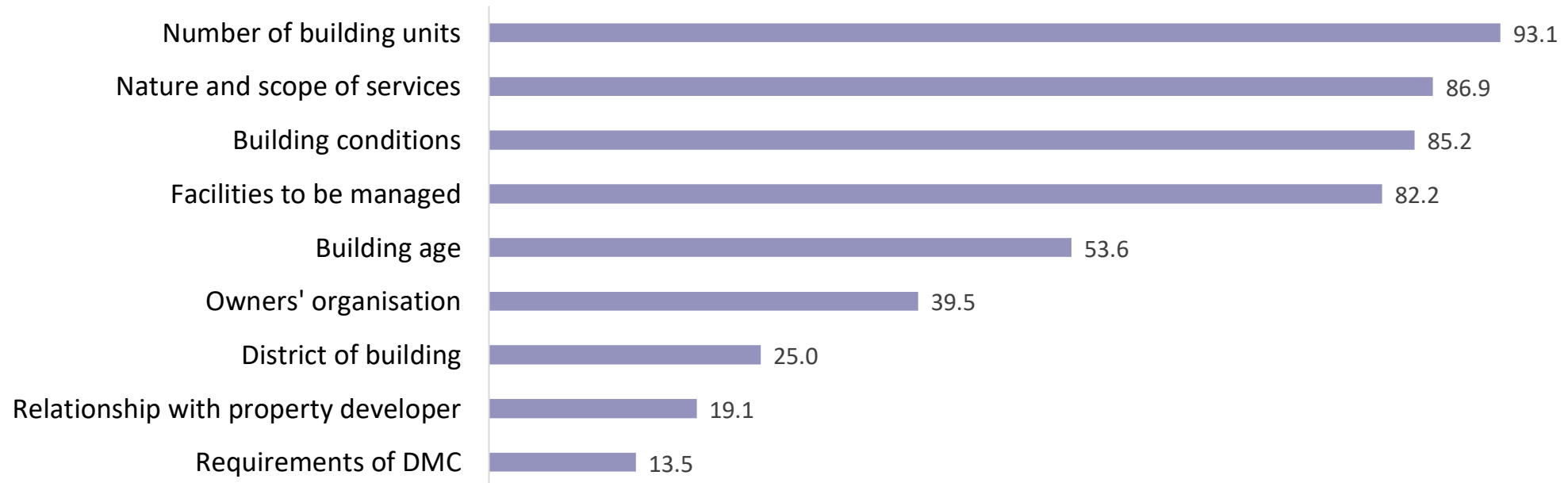
- About 2/5 of the PMCs **assigned their headquarter staff to provide general management services of the sampled buildings**, such as rendering financial, legal, facility and human resources management services. However, they refused to indicate if the respective charges are included in the management fee of the related buildings.

Remarks: Many interviewed PMCs regarded financial related data sensitive and refused to answer related questions.

## Factors Determining Management Fee Levels

The management fee level is determined by a number of factors, such as “the number of building units” (93.1%), “nature and scope of services (86.9%), “building conditions” (85.2%) and “facilities to be managed” (82.2%), etc.

### Factors Considered by the PMCs in Determining the Level of Management Fees (%)



Base: N=22, multiple answers allowed



# Market Surveys

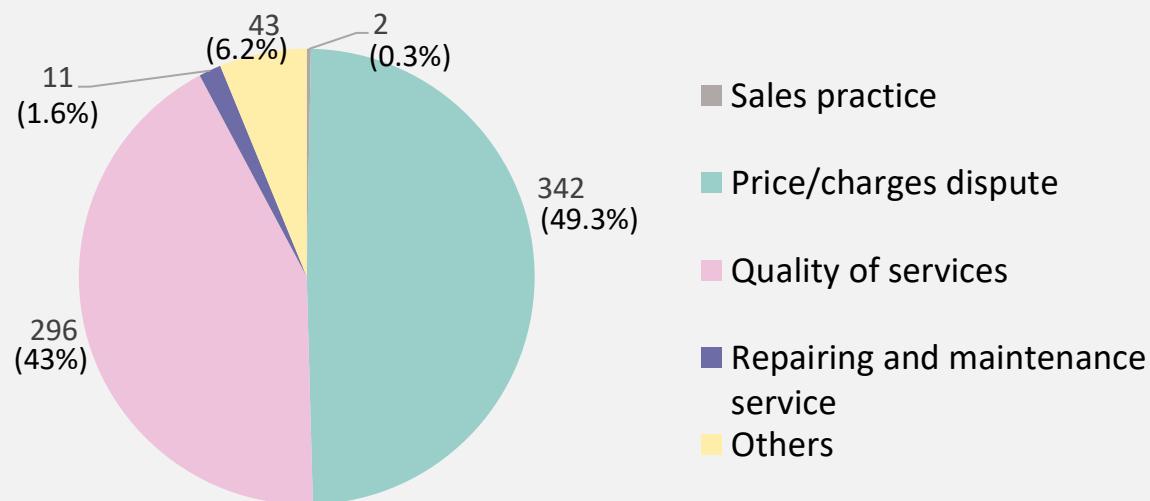
## (2) Property Management Services

- **Quality of Services & Pricing**
- **Challenges Facing by the Industry**

## Dissatisfaction of Owners on the Service Quality of PMCs

In the past 11 years or so, the Council received 694 complaints concerning property management services, which involved a total amount of HK\$393 million, were mainly related to pricing and charges disputes (49.3%) and quality of services (43%). About half of such complaints (50%) was resolved after the Council’s conciliation, the resolution rate is relatively low.

**Breakdown of Consumer Complaints on Property Management Service by Categories in 2012 – 2022 (Case Number & % Share)**

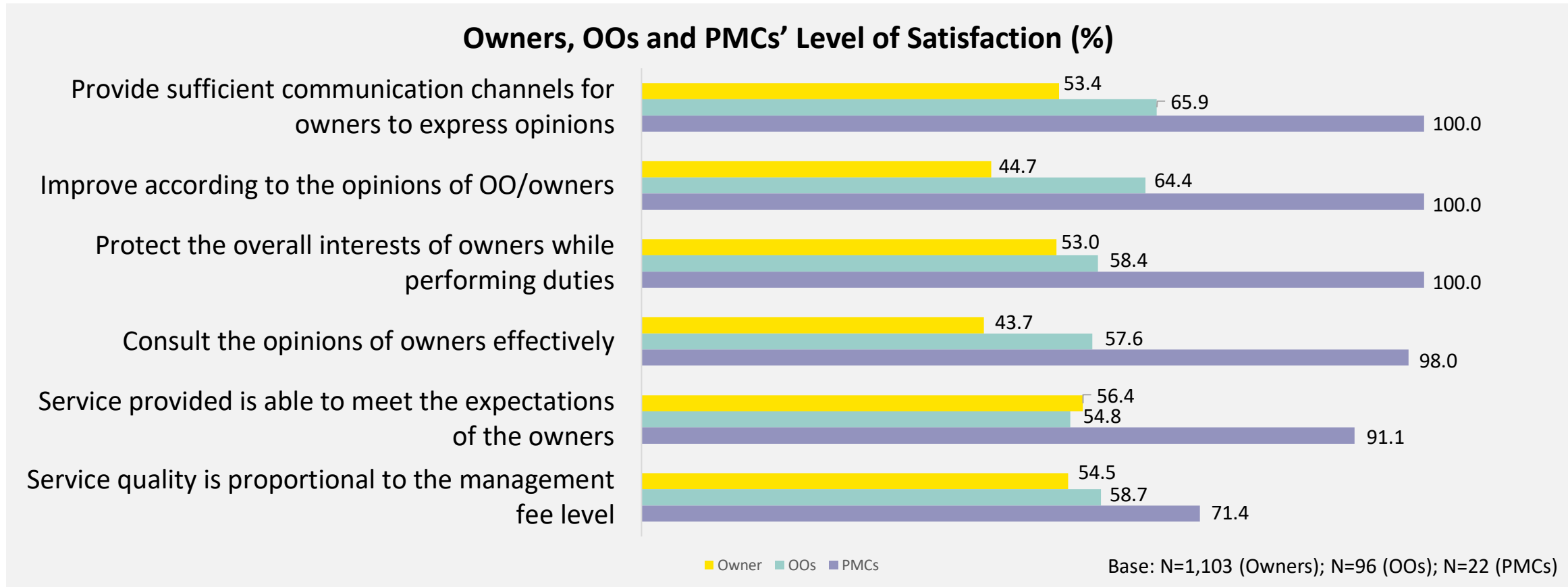


**Remark: Around 200 complaints for the “Price/Charges Dispute” category in 2015 were received from a group of purchasers of a first-hand residential property.**

- **Price/charges dispute** unjustified charges, improper handling or misappropriate use of funds, or refusal to provide the requested income and expenditure records and accounting books.
- **Quality of services** related to dissatisfaction on the attitude of frontline staff in attending to owners’ requests, the speed and the way of PMCs in handling the complaints, or the lobby was unmanned at times.

