SCOR 2019

OFFICES

SERVICE CHARGE OPERATING REPORT

bellrock

INNOVATIVE. TRANSPARENT. COMPLIANT.

CONTENTS

1. INTRODUCTION

Welcome to the 2019 edition of the Service Charge Operating Report (SCOR) for Offices, which is the 9th edition in the series.

This year's publication is one of a kind in that it does not assess compliance with best practice for the first time since its inception. This is due to the Royal Institution of Chartered Surveyors (RICS) Professional Statement (2018) being applicable to service charge years commencing on or after 1 April 2019. Bellrock has fully documented the compliance, or lack of, with the previous Code and therefore will look to resume the analysis of compliance with the now mandatory best practice in the autumn of 2020. Bellrock hopes to use its unparalleled access to Office and Retail service charge data to produce a comprehensive piece of research on compliance towards the end of 2020.

However, so as not to break the sequence of research publications, Bellrock is proud to issue this shortened piece of research which benchmarks costs split into the new Professional Statement Cost Classes and Cost Categories classifications.

In previous versions of SCOR, we have benchmarked selected Cost Categories and, although we do this again, we have added to the research an element of cost benchmarking across Cost Classes as a whole.

This research is not designed to be used by stakeholders within the industry as justification to expect to pay lower service charges or levy higher service charges. Buildings are never identical, and the services delivered to occupiers are rarely exactly the same. These benchmarks can be a starting point for a discussion, one we hope would be held in a transparent and open manner.

Bellrock hopes all stakeholders within the industry find this research beneficial and we look forward to bringing you further research on other sectors in the new year.

2. METHODOLOGY

The data for SCOR's core cost benchmarking is obtained from analysis of the service charge documents supplied to occupiers at 116 UK multi-let office buildings/developments. This sample data provides an unbiased and representative dataset, and this year includes commercial service charge cost information that has at least six months falling in 2018.

Due to the fact that less than 50% of documents use the RICS cost classifications correctly (SCOR for Offices 2018), the data is entered into Bellrock's systems under the exact naming conventions used within each document. A member of the Portfolio Services team at Bellrock then allocates the costs to the correct RICS mandated cost category thus allowing the research to compare like with like. The data is exported from the Bellrock database and, using the area (NIA) of each building, is converted into £ per sq. ft. figures. The median has long been the average employed by SCOR to represent the figures as, by its nature, it eliminates "outliers" (very high or very low figures). Lower quartiles and Upper quartiles – the first signifying the figure that 25% of the buildings fall below and the latter the figure that 25% of the buildings are more expensive than - are also shown. The quartiles also give an idea of the spread of the costs, the smaller the difference between the two figures suggests a more bunched up data set than if the difference were higher.

2.1 The Dataset

The geographical spread of these buildings as per their Government Office Region (GOR) is given in Figure 1. This shows that over a third of buildings are located within London, and over half being in the South East and London combined.

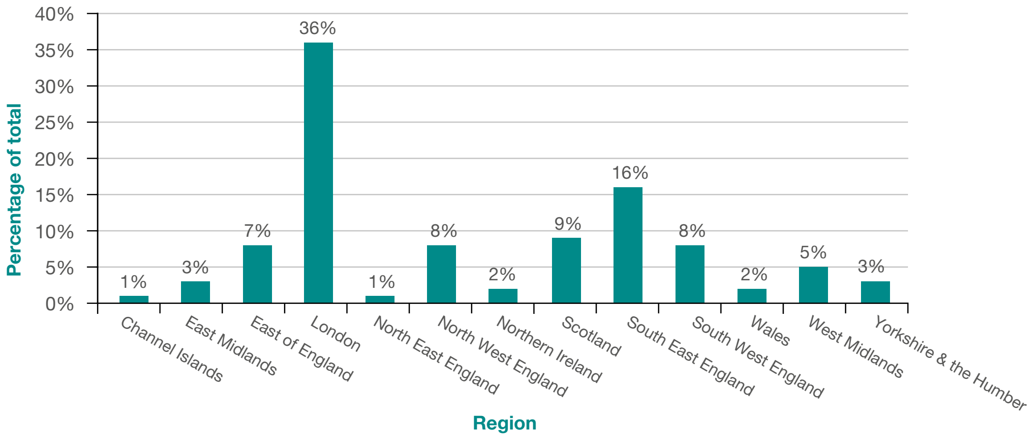
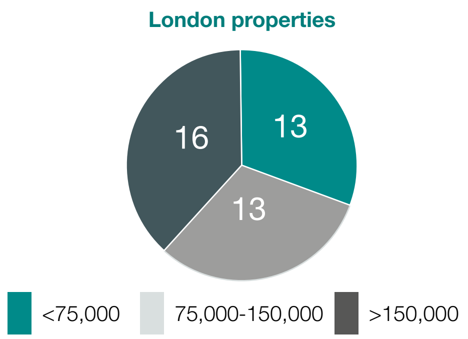


