

COMMERCIAL PROPERTY SERVICE CHARGE SEMINAR

Change we can all believe in



Service Charges and Market Efficiency

Christopher Hedley

On the pulse of
the property world



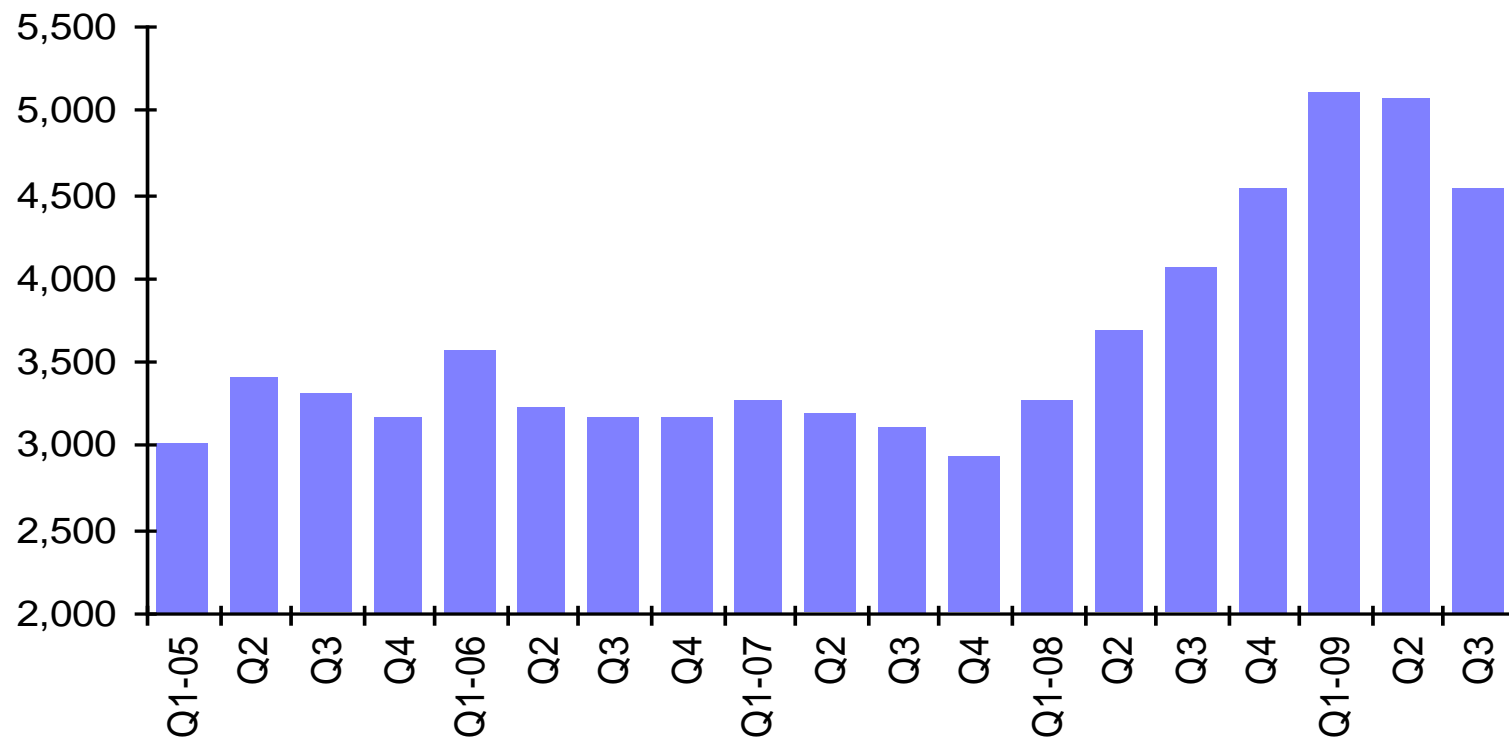
Sponsored by  **PROPERTY
SOLUTIONS**
managing service charges

COMMERCIAL PROPERTY SERVICE CHARGE SEMINAR

Change we can all believe in



Company Liquidations (England & Wales)



