



David Barrass

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*Impact of the Recession
on the UK Service Charge Market
RICS Edinburgh, 27 May 2010*



Barrass



THEY'RE THE BIGGEST DOUBLE ACT SINCE MORECAMBE AND WISE. NOW **BARRASS** AND **CLEGG** HAD BETTER BLOODY WELL...

Edwards



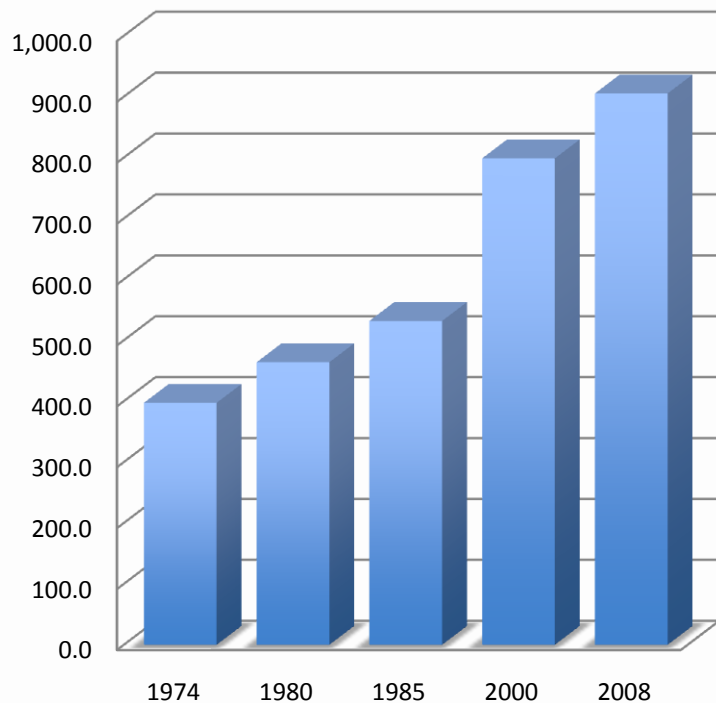


Outline

- Main economic drivers
- Current status & outlook
- Impact on the key stakeholders
- Research initiatives – recent outcomes of LBS, Kingston and Loughborough
- What PSL has to offer



Historic Growth In Office Floorspace Has Fuelled Market Growth



Source: ONS 2010

	1974	2008
Commercial Office Floorspace (m sq ft)	397	905
Manufacturing employment (m)	8.0	3.6
Service sector employment (m)	1.6	4.9