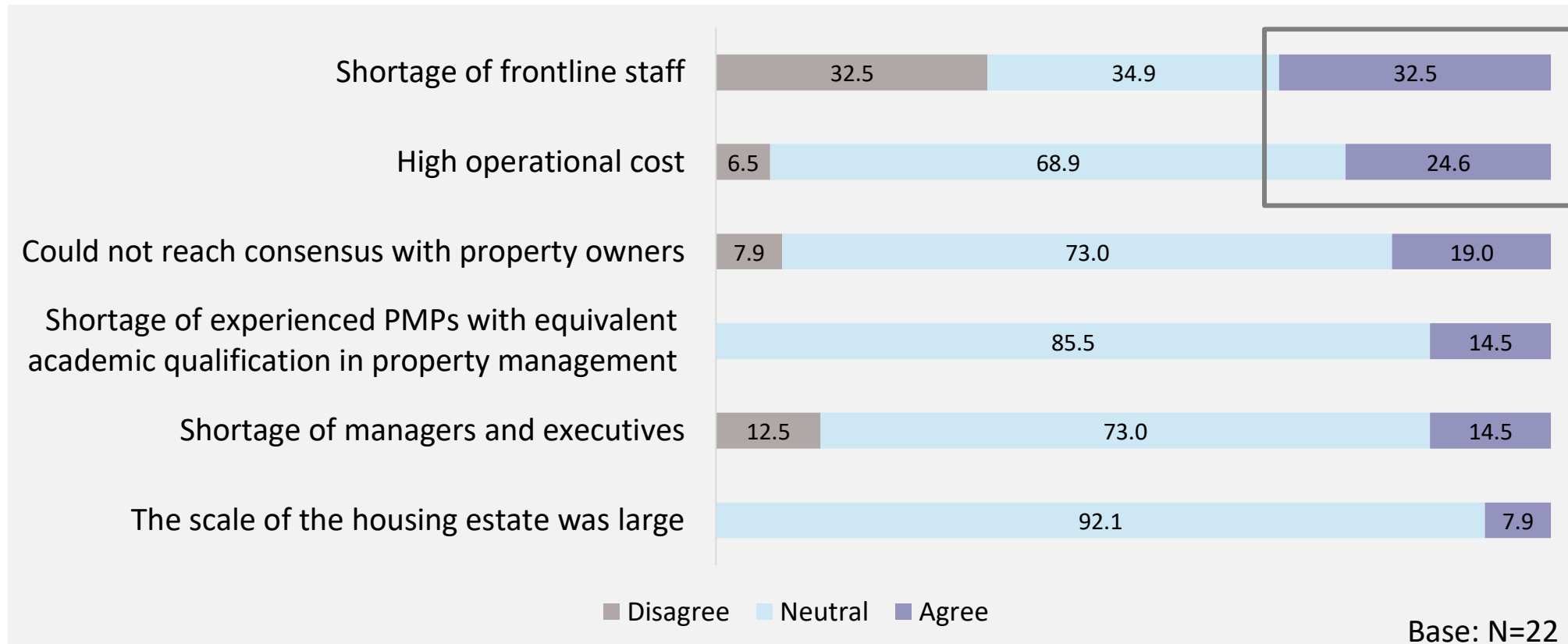
## Gaps on the Level of Satisfaction of Property Management Service

PMCs regarded themselves meeting 71.4% to 100% target in most areas, while owners and OOs graded only 43.7% to 65.9% of PMCs meeting the expected requirements.



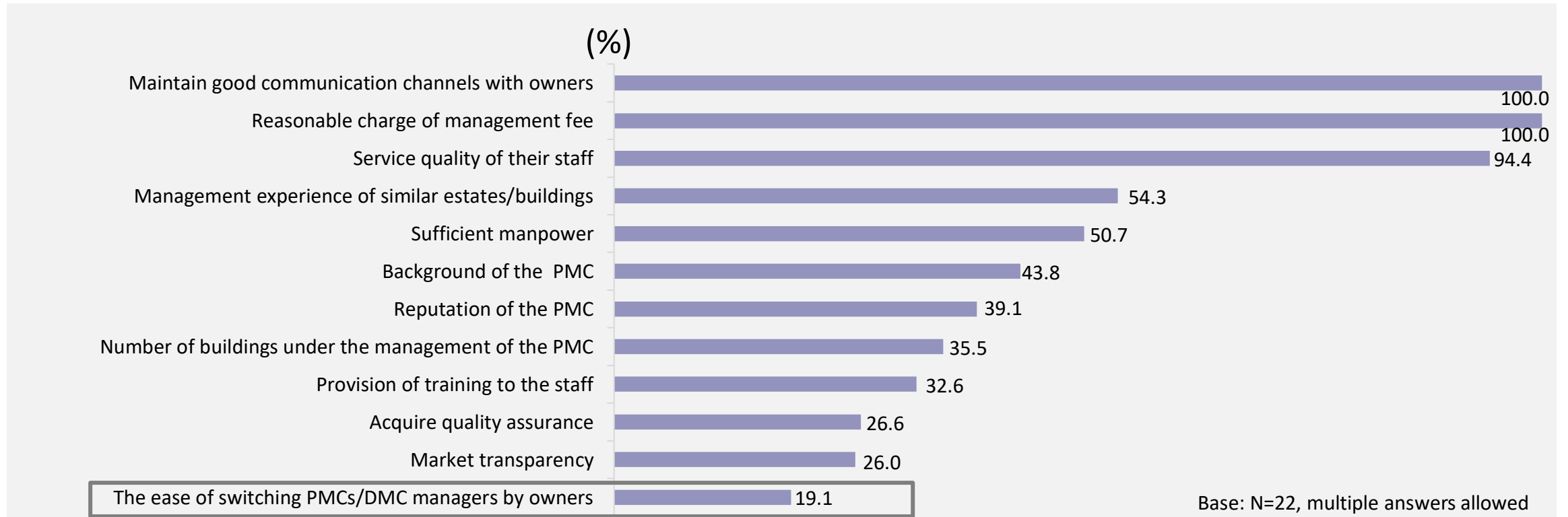
## Shortage of Frontline Staff and High Operation Cost Are the Leading Challenges of PMCs

(%)



## Factors Affecting the Competitiveness of PMCs

Despite most PMCs (91.5%) considered that the market demand and supply reached equilibrium level, there were still other factors which affect their competitiveness in the market, such as ability to maintain good communication channels with owners and reasonable charge of management fee(100%). Meanwhile, the ease of switching PMCs/DMC managers (19.1%) was not a concern to PMC.



