# Legislative Council Panel on Home Affairs
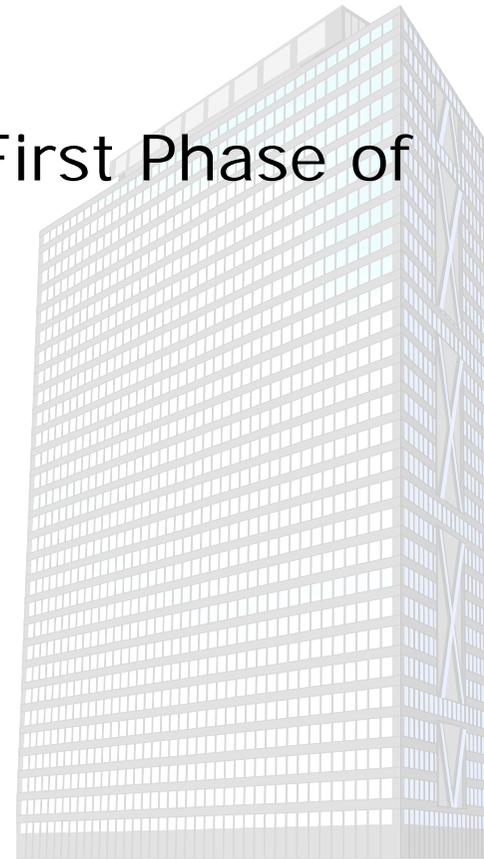
**Regulation of Property Management Companies -**

**Findings of the First Phase of the Consultancy Study**

Home Affairs Department

July 2008

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# Background

○ The Government undertook to conduct a two-phase consultancy study on how the regulation of property management companies in Hong Kong should be strengthened

○ The first phase of the consultancy study is a fact-finding exercise on
  - 1. the property management industry in Hong Kong,
  - 2. practices in other regions, and
  - 3. other regulatory systems in Hong Kong
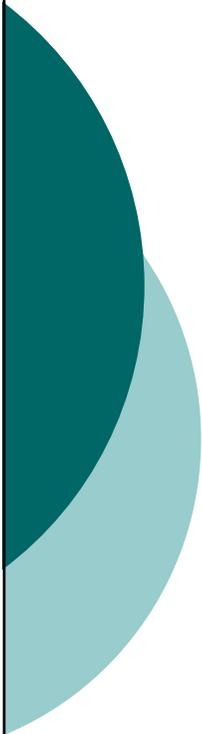
# Major Findings of the First Phase of the Consultancy Study
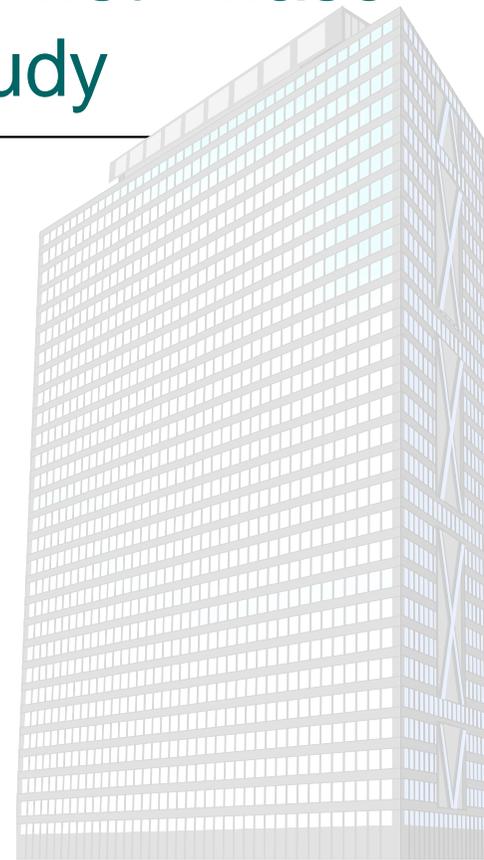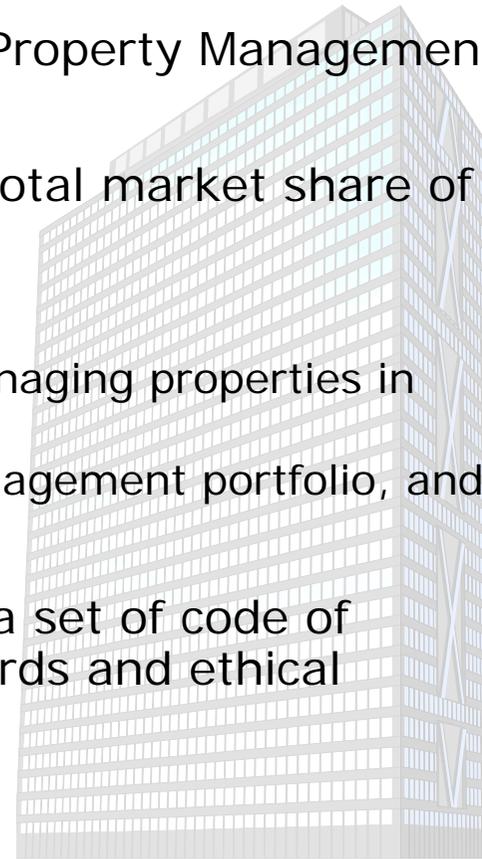
## 1. Property Management Industry in Hong Kong