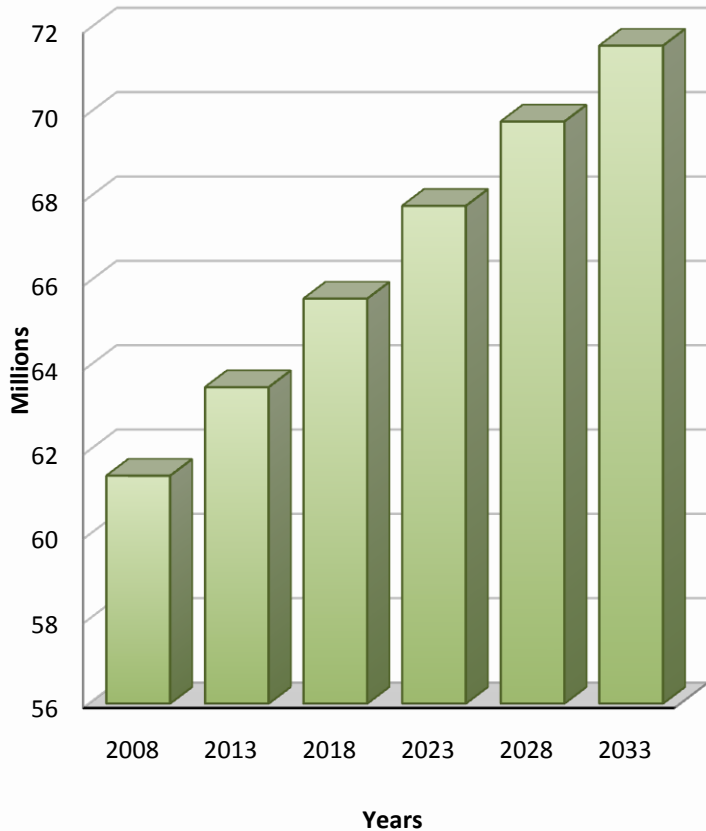


But Outlook Is Now More Uncertain

- Upsides
 - growing population estimates to 2033



Population growth



Estimated and projected population of the United Kingdom and constituent countries, 2008-2033

	<i>millions</i>					
	<u>2008</u>	<u>2013</u>	<u>2018</u>	<u>2023</u>	<u>2028</u>	<u>2033</u>
United Kingdom	61.4	63.5	65.6	67.8	69.8	71.6
England	51.5	53.3	55.3	57.2	59.1	60.7
Wales	3.0	3.1	3.1	3.2	3.3	3.3
Scotland	5.2	5.3	5.4	5.4	5.5	5.5
Northern Ireland	1.8	1.8	1.9	1.9	2.0	2.0