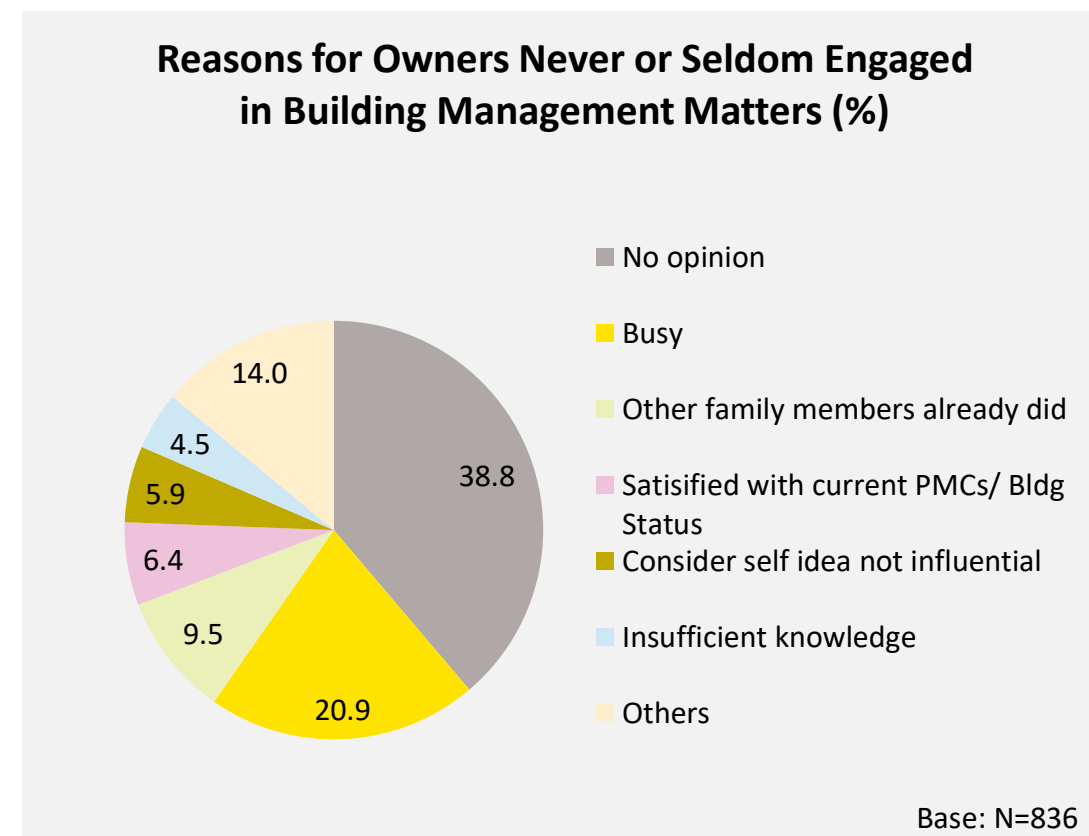
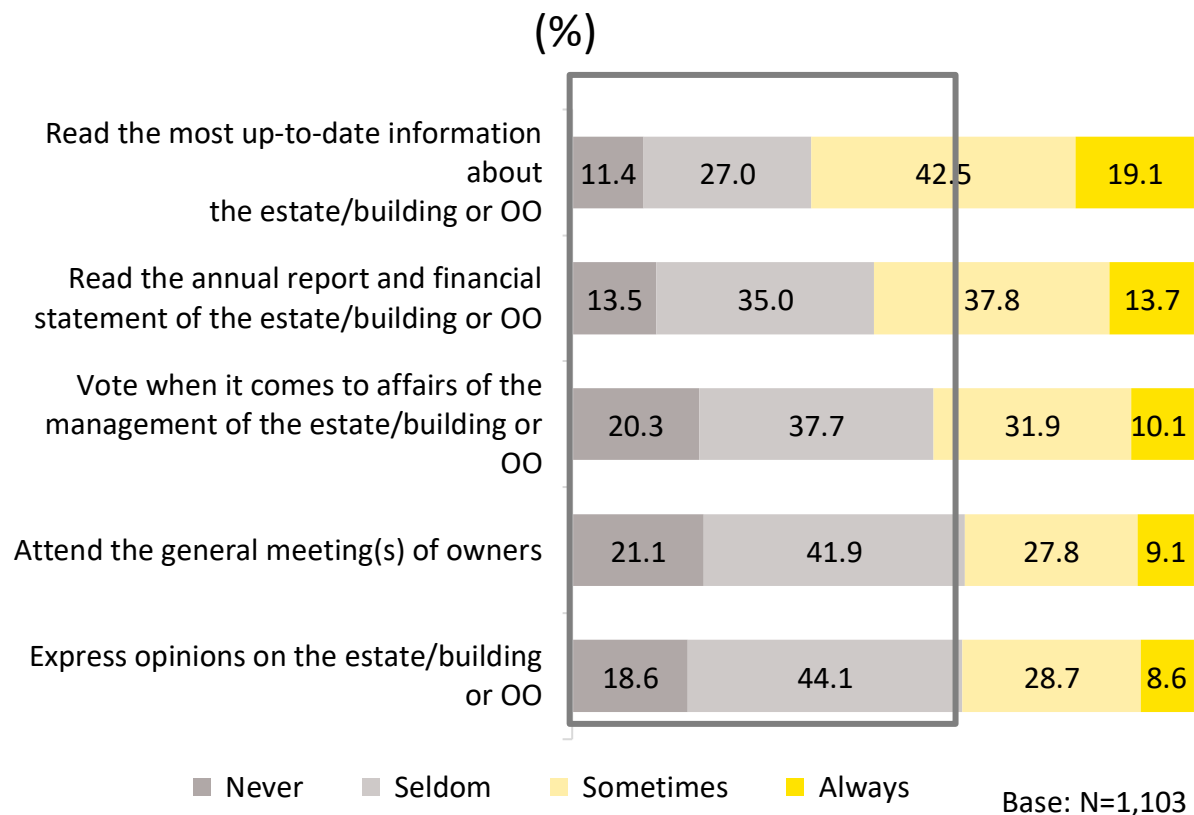
# Market Surveys

## (3) Owners' Participation

- **Knowledge on Property Management Matters**
- **Relationship with Property Management Fee**
- **Importance of Market Information**

## Passive Participation of Owners in Property Management Matters

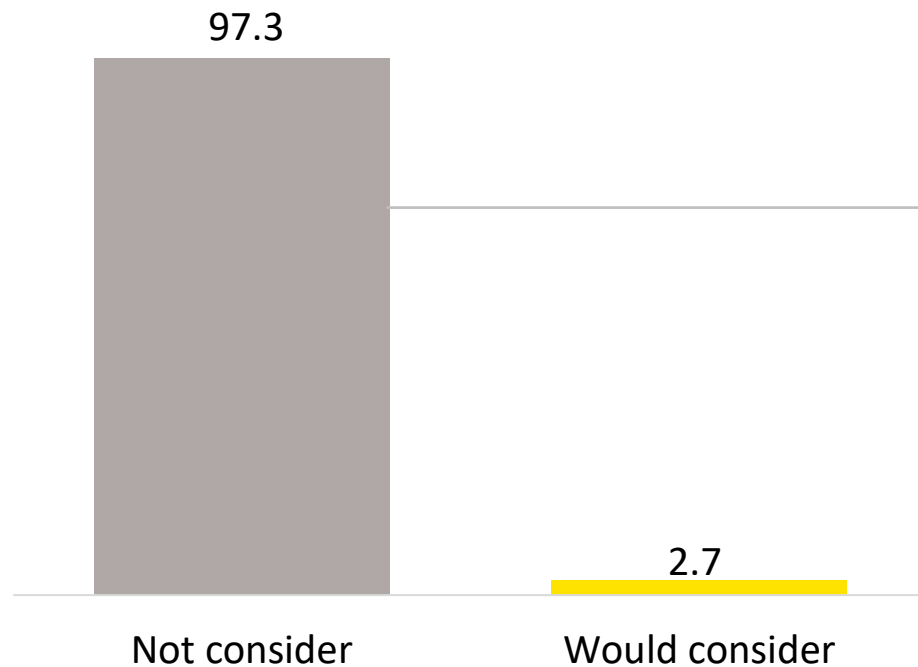
Low participation of owners to opine, attend owners' meeting(s), expressed their opinions, or vote. The main reasons for not participating were "no opinion" or "too busy".



## Owners' Willingness to Join OOs

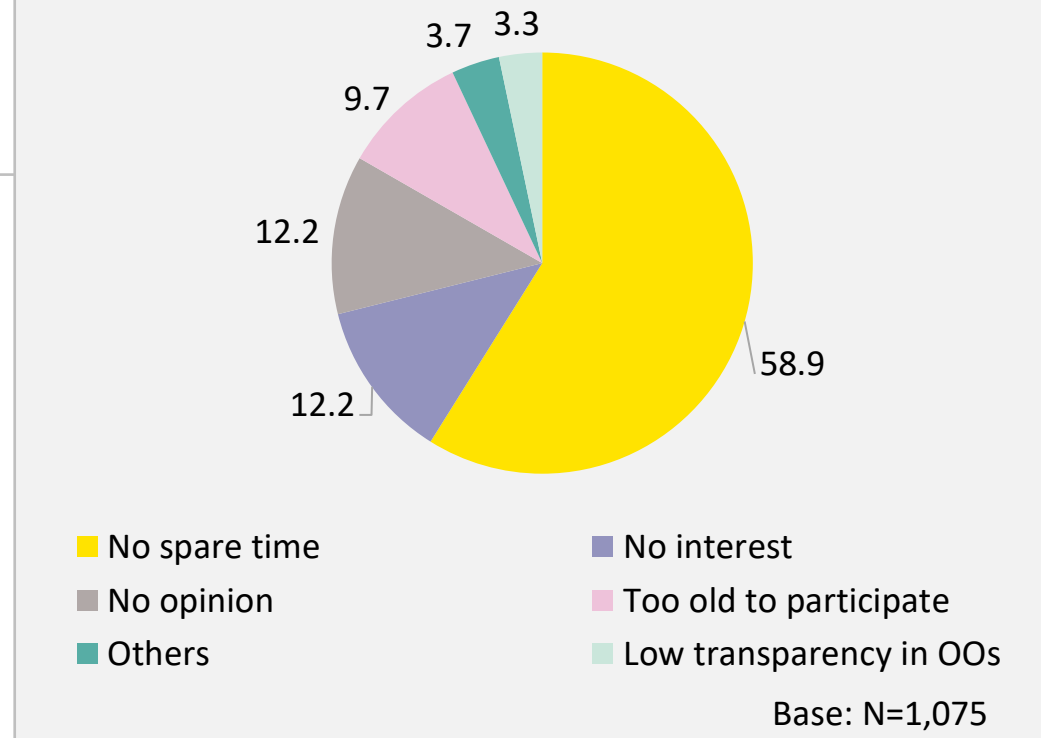
More than 97% of owners did not consider joining OOs for reasons such as 'no time', 'no interest' or 'too old', which will weaken owners' and OOs' capability to exercise collective power for proper decision making and property management.