Figure 1:

Geographical spread of the properties in the dataset, classifying them by their UK Government Office Region (GOR).

The analysis is split into buildings which fall within the London GOR and those which lie in, what we designate as, the "Rest of the UK" (ROUK). In addition, for parts of the analysis, the dataset within these two geographical classifications is then divided further based on total floor areas. Figures 2 and 3 illustrate the way in which each geographical classification has then been sub-divided showing the number of properties in each area division. The area divisions are not the same in both geographical classifications as buildings tend to be larger in the capital.



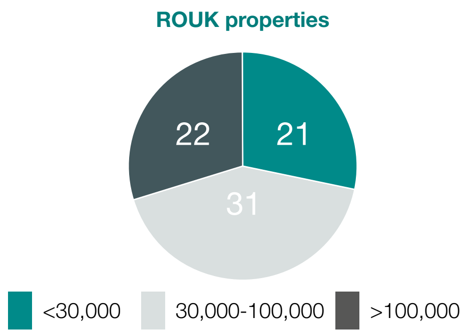


Figure 2:

Sub-division of London properties as per total area in sq. ft.

Figure 3:

Sub-division of Rest of the UK properties as per total area in sq. ft.

3. 2019 COST BENCHMARKING

3.1 Overall cost benchmarking

The core data for SCOR was obtained from the analysis of service charge documents supplied by occupiers from 116 multi-let office buildings. These locations had a total service charge expenditure in excess of £115 million per annum, and represented a total floor area of just over 13 million sq. ft. The characteristics of the cost analysis dataset are given in Table 1.

Years	No. of buildings	Types of documents	Total Service Charge Cost	Total floor area
2018-2019	116	Certificates/Budgets	£115,534,378	13,296,845 sq. ft.

Table 1:

Characteristics of the core dataset used for the main cost analysis.

Figure 4 and Table 2 show that the service charge costs per sq. ft. were significantly higher in London than the Rest of the UK, which has always been the case since the inception of SCOR.

In terms of costs in London, this year's median and upper quartile are 9.4% and 4.8% higher, respectively, than last year with the lower quartile rising by 13.2%. For the Rest of the UK, the median and lower quartile rose by 3% and 8.8% respectively but the upper quartile fell slightly by 3.8%. These comparisons, however, are across two different sets of buildings. Further discussion of service charge cost trends can be found in the Longitudinal Cost Benchmarking section of this report where the same buildings are used across three years.

£ per sq. ft.	London	Rest of the UK
Lower quartile	9.67	5.29
Median	10.95	6.54
Upper quartile	13.42	8.12

Table 2:

Total service charge costs compared between properties located in London and the Rest of the UK.

