



Letters

Service charge 'web' about to be broken

SIR, LANDLORDS AND THEIR AGENTS have limped along for years relying on the recovery of their common parts costs through intricately worded service charge provisions introduced into commercial leases by their legal advisers.

But the complicated legal web woven around service charges is about to be destroyed by the implementation of a new code of practice by the RICS (professional + legal, 30.06.06), and the lack of transparency in the structure of historic service costs and methods of recovery is about to be consigned to the bin.

The code of practice will give tenants their long-awaited calls for transparency; and a new voice

and authority to force landlords and their agents to provide uniform, measurable information that will allow them to quantify the worth of service costs across the industry.

The code has been developed to encourage interested parties to review and communicate change throughout the service charge year. This will prevent costly protracted negotiations when the year-end accounts are issued.

The service charge disputes of the past, which only benefitted the legal profession, will be reduced because the early communication of the changes will allow tenants to voice their concerns before committing to new projects.

The discipline of communicating

change on a more frequent basis will also stimulate landlords and their agents to closely monitor costs and provide transparency, something that has been lacking until the introduction of this code.

The unexpected short-term downside to the implementation of the code will be the additional expense of providing the quarterly reviews. Although the code has for the first time introduced the prospect of charging fixed management fees rather than a divisive percentage of costs, it has been helpful in acknowledging that agents should be reimbursed regarding any work necessary to fulfil the principles of the code.

Tenants will initially perceive this

as an additional cost, but they will soon find that the long-term trend on the overall costs will be down because of the pressure on landlords to perform by the increased examination of service charge costs.

Occupiers of properties will hope that the RICS will monitor the implementation of this new code and perhaps include it as an enforceable practice in the annual RICS audits.

This will provide the muscle to ensure the industry embraces these new practices, and rid the profession of any stigma caused by uncontrolled agents that fall outside the governance of the RICS.

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