Whether would consider Joining OOs (%)



Base: N=1,103

Reasons for not Joining (%)

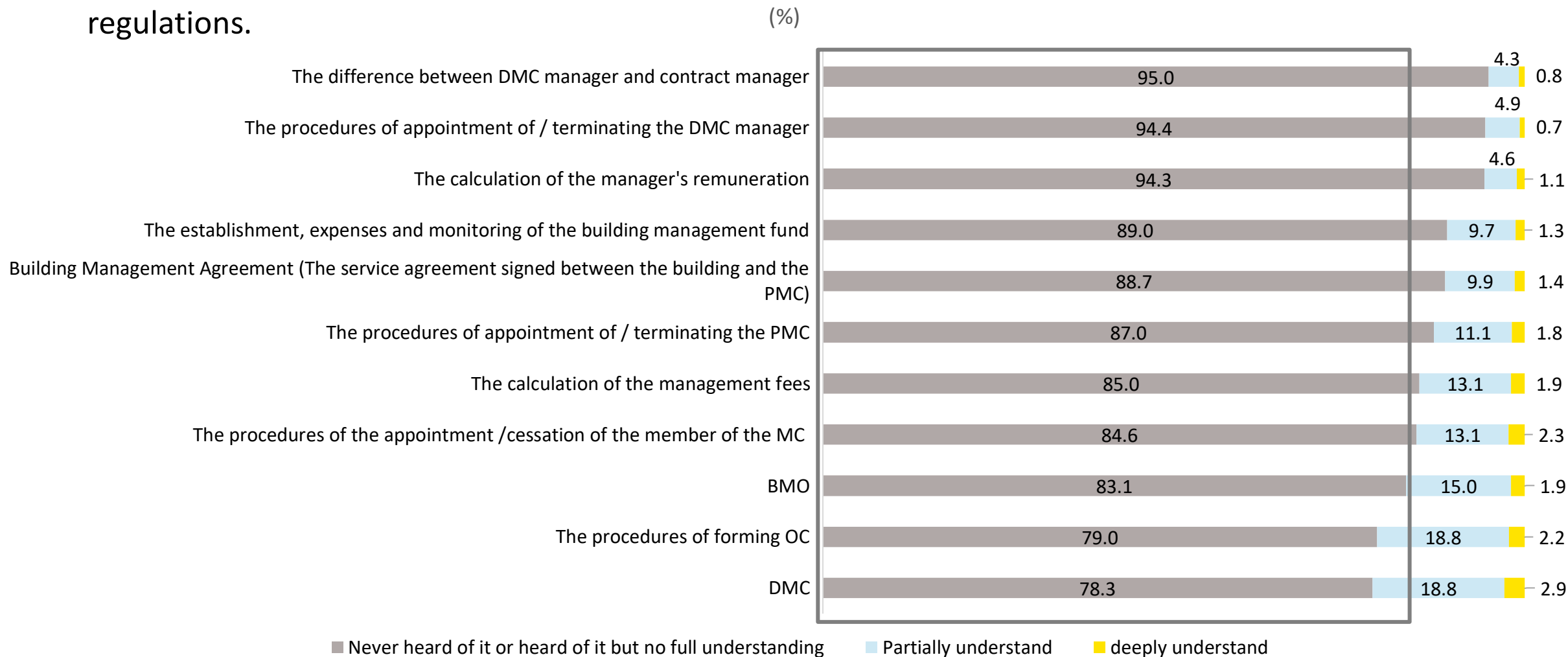


Base: N=1,075



## Lack of Knowledge on Property Management and Related Regulations

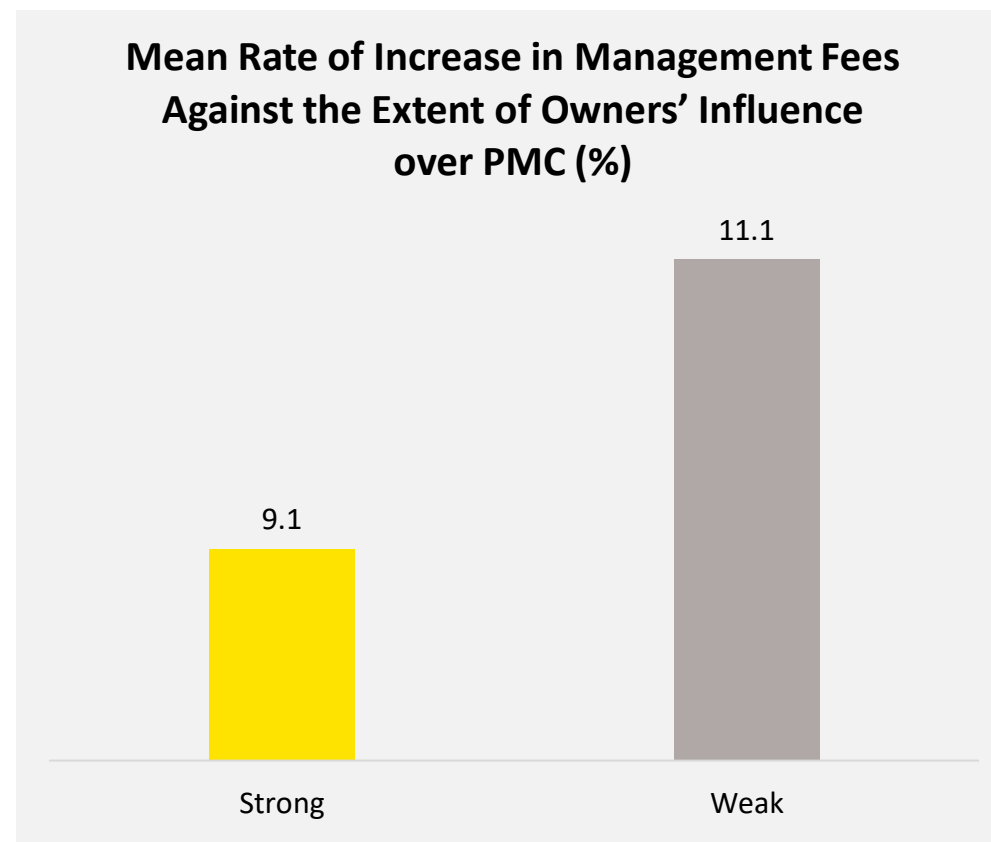
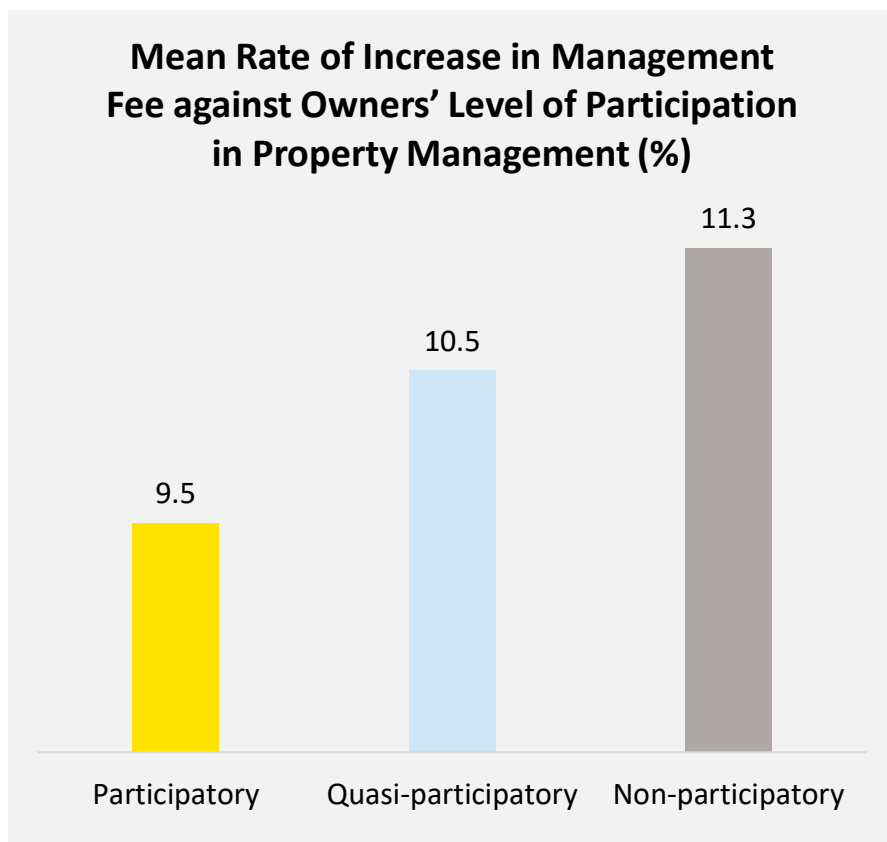
Majority of owners (more than 78%) lacked understanding of property management and related regulations.