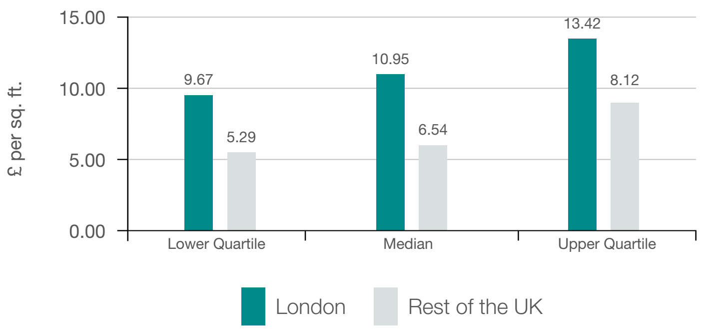


Figure 4:

Total service charge costs compared between properties located in London and the Rest of the UK.

3.2 RICS Cost Class benchmarking - irrespective of location

As mentioned in the introduction, Bellrock has previously benchmarked selected cost categories that were deemed most relevant to the industry largely on cost grounds. However, in a bid to improve the research, in this section we benchmark costs across all eight Cost Classes as per the RICS Professional Statement, 2018.

Figure 5:

Percentage of total service charge costs per RICS Cost Class across the whole dataset.

The results in Figure 5 show that across all cost classes, and irrespective of geographical location, the largest costs are Soft Services, Hard Services and Utilities, accounting for 29%, 25% and 20% of the total service charge cost. Management accounts for a further 17% of the total cost.

3.3 RICS Cost Class benchmarking - London and the Rest of the UK

Table 3 and Figures 5.1. and 5.2 show the costs per sq. ft. across RICS Cost Classes split between London and the Rest of the UK. The most noticeable difference between the overall results (Figure 5) and the geographical split is the higher proportion that Soft Services account for in London as opposed to the Rest of the UK – 32% against 28%, respectively. This difference is largely counteracted in a variance in Utilities costs – 16% against 21%.

£ Per sq. ft.	Lower quartile		Median		Upper quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	1.26	0.66	1.77	1.05	2.24	1.34
Utilities	0.96	0.51	1.76	1.35	2.24	1.76
Soft services	2.77	1.18	3.41	1.74	4.14	2.30
Hard services	2.00	1.18	2.63	1.66	3.09	2.13
Income	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.01	0.01	0.05	0.03
Execptional expenditure	0.47	0.16	1.19	0.52	3.64	1.01
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.06

	Lower quartile		Median		Upper quartile	
	London	ROUK	London	ROUK	London	ROUK
Quartiles of total costs	**9.67**	**5.29**	**10.95**	**6.54**	**13.42**	**8.12**

Table 3:

Service charge expenditure across RICS Cost Classes split between London and the Rest of the UK.

Figure 5.1:

Percentage of total service charge costs per RICS Cost Class in London.

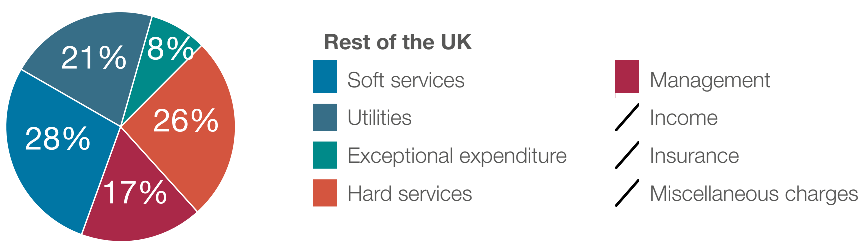


Figure 5.2:

Percentage of total service charge costs per RICS Cost Class in the Rest of the UK.

3.4 RICS Cost Class benchmarking – by building size in London and the Rest of the UK

Table 4.1:

London service charge expenditure across all RICS Cost Classes split by total building area

Median costs (£ per sq. ft.)	London		
RICS Cost Class	<75,000 sq. ft.	75,000 -150,000 sq. ft.	>150,000 sq. ft.
Management	2.18	1.78	1.69
Utilities	1.35	1.93	1.74
Soft services	3.22	3.55	3.41
Hard services	2.34	2.43	2.70
Income	0.00	0.00	0.00
Insurance	0.01	0.00	0.01
Exceptional expenditure	3.15	1.25	0.94
Miscellaneous charges	0.00	0.00	0.00