Source: ONS 2010

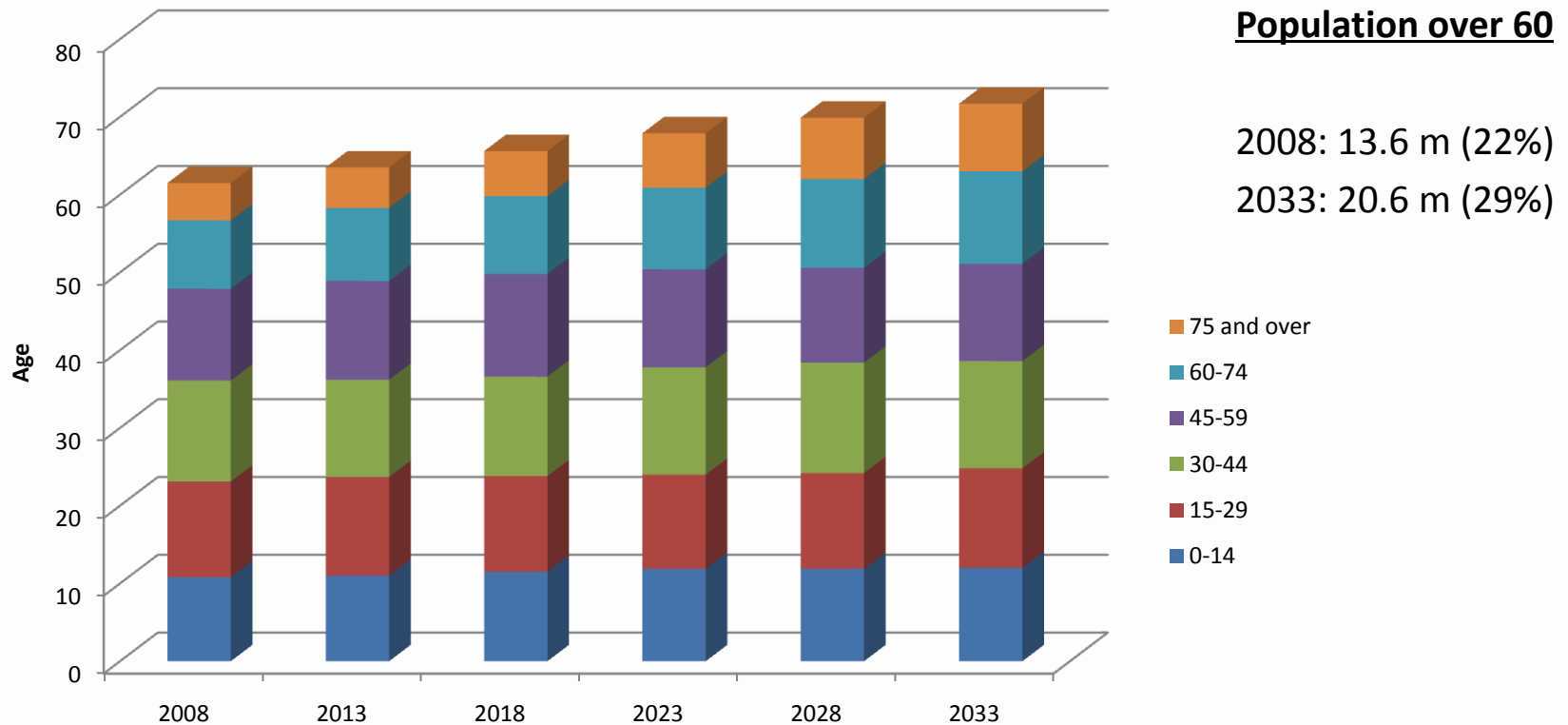


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- Upsides
 - growing population estimates to 2033
- Downsides
 - Ageing population



