



SCOR

OFFICES

2020

SERVICE CHARGE
OPERATING REPORT



INNOVATIVE. TRANSPARENT. COMPLIANT.

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1. INTRODUCTION - PROFESSOR ANDREW HOLT, MSU DENVER

Welcome to the 2020 edition of the *Service Charge Operating Report (SCOR) for Offices*, which is the 10th edition in the series.

As the Royal Institution of Chartered Surveyors (RICS) Professional Statement (2018) only applies to service charge years commencing on or after 1 April 2019, we have not yet received a sufficient number of certificates to perform a statistically significant analysis of industry compliance with these new regulatory requirements. As a result, this year's *SCOR for Offices* focuses exclusively on benchmarking service charge costs, but future publications will resume our evaluation of regulatory compliance.

SCOR for Offices 2020 benchmarks service charge costs by analysing them according to the new Cost Classes and Categories specified by the RICS Professional Statement, and includes both current year (2020) and longitudinal (2018-2020) cost data for select UK multi-let office buildings.

The dataset and methodology used are described in more detail in the next section, but it must be noted that the research findings presented here are not designed to be used by industry stakeholders as justification for modifying current service charge costs. For example, costs may differ regionally, and the service levels delivered to occupiers at individual buildings are rarely the same. Regardless of these limitations, SCOR's benchmarks provide a starting point for more transparent and constructive cost negotiations and discussions.

I am pleased to once again provide the academic oversight for *SCOR for Offices*, and hope that you find this latest edition useful for both managing and monitoring service charge costs at this difficult time for the UK commercial property sector.

2. METHODOLOGY

The data for SCOR's core cost benchmarking was obtained from analysis of the service charge documents supplied to occupiers at 90 UK multi-let office buildings/developments. Due to the COVID pandemic, the publication of many "2020" end-of-period service charge certificates were delayed, resulting in SCOR 2020's cost data being obtained from analysis of annual budgets of service charge costs which included at least six months of 2020. The decision to focus exclusively on budgetary data was not ideal but seen as a necessary one-time modification to facilitate the timely publication of this 2020 cost information. Next year's SCOR will revert back to primarily using cost and compliance information obtained from annual reconciliation certificates whenever possible.

SCOR's dataset is unbiased and representative as it includes cost information for any office building that Bellrock Real Estate deals with where complete budgetary information was available for at least six months of 2020. As a result, no self-selection or bias was used in establishing the dataset, and a unique population of properties was used for the analysis.

Due to the fact that many source documents do not use the RICS cost classification system, cost 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. This "modified" data is then 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.

One final methodological issue relates to the calculation of median costs for certain types of costs. Not all buildings have all types of costs during a specific year, and sometimes an absence of cost is entered on the document as an amount of "0" or merely left blank. This inconsistency in accounting has the potential to distort the cost analysis. For example, where an amount is entered as "0", it will impact the calculation of the median cost for the entire population of buildings, whereas a blank entry will not. As a result, in order to prevent distorted figures, SCOR's analysis of the specific Major Works and Lifts & Escalators costs specifically excluded amounts of "0" when calculating the median costs.

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 just under half the buildings are located within London.

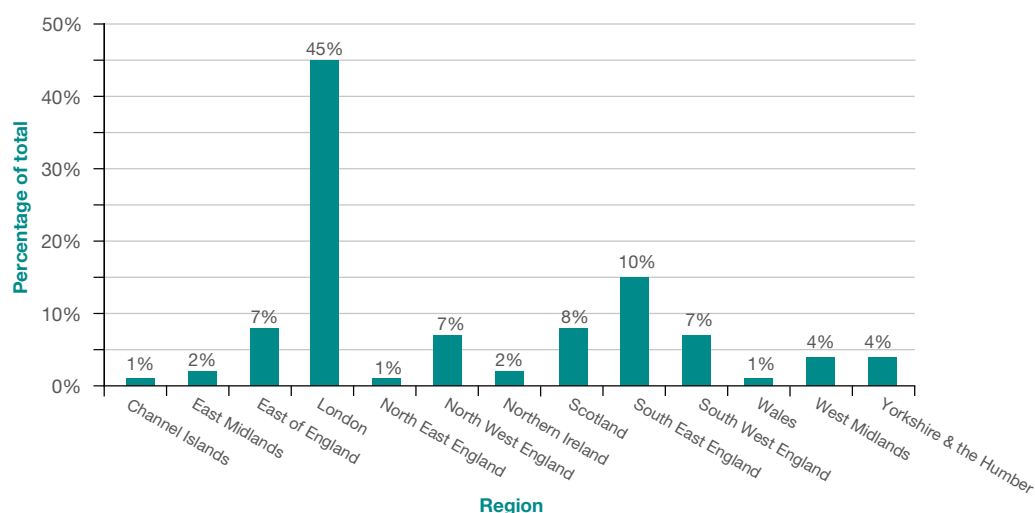


Figure 1:
Geographical spread of the properties in the dataset, classifying them by their UK Government Office Region (GOR).

