

# More than half of all landlords are overcharging occupiers for building services

## Tenants owed £65m pa in interest

**Patrick Clift**

Landlords and managing agents could be holding on to as much as £65m a year in interest from service charges on offices when they should be handing it back to tenants.

Only £7m – about one-tenth of this interest – is being repaid to tenants.

These estimates are made in a new report by Loughborough University, to be published in *EG* next week, which found that just one-quarter of UK landlords currently return interest on service charges.

The university says that with average service charges of £6.34 per sq ft on office buildings – totalling £4.3bn pa – the potential interest accruing to tenants on service charges in England and Wales could total as much as £65m pa.

The report, which surveyed 505 multilet office buildings totalling almost 36m sq ft in the 26 months to August 2008, lists the practice among several ways in which the industry is failing to meet standards set out in the 2006 RICS code of conduct.

It also found that fewer than one-fifth of managers charged

tenants a fixed fee as set out in the code. The majority still charge a percentage of the actual cost of providing the service. Just 14% of service charges were found to be within 2% of actual costs, while 52% were over-budgeted.

Loughborough said that this meant that tenants which have paid more to landlords than required must wait months to receive the balance, which is often without interest.

Author Dr John Calvert said it could take as long as five years before significant numbers of managing agents and landlords

complied with the code.

He added: "However, as retail tenants have recently shown, it is possible that tenant action may speed up this timetable."

A group of retailers, led by Arcadia boss Sir Philip Green, recently negotiated cuts of 13-20% in service charges at two large shopping centres in the north of England.

A spokesman for the RICS said: "Modernising the way service charges are managed is a process that will take time."

The RICS will conduct its own research into the take-up of the code later this year."

## Agent sought to monitor Trillium's DWP contract

The Department for Work and Pensions is retendering its contract for an adviser to monitor Trillium's management of its 19m sq ft estate.

DWP outsourced its property portfolio to Trillium in 1998 in a £250m deal. Five years ago, the government department appointed a Chesterton team, which is now at Drivers Jonas, to make sure it was getting best value for money.

The monitoring contract, which is now up, is worth £800,000 a year.

The new contract will last for five years and is part of DWP's plans to scale back its estate and cut costs. A decision is expected

in early March, and the contract goes live on 1 April.

Trillium, which was sold by Land Securities to Telereal last month, is responsible for 1,050 DWP buildings.

The appointed agent will review Trillium's property disposals, acquisitions and leasing activity, and will look at planning restrictions on DWP's estate to determine whether changes of use would improve value.

Atisreal, Colliers CRE, Drivers Jonas, DTZ, GVA Grimley, King Sturge, Knight Frank and Lambert Smith Hampton have all been invited to pitch for the contract.

## Edinburgh council bundles up its propcos to mitigate losses

Edinburgh city council is restructuring its seven in-house and jointly owned property development companies into a single business.

The council said that moving them into a new holding company would help "to mitigate potential financial losses".

Papers from a council meeting last week reveal concerns at the authority that potential breaches in loan-to-value covenants by some of the companies could have an effect on council finances.

The authority will, by the end of next month, have created CECH Ltd to hold all of its property businesses, which

include EDI Group, Waterfront Edinburgh and Shawfair Developments.

Director of city development Dave Anderson said: "We want a better link between the council's development strategy and the property companies. We should have one company in physical regeneration in addition to occasional joint ventures."

The £2bn Waterfront Edinburgh – a 50:50 JV between the council and Scottish Enterprise to create a 150-acre urban quarter at Granton – will be the first asset transferred to the new holding company, followed by its stake in the £500m Shawfair development.



Olympic Quarter: stadium and homes



Pudding Mill: 700,000 sq ft commercial, 1,460 homes



Old Ford: highest point in parklands with 1,150 homes