Source: The Insolvency Service

On the pulse of
the property world



Sponsored by

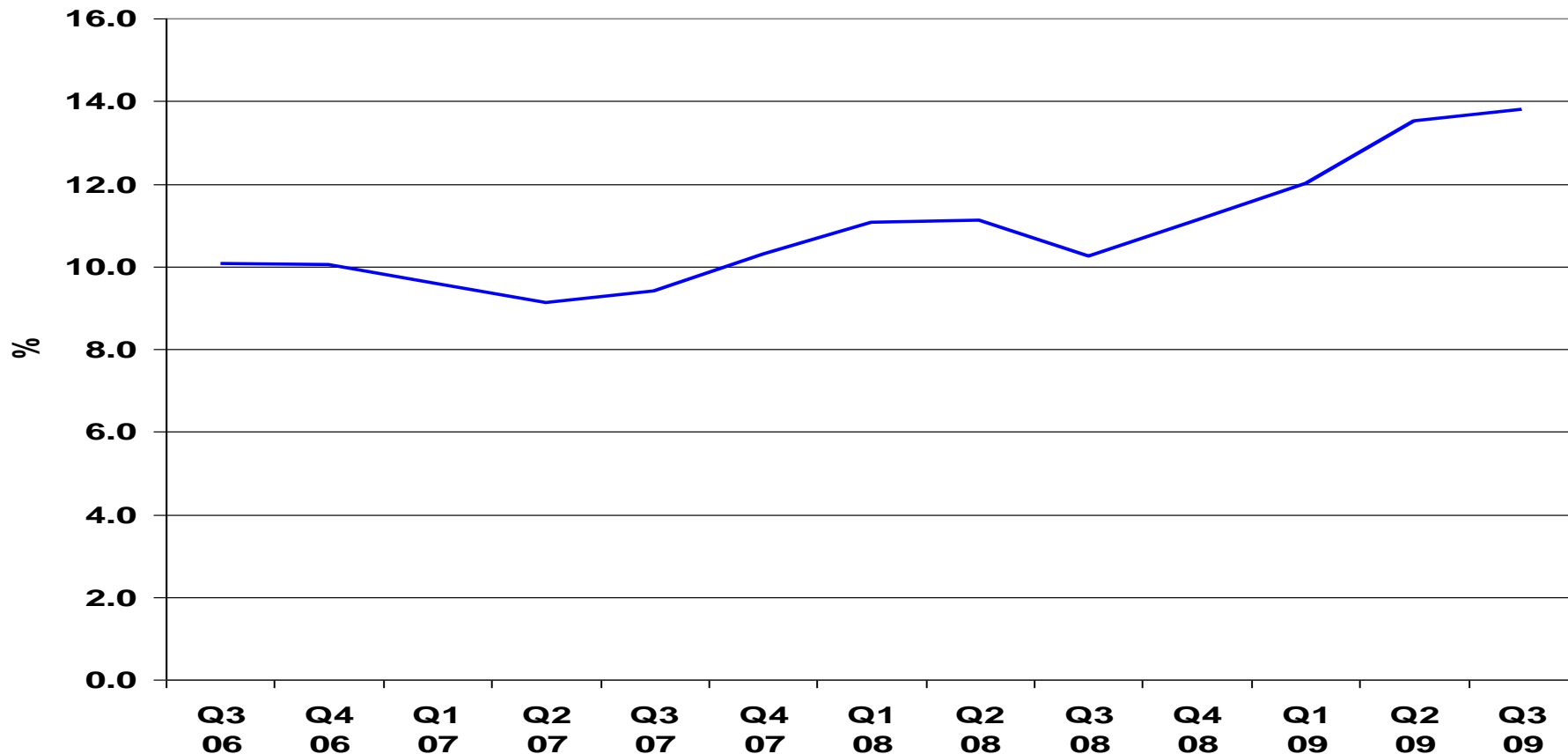


COMMERCIAL PROPERTY SERVICE CHARGE SEMINAR

Change we can all believe in



Offices – Void rent as a % of ERV



Source: IPD Quarterly Index



COMMERCIAL PROPERTY SERVICE CHARGE SEMINAR

Change we can all believe in



Falling lease terms – more flexibility for occupiers

The proportion of existing leases, %

	<i>lease term unexpired, years</i>			
	<i><5</i>	<i>5-10</i>	<i>10-20</i>	<i>20+</i>
<i>1992</i>	<i>32.6</i>	<i>12.3</i>	<i>33.8</i>	<i>21.4</i>
<i>2008</i>	<i>62.5</i>	<i>21.7</i>	<i>12.4</i>	<i>3.5</i>