The analysis splits the 90 buildings which fall either within the London GOR (41 buildings) or GORs falling within the 'Rest of the UK' (ROUK) (49 buildings). 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.

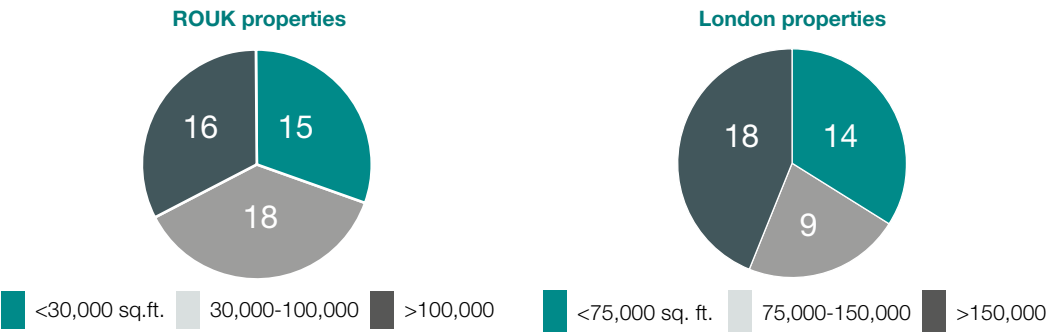


Figure 2:
Sub-division of Rest of the UK properties as per total area in sq. ft.

Figure 3:
Sub-division of London properties as per total area in sq. ft.

3. 2020 COST BENCHMARKING

3.1 Overall cost benchmarking

The core data for SCOR for Offices 2020 was obtained from the analysis of service charge budgets supplied by occupiers from 90 multi-let office buildings. These locations had a total service charge expenditure in excess of £114 million per annum, and represented a total floor area of approximately 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
2020	90	Budget	£ 114,027,757	13,056,972 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.

£ Per sq. ft.	London	Rest of the UK
Lower quartile	10.01	4.91
Median	11.85	6.85
Upper quartile	13.73	8.44

Table 2:
Total service charge costs compared between properties located in London and the Rest of the UK.

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 3.0% 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.

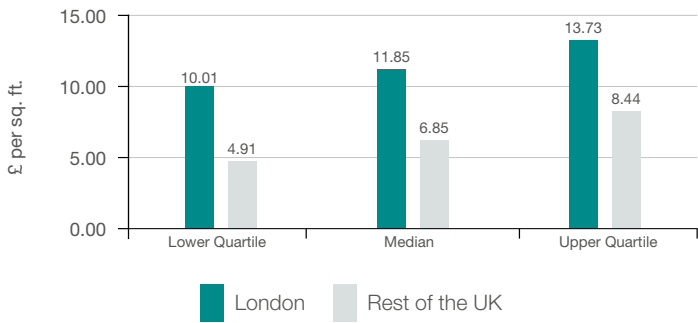


Figure 4:
Total service charge costs compared between properties located in London and the Rest of the UK.

3.2 RICS Cost Class benchmarking - irrespective of location

This section provides cost benchmarks across the eight Cost Classes as per the 2018 RICS Professional Statement.

The results in Figure 5 show that across all cost classes, irrespective of geographical location, the largest costs are Soft Services, Hard Services and Utilities, accounting for 31%, 25% and 17% of the total service charge cost. Management accounts for a further 16% of the total cost. These results are comparable with last year's percentages, other than Utilities which attracted 20% of the total costs last year.

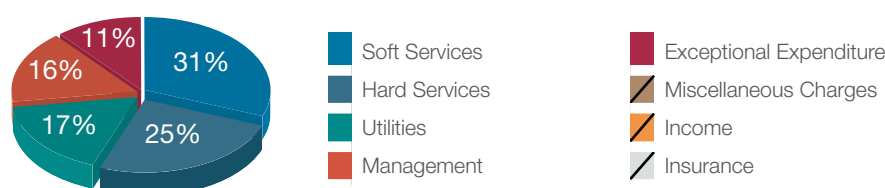


Figure 5:
Percentage of total service charge costs per RICS Cost Class across the whole dataset.

