

The Future of Real Estate Management: Privatization of Public Housing Management

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SUMMARY

Purpose – The purpose of this paper is to address the concern of government whether the Housing Authority should continue implementation of privatization of real estate management in public housing or not.

Design/methodology/approach – Data were used to test the sub-hypothesis for supporting the intangible hypothesis and so data analysis on the implementation of privatization. Face-to-face interviews were adopted to collect the data. The impact of privatization on the government and original staff in consideration are addressed.

Findings – Conclusions demonstrate the verification process of the sub-hypothesis and how it supports the hypothesis, and the extent of expectation of end-users on living environment in terms of real estate management issues.

Research limitations/implications – Limitations of the empirical study are due to the rather short run of data which were available for the target estates and the particular nature of end-users studied. More detailed data of privatization factors such as costing is desirable. Complimentary studies should concern different types of public housing and other locations, involves varying nature of end-users.

Practical implications – The findings demonstrate the government should continue the implementation of privatization of real estate management in public housing and so, should enhance the effectiveness and efficiency of civil servants services.

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1. BACKGROUND

Provision of public housing is a major public welfare provided by the government in many countries. In Hong Kong, since 1970s, the Housing Authority (HA) started to act as a developer and the service provider of public housing. Experiencing the flourish growth of the economy, people become emphasized on the quality of services. Although public housing is defined as part of the social welfare of the society, people are looking for better services when comparing it to past decades.

In Hong Kong, about half of the total population lives in public housing which includes public rental housing (PRH), Home Ownership Scheme (HOS), Private Sector Participation Scheme (PSPS) and Interim Housing (IH) etc. Privatization of housing management in some of the PRH estates is implemented. Since the public generally expects for upgrading the quality of living environment, the HA therefore, faces consistent pressure from the public regarding the quality of public housing management.

In response to the demand on upgrading of services, privatization is considered to be a solution to the existing public housing management structure, i.e. contracting out public housing management from the HA to the Private Services Company (PSC). In view of the feasibility and success of the PSC on the real estate management in the PSPS, the HA starts to implement privatization to public housing estates since 1989 to improve its bulky manpower structure, enhance cost effectiveness and time efficiency in managing public housing. In order to oversee the performance of the PSCs in the privatization programme, the HA has conducted tenant satisfaction surveys periodically. According to the result of the surveys, the performance of the PSCs is satisfactory.

The aim of this paper is to study and test whether privatization of real estate management in public housing can provide better service, and therefore, make recommendations on whether the HA has to continue with privatization or not. In order to achieve the aim, the study will cover the following objectives: -

- To review the implementation of privatization by the HA and to investigate the influence of the privatization programme to the HA;
- To conduct a tenant satisfaction survey to test whether privatization of real estate management in public housing can provide better service or not; and
- To review the implementation of privatization of real estate management in public housing and make possible recommendations.

2. IMPLEMENTATION OF PRIVATIZATION BY THE HOUSING AUTHORITY

The HA is not the first government department to implement privatization. In reference to the experience from the success of other government departments such as postal services, the HA is classified as one of the privatized targets. The reason is mainly due to the huge size of properties under the management of HA and the ineffective operations of the HA. In Hong Kong, there are about 3.3 million or 49.1% of total population live in public housing. Large numbers of staff are employed to take up the real estate management and maintenance of public housing. However, the discontent on the performance of housing management staff impose pressure to the government to streamline the manpower of housing staff and which becomes an inevitable trend. Through looking into the changes after privatization in terms of cost effectiveness, operation efficiency and performance quality, the implementation of privatization of real estate management in public housing by the HA is a possible solution to solve the problems of the HA.