○ Around 23,400 out of 39,300 (~60%) private buildings are managed by property management companies in Hong Kong

○ There are around 760 property management companies in Hong Kong, among which-
   ● about 8% of the companies manage more than 50 buildings each
   ● around 40% of the companies manage only one building each

# 1. Property Management Industry in Hong Kong

○ The Hong Kong Association of Property Management Companies (HKAPMC)

○ 85 corporate members with a total market share of about 74%

○ Entry criteria
- over 2 years' experience in managing properties in Hong Kong,
- meet the minimum size of management portfolio, and
- submit 2 years' audit reports

○ Members have to comply with a set of code of conduct on professional standards and ethical business practices

# 1. Property Management Industry in Hong Kong

- Individual property managers may obtain professional qualifications from professional bodies -

  - The Chartered Institute of Housing – Asian Pacific Branch    (CIH-APB)
  - The Hong Kong Institute of Housing    (HKIH)
  - The Hong Kong Institute of Real Estate Administration    (HKIREA)
  - The Hong Kong Institute of Surveyors   (HKIS)

- Housing Managers Registration Board (HMRB) - the statutory body responsible for registration and disciplinary control of the professional activities of professional housing managers
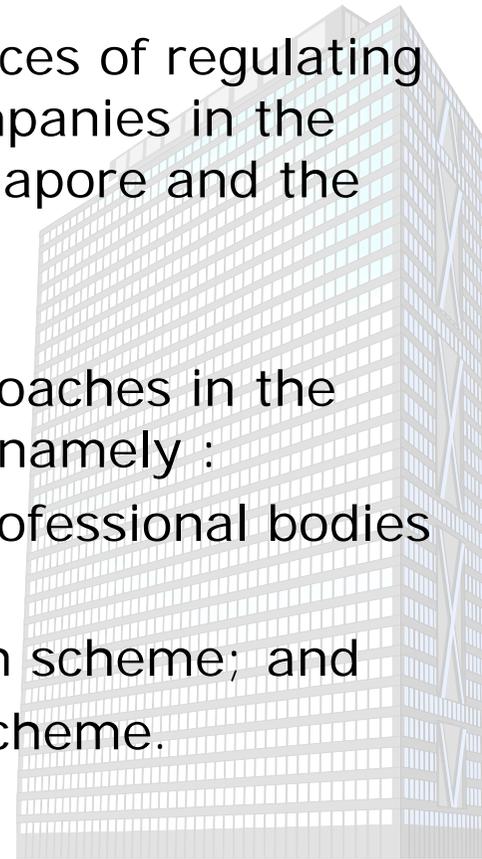
# 1. Property Management Industry in Hong Kong

○ Owners are generally satisfied with the quality of services provided by property management companies

○ Areas which achieve a high degree of satisfaction-
- efficiency in delivery of service
- cooperation and communication with owners
- impartiality in resolving disputes among owners

○ Areas which can be further improved-
- financial transparency in handling management funds
- procedure for procurement of goods and services
- performance in building maintenance

## 2. Regulation of Property Management Industry in Other Regions

○ We have studied the practices of regulating property management companies in the United Kingdom (UK), Singapore and the Mainland.

○ there are three broad approaches in the regulation of the industry, namely :

- self-regulation by the professional bodies concerned;
- a voluntary accreditation scheme; and
- a mandatory licensing scheme.