Source: IPD Annual Index





How income may leak out of office investments

- Average length of new office lease (ignoring breaks) = 6.8 years
- Average length of new office leases (with breaks) = 5.4 years
- 37% of new office leases have breaks in 2008
- % of office lease breaks exercised in 2008 = 31%
- In 2008, 32% of office leases that expired were renewed

Source: IPD

On the pulse of
the property world



Sponsored by





The problems start at the beginning ...

- **Imagine you are looking for a new building**
 - Large expenditure
 - Expect to get clear explanation of what's involved
- **Agents are unable to tell you:**
 - What the costs will be
 - If they can give numbers, these almost certainly exclude exceptional expenditure and will be unpredictable
 - What the service levels will be
 - How you might influence service levels
- **Is this the right way to run the business?**



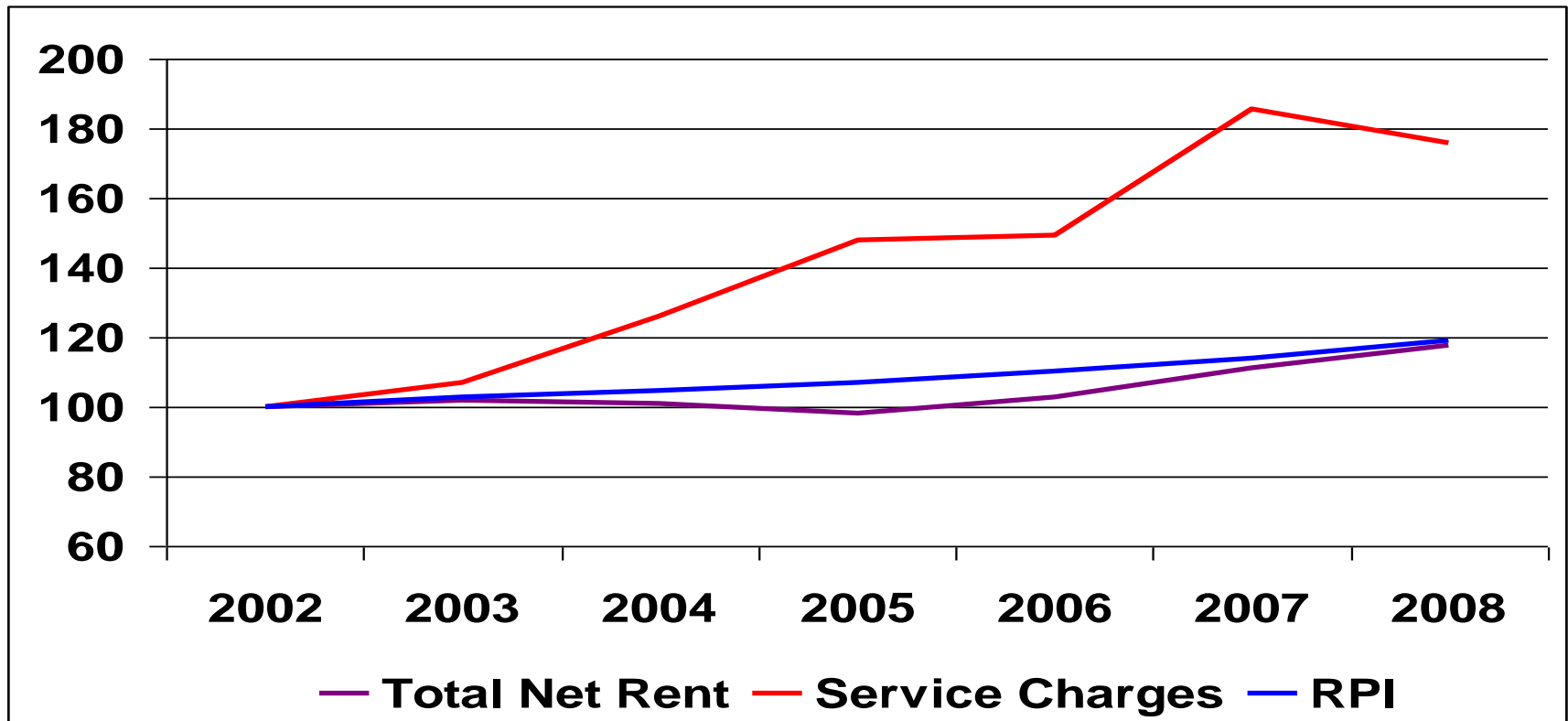
Who wins from the *current* system of service charges?

