

Pricing Principles of Apartment House Management in Latvia

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Abstract. Results obtained during the research regarding the principles of price formation of apartment house management, except one-flat houses, and clarified costs allow to evaluate the implementation process of State's planned reform in 1995 about privatization of state and municipal dwelling houses and its impact on apartment house management field in Latvia. The aim of the presented study is to analyze the entire mechanism of multi-storey apartment house management services price formation in Latvia and, on the basis of the results obtained, to develop proposals for development of effective facility management pricing system in Latvia. In developing the study, different methods were used, such as the inquiry, experts' evaluation, historical investigation, quantitative methods like statistical, exponential smoothing and the correlation methods. The executed analysis of management prices of apartment house services divided into different positions misleads apartment owners on the real amount of the management fee of their property. Proposals of authors are useful to promote sustainable arrangement and development of local apartment houses' management market.

Keywords: apartment house, management service fee, management of an apartment house

1. Introduction

The right to quality housing is one of the most important fundamental rights that ensure a wholesome existence of a man. If to compare the housing policy of Latvia before its independence and now, it should be noted that this policy has changed considerably since the country gained back its independence - then the privatization of apartment houses was started. The aim of this privatization process was to develop the real estate market and to transfer the ownership of state and local government housing fund to the residents. Much of the Latvian tenants used their rights and privatized apartments they were renting together with the "deemed share" of the property (house). Consequently, the tenant became the owner of his apartment and the co-owner of multi-storey apartment house.

The aim of the presented study is to analyze the entire mechanism of price formation in Latvia and, on the basis of the results obtained, by assessing the legal and economic reasons for formation of the facility management fee and the need to develop proposals for development of effective facility management pricing system in Latvia.

In developing the study, different methods were used, such as the exponential smoothing method and the moving average method for predicting the facility management price in 2011 as well as the correlation matrix and the regression model were used for predicting accounts receivable balance by the end of 2011.

The study is based on both published and unpublished sources of information, books on pricing principles and real estate management, publications, scientific articles of international conferences, laws and regulations of the European Union, law, documents related to the economy and construction industry of Latvia and Estonia, Cabinet of Ministers (hereinafter referred to as the Cabinet) Regulations, sources of the

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Central Statistical Bureau of Latvia, Ministry of Economy of Latvia, different internet sources as well as interviews of different experts.

To achieve the set goal of the study the following objectives were determined: 1. Based on the assessment of legal and normative framework of the type of facility management service provided and the peculiarities of price formation principles in Latvia were compared. 2. According to the results of the study performed, conclusions and proposals are provided.

Within the framework of the development of this study, the following restrictions were defined: 1. In the statistics database of the Republic of Latvia there is no data regarding facility management fee for 2010 available. 2. Facility management fee for 2010 was determined by the authors of this study who determined it according to the data received from the questionnaires which were provided to 20 different facility management companies in Latvia.

The topicality of the afore-mentioned issue is determined by the fact that in Latvia there is no common understanding of the pricing principles of facility management fee and its content. Although the legislature has set the minimum requirements referring to residential building management, many of the managers of companies providing facility management services on the market do not respect them, thus offering very low prices, which, of course, are favorable for property owners of the multi-storey apartment buildings. Taking into account the current economic situation in the country and low solvency of inhabitants, the choice of the apartment building owners in favor to the cheapest real estate management offer can be understood. Unfortunately, apartment owners do not understand the responsibility of the management of multi-storey apartment building with shared ownership and are not aware of the consequences of not complying with these requirements. Different campaign activities carried out by the Ministry of Economy during the last few years explaining residents the need for building energy efficiency measures to be taken and the benefits of the current situation by applying for the EU funds support should be mentioned as a proof of the situation.

2. Facility Management Market and its Types in Latvia

One of the most common types of real estate in Latvia is an apartment property. It has appeared as a result of the privatization of state and municipal owned buildings that is in progress already for many years, and it should be stressed that in the period from 2006 to 2008 people very actively purchased properties for the mortgage loans [14, 15].

According to the data, as at 1 January 2010, in Latvia in total there were 352 087 multi-storey apartment houses including 39 106 houses with 3 or more apartments. In percentage this makes 11.1% of the total number of houses. In Riga, as of 1 January 2010 there were 4178 houses with 3 or more apartments which account for 35% of the total number of houses (from 11 913 houses with 3 or more apartments) were not privatized. The authors conclude that it is quite large percentage to affect the property management market development. [1]

Multi-storey apartment buildings with 3 or more apartments, altogether 20 753 houses, from which to only 4709 or 20% of total number of houses facility management service is provided. If 86% of the apartments are privatized, then it should be highlighted that only 20% of apartment buildings are privatized. This indicates that the apartment owners who have purchased these apartments as a property is either very inactive or there is nothing that motivates them to take over the house in their possession, or they are satisfied with the current situation when the apartment owners may apply to the local municipality and request the repair of the deemed share of their house and require to provide facility management services at the expenses of the municipality. [1]

Paragraph 1 of Article 15 of the law “On Residential Property” determines that the apartment owner community is an administrative body of a residential building. From which it follows, that apartment owner community is responsible for all decisions and actions relating to this property. This is reinforced by Paragraph 1 of Article 5 of the law “On Residential House Management” which states that the apartment owner is responsible for ensuring residential house management services. [8, 9]

Consequently, this community has to decide whom the management tasks will be delegated to. There may be different solutions depending on the legal forms of governance of an apartment house determined by the law.