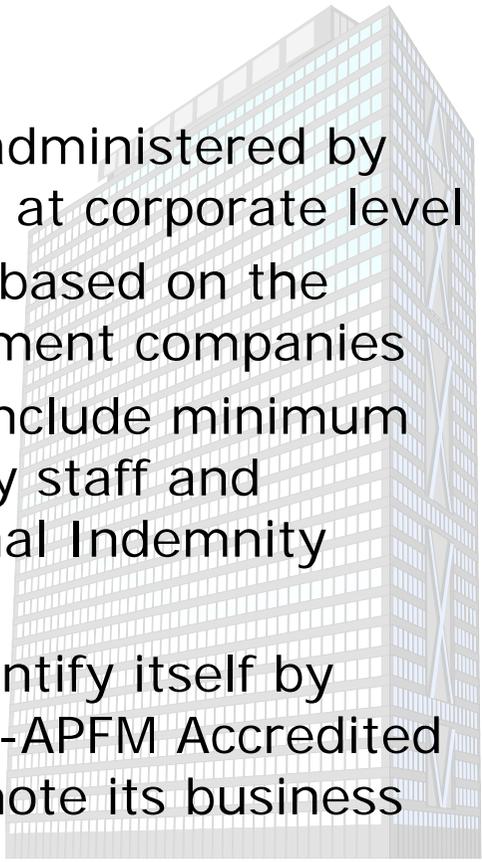## 2. Regulation of Property Management Industry in Other Regions

○ The United Kingdom

- wider scope of business

- self-regulated by professional organisations , similar to the situation in Hong Kong

## 2. Regulation of Property Management Industry in Other Regions

○ Singapore

- An accreditation scheme administered by professional organisations at corporate level
- Two tiers of accreditation based on the scale of property management companies
- Criteria for accreditation include minimum capital, qualification of key staff and procurement of Professional Indemnity Insurance
- An accredited firm can identify itself by using the credential "SISV-APFM Accredited Managing Agents" to promote its business

## 2. Regulation of Property Management Industry in Other Regions

○ The Mainland

- Corporate licensing scheme –
- Divided into three tiers based on the company's capital, number of relevant professionals working in the company and the company's experience in managing relevant types of buildings

- Individual licensing scheme –
- Applications have to meet relevant requirements on academic qualifications and experience and to pass a qualifying examination

# 3. Regulation of Other Industries in Hong Kong

- Estate agency industry and travel agency industry

- Similarities with property management industry –
  - malpractice may lead to huge financial loss by customers

- Differences when compared with property management industry –
  - their services are often one-off in nature while those offered by the property management companies are usually of a continuous nature
  - market force could play a greater role in protecting consumer interests in the property management market
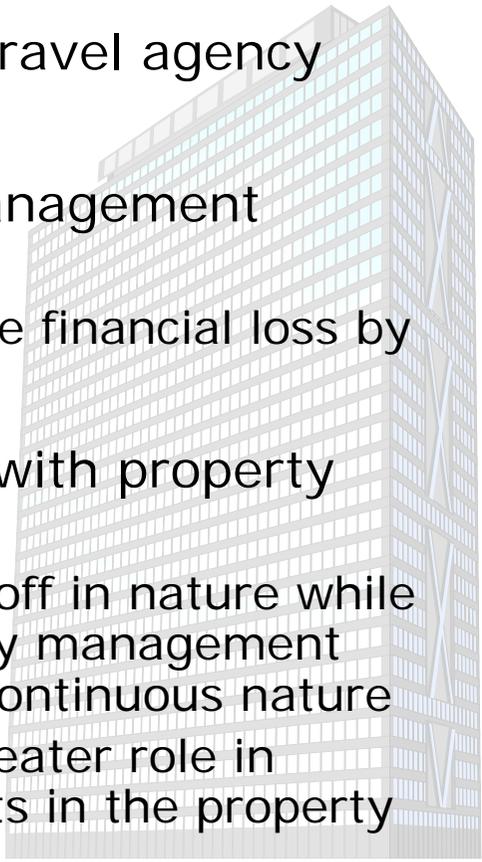
## 3. Regulation of Other Industries in Hong Kong

- Estate agency industry

  - Licensing system at both corporate and individual levels

  - The Estate Agents Authority is a self-financing statutory body responsible for licensing, regulating and handling complaints and is independent of the government and the industry

  - All practitioners have to obtain licences to practise in the industry

# 3. Regulation of Other Industries in Hong Kong

○ Travel agents industry

- A two-tier system incorporating a self-regulatory mechanism

- The Travel Industry Council of Hong Kong (TIC) is responsible for the trade's self-regulation

- Travel Agents Registry is responsible for the licensing of travel agents

- TIC membership is one of the requirements for granting of travel agents licence by the Registrar of Travel Agents

