A Review of Managing Agent in Property Management Industry in Malaysia

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Abstract
Property management profession has revolutionized inline with new evolution in property investment. This has resulted many people baffled as to who is actually property management is belong to because many profession from other field also involved in this industry such as engineer, architect, lawyer and event the normal businessman. Professional experience over the past few years, it is shown that many predicaments and challenges in implementing the legislation for this profession. Though the legislation for this profession has been enforced over 20 years, there are loop holes on the legislation which requires a renewal. This study intends to contribute a clear understanding on legislation of managing agent by means of exploring the deep definition and function of managing agent from the legislation perspective. Beside historical investigation, series of interviews with statutory bodies on implementation and enforcement were also conducted. This study offered a clear understanding and awareness on the property management practice as well as its benefit to the public. It is believed that this research gives a significant impact to the property management industry in providing a sustainable and enhancement to professionalism in property management practice.

Keywords: Definition, Managing Agents, Property Managers, Legislations, Malaysia

1.0 Introduction

The creation of more and more strata types of developments has resulted in the need of Professional property management (Andrew, 2005). Property management entails multi discipline of social and science task. The task includes collecting and evaluating of rental, selecting of contractor and building maintaining in an organization. However, property management profession has revolutionized inline with new evolution in property investment. This has resulted many people baffled as to who is actually property management is belong to because many profession from other field also involved in this industry such as engineer, architect, lawyer and event the normal businessman. Abdul Rahman (2004) generalized that the person who is responsible to carry out property management task is the person who has specialize education and training in property management field. Many property owners have no experience and knowledge in managing their property. The owners are also pursuing outsourcing as a means of disengaging from essential process to those that are not critical to the core business. Consequently they opt for out-sourcing the property management activities to a managing agent. Hence, this study reviews property managing agent’s essentials in real estate industry from various renowned authors in real estate research discipline. An overview of the benefit of appointing a managing agent and the success and failure of managing agent performance are also presented in this study.
2.0 Review Of Property Management

The definition of property management has been discussed as early as 1980s. Douglas (1983) states that property management is more than a process of planning business objectives, policies and activities, harnessing resources to ensure implementation and exercising control toward achieving the objectives. Historically, estate and property management was a requirement of property owners, mainly landlords and investing institutions; whereas facilities management was a requirement of building occupiers. The services were provided by estate and property management consultancies or equivalent in-house teams on the one hand, and by in-house office managers on the other, often as an ancillary part of other activities (Balch, 1994). Today, these scenes have however change, the discipline has evolved to become a science, involving aspects such as the formulation of a value creation strategies, improving revenue flows, unlocking latent real estate values through marriages’ with adjacent properties and negotiation of tenancies (Gurjit, 2005).

As individual began to look at property management as a career, they organised professional groups to set standards of ethical conduct for the property management professional and thus help assure client and property owners that their members were trustworthy and experienced. Several property management organisations that are still in existence today began during the 1920s and 1930s, including the Building Owners and Managers Association (BOMA), the Real Estate Management (IREM) and the National Apartment Association (NAA) (Mariwyn, 2000). Gradually, in the decades that followed, property management became more and more important as a real estate career. At first, property manager was often something real estate brokers did to earn extra income; it was not their main job. But as more and more buildings were owned by companies and individuals who lived far away from the property, the growing demand for managers helped turn property management into a full-time career (Mariwyn, 2000).

As for the Malaysian scenario, property management is traditionally viewed as a narrow range of functions concerned with looking after buildings, the collection of rents, payment of outgoings and maintenance, including repair and the provision of service. This narrow view of property management is changing, albeit slowly (Gurjit, 1995). Property management involves a range of other property related service such as property valuation and real estate agency and project management also provided by consultancy and valuation firm. In Malaysia, the Valuer, Appraisers and Estate Agency Act 1981 regulates the profession of property valuation and property management to ensure that only professionals manage property. The amendment to the Act in 1984 provided for the registration of estate Agents and Section 22(b) allowed for a registered estate agent to practice property management provided he proves to the satisfaction of the board that he carried out property management immediately before the date of coming into force of the Act. By virtue of this definition, Gurjit (1995) emphasizes that only those registered with the Board of Valuer, Appraisers and Estate Agents Malaysia are allowed by law to practice property management. However, Gurjit (1995) highlights that there is glaringly absence in Strata Title Act 1985 in provisions to ensure professional property management is in place during the interim period of vacant possession to issuance strata title.
3.0 Benefit & Advantages

Property should be viewed as a long term income-generating asset which should be managed and maintained in an efficient and cost-effective manner. This is because property investment does not only return economically but also confer a social impact to the owner. Thus, managing agent can and should play a pivotal role in the measures which can be taken to maintain the building and thereby prolong its lifespan (Christudason, 2005).