Cost Effectiveness - Cost saving is undeniable one of the main themes of privatization. The salaries of civil servants in Hong Kong are at the high side. Although the government appointed individual research companies to conduct research to benchmark the salaries of private companies in order to forbid the salaries of civil servants deviates too far from the market, the paying scales of civil servants are still at very high side of similar grades in private companies. The reasons behind are to attract and retain calibre candidates in the civil services by giving up faster promotion channels if working for private sectors. However, for those departments with large numbers of staff like the Housing Department imply a huge burden on salary expenses. In order to balance the salary expenses and allocation of cost distribution, privatization is definitely a solution to save costs if the performance quality is not affected.

Beneficiaries of Privatization - By implementation of privatization of real estate management, the government is certainly one of the beneficiaries. Not only costs can be saved, but also reduction of manpower can improve the operation burden of the government. Since the government has to bear the services provided by housing staff, reforms on housing services are deemed necessary. Privatization provides a solution to alter the form of housing management and to re-structure the supervision channels of public housing.

Another beneficiary is the general public. By saving costs in staff expenses, more resources can be used by the HA to allocate the saved resources to other housing needs such as construction of new public housing estates. Privatization also gives the government a chance to improve the quality of public housing management. Every Hong Kong people may well aware that it is difficult to terminate a civil servant due to complicated procedures even the performance is unsatisfactory. Contracted private services companies however, are regularly monitored on the services provided and will take the risk being terminated if the performance could not meet the requirement. As a result, the general public gains.

Disengagement - Disengagement involves changes in real estate management structure and practices. Contracting out of services originally provided by public sector to private sector companies and incorporating private sector practice into public service delivery are the forms of disengagement.

Disengagement can entirely apply to contract out the public housing management tasks originally taken up by the HA staff to private sector companies. Moreover, the public housing estates under the private sector management are incorporating private sector practice into the delivery of real estate management services to public services.

In addition, disengagement replaces producer subsidy with housing consumer subsidy. The public housing estates which have been included in contracting out are those Tenant Purchase Scheme (TPS) estates. Traditionally, the expenses of a public housing estate such as repair and maintenance are subsidized by the HA (producer subsidy). After setting aside a pool for future maintenance, but then the tenants have to bear the maintenance liabilities of the public housing estates which are coordinated by the private sector management companies (housing consumer subsidy).

Disengagement can certainly save the staff costs of the HA, but another implication is how to monitor the contracting out private sector companies. Tenant satisfaction survey is deemed necessary to test whether the quality of real estate management service can be maintained or to suspend privatization.

Voluntary Deployment Scheme - In order to streamline the manpower, the HA encourages the staff to join the Voluntary Deployment Scheme (VDS). Under the VDS, the joiners should be employed by one of the private management agencies which have been awarded with a real estate management contract from the HA. The VDS staff can then receive the government pension when they left. In the past, no pension could be received before the retirement age of 65. Early retirement will only be accepted after the age of 55. The VDS not only allowed the staff to take the pension but the private management agencies also provide at least 2-year employment contract to the VDS staff.

To further assist in the VDS staff, the contract awarded real estate management agencies are required to absorb 20% of staff mentioned as stipulated in the contracts from the Housing Department. Otherwise, the companies will violate the real estate management contracts.

According to Mr Dominic Wong, the Ex-Secretary for Housing, in regard to cost effectiveness, a comparison of contract prices of the first three batches of contracts with in-house staff costs indicates a saving of up to 33% which is in line with the original estimation of the Housing Authority. Judging from tenants' satisfaction level and cost savings achieved, outsourcing of real estate management and maintenance services is cost effective. In this connection, privatization is very attractive and matches with intellectual studies on the advantages of privatization.

3. TENANT SATISFACTION SURVEY UNDER PRIVATIZATION

Privatization has its merits. In addition to any financial benefits, the performance of the PCs should at least satisfy the end users, i.e. the public housing residents, otherwise, it would be pointless to allocate resources to re-organize the role of the HA and to implement privatization of real estate management in public housing.