Ageing Population, United Kingdom



Source: ONS 2010

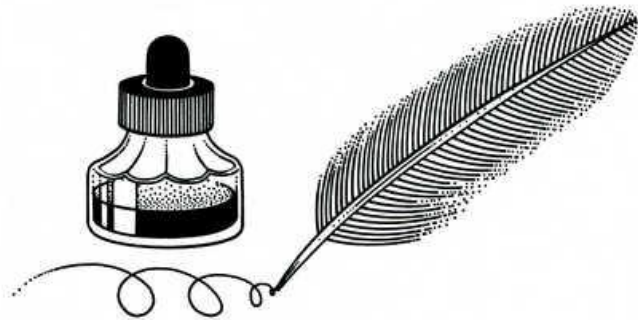


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Technology



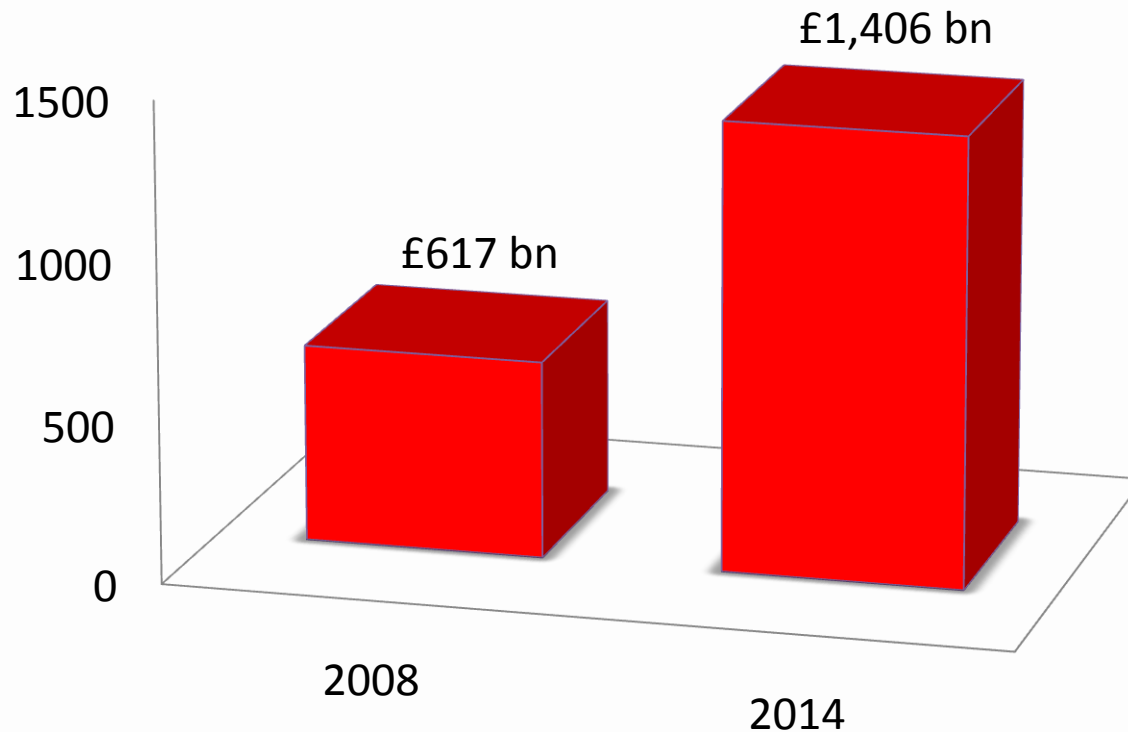


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- Upsides
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- Downsides
 - Ageing population
 - Technology
 - Debt overhang



Public sector net debt (£bn)



Source: ONS 2010



Consequences for the Property Industry





Landlords

- More competition
- Lower returns
- Renew rather than rebuild



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Tenants

- More choice
- Closer scrutiny of costs
- Need for certainty



Managing Agents

- More pressure
- Less profit
- Greater regulation

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RICS

- Closer scrutiny
- Greater pressure to enforce
- Calls for help



Consequences for Service Charges

- Better value for money
- Driven by best practice
- Greater regulation...or legislation??



2009 - The Effect Of The Economic Situation On The Commercial Property Sector

Saleem Jin & Svetlana Tsourikova
London Business School

**London
Business
School**



Approach - Interviews with Key Stakeholders

RICS	3
Tenants	7
Managing Agents	11
Owners	7
Other*	5
Totals	33

**consultants, media, lawyers, IPD*

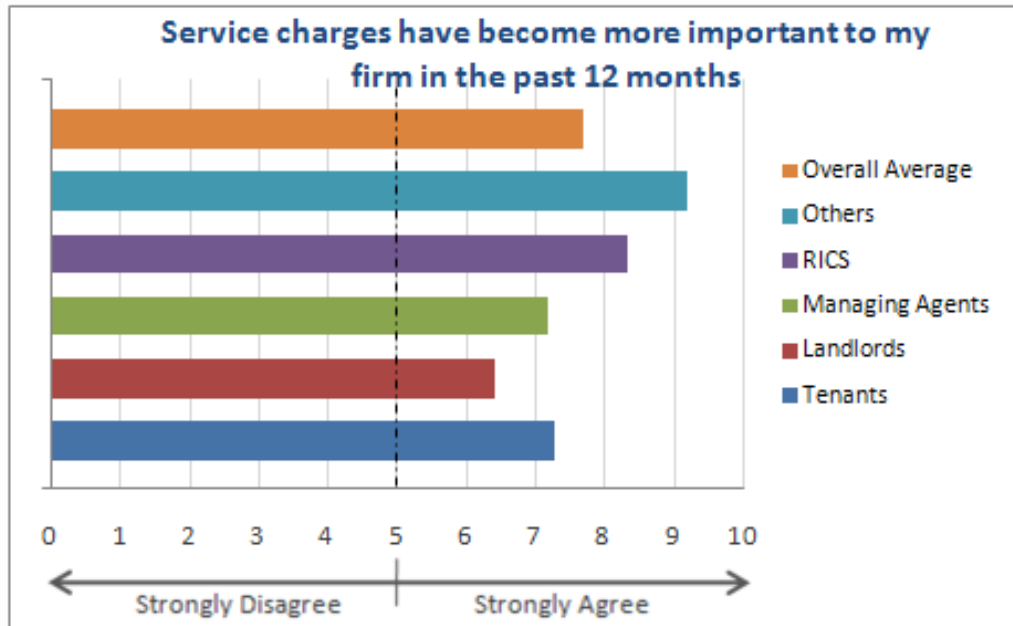
In-depth interviews lasting 1-2 hrs

All stakeholders fairly represented



Changes in Past 12 Months

Service Charges have moved up the priority of occupiers?