- **Tenants lose**
 - Hassle factor
 - Often pay more than needed
 - Time and money to monitor
 - Unpredictable
- **Good managing agents lose**
 - Difficult to tell the difference between a good'un and a bad 'un
 - Difficult to use track record to attract new business
 - Result: on downward fee spiral
- **Good landlords lose**
 - Hassle factor
 - Don't get higher rents for good value services
 - Doesn't help attract more tenants

COMMERCIAL PROPERTY SERVICE CHARGE SEMINAR

Change we can all believe in

Indexed Service Charge Growth, Total Net Rent & RPI



Source: IPD, ONS

On the pulse of
the property world



Sponsored by



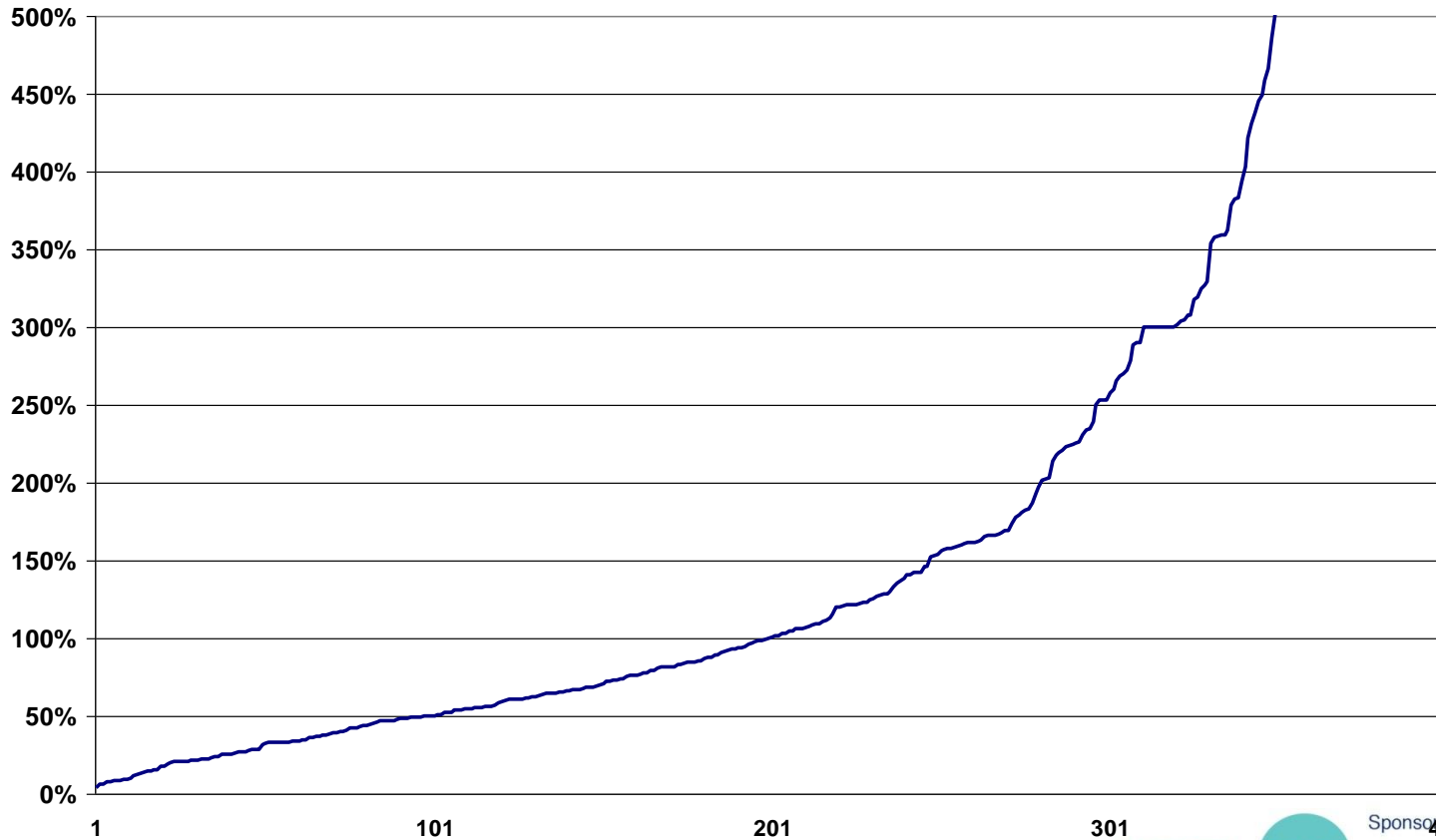
COMMERCIAL PROPERTY SERVICE CHARGE SEMINAR

Change we can all believe in



Service Charge Volatility

5 Year Maximum versus 4 Year Average for 400 offices



Source: IPD

On the pulse of
the property world



Sponsored by



COMMERCIAL PROPERTY SERVICE CHARGE SEMINAR

Change we can all believe in



Satisfaction gap... value for money from service charges

	Positive			Negative		
	2009	2008	2007	2009	2008	2007
All occupiers	10%	13%	21%	50%	44%	49%
Retail	3%	9%	15%	63%	50%	51%
Non-retail	14%	15%	24%	42%	40%	48%
Small	12%	12%	21%	58%	58%	57%
Large	9%	13%	21%	49%	42%	46%



Pathway to successful benchmarking...

Step 1 – Basic cost analysis

Step 2 – Full definition costs

Step 3 – Service level classification

Step 4 – Comprehensive benchmarking practice



Further steps...

- **We have costs tracked and benchmarked**
- **Service levels will be set and established**
- **Establish concept of value for money**
- **Potential to generate regular research reports**