The continuity of implementation of privatization is under the assessment with reference to the hypothesis in which, *the HA should continue implementation of privatization of real estate management in public housing*. Since the hypothesis is an intangible assumption, a sub-hypothesis in terms of tangible approach is adopted for testing according to the Ex-Secretary of Housing, Mr Dominic Wong, *92% or above of respondents in the Tenant Satisfaction Survey considered the private services management companies' performance to be satisfactory or average*. Ensuring the secondary data from the HA on the tenant satisfaction survey can reflect the reality, a study for verification is deemed necessary.

In order to determine whether the survey findings reported by the HA can reflect the actual performance of the PSCs or not and to identify whether the hypothesis is justified through the testing of sub-hypothesis, three target public housing estates located at New Territories and Kowloon are selected for the study by conducting tenant satisfaction survey.

Objectives - Personal face-to-face interview is used for the tenant satisfaction survey. The objectives of conducting a survey by interview questionnaire with the residents live in the target public housing estate are: -

- To collect perception and feedback of residents on the performance of the various private services companies (PSC) in terms of quality & service attitude of management office staff, cleansing services, repair & maintenance services, security services and others (include content and timing of notice posting, arrangement of recreational activities, festival decoration. Only the score above the passing rate 13 to be discussed in this paper;
- To evaluate the performance of the PSCs by analyzing the residents feedback by taking mean, median, mode and standard deviation through Microsoft Excel to interrogate the data (but not to be discussed in this paper); and
- To assess whether the performance of the PSCs is acceptable to the end users of the services, i.e. the residents of the target PRH estates.

Test - All questions are in a two-option scale including “YES” and “NO”. There are 25 questions in the questionnaire. The focus of the questions is exactly the same as the questionnaire conducting by the HA. Through the questionnaire, One (1) score will be assigned to each “YES” answer and Zero (0) score will be allocated to each “NO” answer. Therefore, the maximum score of each questionnaire is 25. If the passing rate 13 is obtained in the questionnaire, the performance of the PSC is classified as satisfactory with respect to the respondent. In order to test the overall performance of the PSC in the target PRH estates, the passing rate 13 of all the questionnaires will be taken into review on whether over 92% of the questionnaire can achieve this level. If the result is positive and the standard deviation is fall within 5% at conference limit, the hypothesis is justified.

Limitations - The use of primary data through conducting surveys meets the obstacle of sampling size. It is impossible to put questionnaires into the letterbox of each flat. Therefore, surveys can only be conducted by face-to-face interviews. As a result, the limitation of resources for conducting interviews made the size of sampling relatively small.

Limitations of the empirical study are due to the rather short run of data which were available for the target estates and the particular nature of end-users studied. More detailed data of privatization factors such as costing is desirable. Complimentary studies should take care of different public housing and other locations, involving various end-users nature.

