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What the maintenance fee and sinking fund are used for

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Strata living is getting more popular in Malaysia, especially in the Klang Valley, both landed and high-rise schemes. Properties in a strata scheme can include condominiums, apartments, offices, terraced homes, bungalows and townhouses.

Strata living means the accessory parcels and common property in such a development come under a management system. The homeowners will be charged a monthly maintenance fee, also known as the service charge, as well as contribute to the sinking fund.

Maintenance fee and sinking fund

According to Henry Butcher Malaysia (Mont Kiara) Sdn Bhd executive director Low Hon Keong, the maintenance fees are generally used for everyday repairs and the upkeep of common facilities in a development.

"From a layman's point of view, the moment you enter a guard house, everything needs to be maintained through the maintenance fee. A sinking fund is basically used for capital expenditure in respect of repainting, upgrading and refurbishment of the common property. It is calculated as a percentage, usually 10%, of the maintenance fee," he tells *City & Country*.

The components that make up the maintenance fees include contractual and non-contractual operating expenses, utilities as well as contingencies. Contractual operating expenses refer to a fixed monthly amount for service providers that include cleaning, security, fire-fighting, lift maintenance, landscaping, swimming pool, management staff cost, property management fees, pest control, and rubbish collection and disposal.

Non-contractual operating expenses cover CCTVs, carparks, firefighting systems, air-conditioning repairs, barriers gate and waterproofing. Utilities mean electricity charges, water charges, telephone and internet.

"Basically, all the expenses will be divided into share units. The main factor in determining the service charge is the total saleable area or the built-up area. The larger the area in sq ft, the lower the maintenance fee. In other words, the higher the density of the development, the lower the maintenance fee," he says.

It is possible for a development to reduce the maintenance fee, Low says. Citing utilities as an example, he notes that electricity charges can take up 15% to 20% of

About the Strata Management Act 2013

The Strata Management Act 2013 (SMA 2013), which came into effect in June 2015, provides for the proper maintenance and management of building and common property, and for related matters. Under SMA 2013, owners of a strata development are required to pay a monthly maintenance fee or service charge to the joint management body or management corporation for the upkeep of the common property.

If one fails to pay the management within 14 days of receiving a notice, he will be legally defined as a defaulter. The management is allowed to charge interest on late payments.

Under SMA 2013, owners are also required to contribute to the sinking fund, normally at the rate of 10% of the total amount of the maintenance charges.

The Strata Titles (Amendment) Act 2013 also rectified certain issues that had contributed to a delay in the issuance of strata titles. Under the Act, developers must ensure that any issues arising from land matters are resolved before they can apply for the advertising permit and developer licence to sell their properties.

The standard formula for calculating the maintenance fee is as follows:

$$\frac{\text{Operating expenditure}}{\text{Total share units in development}} = \text{Maintenance fee to be paid}$$

HENRY BUTCHER MALAYSIA (MONT KIARA)



Low: All the expenses will be divided into share units

the maintenance fee, and the management body could, for example, install a timer and energy-saving equipment as well as turn off certain pumps within scheduled periods. He explains that as certain basic maintenance components need to be in line with the development's design and concept, the management body also needs to ensure that any cost reduction will not result in services being compromised.

What about homeowners who do not pay the maintenance fees? Under the Strata Management Act 2013, the management body can take legal action against them.

"Refusing to contribute is considered a selfish attitude, especially in community living. Such an attitude can result in the lack of proper income and cash flow to pay service providers, and it will subsequently affect the maintenance of the services at an adequate level. This could indirectly affect the safety and security of residents," he says.