	London		
	<75,000 sq. ft.	75,000 -150,000 sq. ft.	>150,000 sq. ft.
Median of total costs (£ per sq. ft.)	**11.22**	**10.54**	**11.13**

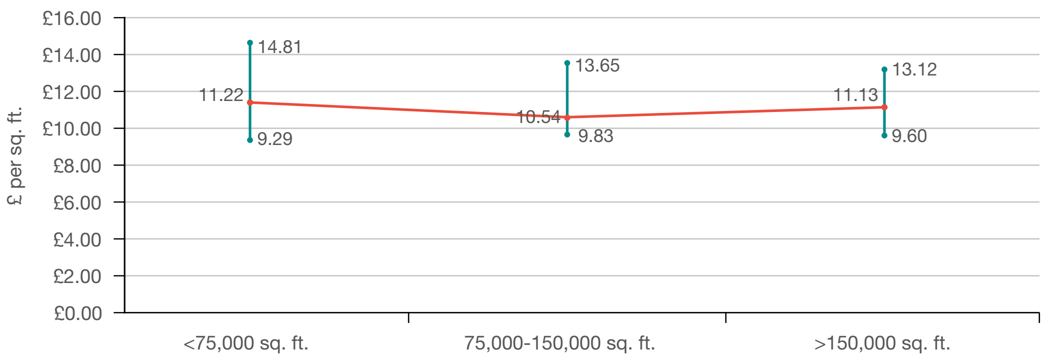


Figure 6.1:

Quartiles of London service charge expenditure split by total building area.

Table 4.1 and Figure 6.1 show the service charge expenditure across all RICS Cost Classes split by building size in London. The results show that building size does not have a large effect on the median of the total service charge. Individual RICS Cost Classes show variations across different size buildings but altogether the effect is not large.

The results for the Rest of the UK are shown opposite in Table 4.2 and Figure 6.2. As with locations in the capital, building size in the Rest of the UK has very little effect on the median of total service charge expenditure. Soft services and Management are the only Cost Classes that show a distinct rise in costs as building size increases.

The only noticeable aspect of these results, both in London and across the Rest of the UK, is the greater spread of service charge costs (illustrated by the higher difference between upper and lower quartiles) in smaller buildings.

Table 4.2:

Rest of the UK service charge expenditure across all RICS Cost Classes split by total building area.

Median costs (£ per sq. ft.)	Rest of the UK		
RICS Cost Class	<30,000 sq. ft.	30,000 -100,000 sq. ft.	>100,000 sq. ft.
Management	0.94	1.05	1.14
Utilities	1.26	1.51	1.38
Soft services	1.54	1.78	2.02
Hard services	1.90	1.52	1.75
Income	0.00	0.00	0.00
Insurance	0.00	0.01	0.01
Execeptional expenditure	0.46	0.65	0.37
Miscellaneous charges	0.00	0.00	0.00
	Rest of the UK		
	<30,000 sq. ft.	30,000 -100,000 sq. ft.	>100,000 sq. ft.
Median of total costs (£ per sq. ft.)	**6.55**	**6.52**	**6.57**

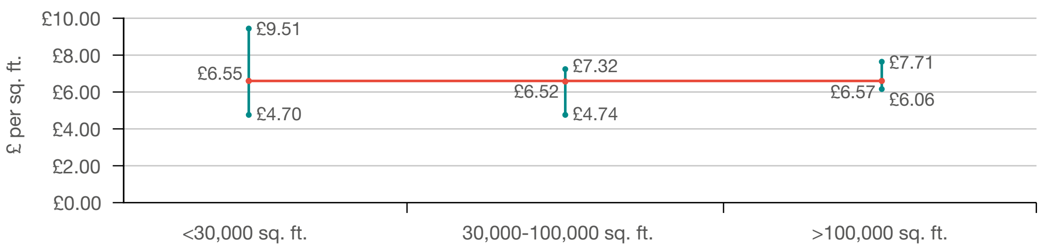


Figure 6.2:

Quartiles of Rest of the UK service charge expenditure split by total building area.