Base: N=1,103

## Relationship of Owners' Participation and Magnitude of Management Fee Increment

If owners are participatory or have stronger influence on PMCs, there would have positive impact on controlling the management fee increment.

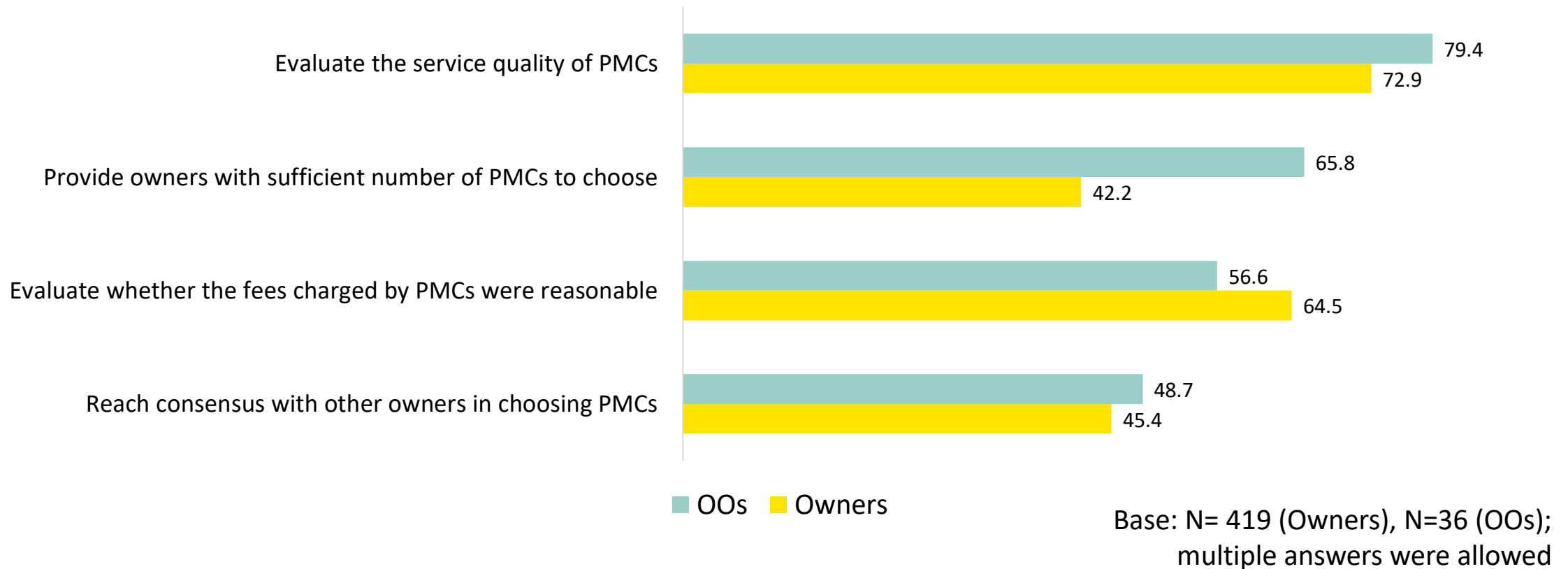


Base: N=1,103

## Limited Market Information to Choose New PMCs

Difficult for OOs or property owners to assess the quality, fee and choice of prospect PMCs in the market without sufficient and reliable information.

Difficulties in Choosing PMCs (%)



## 4. Study Results

- i. Market Surveys
- ii. Desktop Research & Analysis**
- iii. Regulatory Regimes in Other Markets

## Insufficient Disclosure on Information on Undivided/Management Shares Assigned to Each Unit

- DMC specifies the undivided and/or management shares which define the allocation basis of management fees for owners.
- Sales brochures of all reviewed developments specified the number of shares allocated to each unit (see below examples), without providing the relevant formula or calculation basis. Such disclosure provides limited reference value to prospective purchasers.
- The detailed calculation for deriving the shares is available in the statutory declaration of the property (obtainable through search service), but this document is not a sales material.

How to calculate?

Residential Properties (First-hand Sales) Ordinance (Cap. 621) (RPO) requires summaries of DMC to be disclosed in sales brochures of residential developments, among which related to allocation of undivided/ management shares, including:

- The basis on which management expenses are shared among owners, e.g. in proportion to the undivided shares/ management shares allocated to the owner's unit
- The number of undivided shares assigned to each residential property unit in the development.

Sales brochure A

Floor	Unit	No. of Undivided Shares Allocated to Each Unit
5/F-12/F, 15/F-23/F, & 25/F	A	26
	B	26
	C	25
	D	19
	E	19
	F	27
	G	20
	H	36
26/F & 27/F	A	26
	B	26
	C	25
	D	19
	E	19
	F	36
	G	46

Sales brochure B

(A) Residential Units		Undivided Shares Per Residential Unit	Management Shares Per Residential Unit
Floor	Flat		
5/F	Flat A (including flat roof adjacent thereto)	32	32
	Flat B (including balcony thereof)	23	23
	Flat C (including balcony thereof)	17	17
	Flat D (including balcony thereof)	17	17
	Flat E (including balcony thereof)	23	23
	Flat F (including flat roof adjacent thereto)	23	23
6/F-13/F, 15/F-23/F & 25/F-27/F (20 storeys)	Flat A	22	22
	Flat B (including balcony thereof)	23	23
	Flat C (including balcony thereof)	17	17
	Flat D (including balcony thereof)	17	17
	Flat E (including balcony thereof)	23	23
28/F	Flat F	18	18
	Flat A (including flat roof adjacent thereto)	18	18
	Flat B (including balcony thereof, flat roof adjacent thereto and the roof thereabove)	39	39
	Flat C (including balcony thereof, flat roof adjacent thereto and the roof thereabove)	39	39
	Flat D	18	18
<b>Sub-total</b>		<b>2,649</b>	<b>2,649</b>

## Major Owner with Substantial Number of Undivided Shares May Undermine Other Owners' Benefits

- When there is a major owner holding substantial number of undivided shares, it will leave the rest of owners holding inadequate shares to meet the required thresholds for passing resolutions that have conflict of interest with the major owner.
- In 5 sampled developments out of total 249, residential owners were only allocated below 50% undivided shares in aggregate, making these owners alone do not have enough votes to pass resolutions, such as terminating an unsatisfactory DMC manager. \*

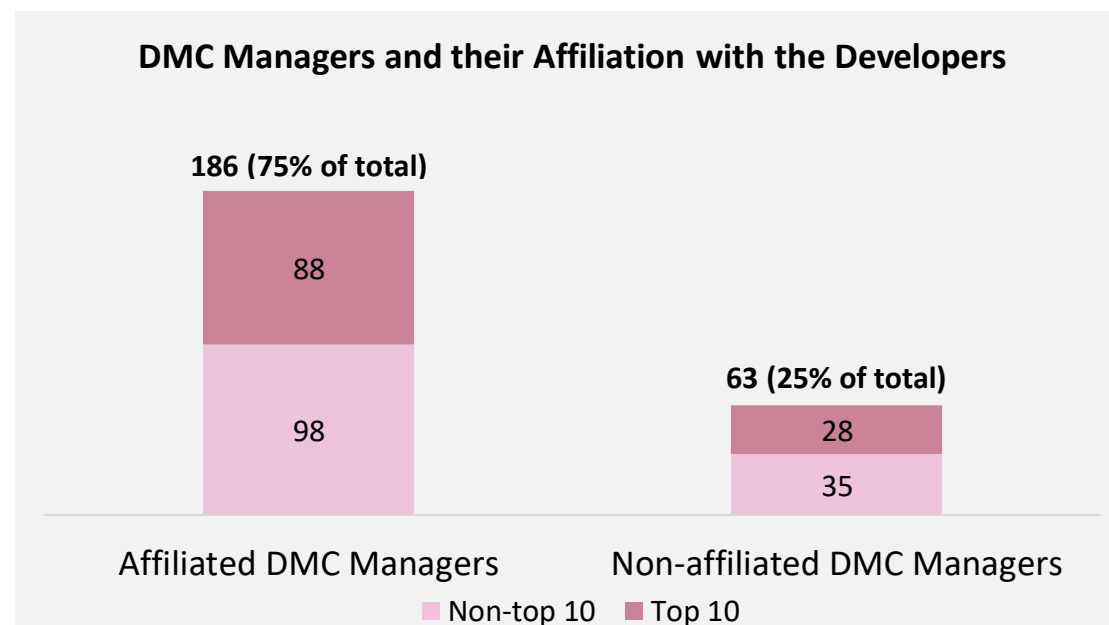
Development	Undivided shares allocated to residential flats
Development no. 236	14%
Development no. 94	33%
Development no. 287	36%
Development no. 217	47%
Development no. 235	48%
Other 244 developments	Over 50%

Remark: \* Any major owner with  $\geq 30\%$  of undivided shares of a development might have the voting power to manipulate the appointment of an MC (BMO Section 3), with  $\geq 50\%$  for terminating the PMC (BMO Para 7 of Schedule. 7). A major owner can be another owner or the developer.