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 differences between the overall results (Figure 5) and the geographical split is the higher proportion that Hard Services account for in London as opposed to the Rest of the UK - 26% against 22%, respectively and the lower proportion that Management accounts for in London as compared to the Rest of the UK - 15% against 19%, respectively.

£ Per sq. ft.	Lower quartile		Median		Upper quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	1.09	0.71	1.74	1.12	2.16	1.52
Utilities	1.45	0.38	2.02	1.16	2.69	1.91
Soft services	2.37	1.19	3.66	1.88	4.42	3.07
Hard services	2.01	0.97	2.47	1.66	3.89	2.34
Income	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.01	0.01	0.04	0.04
Exceptional expenditure	0.53	0.24	0.99	0.90	2.24	1.36
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.00

	Lower quartile		Median		Upper quartile	
	London	ROUK	London	ROUK	London	ROUK
Quartiles of total costs	10.01	4.91	11.85	6.85	13.73	8.44

Table 3:
Service charge expenditure across RICS Cost Classes split between London and the Rest of the UK.

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

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

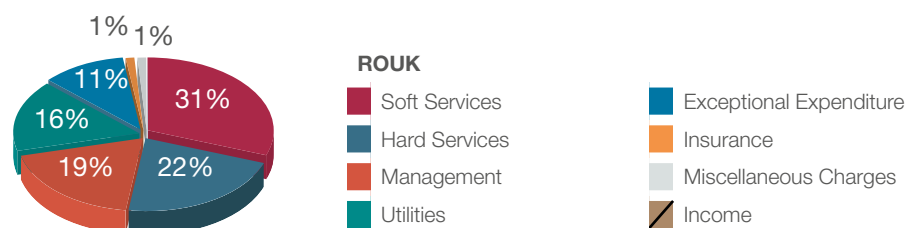


Figure 5.1:

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

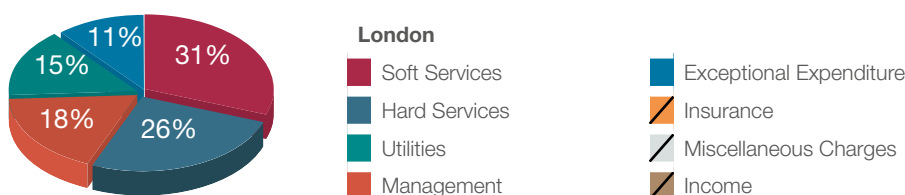


Figure 5.2:

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

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

Median costs (£ per sq. ft.)	London		
RICS Cost Class	<75,000 sq. ft.	75,000 -150,000 sq. ft.	>150,000 sq. ft.
Management	1.76	1.86	1.74
Utilities	1.56	2.12	2.19
Soft services	3.74	3.46	3.73
Hard services	2.30	2.31	3.12
Income	0.00	0.00	0.00
Insurance	0.01	0.00	0.01
Exceptional expenditure	2.54	1.35	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.)	11.44	10.86	12.34

Table 4.1:

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

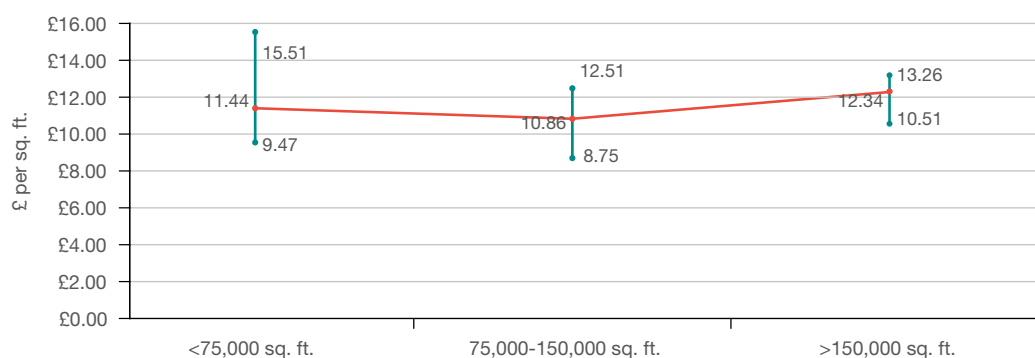


Figure 6.1:

Quartiles of London service charge expenditure 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 material effect on the median total service charge cost. The results indicate that larger buildings have a lower variation in total service charge costs, as evidenced by the reduction in inter-quartile range.