# Possible Models
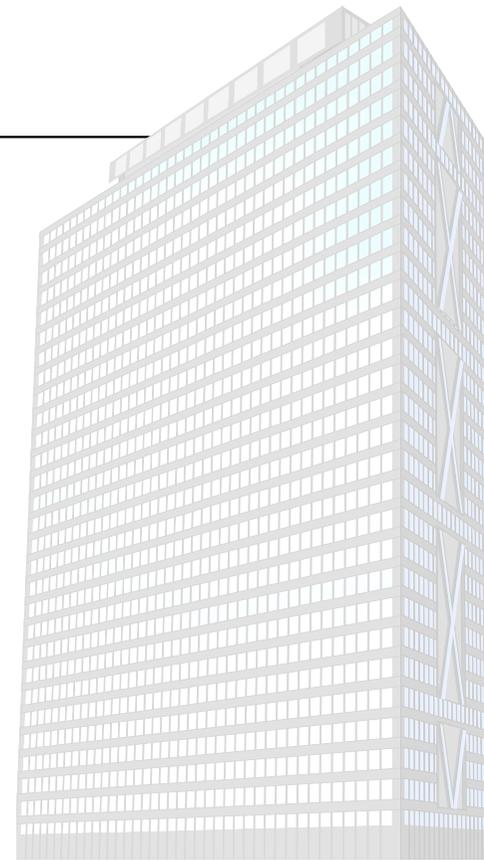
## Possible Models

- Our aim is to find a model which would fulfill the following criteria -

  - Provide owners with more choices of quality, efficient and affordable property management services;

  - Facilitate the development of a healthy and competitive property management industry; and

  - Continue the partnership between the Government and the parties concerned in achieving effective building management.

# Industry self-regulation system

○ Poses the least cost of compliance and allows the greatest choice to owners

○ Whether this model can effectively improve the standard of services of property management companies, particularly those small and medium sized ones?

○ Without the participation or endorsement of a third party, will the standard of services of the property management companies be able to gain general recognition and acceptance by building owners?
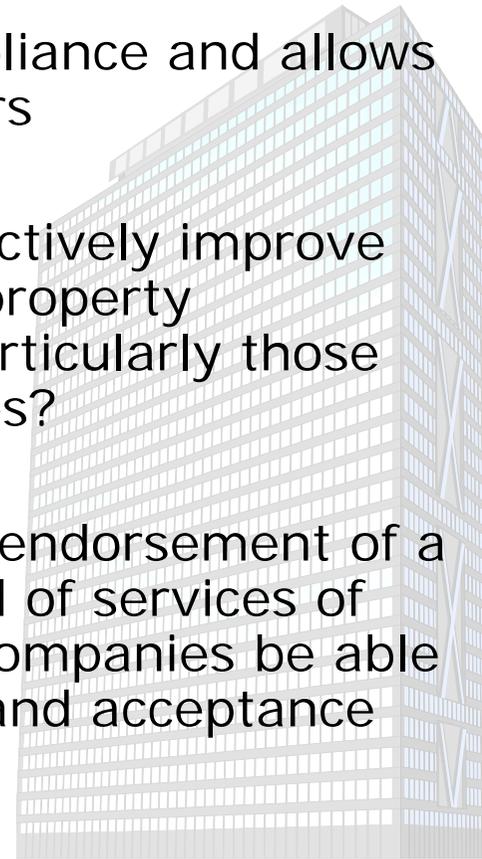
# Voluntary accreditation system

○ The "brand name" effect of accreditation should provide an incentive for property companies to improve their services

○ Whether this model can achieve the effect of providing some owners with a choice of engaging an accredited company for the assurance of competent services (probably at a relatively higher fee), while preserving the choice of others in engaging non-accredited ones if what they need are basic services such as cleaning and security services ?