## DMC Manager as Developer's Affiliate is a General Practice

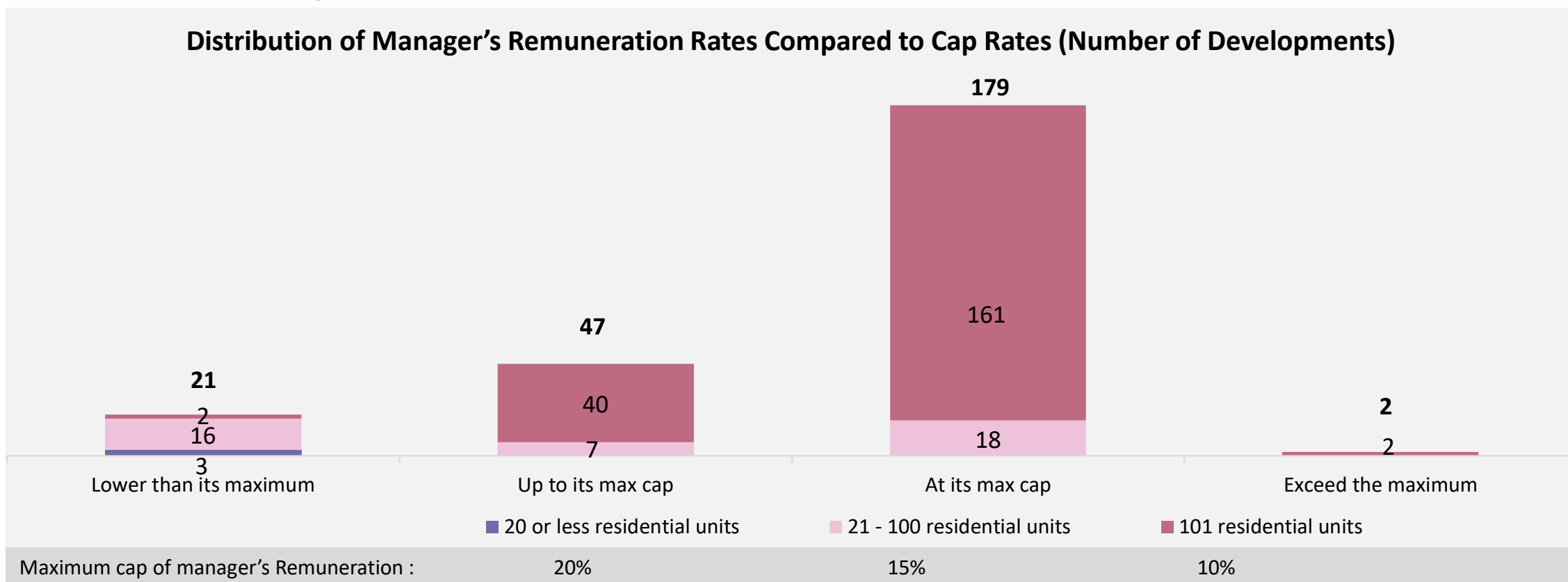
- The first PMC (i.e. the DMC Manager) is appointed by the developer and specified in the DMC.
- Around 75% of the total 85 DMC Managers identified for managing the 249 sampled developments were affiliated with the property developer for their respective development. The top 10 DMC managers managed 47% of the reviewed developments.
- When a developer allocates less than 50% of the total undivided shares to the residential owners and simultaneously appoints its affiliate as the DMC manager, concerns may arise over potential conflict of interest.

	No. of Developments Managed (%)	No. of Developments Managed by the DMC Manager Affiliated with the Developer (%)
Top 10 DMC Managers	116 (47%)	88 (76%)
The remaining 75 DMC Managers	133 (53%)	98 (74%)
<b>Total</b>	<b>249 (100%)</b>	<b>186 (75%)</b>



## Majority of the Developments Charge Manager's Remuneration at the Cap Rates

Of the 249 developments, 179 (72%) charge manager's remuneration at the maximum cap rates, while 47 (19%) charge up to/not exceed the maximum cap rates. Overall the property manager's remuneration ranges from 5% to 15%.





## Difficulty in Obtaining Unanimous Owners' Consent to Amend Unfair Terms in DMCs

- The DMC, once registered with the Land Registry, binds the successors in title of the covenantor and the persons deriving title from them. Some DMCs might no longer fit the prevailing interests and benefits of the owners, therefore causing disputes and controversies between the parties.
- Yet, it is difficult to obtain Unanimous owners' consent to amend unfair terms in DMC, especially for those large-scale housing estates, or those with long vacant units.

### **Progress Report on the Motion on “Improving Property Management and Operation of Owners’ Corporations” At the Legislative Council Meeting on 27 March 2013**

13. There have been suggestions that the Government should introduce provisions in the BMO to allow mechanisms for owners to amend the DMCs and sub-DMCs, in particular those provisions which are considered unfair and unreasonable to owners. Some suggest introducing a mechanism under which applications can be made to the court to amend provisions of a DMC (or sub-DMC) if not less than 80% or 90% of the owners concerned agree to the amendment. There is also a suggestion of introducing the concept of “user-pays” principle to the BMO to resolve the problem of unfair allocation of management shares and undivided shares.

## Insufficient Reserve in the Special Fund for Meeting Preventive Maintenance and Repair Expenses Needs

- Although BMO specifies a special fund to be established as reserves for future major maintenance works, a survey conducted by URA in 2017 revealed that only 1/3 of the surveyed buildings in Hong Kong had set up such a special fund.
- With possible low level and irregular contributions, the reserved amount in the fund would be inadequate to cover expenses when those maintenance works took place. As such, funding needs to be raised when the building has aging problems. Such heavy financial pressure resulting in the owner's resistance to organise maintenance project.

2018年7月1日

### 推動預防性保養意識 讓樓宇狀況「歷久常青」



市建局於去年展開的「樓宇復修策略」研究，透過問卷調查，成功訪問全港3000幢樓宇的業主代表，進一步了解這些業主對樓宇進行維修保養的意見，和當中所遇到的困難。

從我們的研究發現，實際上只有三分一的受訪樓宇有設立特別基金，餘下的樓宇並無為大型維修工程作好儲備。而即使有設立特別基金的樓宇，其供款款額水平偏低及供款亦沒有定期性，基金的結餘不足以支付大型維修工程的開支。主要原因是根據「大廈公契指引」及《建築物管理條例》的規定，特別基金的供款數目及時間全交由業主大會作出議決。加上業主缺乏專業知識釐定維修工程所涉及開支而須投入的儲備水平，以致令大廈的特別基金戶口「有名無實」，一旦需要進行大型樓宇維修時，才發現欠缺足夠款項應付。

由上述研究的初步結果可以預期，若樓宇在「年青」時不作定期保養，亦無預留充足的維修基金儲備，或根本沒有設立維修基金，維修責任便不斷向下傳，待樓宇步入「中年」，要首次進行大型維修工程時，當刻的業主便要在樓宇沒有作儲備的情況下，攤分動輒以百萬、甚至千萬計的工程費用，屆時沒有經濟能力的業主便要「臨渴才掘井」，在短時間內為籌措大筆維修經費而惆悵，最壞的情況，將可能是有關樓宇業主因而延緩籌組，甚至擱置維修工程，令樓宇失修狀況惡化，這無疑是市區更新的一種倒退。

## 4. Study Results

- i. Market Surveys
- ii. Desktop Research & Analysis
- iii. Regulatory Regimes in Other Markets**

