

THE BENEFITS AND COSTS OF REGULATING PROPERTY MANAGEMENT SERVICES PROVIDERS THROUGH LEGISLATION

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ABSTRACT

In view of the numerous accidents related to the incompetent property management in Hong Kong, the government legislated to form a statutory body for regulating property management. This paper aims to determine the importance of the costs and benefits attributed to the regulating and investigate the application of AHP model to make recommendations on the issue. The legislation is examined. Then, AHP is applied to assess the benefits/ costs of regulating property management services.

Keywords: AHP, Legislation, Property management.

1. Introduction

According to the Buildings Department's statistics in Hong Kong, there were 3,369 summonses of non-compliance with statutory orders of removal of unauthorized building works in 2017. Failures of building facilities (e.g. lift safety) have caused a number of fatal accidents in recent years. In view of this unfavorable phenomenon, the government initiated the legislation of Property Management Services Ordinance (Cap. 626) (PMSO) to regulate property management companies (PMCs) and property management practitioners. Since October 2016, some parts of the Ordinance have become effective. PMCs and property management practitioners are required to be licensed under PMSO. Supporters of the legislation expect an improvement of property management services and facility safety. Opponents believe the property management services market will be

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dominated by large corporations which are able to invest on human resources and quality assurance system. Property management services fee will be increased.

This paper investigates the pros and cons of the legislation with the application of AHP model and concludes whether the regulating is beneficial at a reasonable cost.

2. Literature Review

Property owners in Hong Kong prefer forming incorporate owners' groups and employing professional management services (Hastings (2006)). Considering the characteristics of the property management services market in Hong Kong, the regulating authority, Property Management Services Authority (PMSA), needs different strategies to work with different scales of PMCs. According to the database "Private Buildings in Hong Kong" of the Home Affairs Department, most residential buildings in Hong Kong are managed by either sizable or small PMCs. The impact of the legislation on the PMCs is important to both PMCs and the property owners in Hong Kong. A benefit/ cost analysis will serve as a reference to the effectiveness of the new legislation.

The benefits and costs are hard to assess, especially where the benefits and costs are intangible and require professional opinions. The AHP not only can deal with the situations but also helps organize all aspects involved in a hierarchic structure where the benefit or cost aspects are sorted as the criteria (Saaty (1990)).

3. Objectives

One of the objectives is to develop an AHP model with the goal to determine if regulating property management services with a legislation is sound from the cost-benefit analysis. In addition, the model provides weights of benefit and cost factors. It is useful to the execution of the legislation.

4. Methodology

A panel of four experienced professional property managers applied the AHP model to analyze the benefits and costs of regulating through PMSO. A brief definition of the model and an explanation of the application were presented to the panel. Two of the property managers are from small PMCs, the other two works for large PMCs.

Two similar hierarchies are constructed:

- A) To identify the benefits of the legislation (Figure 1);
- B) To identify the costs of it (Figure 2).

Judgements obtained were used to assign values of importance.

Level 1: Goal	Regulating property management services through PMSO			
Level 2: Criteria	Economic	Political	Social	Property management Profession
Level 3: Alternatives	Regulate		Not to regulate	

Figure 1 Benefits Hierarchy

Level 1: Goal	Regulating property management services through PMSO			
Level 2: Criteria	Economic	Political	Social	Property management Profession
Level 3: Alternatives	Regulate		Not to regulate	

Figure 2 Costs Hierarchy

Two individuals for the PMSO were asked to assess the benefits and those against were asked to assess the costs.

5. Data/Model Analysis

Calculations were done with the AHP program - Expert Choice. The results are elaborated below:

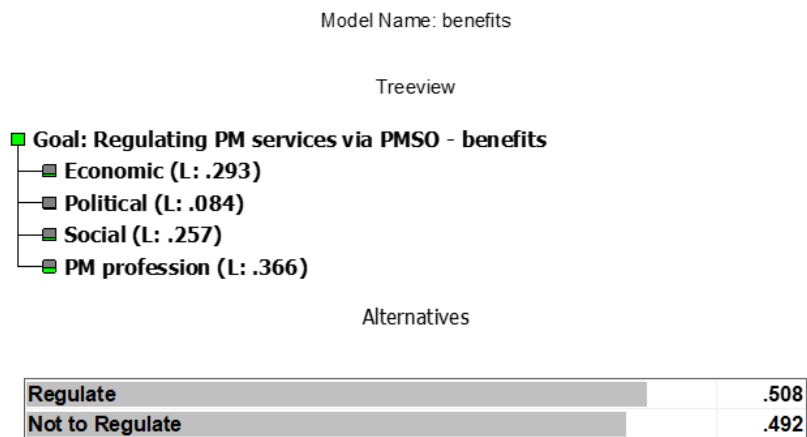


Figure 3 Priorities of Benefits

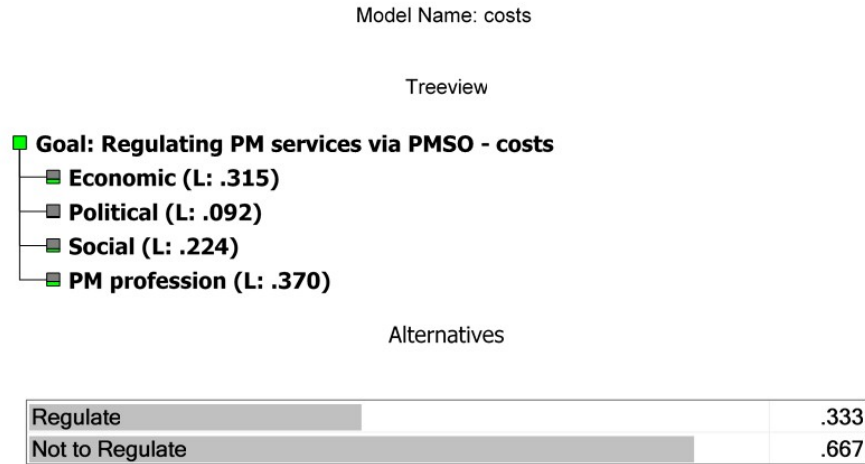


Figure 4 Priorities of Costs

Some observations are noted below:

- a. Both groups of interviewees (For and Against the legislations) expressed the same order of importance among the criteria: PM profession, Economic, Social and then Political.
- b. Interdependencies among the criteria is possible but it is assumed that it is minimized by having two hierarchies.
- c. A benefit/ cost ratio of $0.508 / 0.333$ or 1.526 is produced for regulating through PMSO.
- d. A benefit/ cost ratio of $0.492 / 0.667$ or 0.738 is produced for not regulating through PMSO.
- e. The results of (c), (d) show that the property management services should be regulated through the PMSO.
- f. The expert choice calculations show the inconsistency in the judgement is acceptable.

6. Limitations

One of the obvious limitations is the possible bias of the interviewees. All of them are from the property management profession. If time allows, the property owners should have been invited for the interviews. On the other hand, as pointed out by one of the interviewees, it is difficult for him to assess the benefits without considering the cost of regulating the property management industry at the same time (Nutt (2002)). In fact, the regulating is for the benefits of general public at the cost of the industry and property owners. The effectiveness of the regulating is important but cannot be assessed by the model.

7. Conclusions

By applying the AHP model, the benefit and cost of regulating and not regulating the property management services through PMSO are assessed. It was found that the property management services should be regulated through the PMSO. It is in line with the consultations carried out by the government and relevant professional bodies in Hong Kong.

8. Key References

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