The advantage of appointing a Managing Agent is manifold and cited by many literatures in the United Kingdom, Hong Kong, and Singapore. The benefit of appointing a managing agent can be seen from attaining the basic objective of property management. Richard (1961) outlines the 3 main objectives of property management and summaries as per Figure 1.

![Figure 1: Property Management Objectives (Source: Adapted from Richard, 1961)](image)

Form the illustration above, it can be concluded that the optimization of property investment is achieved when property management main objectives is achieved. The main objectives are as follows:-

- To optimized and maximized the property management returns. The return is refers to the income from rental, leases and other. The cost saving in long term such as building maintenance budget.
- To prolong and maintain physical of the property to ensure its efficiency to attain an economical optimization. The well-maintained building will increase the property value.
- To increase capital value of the property in term of investment. Well-managed property will magnetize investor to perform its economical activities and further optimization of the property investment.
Hence the advantages appointing a managing agent to perform property management task is assessed based on their ability to achieve these 3 objectives. Consequently Ho (2006) on his empirical study in Hong Kong reveals that the presences of property management agents is a significant factors in enhancing building conditions. To certain extend Hastings et al. (2006) suggested that the appointment of professional building management agents will increase property prices by some 15 per cent and where a statutory, as opposed to a contractual, residents’ organization formalizes the governance arrangements to a further price premium of some 8 per cent can be achieved. Likewise in Singapore, the empirical study also suggested that the managing agent rendering an enhanced quality of service compared to an in-house management team. The quality of service includes professionalism where Christudason (2008) underlines the personnel employed by Managing Agent firms are more likely to have the requisite academic and technical qualifications, which include an accredited degree or diploma in the field of Real Estate Management, and/or relevant experience in managing real estate in Singapore. Furthermore managers of Managing Agent firms in Singapore are members of, or affiliated to professional bodies such as the Singapore Institute of Surveyors and Valuers (SISV), the Association of Property and Facility Managers (APFM), or the Association of Management Corporations in Singapore (AMCIS) (Christudason, 2008). Such affiliation would translate into a higher level of parameter and expectations of the Managing Agent, who would be likely to possess minimum educational qualifications, adhere to and keep abreast of codes of professional conduct and/or performance.

Christudason (2008) result in Singapore also coincides with Lin and Siu (2001) in Hong Kong, where involvement of managing agents has proved to be a correct direction in terms of retaining the growth of the public sector, and also improving the level of services to the tenants. The survey results from both the tenants’ perspective and the staff perspective illustrate that the managing agent are better than the in-house organizational management in providing housing management services (Lin and Siu, 2001). In view of the complexities of the strata residential management, the expectation is that a MA is in a better position to devote time, knowledge and management skills to effectively participate in the day-to-day control management and administration of the strata development (Christudason, 2008). Most council members are laypersons without the necessary training, knowledge or experience to manage properties, whereas managing agents are supposed to be professionals specially trained to manage real estate developments (Teo, 2001 and Christudason, 2008). The involvement of managing agent not only contributes to the professionalism of the service but also time saving to the owner. Apart from professionalism uphold by a managing agent, there is also an evidence of cost-effectiveness benefit by appointing a managing agent. The study conducted in Hong Kong (Li and Siu, 2001) shown that contracting out public housing management services to the managing agent can reduce the staff costs of the housing department on the burden of the government finance. According to the DOE (1992) and the Audit Commission (2005), value for money essentially has two elements, namely, efficiency cost and effectiveness quality. As for the private residential in Singapore, Christudason (2008) highlights that appointing a managing agent will contribute to cost saving which arises out of economies of scale. These economics of scale can result from bulk purchases by a Managing Agent that manages more than one strata development. The Managing Agent purchases products that need periodic replacement in larger quantities and as such enjoy a lower price per product, as
compared to the situation if each strata development were to purchase smaller quantities of the same item by itself. Such cost savings when accumulated, in terms of quantity and time, would translate into significant cost savings for the Management Corporations that choose to engage the services of a Managing Agent (Christudason, 2008).

Building and machinery maintenance is an important part of property management. Hence the proper handling and upkeep by the expert is needed to ensure the physical and of the building and/or machine will last at it longer period. Lai and Ho (2001) on his study on high rise residential structure in Hong Kong pointed out that managing agent had better expertise in using legal machinery to prevent the proliferation of unauthorized building works in common areas. Hui (2005) also agrees that the managing agent staffs are experienced in technical and commercial aspects of property management. Usually, there is a conventional system of quality assurance in terms of employment, works planning and supervision, and financial reporting. Issues of employee insurance and property insurance are taken care of. Outsourcing to managing agent may provide the organization with greater flexibility, especially in the maintenance of rapidly developing new technologies. Han (1999) and Christudason (2008) confirmed that managing agent companies in Singapore are well equipped both in computer hardware as well as software packages; they invest substantially in information technology for further upgrading of both computer hardware and relevant software. Such investment in technology is made possible only by the resources that Managing Agents’ firms possess, both financially and in terms of expertise.