○ How should the accreditation system be designed so as to attract the property management companies to apply for accreditation?  Which authority should decide the accreditation criteria?
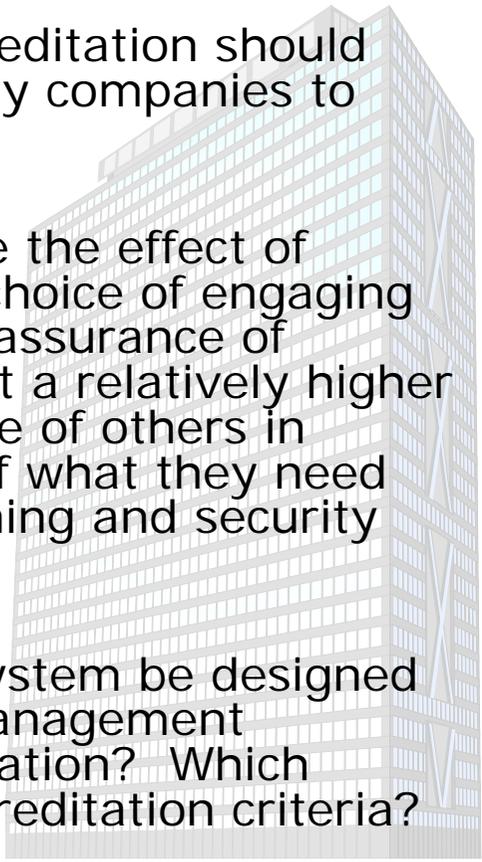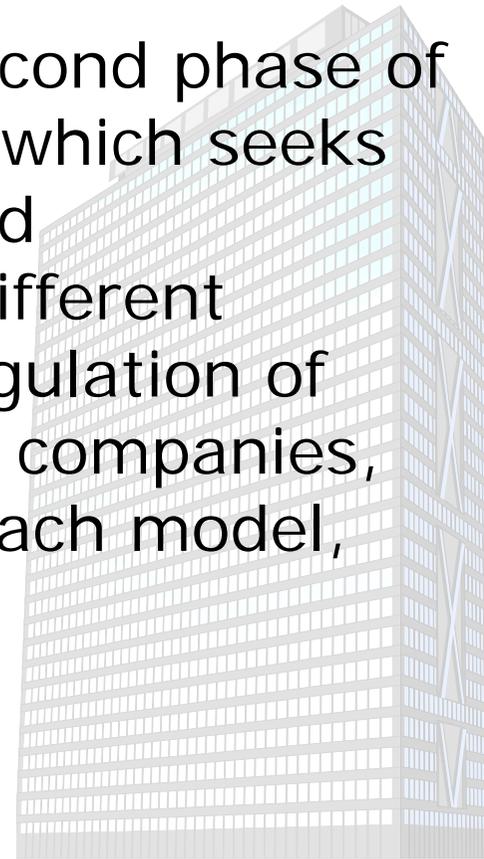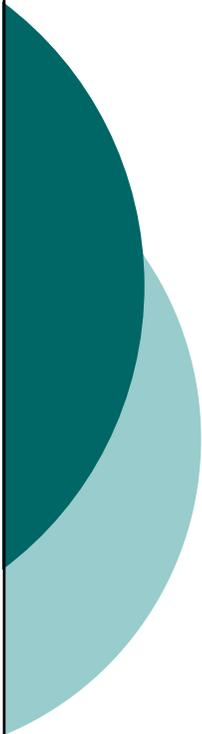
# Mandatory licensing system

○ May be able to ensure the "minimum standard" of services provided by property management companies through the licensing conditions

○ Whether this model will drive out the small and medium sized property management companies which are currently offering basic services at relatively competitive prices? Would a tiered system help minimize this possibility?

○ Whether this model would pose substantial cost of compliance, hence leaving owners with increased management fees as a result of less competition?
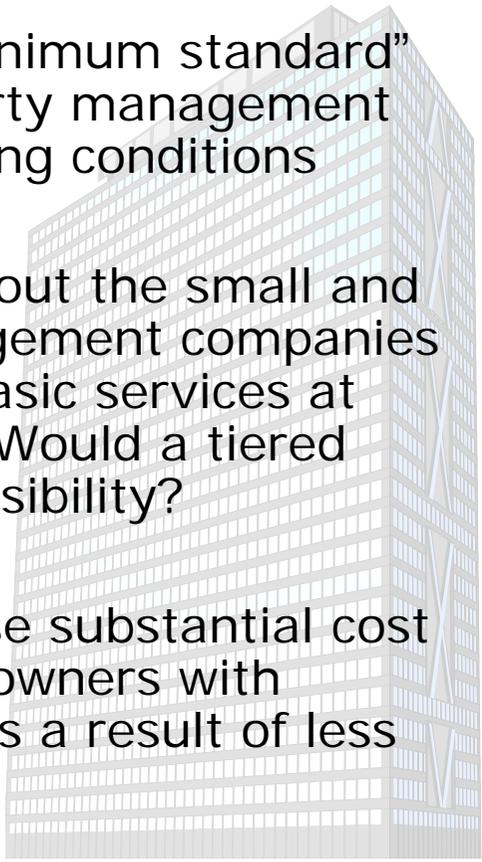
# Way Forward

○ We will conduct the second phase of the consultancy study which seeks to examine the detailed arrangements under different possible models for regulation of property management companies, the pros and cons of each model, and the way forward

# End