3.5 RICS Cost Category benchmarking

Table 5 shows the quartile cost results for nine RICS Cost Categories split by geographical region. This year the “Gas” cost category has been removed from the list. The remaining nine Cost Categories are reviewed since they typically represent the most significant proportion of total service charge costs.

Table 5:

Service charge expenditure across nine RICS Cost Categories.

£ Per sq. ft.	Lower quartile		Median		Upper quartile	
Cost category	London	ROUK	London	ROUK	London	ROUK
Management fees	0.60	0.31	0.72	0.45	0.87	0.62
Site management resources	0.53	0.10	0.79	0.39	1.30	0.71
Electricity	0.56	0.23	1.27	0.84	1.72	1.23
Security	1.43	0.14	2.06	0.74	2.56	1.20
Cleaning and sustainability	0.88	0.48	1.24	0.90	1.73	1.16
Mechanical and electrical services	1.22	0.42	1.77	0.89	2.44	1.37
Lifts and escalators	0.13	0.08	0.18	0.11	0.24	0.16
Fabric repairs and maintenance	0.34	0.20	0.47	0.44	0.58	0.83
Major works	0.64	0.17	1.19	0.45	3.64	0.68
	Lower quartile		**Median**		**Upper quartile**	
	London	ROUK	London	ROUK	London	ROUK
Quartiles of total costs	**9.67**	**5.29**	**10.95**	**6.54**	**13.42**	**8.12**

The results in Table 5 indicate that Security costs are a higher proportion of total median costs in London, than the Rest of the UK. Other Cost Classes account for a similar proportion of the total costs, irrespective of geographical location.

As the budgets and certificates for many buildings do not include and/or populate the Major Works cost category, analysis of this cost was conducted by still using the median measure of average but allowing there to be blanks in the data as opposed to considering these to be zero values. This was also the case for the Lifts and escalators category as the buildings that have this field empty are presumed to not have these services.

Tables 6.1 and 6.2 provide further cost analysis by building area across the nine chosen RICS cost categories within each geographical classification.

Table 6.1:

London service charge expenditure across nine RICS Cost Categories split by total building area.

Median costs (£ per sq. ft.)	London		
RICS Cost category	<75,000 sq. ft.	75,000 -150,000 sq. ft.	>150,000 sq. ft.
Management fees	0.71	0.75	0.69
Site management resources	0.66	0.76	0.87
Electricity	0.76	1.47	1.29
Security	1.70	1.91	2.22
Cleaning and sustainability	1.44	1.27	1.16
Mechanical and electrical services	1.53	1.74	2.09
Lifts and escalators	0.17	0.19	0.21
Fabric repairs and maintenance	0.48	0.48	0.45
Major works	5.11	0.91	1.04

	London		
	<75,000 sq. ft.	75,000 -150,000 sq. ft.	>150,000 sq. ft.
Median of total costs (£ per sq. ft.)	**11.22**	**10.54**	**11.13**

Table 6.2:

Rest of the UK service charge expenditure across nine RICS Cost Categories split by total building area

Median costs (£ per sq. ft.)	Rest of the UK		
RICS Cost category	<30,000 sq. ft.	30,000 -100,000 sq. ft.	>100,000 sq. ft.
Management fees	0.62	0.47	0.40
Site management resources	0.09	0.35	0.48
Electricity	0.54	0.69	1.01
Security	0.34	0.79	0.89
Cleaning and sustainability	1.02	0.72	0.94
Mechanical and electrical services	0.78	0.71	1.30
Lifts and escalators	0.09	0.14	0.09
Fabric repairs and maintenance	0.58	0.43	0.33
Major works	0.46	0.53	0.43

	Rest of the UK		
	<30,000 sq. ft.	30,000 -100,000 sq. ft.	>100,000 sq. ft.
Median of total costs (£ per sq. ft.)	**6.55**	**6.52**	**6.57**

4. LONGITUDINAL COST BENCHMARKING

Longitudinal cost analysis for three continuous years (2017-2019) was also undertaken on 104 office buildings selected from the total population of 116 buildings based on the availability of source documents for each of the three years. This analysis was performed to identify cost trends and provide greater insight into the changing nature and magnitude of service charge costs over time. We believe this year-on-year comparison is fundamental to understanding service charge expenditure.

