

# MAINTENANCE FEE VS SINKING FUND IN MALAYSIA

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## Introduction

Maintenance fee play a crucial role in ensuring that a building remains in good condition. Without these fees, there would be insufficient funds to carry out necessary building repair, waterproofing repair, and preventive maintenance, which could lead to problems such as water leaking, roof leaking, or wall cracks over time. Fortunately, the Malaysian Government has mandated that owners and residents of a building contribute to the Management Corporation (MC) or Joint Management Body (JMB) for upkeep purposes. According to the Strata Management Act 2013, residents or users of a building are required to pay maintenance fee and contribute to a sinking fund for maintenance purposes. Residents need to view these fees not as a burden, but as a collective responsibility that helps improve their living environment.

## Definition of Maintenance Fee in Malaysia

A maintenance fee, also known as a service charge, is a monthly commitment fee paid by property owners of strata properties, such as condominiums, apartments, and flats. These maintenance fee cover various aspects of building upkeep, including waterproofing repairs, grouting, wall repair, repainting, and other building maintenance services

In order to implement and collect maintenance fee from all unit owners of strata-titled properties, the Joint Management Body (JMB) or Management Corporation (MC) is responsible to collect the maintenance fee from all the unit owners. The key difference between the Joint Management Body (JMB) and Management Corporation (MC) is that JMB manages the properties, common areas and facilities before strata titles are issued, while MC manages the properties, common areas and facilities after strata titles are issued <sup>[1]</sup>.

## Definition of Sinking Fund in Malaysia

Meanwhile, a sinking fund is a reserve fund collected from property owners in strata properties, such as condominiums, apartments, and flats. The purpose of this sinking fund is to cover major repairs and replacements that may arise in the future, such as fixing structural issues, refurbishing common areas, or replacing elevators. Additionally, having a substantial sinking fund ensures that there is enough money set aside to handle these large expenses, without having to impose sudden, hefty charges on property owners. Essentially, it serves as a financial safety net or insurance for the property and property owners as well <sup>[2]</sup>.

## Differences between Maintenance Fee and Sinking Fund

*Table 1: Comparison between Maintenance Fee and Sinking Fund <sup>[3]</sup>*

Aspect	Maintenance Fee	Sinking Fund
<b>Purpose</b>	Cover day-to-day operational costs	Set aside for major capital expenditures or long-term projects.
<b>Frequency of Collection</b>	Regular (e.g., monthly or quarterly)	Less frequent, often collected over a longer period
<b>Usage</b>	General repairs, waterproofing maintenance, cleaning, landscaping, security, etc.	Replacing roofs, waterproofing system replacements, repainting buildings, upgrading of facilities
<b>Examples of Expenses</b>	Utilities for common areas, roof repair, wall crack sealing, grouting, and leak inspection services, management services	Large-scale repairs, renovations, replacements

## Calculation of Maintenance Fee

The cost of maintenance fee depends on several factors, including:

- **Type of Services:** This generally includes items such as security services, cleaning services, and lift servicing.
- **Type of Amenities:** Amenities typically include features such as swimming pools, gyms, and event areas. More amenities offered will generally incur higher maintenance costs.
- **Size and Type of Common Area:** The larger the common area offered, the higher the cost incurred for cleaning and maintenance services. The cost also depends on the services required to maintain it. As an example, features such as intricate landscaping and water features may demand more maintenance compared to a regular community hall of the same size.
- **Level of Service on Offer:** Residents and property owners need to agree on what constitutes an acceptable level of services.

For calculation of maintenance fee, the formula is as follows:

$$\text{Operating Expenditure} / \text{Total Share Units in Condo Development} = \text{Maintenance Fee to Be Paid}$$

Figure 1: Formula of Calculation of Maintenance Fee <sup>[2]</sup>

## How Much Sinking Fund Do You Have to Pay?

**A sinking fund is determined at a rate of 10% of the maintenance fee.** The Joint Management Body (JMB) or Management Corporation (MC) is allowed to modify this rate only during an annual general meeting (AGM). The JMB and MC must ensure that it remains at a minimum of 10% of the maintenance fee. Nonetheless, the JMB or MC does have the option to increase the sinking fund contribution beyond 10% of the maintenance fee. This adjustment requires unanimous approval from the members at the general meeting.