3. Facility Management and Maintenance Costs and Price Formation in Latvia

Last years in the field of multi-storey apartment house management have been very important, as practically the entire legislative basis that has to be followed when providing facility management services for apartment buildings has been re-established.

Article 13 of the Apartment Property Law states that apartment owners are responsible for covering of the facility management expenses and the amount of which is determined by the community of apartment owners. While one of the goals of the law "On Residential Housing Management" requires that every residential building facility management process should be continuous and this continuity shall be provided by residential house owners, meaning, that this is the responsibility of apartment owners. According to Article 927 of the Civil Law, the ownership shall be the full right of control over the property, i.e., the right to possess, use it and obtain all possible benefit from it, dispose of it and, according the prescribed procedures, claim its return from any third party by way of the ownership requirement [12: 12].

The facility management activities which are compulsory and other activities that must be carried out are clearly determined by the Law "On Residential Housing Management". The failure of providing minimum residential building management services or improper activities might cause danger to human life, health, safety, property or the environment [2-4, 8, 11].

At the beginning of price-setting process, one must first be aware of what are the business objectives of the company, for example, to gain market share or to compete with others. When the objectives are identified, all data referring expenses which are included in the calculation of the service price should be compiled in order to determine the zero point. In calculation of the zero point a market research on consumer demand should be conducted in order to assess the existing situation of the zero point calculation. In addition to the market research, competitor prices must be taken into account in order to be able to analyze and plan the marketing strategy of price promotion in the market – whether this price is lower than the prices offered by the competitors, how may this affect the service price and similar forecasts and predictions regarding marketing issues should also be considered [16: 21].

If the maintenance and improvement of individual property is the responsibility of each owner, then qualitative facility management and administration of the residential house already depend on the interest and collaboration of all apartment owners. In many cases, the chosen form of the facility management and disagreement among the owners on deciding upon important issues is one of the reasons for the failure of successful facility management [17: 12].

To compare the prices among different companies in Latvia providing facility management services the survey, in which the March 2011 invoices issued to the apartment owners were examined, was carried out. Two types of houses were compared - one type - with the manageable facility area over 1000 m² and the other with the manageable facility area over 3000 m². The survey results are data obtained from the questionnaires regarding facility management fee and its cost per 1 m².

Since 2002 in Latvia in average there has been an increase in facility management fee per 1 m². A very significant increase has been observed from 2007 till 2008 - an average of 42% (Fig.1.).

The authors of this study conclude that different real estate managers in different cities show and account in the invoice this facility management fee differently - according to their own developed methodology and experience. Some allocate this charge for cost savings reserve fund, other - for renovation or repair work costs, which results in the increase of the facility management service fee per 1 m².

Consequently, the authors conclude that management fees among different providers of facility management cannot be compared. In order to do so, the cost items of which the facility management fee consists of and the aim of the offered service should be known.

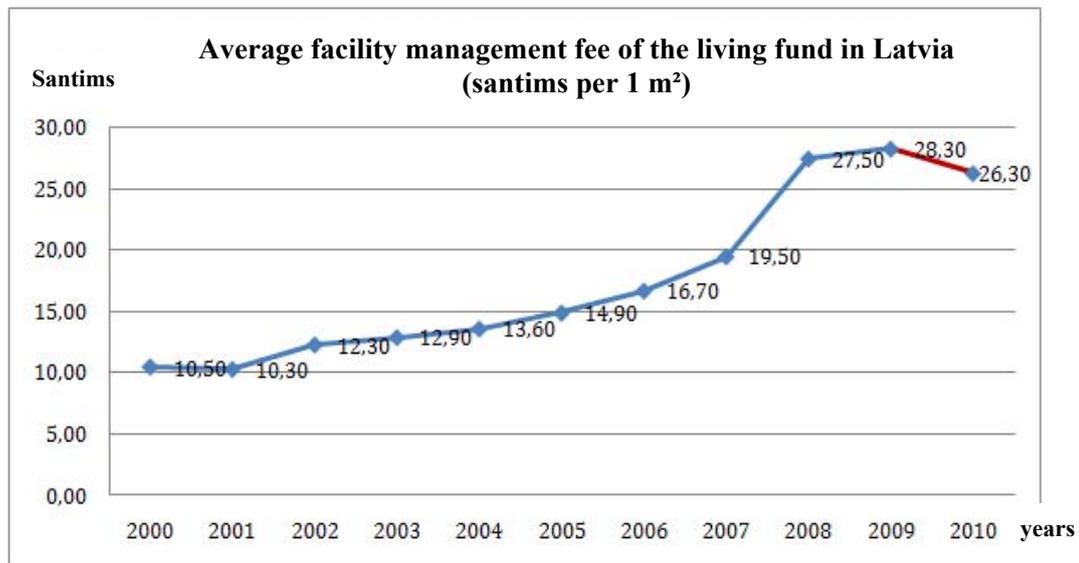


Fig. 1: Average facility management fee of the living fund in Latvia (santims per 1 m²) [1]