The results for the Rest of the UK are shown in Table 4.2 and Figure 6.2. When compared to London, building size in the Rest of the UK has a smaller impact on the median total service charge expenditure, with a rise of nearly 9% between the smallest and largest buildings. Soft services, Management and Exceptional Expenditure represent most of this increase.

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	1.12	0.95	1.20
Utilities	1.32	1.15	1.12
Soft services	1.51	1.95	2.07
Hard services	1.98	1.61	1.55
Income	0.00	0.00	0.00
Insurance	0.00	0.03	0.01
Exceptional expenditure	0.45	0.90	1.00
Miscellaneous charges	0.00	0.00	0.00

Table 4.2:

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

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.)	6.70	7.18	7.29

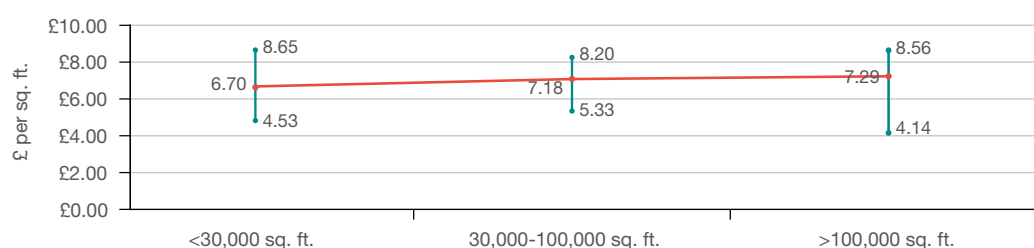


Figure 6.2:

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

3.5 RICS Cost Category benchmarking

Since SCOR's inception its benchmarking analysis has focused on the nine specific cost categories which typically represent the majority of service charge costs, breaking down the results between two geographical regions, London and the Rest of the UK.

The results in Table 5 indicate that Security, Electricity and Mechanical & Electrical Services are a higher proportion of total median costs in London, than the Rest of the UK. However, Fabric Repairs & Maintenance and Major Works account for a larger proportion of the total costs in the Rest of the UK as compared to London.

£ Per sq. ft.	Lower quartile		Median		Upper quartile	
RICS Cost Category	London	ROUK	London	ROUK	London	ROUK
Management fees	0.60	0.29	0.68	0.50	0.93	0.62
Site management resources	0.52	0.28	0.83	0.44	1.23	0.77
Electricity	0.61	0.24	1.47	0.57	1.97	1.39
Security	1.41	0.19	2.07	0.70	2.96	1.42
Cleaning and sustainability	1.01	0.47	1.30	0.87	1.76	1.34
Mechanical and electrical services	1.45	0.55	1.97	0.89	2.80	1.49
Lifts and escalators	0.12	0.09	0.22	0.12	0.28	0.21
Fabric repairs and maintenance	0.27	0.30	0.44	0.49	0.63	0.88
Major works	0.64	0.35	1.17	0.94	2.45	1.54
	Lower quartile		Median		Upper quartile	
	London	ROUK	London	ROUK	London	ROUK
Quartiles of total costs	10.01	4.91	11.85	6.85	13.73	8.44

Table 5:

Service charge expenditure across nine RICS Cost Categories.

As mentioned in the methodology section, as the service charge budgets and certificates for many buildings do not include and/or populate the Major works and Lifts & escalators cost categories, analysis of these costs were conducted by using the median measure of average but allowing there to be blanks in the data as opposed to considering these to be zero values.

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

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	0.69	0.71	0.65
Site management resources	0.69	0.68	1.08
Electricity	1.00	1.68	1.59
Security	1.86	1.89	2.42
Cleaning and sustainability	1.76	1.13	1.24
Mechanical and electrical services	1.69	1.82	2.24
Lifts and escalators	0.23	0.10	0.23
Fabric repairs and maintenance	0.57	0.39	0.40
Major works	2.54	1.35	0.99

Table 6.1:

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

	London		
	<75,000 sq. ft.	75,000 -150,000 sq. ft.	>150,000 sq. ft.
Median of total costs (£ per sq. ft.)	11.44	10.86	12.34