## Benefits of Maintenance Fee and Sinking Fund Payment

Table 2: Benefits of Maintenance Fee and Sinking Fund Payment <sup>[1][3][4]</sup>

BENEFITS	
Maintenance Fee	Sinking Fund
<b>Consistent Upkeep:</b> <ul style="list-style-type: none"> <li>- Regular maintenance ensures that common areas and facilities in good condition, creating a clean and pleasant environment.</li> </ul> <b>Preventative Maintenance:</b> <ul style="list-style-type: none"> <li>- Routine inspections and repairs can help identify and address issues before they they escalate into major problems, potentially saving money in the long run.</li> </ul> <b>Enhanced Safety and Security:</b> <ul style="list-style-type: none"> <li>- Maintenance fee often cover security measures, like surveillance cameras and security personnel, contributing to a safer living environment.</li> </ul> <b>Increased Property Value:</b> <ul style="list-style-type: none"> <li>- Well-maintained properties are more attractive to potential buyers and renters, helping to preserve and potentially increase property values.</li> </ul>	<b>Financial Preparedness:</b> <ul style="list-style-type: none"> <li>- By regularly contributing to a sinking fund, property owners can accumulate savings over time. This ensures that funds are available for major repairs or replacements without the need for sudden, large financial contributions.</li> </ul> <b>Planned Upgrades:</b> <ul style="list-style-type: none"> <li>- Sinking funds enable the planning of significant upgrades and improvements to the property, such as renovating common areas, updating facilities, or installing new amenities.</li> </ul> <b>Preservation of Property Value:</b> <ul style="list-style-type: none"> <li>- Investing in major repairs and improvements helps maintain and potentially increase the property's value, making it more attractive to prospective buyers and tenants.</li> </ul>

<p><b>Access to Amenities:</b></p> <ul style="list-style-type: none"> <li>- Maintenance fee support the upkeep of shared amenities such as swimming pools, gyms, and gardens, enhancing the quality of life for residents.</li> </ul> <p><b>Professional Management:</b></p> <ul style="list-style-type: none"> <li>- Fees often include the cost of property management services, ensuring that administrative tasks and maintenance schedules are handled efficiently and effectively.</li> </ul>	<p><b>Cost Management:</b></p> <ul style="list-style-type: none"> <li>- Spreading out contributions over time helps manage costs more effectively, avoiding the financial strain of unexpected large expenses.</li> </ul> <p><b>Enhanced Safety and Functionality:</b></p> <ul style="list-style-type: none"> <li>- Ensuring that major components of the property, such as roofing, waterproofing, electrical systems, and plumbing, are well-maintained and updated enhances the overall safety and functionality of the building.</li> </ul> <p><b>Long-Term Planning:</b></p> <ul style="list-style-type: none"> <li>- Having a sinking fund in place allows for better long-term financial planning, ensuring that funds are available when needed for future projects and major repairs.</li> </ul>
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## What are the Potential Repercussions of Not Paying Your Building's Maintenance Fee?

Failure to pay the maintenance fee can lead to legal repercussions, as the building management is legally entitled to take action against you. The process typically begins with the issuance of a demand notice for the outstanding maintenance fee. If the fees remain unpaid, the management corporation can take legal action in court to recover the amount owed <sup>[2]</sup>.

Additionally, neglecting to pay these fees will result in the loss of your voting rights during the Management Corporation's Annual General Meeting (AGM). It's crucial to always settle your maintenance fee without delay to prevent the management from having the authority to enter your residence.

## Conclusion

In conclusion, both the maintenance fee and sinking fund are essential financial components for the proper management and long-term sustainability of strata-titled properties in Malaysia. The maintenance fee covers regular upkeep and moderate repairs, including waterproofing maintenance, PU injection, grouting, roof leaking repair, water leaking repair, and wall crack or spalling concrete repair to ensure that the building remains safe and functional on a day-to-day basis.

The sinking fund, on the other hand, serves as a reserve for major or long-term projects such as large-scale waterproofing system replacements, façade restoration, or structural rehabilitation identified through concrete scanning or coring tests. This financial planning helps the Management Corporation (MC) or Joint Management Body (JMB) avoid sudden, large expenses that would otherwise burden property owners.

By consistently contributing to both funds, owners support effective building repair management, prevent further deterioration, and protect their property's value. Engaging professional waterproofing contractors or building repair specialists ensures that all maintenance and repair works are executed correctly, prolonging the building's lifespan and maintaining a safe, leak-free, and comfortable environment for all residents.

### References:

- [1] Yeong, B. (n.d.). What is Sinking Fund And Maintenance Fees In Malaysia? DWG Malaysia. Retrieved on 22<sup>nd</sup> October 2022 from <https://www.dwgmalaysia.com/property-guides/what-is-sinking-fund-and-maintenance-fees-in-malaysia/>
- [2] Wahab, A. (2021). What happens if you don't pay your condo maintenance fees? IProperty. Retrieved on 22<sup>nd</sup> October 2022 from <https://www.iproperty.com.my/guides/what-happens-if-you-dont-pay-your-condominium-maintenance-fees-39655/>
- [3] Wei, K. (2022). Sinking Fund vs Maintenance Fee in Malaysia: What's the difference? IProperty. Retrieved on 22<sup>nd</sup> October 2022 from <https://www.iproperty.com.my/guides/sinking-fund-vs-maintenance-fee-malaysia-whats-the-difference-56060/>
- [4] Doctor, B. (2020). Importance of Maintenance Fees for A Building. Retrieved on 22<sup>nd</sup> October 2022 from <https://buildingrepair.my/importance-of-maintenance-fees-for-a-building/>