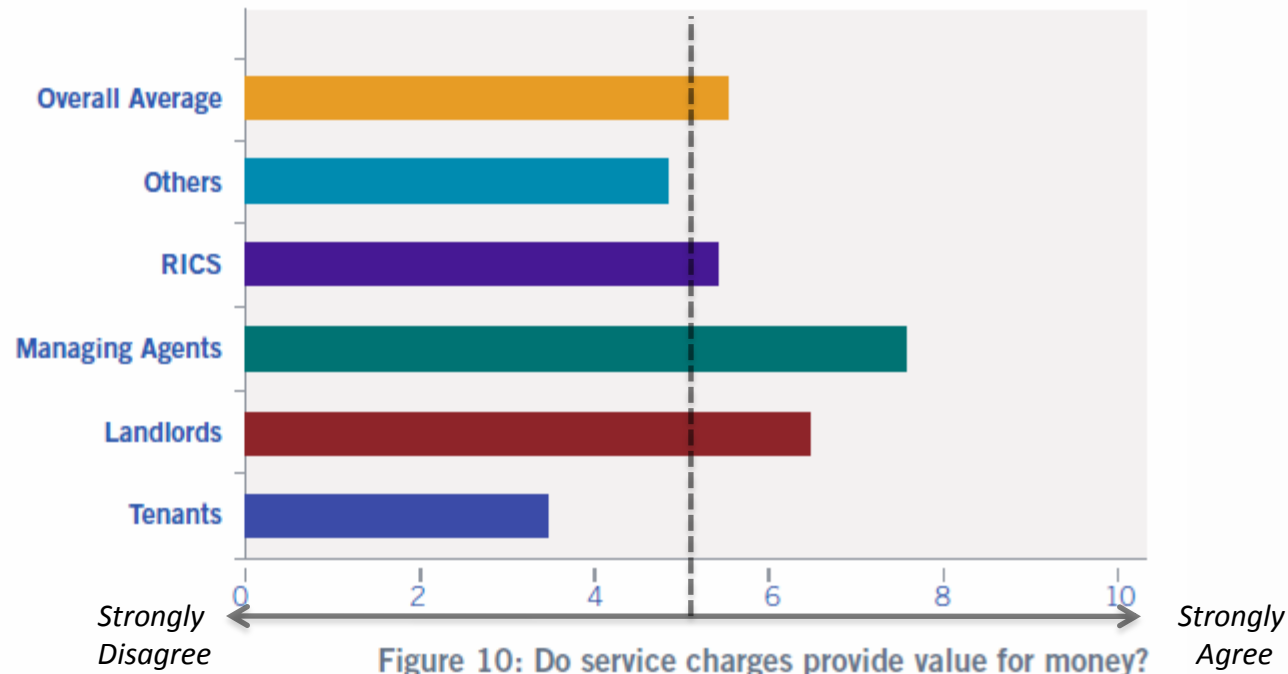
Stake-holders agree that service charges have become more important in recent months

Source: LBS 2008



Service charges provide value for money?