## Regulatory Regimes in Selected Markets

	Hong Kong	Australia	Mainland China	Singapore	Taiwan	UK
<b>Regulatory Requirements</b>						
Guidelines/ Model Rule/ Standard Contract on Property Management	DMC Guidelines & PMSA's Code of Conducts (Compulsory)	Model rules for owners corporations (Non-Compulsory)	Property Service Contract of Shenzhen Municipality (Model Text) (Compulsory)	Strata Management Guides (Non-compulsory)	Template of Standard Contract for Apartment Building (Compulsory)	RTM Companies (Model Articles) Regulations 2009 (Compulsory)
Licensing regime	✓ (eff. 1 Aug 2023)	✓	✗	✗	✓	No information
Reserve fund for future repair need	Budget & timeframe not specified	Budget & timeframe specified	Budget & timeframe specified & govt supervised	Owners' committee to decide annual budget	Budget & timeframe not specified	Voluntary, landlord to raise
Regulatory requirement to form OC	Voluntary	Compulsory (automatically formed)	Compulsory	Compulsory (automatically formed)	Compulsory	Voluntary
<b>PMC Code of Conduct and Legal Responsibility</b>						
Duties to owners / legal liability specified	✓/✓	✓/✗	✓/✓	✓/✓	✓/✓	✓/✓
<b>Consumer Protection</b>						
Disclosure to owners: Income and Expenditure Books and Records	Right to request	Right to request	Periodically disclosure	Right to request	Right to request	Right to request
Redress mechanism	Various channels as per complainants' choice	Clear step by step approach	Provision stipulates local government to support	Clear step by step approach	Clear step by step approach	Clear step by step approach
Practice for Hong Kong's Reference	-	Avoid conflict of interest with developer; Automatic formation of OC	Avoid conflict of interest with developer; Developer to contribute start up fund for the maintenance fund	Guideline for by-laws amendment; Automatic formation of OC	Developer to contribute start up fund for the maintenance fund	-

## 5. Issues & Recommendations

## Consumer Protection Issues Related to Property Management Fees in Hong Kong

By consolidating the findings from all surveys, review exercises, desktop research and stakeholder consultations undertaken, the Council has identified the following six issues of concern:

- Lack of transparency in the basis of allocation of shares, and without explanation on the calculation and formula that determine the allocation of shares, which determine the owners' voting rights and share of management fee.
- Difficulty in obtaining unanimous owners' consent to amend unfair terms in DMCs which harm owners' interests.
- Potential influence of the developer or major owner or MC members on property management matters, especially when a conflict-of-interest situation arises, such as when choosing or switching affiliated DMC manager/PMC and service providers.
- Service quality issues of PMCs including financial risks and dissatisfaction over performance.
- Passive owners' participation in property management matters and insufficient communication between OOs/ OCs, PMCs and owners.
- Owners lack knowledge and information on property management, as well as planning on the property' s future repair and maintenance needs, resulting in substantial rises in management fees especially for maintenance costs.

# List of Proposed Recommendations

## Enhancing Market Transparency, Fairness and Efficiency

- Recommendation 1 To boost transparency on the basis upon which property management fees are shared between owners.
- Recommendation 2\* To make available updated property management information to promote the general public's understanding and knowledge of the industry.
- Recommendation 3\* To promote fairness through allowing amendment of the terms of DMC (other than those on undivided shares) with majority consent.
- Recommendation 4\* To avoid conflict of interest from over-engagement in property management decisions.
- Recommendation 5 To improve performance efficiency of property management services with new technologies and intelligent solutions.

## Encouraging Participation of Owners

- Recommendation 6 To promote active participation of owners with more effective communication in property management activities.
- Recommendation 7 To facilitate the early set-up of OCs or join forces of owners to address property management issues.

## Enabling Safe and Sustainable Buildings

- Recommendation 8\* To maintain reasonably sufficient reserve in the special fund to ensure building sustainability for expected repair and maintenance expenditures.

• Recommendation\*: with reference to laws and regulations in different markets or other local industries

## Recommendation 1: To boost transparency on the basis upon which property management fees are shared between owners.

The Council suggests to disclose the calculation and the basis upon which undivided shares and management shares are allocated, and the share of management fees in sales brochures.

- Presenting below information in salient points in the sales brochures (see next page for example):
  - Narrating the reference basis by which undivided shares and management shares are allocated, e.g. Gross Floor Area (GFA).
  - Showing different categories of expense items to be shared by residential owners, including those additional expense items, if any, for specific units.
- Providing detailed calculation of the share allocation to property units uploaded on the development's website, with the link to that website specified in the sales brochures.
  - Showing a breakdown of share allocation elaborated with a list of items for residential common areas and facilities.



## Recommended Disclosure Format in Salient Points in the Sales Brochures

### Example: To Present the Reference Basis by which Undivided Shares and Management Shares are Allocated

- The undivided shares and management shares are allocated by reference to the Gross Floor Area (GFA) of a unit in proportion to the GFA of the development. *[Please specify if different basis is adopted]*
- For the residential portion of the development, undivided shares and management shares are allocated to the flat (excluding flat roof, roof, garden and stairhood) and other spaces (such as flat roof, roof, garden and stairhood) by reference to the GFA in the ratio as: 1 undivided share and 1 management share are allocated to each sq. m. of GFA of the flat and 1 undivided share and 1 management share will be allocated to each 10 sq. m. of other spaces. *[Please specify if different ratio is adopted]*
- For the commercial portion of the development, 1 undivided share and 1 management share will be allocated to each sq. m. of GFA. *[Please specify if different ratio is adopted]*
- For car parking spaces, 1 undivided share and 1 management share will be allocated to each sq. m. of GFA. *[Please specify if different ratio is adopted]*
- For the detail breakdown of the share allocation, please refer to the development's website at *[link to the specific page]*.

### Example: To Present Different Categories of Expense Items to be Shared by Residential Owners, and Referring to Specific Sections of the Sales Brochure for Details

- Based on a separate management budget prepared by the manager, owners of residential units will be responsible to contribute to the management and maintenance costs of the “Residential Common Areas and Facilities”, including *[e.g. entrances, lobbies, lift lobbies, staircases, canopies, flat roofs, gondola system(s), mail box(es), drain(s), pipe(s), etc.]*. For details, please refer to *[Summary of Deed of Mutual Covenant of this sales brochure section X “Residential Common Areas” and section Y “Residential Common Facilities”]*.
  1. Additional expenses *[payable by owners of special units only, e.g. open kitchen unit]* are to be included (if any) in the above budget for *[e.g. fire safety management plan (for open kitchen units only)]*. For details, please refer to *[the DMC/Sub-DMC section X clause X of the Development]*.All residential owners shall contribute to the expenses incurred in or for the “Development Common Areas and Facilities” or “Estate Common Areas and Facilities”, including:
  1. Expenses and costs of maintenance and management of areas and facilities of the lot intended for the common use and benefit of the development/ estate as a whole *[ e.g. pedestrian links, private streets, roads, driveways, footpaths, sewage treatment rooms, machine rooms, pipes and ducts; pumps, tanks and sanitary fittings, etc.]*. For details, please refer to *[Summary of Deed of Mutual Covenant section X clause X of this sales brochure]*.
  2. Expenses and costs of items to be managed, operated or maintained for public use at the expense of the owners of the development/estate (if any) *[ e.g. 24 hour walkway, covered pedestrian walkway, future footbridge associated structures, etc.]*. For details, please refer to *[Information on Public Facilities and Public Open Spaces section X clause X of this sales brochure]*.
  3. Expenses and costs of maintaining the slope(s) as required by the Land Grant (if any). For details, please refer to *[Maintenance of Slope(s) section X of this sales brochure]*.

## Recommended Disclosure Format on the Development's Website

Disclose calculation breakdown in the link to the property development's website specified in the sales brochures.

Floor Level	Flat	GFA (per sq.m.)			Total GFA [1] + [2] + [3] = [4]	Total Undivided Shares	Total Management Shares
		Flat [1]	Balcony, Utility Platform and Verandah [2]	Flat Roof, Garden, Roof, Stairhood [3]			
			1 share per sq.m.	0.1 share per sq.m.			
5/F	A	94.693	4.884	0	99.577	100	100
	B	75.08	4.29	0	79.37	79	79
	C	66.66	3.94	0	70.6	71	71

Reference of above calculation taken from the SD of a property development

## **Recommendation 2: To make available updated property management information to promote the general public's understanding and knowledge of the industry.**

The PMSA in the long run may consider developing a reference database by collating information on the levels of management fees across Hong Kong for the reference of the general public:

- References can be made to the Electrical and Mechanical Services Department's release of maintenance price information on lifts in private residential premises for public reference and the Mandatory Provident Fund Schemes Authority's MPF Fund Platform.
- To ensure that the database will serve its intended purpose, the Council suggests the database should integrate key information such as building age, number of building units, building location, facilities and services provided, area of horticulture, number of property management staff employed, etc. for publication.
- Competitively sensitive information such as the names of the PMCs and the buildings would be anonymised before aggregating the information for publication, so as to address concerns on market competition.