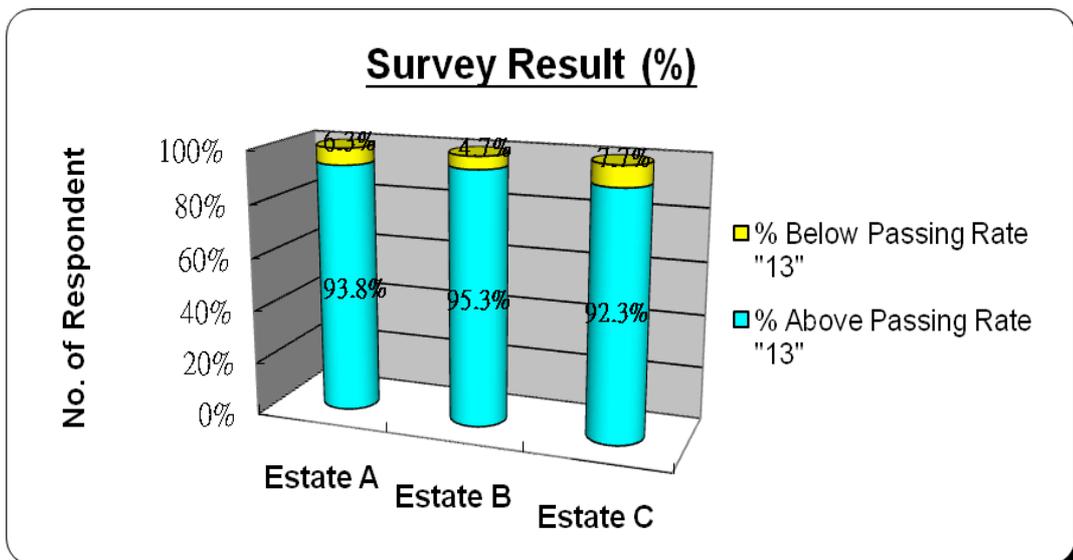
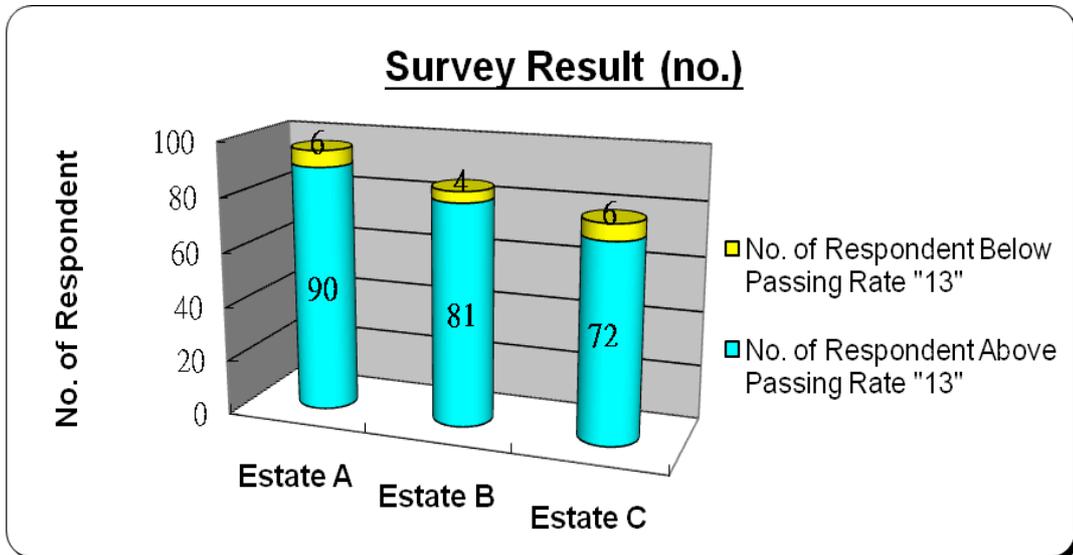
Conducting tenant satisfaction survey periodically to the residents of public housing estates is able to assist the HA to monitor the performance of the PSCs. The survey result is definitely important to the implementation of privatization of real estate management in public housing. However, unfortunately, the details of the survey of the HA are not disclosed to the general public.

Result and Analysis - Before taking the data of the questionnaire into account, the sub-hypothesis is *92% or above of respondents considered the PSCs’ performance to be satisfactory, i.e. above the passing rate 13*, i.e. if 92% or above respondents in all of the three target public rental housing (PRH) estates offer the scores higher than the passing rate 13, the sub-hypothesis is verified.