Resources factor also contributes to an effective property management activities. Due to its size and scale of operations, as compared to an in-house management team, a Managing Agent will enjoy more resources like manpower and finances. With a ready pool of qualified staff, the Managing Agent’s firm will have the ability and flexibility to dispatch additional staff to any of its clients when required, at short notice (Christudason, 2008). The managing agent company’s policy of regularly employing and training new staff ensured that the replacement of the property staff for the development did not escalate into a serious problem and create managerial and operational problems for the development during the transition stage. Christudason (2008) also added that the larger Managing Agent firms in Singapore often have separate departments that specialize in real estate agency, sales and marketing, property valuation and property consultancy. Such extra services can be offered at a fee to the Management Corporations and can translate into both time and costs savings for Management Corporations. In addition, the Managing Agent’s firm will have a better and more holistic understanding of the development’s needs and expectations and therefore respond more efficiently.

4.0 Detriment & disadvantages

While outsourcing by appointing a managing agent is gaining popularity, the number of reported cases of failure is also increasing (Brown, 2002; Copeland, 2001; Crocker, 1999; James, 2000; Van der Werf, 2000). Outsourcing is a management process whereby specific tasks, as opposed to a whole package of support function in the case of outsourcing, are performed by a contractor (Hui and Tsang, 2004). Outsourcing tasking is a common practice in the field of facilities management; its usage outnumber that of outsourcing (Kleeman, 1994). However, little is known about the criteria for choosing out-tasking, let alone the process of implementation. It is important to know what to contract out, who should do it, what options are
available and how to manage the process. In return for their services, Managing Agents commonly charge a monthly fee (Christudason, 2008). This is a recurring cost to the Management Corporations of the strata developments. It is noted that this fee is paid to the Managing Agent for their professional services, and is charged in addition to the other costs necessary for the maintenance of the strata development such as salaries, cleaning and security costs. Communication and control- no matter how efficient a Management Agent may be, it is probable that there is a time-lag in terms of reaction time. This is because generally, staff of the Managing Agent’s firm who are based on-site in the strata development are more junior Property Officers who report to their superiors – the Property Manager. Such time-lags could result in loss of productivity and increased costs to the Management Corporation. Christudason (2008) also point out that managing agent may have diversified interests. Typically, a Managing Agent’s firm would be managing more than one strata development at any time. As such, the manpower and resources of the Managing Agent would be divided amongst the developments they are running. This could lead to the other strata developments that are managed by the Managing Agent being temporarily understaffed and even neglected (Christudason, 2008). In term of communication and control Chritudason (2008) underlines that there is an additional layer contrast in the relationship between the Managing Agent’s staff on-site in the strata development and the Management Council. This can result in a lower degree of control. Some bribery cases were discovered in the procurement of building management services (Ho et al., 2006).

Ho et al., (2006) also highlighted the negative side; delegating decision making powers to the management committee of an owners’ association may create principal-agent problems. The committee members (the agent) may make decisions that are beneficial to themselves, but detrimental to other owners (the principal). Similar problems would also occur if management powers are delegated to an external management agent without a check and balance mechanism. In some cases, even if owners are not satisfied with the performance of their management agents, they have no easy way to terminate their services. To a certain extent, a management agent is free to pursue his/her own interests (Walters and Kent, 2000). Negligent management of common property can not only give rise to depreciation in the value of the property but can lead to injury or death to subsidiary proprietors or invitees on the premises; hence the importance for the competent management of the common property by the management committee (Christudason, 2004). Many such appointments are made for periods of three to five years before the appointment is reconsidered. Whilst the earlier practice of appointing an agent on a more or less permanent basis no doubt lead to some complacency and a lack of keenness on the part of a few agents, frequent change of agent are hardly likely to foster commitment or enable the team to build up a background knowledge and ethos.

5.0 Conclusion

Property management require multidiscipline knowledge and expertise from the owner to run such operation. The appointment of an agent to advise and manage is an option extensively used and in many cases to good effect. Some of the larger agents have very substantial capital value under management. The advantages are significant which contribute to value for many and efficiency in operational activities. Nevertheless there are evident on negligent and mismanagement of managing agent where effected the owner investment and to that extend resulted devastation to the
building lifespan. Therefore, many countries such as US, Australia and Hong Kong have formed a regulatory body to scrutinize a managing agent profession and activities. In Malaysia managing agent also plays an important role in managing property in real estate industry. However not many evident to confirm such agent performance due to lack of empirical study conducted in Malaysia concerning to managing agent performance and legislation effect on the profession. There are also an issue on regulation of managing agent profession by a regulatory body that needs to be looked at. Thus, it is vital for the professional involved to position managing agent in related legislation and regulatory body in Malaysia specifically.

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