Therefore, comparing invoices of different multi-story apartment house facility management, apartment owners and competitors must be aware enough of what factors are taken into account when the prices for facility management are compared. In determining the price of the facility management service, regardless of the selected aim, competitor activities and market price should be taken into account. It is important to consider what items are included in the competitors' offer - a service offer - is it just a marketing tool and afterwards apartment house owners are overcharged for this service, or the price is appropriate for the particular service offer. If the determined price and the offered service package are similar, then the company can work on the development of its image and improvement of quality of the provided service.

4. Conclusions and Proposals

Taking into consideration previously analyzed issues and the summary of the afore-mentioned survey results the following conclusion can be drawn up:

For the part of former tenants the legal status of the ownership is associated more with exclusive benefits and less with the property-related duties and responsibilities.

In total there were 20 753 multi-storey apartment buildings, which must be privatized (in which there are 3 or more apartments), 4709 or 20% of the total number of houses use facility management service. If 86% of the apartments are privatized, then only 20% of the buildings are privatized [1].

Quality management and facility management services of multi-storey apartment building depend on the interest and collaboration of all apartment owners. In many cases, the chosen form of facility management and disagreement among the owners regarding decision making on important issues is one of the reasons for the failure of the facility management.

The price may have a significant impact on the offered service types, frequency of providing these services, existing situation regarding communications and building structures included in the service offer as well as not only the residential area that has to be managed, but also indoor premises and the area of allotted land to be cleaned.

Facility management fee is calculated according to the definite algorithm that is determined by the law, Cabinet Regulations and the signed contract for providing facility management services in which the facility management task has been agreed and specified [7-10, 12, 13].

In carrying out a survey and comparing invoices issued by the facility administrators it can be concluded that the way how the position - management fee – is called in the invoice is treated differently by different facility management companies and this cost is not always reflected in a single position but distributed in

several. Therefore, property owners comparing these management fees with neighbors and friends, may have a wrong idea whether the service provided is cheap or expensive.

In order to assess economic exploitation of an apartment, the apartment owner is advised to take into account the total amount of all invoices and divide the price per 1 m². Then, relatively, not only the facility management fee relevance can be evaluated but also the percentage of other utility costs can be assessed. This type of analysis for the apartment owner would help to be aware of the need of renovation and provide an opportunity to minimize the total sum to be paid according to the invoices issued on the facility management fee and find an economical and reasonable utility consumption.

The authors, taking into consideration the results of this study, propose the following:

Local governments should organize not only seminars related to the issues regarding facility management of multi-storey apartment houses, but also carry out discussions in which according to definite local government guidelines topical issues would be discussed and suggestions for improvement of the efficient facility management would be recommended. According to the authors' opinion, such discussions might be held in small towns, but, for example, in Riga, the City Council makes decisions regarding facility management only related to the buildings that are managed by the Council not for all apartment houses in Riga [5].

Ministry of Economy shall consider the proposal to submit to the Saeima changes to Article 14 of the Cabinet Regulations No.906, namely, to determine the minimum requirements for wet cleaning of the staircase area once a month instead of cleaning it once a week but, because the aim of these Cabinet Regulations is to determine the requirements for providing minimum sanitary service for residential buildings [6].

It would be recommended that the Cabinet Regulations No.1014 "Procedure for calculating the fee for a residential house management and administration" are added to the Law "On Residential Houses Management" as methodological guidelines, then residential house facility management companies would use this way of calculating prices more [10].

A common template of the invoice, which is issued by the administrator of the residential house to the apartment owners, should be determined by the law. In Latvia there is different experience regarding the template of the invoice – there are invoices in which the facility management fee is identified in one position but at the same time there are also invoices in which this fee is divided in several positions. This is misleading owners of apartments on the real management fee of their property.

Central Statistical Bureau of the Republic of Latvia shall collect the data, not only on the dynamics of the facility management fee over the years, but it should also collect the data on other significant utility consumptions per 1 m², for example, heating costs and consumption per 1 m².

After the risk factors are determined and assessed, the employer has to be more concerned about the development of the positive environment for its employees and think of different activities in order to reduce the psychological and emotional factors.

The findings obtained during the research justify the necessity for further studies regarding development of modern industrial space also in Latvia, for its sustainable development according to the changes in global climate by offering a specific model development.

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