## Example: EMSD's Maintenance Price Information on Lifts in Private Residential Premises

The EMSD has released the maintenance price information on the lifts in private residential premises for public reference, which aims at facilitating responsible persons of lifts to choose among registered lift contractors for provision of lift maintenance services through provision of related price information as reference. The information is updated by the EMSD on a half-yearly basis.

### Lift travel 1 to 15 levels

Rated Speed ≤ 1.0 m/s			Rated Speed > 1.0 m/s		
Average No. of Landings	Average Monthly Maintenance Fee (\$)	Change as Compared with Last Survey	Average No. of Landings	Average Monthly Maintenance Fee (\$)	Change as Compared with Last Survey
8	4,751	2.0%	9	5,430	2.7%

### Lift travel 16 to 25 levels

Rated Speed ≤ 1.5 m/s			Rated Speed > 1.5 m/s		
Average No. of Landings	Average Monthly Maintenance Fee (\$)	Change as Compared with Last Survey	Average No. of Landings	Average Monthly Maintenance Fee (\$)	Change as Compared with Last Survey
15	5,078	1.3%	19	6,980	3.9%

## Recommendation 3: To promote fairness through allowing amendment of the terms of DMC (other than those on undivided shares) with majority consent.

Relax the mechanism for amending the terms of DMC, in reference to the Companies Ordinance which allows amendment of the articles of association of a company by a majority of at least 75% of the number of the members, suggest taking 75% of undivided shares as reference threshold for amending the terms of a DMC.

- Balance minority interests and prevent abuse of the amendment with the following measures:
  1. Only available to buildings of not less than 10 years of age.
  2. Stringent procedures should be put in place and followed by all relevant parties when a change of the DMC terms is proposed:
    - i. All parties involved (including parties to the DMC and all persons or companies to be affected by the amendment) must be invited for thorough discussion at the owners' meeting.
    - ii. The process must be transparent and rigorous.
    - iii. The mechanism has to be monitored by the Home Affairs Department (HAD).
- An appeal mechanism should be established for any owner who disputes the decision reached by majority consent to apply to, say, the Lands Tribunal for review.

## Recommendation 4: To avoid conflict of interest from over-engagement in property management decisions.

Declare conflict of interest and impose measures for the avoidance of over-engagement on property management decisions of a developer or any owner with over 30%\* of undivided shares (as major owner) or MC member, via:

1. Requiring disclosure of relationships as early as possible of below parties:
  - The developer and the DMC manager should declare (if any) in the sales brochure. Where the DMC manager has yet to be appointed, the sales brochure should state when and how the disclosure will be made.
  - The major owner or MC members and the PMCs, PMPs or service providers should declare (if any) during the latter's nomination period.
2. Declaring of interest by the developer, major owner and MC members when a conflict-of-interest situation arises. Where appropriate, he/she should withdraw from the meeting and abstain from voting on the specific agenda item(s); and
3. Requiring adoption of bidding practice for selection of second or subsequent PMCs as well as other service providers for substantial scale projects and where nature of the service is critical.

Remark: \* Any major owner with over 30% of undivided shares of a development might have the voting power to manipulate or veto the appointment of an MC according to BMO Section 3.

## Recommendation 5: To improve performance efficiency of property management services with new technologies and intelligent solutions.

Roll out new intelligence solutions for property management services, subject to the assessment of owners based on the situation and availability of resources of respective buildings.

- Enhancing mutual communication and sharing of information with property owners through social media and property website, in addition or alternative to the conventional way of displaying circulars.
- Strengthening owners' confidence in and understanding of the adoption of the new solutions by involving them throughout all key project milestones, such as the initial stage, evaluation process, testing stage and after the launch of the solution.
- Exploring the feasibility of bespoke software, apps, platforms or templates for PMCs through synergising effort of the industry to facilitate cost-efficiency, market competition as well as proper handling of the personal data through collaboration of the industry, the PMSA and the innovation and technology sector.



## Recommendation 6: To promote active participation of owners with more effective communication in property management activities.

Strengthen owners' engagement and participation in property management matters in a progressive manner, including:

1. Presenting an “information pack for owners” to purchasers upon completion of the purchase through different channels, in the form of a handy booklet for introducing the nature of property co-ownership, the rights and obligations of owners, the importance and procedure to form an OC, the available building management support services, etc for new property owners' quick reference.
2. Introducing the property management as soon as possible to the owners when they move into the property, such as through welcome gatherings or periodic workshops held by PMCs to enhance owners' knowledge and understanding of the daily property management work.
3. Stepping up HAD's public education efforts by developing interactive learning kits or holding regular workshops about property management and regulatory requirements.
4. Strengthening mutual communication and further engage with owners through the increased use of social media and websites.
5. Looking into the practicality of holding virtual owners' meetings in the long run to further raise the level of participation of owners.

The Council also calls for owners should always review relevant documents to understand the details of the property management expenses, attend owners' meetings, keep track of the progress of projects, and voice their opinion.



## Recommendation 7: To facilitate the early set-up of OCs or join forces of owners to address property management issues.

More education and publicity programmes to enhance the general public's understanding of the importance of OCs in property management, as well as a review of the time within which a manager must call the first owners' meeting and consider the following issues:

- Convening the first owners' meeting as early as possible for owners to voice their concerns and to facilitate the earlier set-up of an OC with the below conditions (whichever is the earlier ):
  1. Whenever the residential owners hold >50% in aggregate of the undivided shares; or
  2. At the latest within 9 months from the date of the DMC.
- Holding the general meeting of owners at least twice per year by PMCs for buildings without any form of OOs to increase communication of owners.
- Introducing an award scheme to recognise the efforts, commitment and achievements of MCs or individual members of MCs in promoting good property management.
- Reviewing the amounts of maximum allowances payable to members of an MC under the BMO in order to better reflect the value of their contribution to the management of the property.

## Recommendation 8: To maintain building sustainability for expected repair and maintenance expenditures with reasonably sufficient reserve in the special fund.

Establish a capital works fund with a 10-year maintenance plan to maintain sufficient reserve for future repair and maintenance needs.

- Contributions to be made by owners based on the following different options:
  1. A maintenance budget prepared by qualified professionals;
  2. An amount equivalent to a certain percentage of the annual budget of property management fees;
  3. A hybrid model with a seed fund paid by the developer plus contributions by owners equivalent to 2 months' management fees, followed by owners' monthly contributions; or
  4. The current practice of a budget prepared by the PMC or OC.
- Contribution timing: owners of first-hand properties should start to contribute to the fund from the second years onwards, for buildings at or below 10 years of age should decide the timing for contribution according to the maintenance needs of respective buildings, while owners of buildings over 10 years should seek advice from professionals for the possible major repair and maintenance needs.

## Recommendation 8 To maintain building sustainability for expected repair and maintenance expenditures with reasonably sufficient reserve in the special fund.

(cont'd)

- Other governance principles or features of the special fund:
  1. The current requirement of keeping the fund in a designated and interest-bearing account should continue;
  2. A list of maintenance project items for which the fund may be used in future should be specified;
  3. The contribution paid should not be transferable;
  4. Owners should be required at law to make monthly contributions; and
  5. No money shall be paid out of the special fund unless for a purpose approved by a resolution of the owners' committee (if any).
- Enhancing owners' understanding of the importance in setting up and maintaining the special fund, PMCs and OCs are recommended to:
  1. Communicate with owners about the background and rationale for establishing the fund;
  2. Advise them on the basis of calculation of the contribution; and
  3. Inform them periodically about how the fund was and will be used.

## 6. Way Forward

- To ensure financial sustainability and fair apportionment of management expenses, full and clear disclosure of information and proactive participation of owners in the management of their buildings are necessary.
- Yet, complicated laws and regulations in property management, insufficient disclosure of information to potential purchasers, low level of transparency of the property management market and generally weaker bargaining power of owners together give rise to miscommunication, misunderstanding and disputes among different parties.
- The Study identifies various consumer protection issues in the property management market which warrant the joint efforts of stakeholders in finding workable solutions in the long run.
- By making the aforesaid recommendations, the Council hopes with informed and constructive discussion with all stakeholders involved, a fair marketplace with strengthened consumer protection could be achieved and that the value of the owners' contributions to the management of their property could be truly optimised.

# TRANSPARENCY AND GOVERNANCE

## Optimising Value of Property Management Fee in Hong Kong

A Study on the Private Residential Property Management Fees in Hong Kong

# THANK YOU!