Years	No. of buildings	Type of documents	Total SC cost for 2019	Total floor area
2016-2019	104	Certificates/Budgets	£94,762,121	12,421,256 sq. ft.

Table 7:

Characteristics of longitudinal cost analysis dataset.

4.1 Longitudinal cost benchmarking - overall costs

Figure 7 shows the quartiles of the total annual service charge costs per sq. ft. for all 104 properties, regardless of geographical location. The results show there has been an approximately 17.8% increase in total cost over the three years, and 10.4% during the last year. These are high increases in service charge and cannot be explained simply, as we have mentioned in previous years, by the implementation of the National Living Wage (and it's counterpart in the capital) filtering down into service costs.

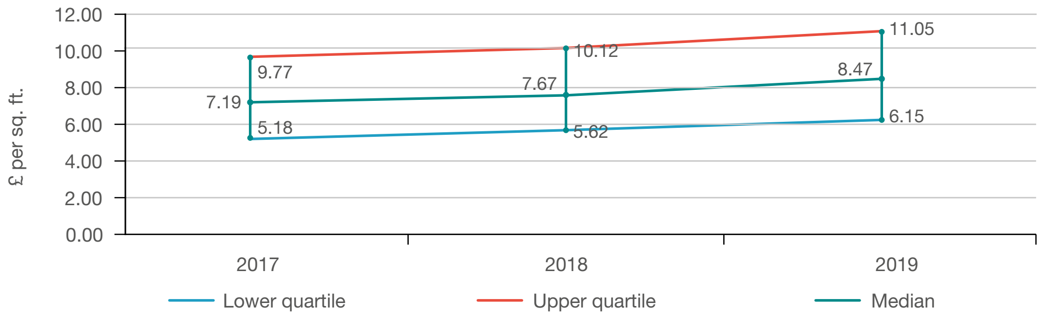


Figure 7:

Total service charge cost trends for the years 2017-2019 - £ per sq. ft.

4.2 Longitudinal cost benchmarking – RICS Cost Class

The annual median cost per sq. ft. for all RICS Cost Classes are compared year on year as shown in Table 8. The results show that Utilities and Hard services have seen the largest increases over the three-year period. The rise between 2017 and 2018 was not as marked as between 2018 and 2019.

As with the earlier RICS Cost Class analysis, the results for the longitudinal analysis are split by London and the Rest of the UK and are shown in Table 9.

Median costs (£ per sq.ft.) RICS Cost Class	2017	2018	2019
Management	1.15	1.21	1.26
Utilities	1.36	1.38	1.52
Soft services	2.17	2.22	2.21
Hard services	1.73	1.93	1.99
Income	0.00	0.00	0.00
Insurance	0.01	0.01	0.01
Exceptional expenditure	0.54	0.98	0.84
Miscellaneous charges	0.00	0.00	0.00

	2017	2018	2019
Median of total costs (£ per sq.ft.)	**7.19**	**7.67**	**8.47**

Table 8:

Service charge expenditure across all Cost Classes compared over three years: 2017-2019.

Median costs (£ per sq.ft.)	London			Rest of the UK		
RICS Cost Class	2017	2018	2019	2017	2018	2019
Management	1.69	1.53	1.78	0.94	0.96	1.01
Utilities	1.70	1.65	1.74	1.14	1.23	1.32
Soft services	3.17	3.37	3.35	1.50	1.69	1.74
Hard services	2.55	2.64	2.63	1.37	1.57	1.74
Income	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.01	0.01	0.01	0.01	0.01
Exceptional expenditure	0.98	1.04	1.19	0.36	0.83	0.48
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.00

	2017	2018	2019	2017	2018	2019
Median of total costs (£ per sq.ft.)	**9.77**	**10.38**	**10.99**	**5.74**	**6.00**	**6.52**

Table 9:

Comparison of RICS Cost Classes over three years split between London / Rest of the UK.

