

Managers take advantage of tenants through bad practices

Office landlords cash in on service charge interest

Stephen Rowe

Landlords are hoarding millions of pounds in interest from payments for commercial service charges, despite new rules coming into force to ban the practice.

The largest study carried out into office service charges, which generate £4.4bn in the UK each year, has revealed only 13% of landlords return interest to tenants although charges are invoiced quarterly in advance.

The Loughborough University findings, *The truth about service charges*, revealed exclusively by *Estates Gazette* (p182), is based on an analysis of 386 office buildings over an eight-year period. It shows that, in general, service charge management in most multilet offices falls well below the standards set out in the new RICS code of practice, which are due to come into force in April.

Nearly eight out of 10 managers charge a percentage

Required – and achieved

Standards fall far below RICS requirements

RICS code requirement

Achieved now

Budget Provide one month before year starts	4%
Certificates Deliver within four months of year-end	21%
Management fees Must be a fixed cost	22%
Interest Credited to accounts	13%
Apportionment Basis must be clear	79%
22 standard cost headings	230 used
Budget accuracy Within 2% of costs	15%

of the costs rather than a fixed fee, providing an incentive to charge more. Tenants are also losing out because budgets, which will have to be provided in advance, vary too much from actual costs and are delivered late. In over 75% of cases, budgets were out by more than 2% and only 4% were delivered one month prior to the start of the year.

Report author Dr John Calvert said: "It appears the RICS had little idea of the state of the industry when the code was published in June, and may have significantly underestimated

the scale of the problems."

Loughborough University is calling for the RICS to take action, including publishing an annual progress report against the goals set out in the code.

David Barrass, managing director of Property Solutions, the study's sponsor, said landlords were unlikely to meet the requirements by April.

But Chris Edwards, chairman of the RICS service charge steering group, said a pan-industry group was engaging with owners, managers and occupiers with "very positive" results.