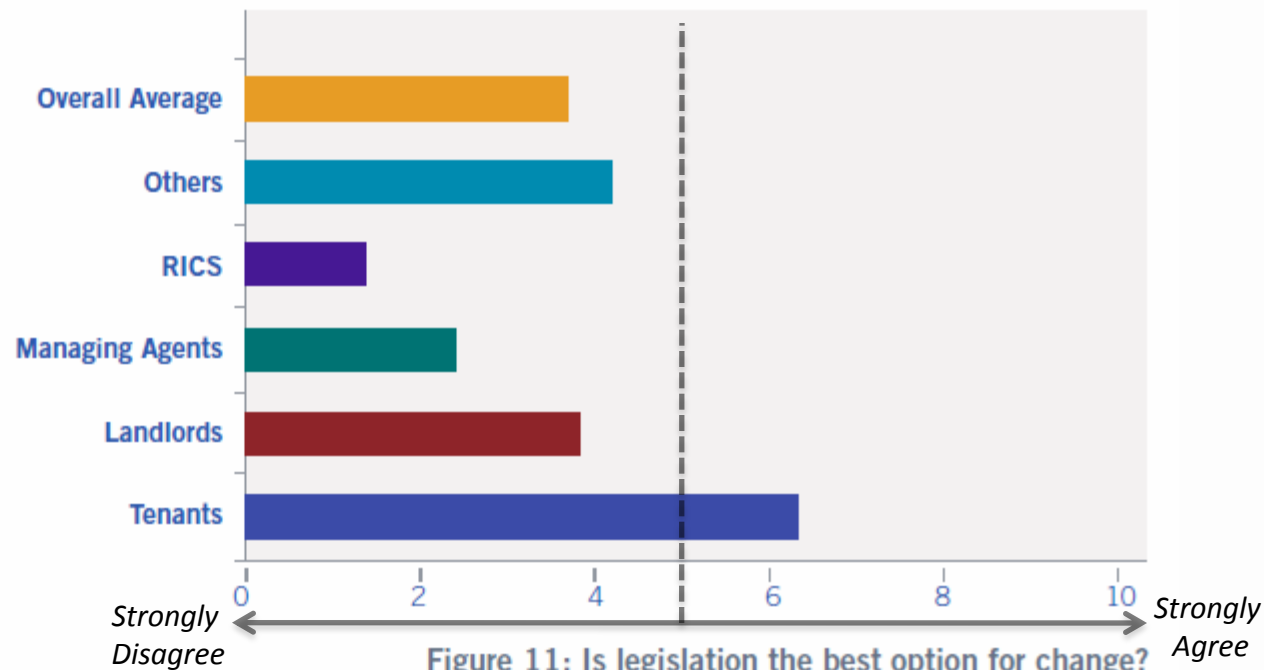
“From an industry point of view, service charges are on the high side... Service charges are high because there is this thing that you can charge what you like...”





Legislation is an option for change?

“The residential legislation is a dog’s breakfast.”





*2009 - Service Charges Within The UK Office
Market: Evidence On Accounting Practice,
Compliance And Disclosure*

***Dr Timothy Eccles & Dr Andrew Holt**
Kingston University*

Kingston University London



Recommendations of the 2009 Kingston University Report

- The Role of the RICS:
 - Monitoring and benchmarking of compliance
 - Regulation?
 - ‘Badging’ for excellence
- The Code itself
 - More specific accounting guidance e.g. examples of Code compliant accounting statements



2009 Kingston University Report: Change to believe in?

- Compulsory (independent) financial audit of accounts
- Standardised statements of procedure, confirming that:
 - Accounts are prepared in accordance with relevant accounting policies, providing a ‘true and fair’ reflection of transactions
 - Expenditure is lease compliant
 - And whether Code compliant
- Third party verification of ‘value for money’



Loughborough 2009 – Code Compliance

RICS CODE REQUIREMENT	ACHIEVEMENT Since April 2007	ACHIEVEMENT 1998 to 2007
Budgets must be delivered one month prior to the start of the year	21%	5%
Certificates must be delivered within 4 months of the end of the year	46%	24%
Management Fees must be a fixed cost	33%	18%
Interest must be credited to service charge accounts	28%	16%
Apportionment basis clear	44%	77%
Budget Accuracy. Budgets should be within 2% of actual cost	15%	14%