- **Could form the basis of contractual promise**
- **Introduction of certification**



Benefits of benchmarking

Landlords

- compare with competition
- demonstrate best practice credentials
- establish value for money
- monitor performance of managing agents
- competitive edge
- basis of communication with tenants

Occupiers

- like-for-like comparison of service charges
- greater insight into costs
- comparison of service levels
- basis of communication with landlords
- probable result: lower service charges

Managing Agents

- demonstrate good practice to tenants
- demonstrate good practice to landlords
- opportunity for more fees
- ammunition for management pitches
- a way to move on

Industry

- more transparency
- more satisfied customer base
- higher standards
- help to fix between landlord/tenant disputes
- a way to move on – a basis of communication with tenants and landlords

COMMERCIAL PROPERTY SERVICE CHARGE SEMINAR

Change we can all believe in



Thank you for your time

Christopher Hedley

Director, Occupiers and Management Divisions

1 St. Johns Lane, London, EC4M 4BL

+44 (0)207 336 9250, christopher.hedley@ipd.com

Intellectual Property Rights and use of IPD statistics as benchmarks

Whether in the public domain or otherwise, IPD's statistics are the intellectual property of Investment Property Databank Limited. It is not permissible to use data drawn from this presentation as benchmarks.

© Investment Property Databank Limited (IPD) 2009. Database Right, Investment Property Databank Limited (IPD) 2009. All rights conferred by law of copyright and by virtue of international conventions are reserved by IPD