

**A response to concerns raised by
members of the LegCo Sub-Committee on the
Estate Agents (Licensing) (Amendment) Regulation 2001
at its second meeting, held on 18th September 2001**

During the second meeting of the LegCo Sub-Committee on the Estate Agents (Licensing) (Amendment) Regulation 2001 which took place on 18th September, many helpful opinions and recommendations were put forward by members of the Sub-Committee as well as trade representatives. EAA representatives have taken on board all these views and suggestions and will bring them up to the main Board and the Standing Committees for careful study and translation into appropriate actions where conducive to the objectives of the Estate Agents Ordinance.

Licensee numbers: a decreasing trend

2. The licensing regime commenced on 1st January 1999 and the transition period will end on 31st December 2001. Changes in the number of licensees over the three years may be illustrated by the statistics below:

Individual Licensee Numbers

| Date | EA | S | Total | S : EA Ratio |
|-------------------|-----------|----------|--------------|---------------------|
| Beginning of 1999 | 16,956 | 3,035 | 19,991 | 1 : 5.59 |
| Beginning of 2000 | 13,326 | 2,171 | 15,497 | 1 : 6.14 |
| Beginning of 2001 | 11,772 | 2,648 | 14,420* | 1 : 4.45 |
| Present | 11,987 | 3,423 | 15,410* | 1 : 3.50 |

EA Estate Agents **S** Salespersons

***Attrition in licensee number is normally higher (ie, there are fewer licensees) at the beginning of the year. While there are 15,410 individual licensees at present, it must be noted that the licences of close to 80% of them will expire by the end of 2001, and the number of those who will seek renewal cannot be forecast with accuracy.**

3. Two pertinent facts may be gleaned from the figures: (a) the number of individual licensees is on a continuous downward slope and (b), the ratio between Salespersons and Estate Agents is also changing, from 1:6.14 at the beginning of 2000 to 1:3.5 at present. Both facts are important determinants in the licence fees received by the EAA, which already decreased by 30% from the 1999/00 to the 2000/01 financial year.

Early passage of the amendment regulation will facilitate licence renewal

4. Close to 80% of the existing licensees will have their licences due for renewal within the prescribed period of 1st October to 30th November 2000. Under the existing Licensing Regulation, a licensee must keep renewing and paying for the licence every year, regardless of whether he is in business, if his eligibility for the licence is to be preserved. This requirement will cause great strain to many practitioners, especially at a time when the property market is sluggish. Furthermore, licence fees, once paid, are not refundable whether the licensee is practising or not. Considerable anxiety is building up among practitioners as, with the close of transition within sight, many whose circumstances might warrant leaving the trade temporarily are speculating on whether they have to pay for the renewed licence. A vast number of enquiries has already been received from licensees as many in the trade, through the EAA's various consultative efforts, have learnt about the possibility of certain relaxations in the re-entry requirements, and concession in fees.

The two major issues in the amendment regulation

Licence fees

5. Licence fees form the only source of income for the EAA and the Authority has always been prudent in determining fee levels. The present proposal for the fee levels to be further reduced by 20% (fees were reduced before, by 20% from 1st January 2000) was based on the following considerations:

- (a) The number of licensees has been decreasing since the early days of the licensing regime, and it is not possible for the further decrease after the close of transition to be accurately estimated. Drastic fee cuts at the present moment may result in adverse effects on the financial stability of the EAA.

- (b) It is anticipated that licensee numbers will drop further upon passage of the 24-month unconditional re-entry arrangement. The Authority is already aware of the fact that a fair number of existing licensees are dormant practitioners and these are likely to take advantage of the 24-month unconditional re-entry arrangement.
- (c) While the EAA has spared no effort in helping to facilitate licensees' attendance at training courses and participation at the qualifying examinations, it is inevitable that a number of practitioners will not be able to fulfil these requirements before transition expires.
- (d) The ratio between salespersons and estate agents, as indicated above, has already dropped from 1:6.14 in early 2000 to 1:3.5 at present. The EAA anticipates that the option for the salesperson licence will be a growing trend among practitioners and the ratio will be further changed, resulting in diminished income for the Authority.

6. The adoption of ad valorem levy on estate agency transactions as partial or full replacement of licence fees is a subject which has previously been discussed by the EAA. It is a broad subject which requires research and extensive consultation among the trade and consumer rights organisations. Legislative changes will also be involved, and the EAA will have to take time to carefully assess its feasibility and repercussions. On a practical level, a levy system will entail the setting up of a fairly elaborate registration mechanism that can capture all transactions handled by estate agents as there are no central clearing or listing organisations in existence. The EAA understands that trade opinions on the subject, and on the added cost that it may bring about, are very diverse, and will carefully study the impact of the proposal on all quarters.

7. The Authority will carefully monitor its revenue after the fee cut as well as changes in licensee numbers after the end of the transition period, and keep the fee levels under close and continuous scrutiny. Fee levels will be subject to thorough review at the beginning of 2002, on the basis of the more concrete numbers of practitioners remaining in the trade. As always, the EAA will maintain stringent control over its expenses and take proactive steps to derive added value from staff and resources.

Time allowed for unconditional re-entry

8. While trade representatives agreed on that re-entry should be allowed for as long as possible after the lapse of a licence, they presented different views as to whether there should be a training requirement as a condition for re-entry. The proposal for a 24 month period has been made by the EAA after careful consideration and represents a compromise between the maintenance of professional standard and the convenience of the trade. It is to be noted that an extended period of time for re-entry, together with the absence of a training requirement, will make it very difficult for standards to be maintained and consumer interests safeguarded.

9. The EAA will consider the proposal for refresher courses in connection with the broader issue of continuing professional development activities for the trade. At present there are very diverse opinions within the trade as to whether continuing professional development courses should be made mandatory under legislation, and the issues related to the subject certainly need careful consideration as well as extensive consultation. The Authority plans to draw up a workable and cost-effective continuing professional development scheme for the 15,000 practitioners, in consultation with the tertiary and vocational training institutions, and at the same time extensively seeking the trade's views, for implementation after the transition period.

Conclusion

10. The EAA would like to reiterate that efforts will be made to study and research on the opinions heard at the Sub-Committee meeting held on 18 September 2001. In the meantime, the early decision by the Legislative Council on the amendment regulation will certainly help to dispel speculation among members of the trade, and facilitate their smooth entry into the post-transition era. The Authority is committed to conducting a comprehensive review of its fee policy after the transition period, and alternative modes of revenue generation will also be considered.

11. It is noted that the trade associations have also indicated the hope that the amendment regulation could be passed in time. The annual bulk renewal exercise for close to 80% of all the licensees would occur within the prescribed period 1st October to 30th November 2001. If the amendment regulation cannot be passed in time, licensees will have to pay fees at

existing levels. Also, there will be no respite for those who are temporarily out of business because, if they do not renew their licences in time, they will lose their licensing credentials and will be treated as new entrants when they seek to enter the trade again.

26th September 2001