

A Home Warranty Scheme for Hong Kong?

Real Estate Tech, July 2000

By CHAN Man Wai PhD F.PFM FHKIS FRICS PQS RPS Authorized Person

President of the Hong Kong Institute of Facility Management

Zeppelin Property Consultants Limited - Phone (852) 2401 6388 / 6602 Fax (852) 2401 3084

Real Estate Development, Investment, Asset Management, Joint Ventures and Marketing Strategies

The recently released Strickland Report on defective pilings of Hong Kong high-rise public housing construction points to the deep rooted problems of the Hong Kong house building and real estates sector. Apart from faults finding, the report falls short of providing the solutions to the many problems faced by the sector. The Housing Authority of Hong Kong, on the other hand, is proposing its 40plus-point solutions and action plans to solve its own problem. It is however common sense that operatives in the industry can probably digest no more than 2 directives at a time, let alone 40 and more.

It would be naïve to expect the private sector buildings to be immune from all these construction blunders. In an “ever-escalating” housing market (as generally experienced in Hong Kong over the past decade till 1997), all seemed to be going well and not many complained of building defects even though the properties might have leaks and cracks. In any case, it is the common preferred practice (probably induced by side street “interior decorators”) of Hong Kong real property purchasers to completely re-fit a newly completed flat with the “special-taste” Hong Kong style decoration.

All seemed tolerable until the burst of the ever inflating bubble and the discovery of construction blunders that meant life and death. The chorus of finger pointing and faults-finding point to the already well known intricate sub-contracting system, the lowest-offer tendering system, the lack of professionalism and the deteriorating workforce and many more, and above all, the lack of a clear governmental initiative to really rectify the deep-rooted problems.

What is urgently needed may be a strong single dose of medicine for a sick construction industry. A certain cultural change in how users/ investors and constructors view the final product – the completed housing product. A change whereby the spatial enclosure is really treated as a long-term asset rather than as a speculative stock for quick profits, and that the occupant can be proud of his taste, its neighborhood and environment rather than its square footage and resale value. What is needed is the collective responsibility of developers, contractors, lenders, insurers, purchasers and the Government in quality assurance and insurance.

Solving this intricate problem may not require an innovative solution and can be something that other people have been practicing for decades. Only that the pill may be something that Hong Kong’s political, cultural and commercial sectors are unwilling to swallow, namely a Government supported independent home warranty program!

The *UK NHBC program has been in place for over 60 years and *North American schemes have probably existed for over a quarter of a century. These programs not only serve as collective warranty but also as an instrument to push for building code

improvement, building quality assurance and even innovation in construction methodology. The developers, contractors, bankers, insurers, purchasers, independent consultants and even the Government are all involved for a common goal – quality housing.

A typical home warranty program may include:

- A collective warranty for defects rectification.
- Mechanism for extending warranty coverage.
- Mechanism for dispute resolution by mediator in case of dispute.
- Building inspection and commissioning by independent surveyors
- Participation of bankers and insurers.
- Mechanism for completion of projects in case of default of contractors.
- Proactive quality assurance for home building.
- Participation in building code legislation.
- Home warranty kite-mark as a positive marketing device and assurance to purchasers.

The main characteristics are the long-term liability and quality assurance of the finished product expected for most consumer goods and of a world class city with world –standard protection for its citizens, home purchasers and the vital construction and property industry. With all these merits one would expect the program or its hybrid must have already been adopted in Hong Kong. This is however not the case.

Undoubtedly, there will be many hurdles that have to be overcome to implement such a program in Hong Kong:

- Majority of “homes” are high-rise concrete blocks.
- There are only a few home developers/ builders and they have already occupied the majority market share.
- Extensive sub-contracting.
- The main house builder is the recently battered Housing Authority.
- There is no guarantee that another monster organization like a home warranty authority can resolve problems and restore confidence.

Apparently, extensive modifications are required if a warranty program is to be adopted in Hong Kong. With the recent disclosures of the vulnerability of Hong Kong housing development and construction sector it is opportune time for taking the first step to really investigate the possibility of implementing such a program in Hong Kong. Let’s see how the various stakeholders including the Government and the Housing Authority can adopt / adapt to a much-needed cultural change.

NOTES: *these schemes are arranged in tables for information or comparison (in 4 pages) yet to keep the newsletter handy they have not been included. Interested parties can contact us to obtain a copy of these for detail reference. [The article only represents Dr. Chan's own opinion and does not necessarily reflect those of the various organizations / institutions with which he is associated].