4.3 Longitudinal cost benchmarking – RICS Cost Category

The annual median costs per sq. ft. for the same nine RICS Cost Categories were compared year on year as shown in Table 10. Over the three-year period, notable increases occurred in Fabric repairs and maintenance (27%), Mechanical and electrical services (27%) and Management (19%).

Table 11 shows the results of the analysis when the RICS Cost Categories are compared across London and the Rest of the UK.

Median costs (£ per sq.ft.) / RICS Cost Category	2017	2018	2019
Management fees	0.48	0.53	0.57
Site management resources	0.48	0.49	0.53
Electricity	0.84	0.94	0.96
Security	1.02	1.02	1.13
Cleaning and sustainability	0.87	0.96	0.97
Mechanical and electrical services	1.02	1.14	1.30
Lifts and escalators	0.12	0.13	0.14
Fabric repairs and maintenance	0.33	0.37	0.47
Major works	0.48	0.99	0.70

	2017	2018	2019
Median of total costs (£ per sq.ft.)	**7.19**	**7.67**	**8.47**

Table 10:

Service charge expenditure across nine categories compared over three years: 2017-2019.

Median costs (£ per sq.ft.)	London			Rest of the UK		
RICS Cost Class	2017	2018	2019	2017	2018	2019
Management fees	0.69	0.69	0.71	0.41	0.42	0.43
Site management resources	0.72	0.68	0.79	0.36	0.39	0.38
Electricity	1.18	1.27	1.27	0.65	0.59	0.83
Security	1.81	2.04	2.05	0.64	0.70	0.73
Cleaning and sustainability	1.07	1.14	1.27	0.74	0.84	0.87
Mechanical and electrical services	1.80	1.89	1.80	0.70	0.83	0.92
Lifts and escalators	0.17	0.18	0.19	0.10	0.12	0.11
Fabric repairs and maintenance	0.30	0.40	0.47	0.33	0.31	0.46
Major works	0.88	1.09	1.19	0.36	0.60	0.45

	2017	2018	2019	2017	2018	2019
Median of total costs (£ per sq.ft.)	**9.77**	**10.38**	**10.99**	**5.74**	**6.00**	**6.52**

Table 11:

Longitudinal comparison across nine categories over three years split between London / Rest of the UK.

5. SUMMARY OF FINDINGS

- The medians of the total service charge for office buildings in London and the Rest of the UK were £10.95 and £6.54 per sq. ft., respectively.
- The four most costly RICS Cost Classes are Soft services, Hard services, Utilities and Management, together accounting for circa 90% of the total service charge spend.
- Management accounts for 17% of total service charge spend, irrespective of geographical location.
- The size of building in the capital and elsewhere does not have a significant effect on the median total service charge. However, smaller buildings do have a markedly greater spread in the service charge costs recorded.
- Security costs are a greater proportion of the whole service charge in London as opposed to the Rest of the UK; 19% vs 11%.
- In the longitudinal study, over the last three years, service charges across the same 104 buildings, have increased by nearly 18%, with a 10% increase recorded between the last two years. These increases are large and will need to be monitored in future research publications.

In 2020, Bellrock looks forward to receiving service charge certificates produced for service charge years beginning on or after 1st April 2019 – those that fall under the RICS Professional Statement; Service Charges in Commercial Property. Unless another stakeholder chooses to do so, Bellrock will again be the only entity assessing the compliance of service charge documents with best practice. This best practice, as embodied in the Professional Statement, will be mandatory on all those, whether individuals or companies, who are registered with the RICS.

Service Charge Operating Report for Offices 2019 - December 2019

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