Numbers of Interviewee

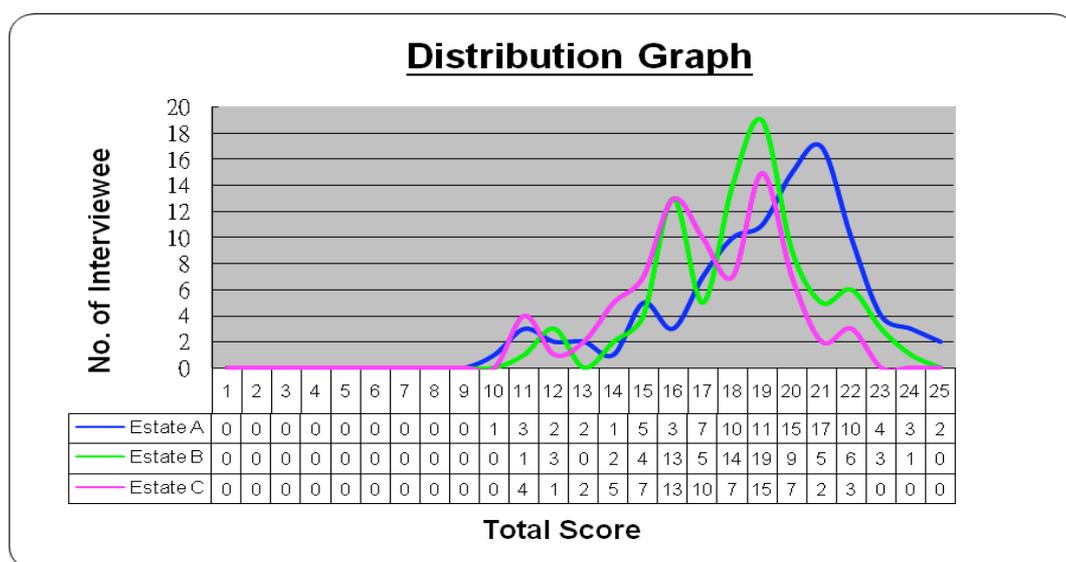
Estate	Nos. of Interview	Nos. of Valid Interview
A	128	96
B	112	85
C	105	78

Since incomplete questionnaires are regarded as null, the sample size of the survey analysis is only 96 out of 128 for Estate A, 85 out of 112 for Estate B and 78 out of 105 for Estate C. Quantitative method of analysis is adopted instead of qualitative method. The summary of the survey result is listed as follows: -



Before conducting the survey, it is suspicious whether the performance of the PSC can reach the result of 92% or above as stated in the finding of the tenant satisfaction survey of the Housing Authority. According to the above result, it is undeniable that the surveys match the result consolidated by the Housing Authority since even the lowest one obtained 92.3% which is above the passing rate 13. Estate B reaches 95.3% that means the residents in this estate offer the scores to the performance of the PSC's are much higher than the passing rate. Although Estate C only reaches 92.3%, it still justifies the hypothesis. All of the three target PRH estates obtain more than 92% of interviewees offer the score above 13. In general, the tenants of target PRH estates are satisfied with the performance of private services companies.

By using the data obtained from the questionnaires, the distributions of scores are converted into the distribution graph as below by taking the mode. According to the distribution graph, it is shown that the score distribution forms a bell shape curve. It represents that a large numbers of interviewee have an unified view on the performance of the PSCs. In Estate A, the mode score is 21. For both Estates B and C, the mode score is 19. According to the distribution graph, it is believed that the performance of PSCs is higher than average since the modes of all three target estates are far more than the passing rate 13. Especially, the mode score of Estate A reaches score 21, it shows that the interviewees of Estate A are the most satisfactory group towards the performance of PSCs among the three target PRH estates.



Conclusion - The tenant satisfaction survey shows the clue that the respondents (the residents of the three target PRH estates) may consider the performance of the PSCs much above satisfactory through the sub-hypothesis, *92% or above of respondents considered the PSCs' performance to be satisfactory, i.e. above the passing rate 13*. The study matches with the result conducted by the HA. It induces that the hypothesis is justified, *the Housing Authority should continue to implement privatization of real estate management in public housing*.

4. REVIEW

Although privatization can provide a lot of advantages, the government should not ignore the concerns and constraints behind, especially, the morale of the Housing Department staff. Policy review is important during the implementation process. The follows are the recommendation according to the research: -

Further Research - It is believed that in order to prove the effectiveness of implementing privatization, research plays an important role. If sufficient time and resources are given, the result of any research will be more reliable.