Basis: 6.2% of Office Stock England & Wales



Property Solutions

2010 Academic Research Initiatives

Kingston University

- Financial aspects of service charge accounts

Loughborough/Kingston University

- Expansion of service charge benchmarking initiative

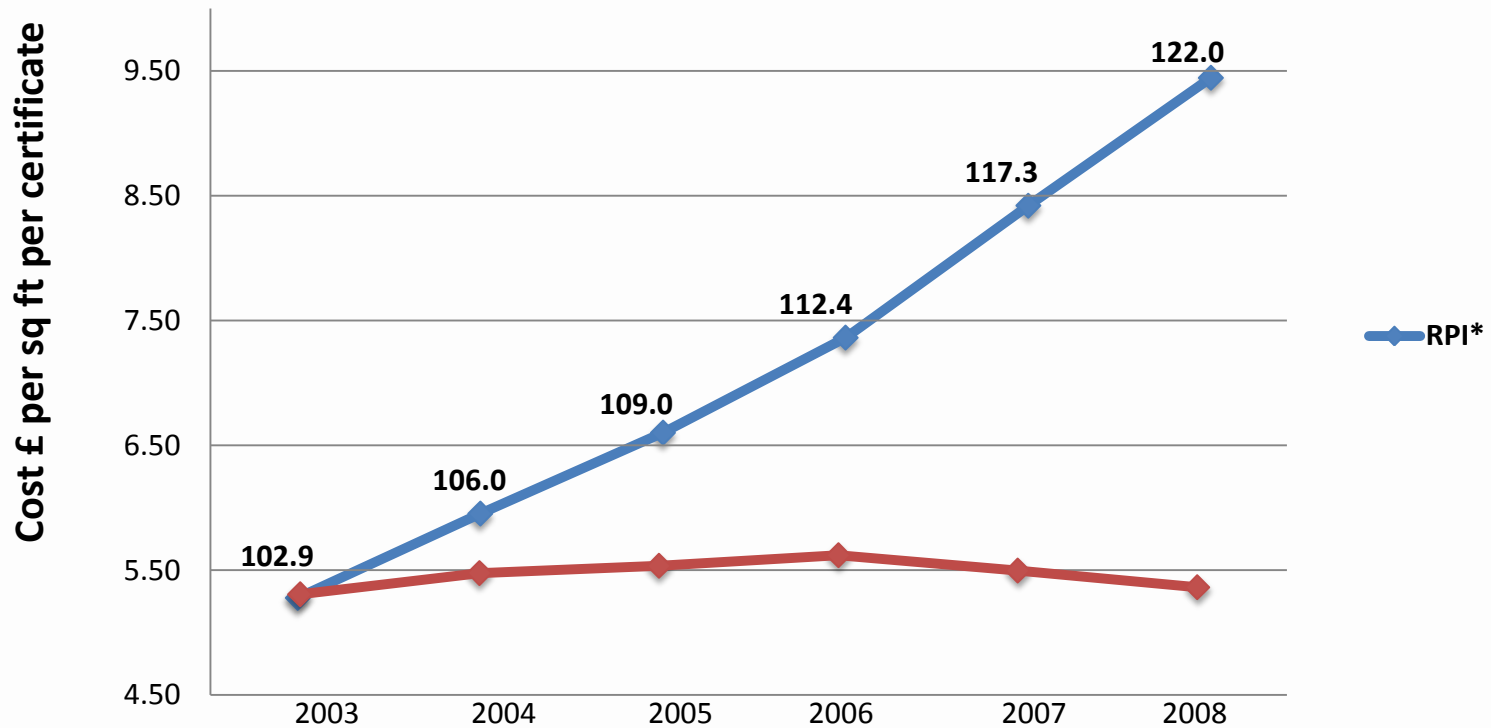


What PSL Has To Offer

- Benchmarking – measure your service charge costs against the Loughborough dataset
- Audit – formal evaluation of procedures & compliance
- Administration – service charge accounts, certification & payments/collections
- Management – services & costs
- Consultancy – value for money service charge savings



Loughborough Data Is Currently From PSL Client Pool



*RPI Index: January 2003=100