Actual cost comparison between the HA and the PSC: Cost is a vital consideration in adopting privatization. It is opined that appointing the PSC to manage public housing instead of employing direct staff by the HA can save cost. Without accurate salary information, the above belief is only an assumption though most of the people believe in it. A thorough study should look into the cost comparison of managing a public estate between the HA and the PSC. In view of the above, it is highly recommended to conduct cost comparison when the relevant data is available.

Tenant Satisfaction Survey: In this paper, a study regarding the tenant satisfaction survey is conducted. According to the survey result, the sub-hypothesis in terms of tangible approach (i.e. 92% or above of respondents considered the PSC's performance to be satisfactory) is justified. Based on the justification of the above tangible approach, the hypothesis in terms of intangible approach (i.e. The HA should continue to implement privatization of real estate management in public housing) is also justified. However, due to limitation of time and manpower resources, the sampling size is rather small. Given sufficient time and manpower, a more extensive survey will enable the tenants' satisfaction survey to be more representative. Certainly, the co-operation of HA on dispatching the survey, if feasible, is preferable and will enhance the effectiveness of the data collection.

Housing Staff Survey: Housing staff is the most directly affected group on the privatization of real estate management in public housing. The reaction of housing staff should be taken into account since people stayed in the HA will continue their services although in a different nature. Otherwise, adverse effect may arise and hazard the working morale. The above effect if cannot be properly controlled or minimized, people's confidence to the government (the largest employer in Hong Kong) will stiffen. It is recommended to conduct a survey on the concerns of housing staff on privatization in order to study a suitable policy to tackle the problems concerned. Although the government emphasizes that no staff will be redundant, the frustration on the vague future prospect can be understood. In order to maintain the morale of housing staff, respective actions should be taken in response to the concerns reflected in the survey. Actions such as workshop in the PSCs are recommended for providing a chance for housing staff to understand the working patterns of the PSC and clear their hesitation and doubt for taking the Voluntary Deployment Scheme.

Recommendations to the Government - Being a responsible employer, the government should take any possible measures to reduce the grievances of the civil servants. Although in the economic point of view, privatization is beneficial to most of the parties, consideration of the prospect of housing staff is a must. Otherwise, chain effects on social problem as well as other civil servants instability may result.

Housing staff may be the direct victims of privatization. Although the government always stresses that no staff will be redundant or forced to resign due to privatization, working for a career with insufficient prospect is the problem to be faced by housing staff. Discontentment of housing staff not only affects staff morale, but also stiffens the loyalty of civil servants. There are various demonstrations organized by different associations formed by civil servants include housing staff. It draws the attention of the general public and create social uneasy.

The government should take all possible actions to keep the discontent of housing staff to a minimum. Otherwise, privatization will impose long-term impact when applying to other departments. The root cause of the discontent is the uncertainty of the future prospect. In tackling the problem, the measures like disclosure of privatization schedule, Participation in the process of privatization, Private sector workshop are recommended.

Revision on Privatization Scheme - It is difficult or even impossible to design a perfect policy. Therefore, a policy should be continually under review to suit for the changing needs of society. There should be no exception for the privatization scheme. A policy can be a beneficial one when implemented but becomes a failure policy subject to the change of economic situation, environment living standard or even expectation of people and other factors. Privatization should be under review periodically in order to keep pace of changes and make necessary modification to suit for the society.

5. CONCLUSION

Throughout the study in this paper, the testing of the sub-hypothesis of the tenant satisfaction survey, both the government and the end-users are beneficial in the implementation of privatization. Therefore, the government is recommended to continue the privatization programme in real estate management in public housing in order to allow more public housing residents to enjoy the reform by having taken the concerns and constraints as well as the negative impacts on housing staff into account. As a result, a win-win situation can be obtained.

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