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	0.61	0.50	0.42
Site management resources	0.36	0.39	0.70
Electricity	0.44	0.47	0.75
Security	0.31	0.97	0.96
Cleaning and sustainability	0.95	0.59	1.02
Mechanical and electrical services	1.20	0.84	0.70
Lifts and escalators	0.11	0.12	0.14
Fabric repairs and maintenance	0.49	0.55	0.36
Major works	2.09	0.19	1.00

Table 6.2:

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

	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.)	6.70	7.18	7.29

4. LONGITUDINAL COST BENCHMARKING

Longitudinal cost analysis for three continuous years (2018, 2019 and 2020) was also undertaken on 83 office buildings selected 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
2018 - 2020	83	Certificates/Budgets	£109,026,557	12,228,085 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 83 properties, regardless of geographical location. Even though there was a dip in the median in 2019, the actual total costs for all 83 buildings rose from just under £96million in 2018 to just over £103million in 2019 and to just over £109million in 2020. This is an overall increase of 13.7% over the three years. Year on year this is an average increase of 6.5%.

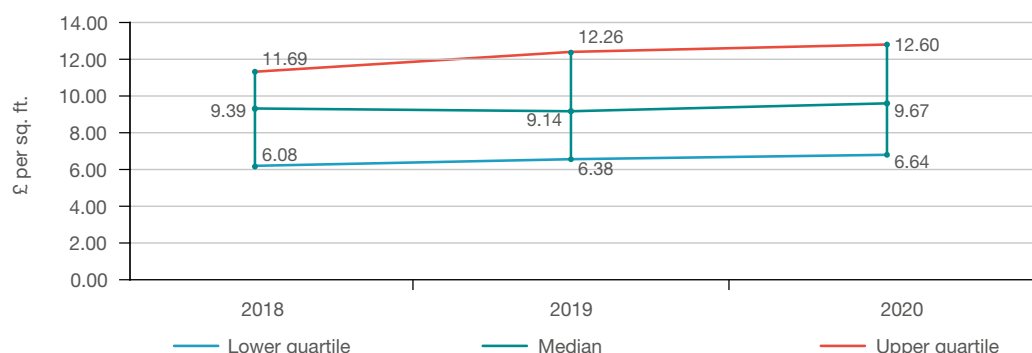


Figure 7:

Total service charge cost trends for the years 2018-2020 - £ 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 Exceptional expenditure, Utilities and Management have seen the largest increases over the three-year period; 25%, 7% and 7% respectively. The rises between 2018 and 2019 were not as marked as between 2019 and 2020.

Median costs (£ per sq.ft.)			
RICS Cost Class	2018	2019	2020
Management	1.17	1.31	1.25
Utilities	1.52	1.59	1.63
Soft services	2.44	2.64	2.52
Hard services	2.19	2.03	2.13
Income	0.00	0.00	0.00
Insurance	0.01	0.00	0.02
Exceptional expenditure	0.79	0.85	0.99
Miscellaneous charges	0.00	0.00	0.00

Table 8:

Service charge expenditure across all Cost Classes compared over three years: 2018-2020

	2018	2018	2019
Median of total costs (£ per sq.ft.)	9.39	9.14	9.67

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.

The results show that in London the cost increases were consistent across all material cost classes. However, in the Rest of the UK the main cost increases were in Exceptional expenditure, Management and Soft services.

4.2 Longitudinal cost benchmarking – RICS Cost Class /
4.3 Longitudinal cost benchmarking – RICS Cost Category

Median costs (£ per sq.ft.)	London			Rest of the UK		
RICS Cost Class	2018	2019	2020	2018	2019	2020
Management	1.67	1.79	1.84	0.88	1.05	1.09
Utilities	1.83	1.96	2.05	1.28	1.27	1.32
Soft services	3.42	3.56	3.75	1.78	1.91	2.02
Hard services	2.68	2.71	3.00	1.61	1.66	1.70
Income	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.01	0.00	0.01	0.00	0.01	0.02
Exceptional expenditure	0.87	0.93	0.99	0.60	0.64	0.96
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.00

Table 9:

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

	2018	2019	2020	2018	2019	2020
Median of total costs (£ per sq.ft.)	10.86	11.76	12.31	6.31	6.68	6.98

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, the most notable increase occurred in Major works at 36%, with Site management resources, electricity, security, cleaning and sustainability and lifts & escalators all showing increases of between 15% and 21%.

Median costs (£ per sq.ft.)	2018	2019	2020
RICS Cost Category			
Management fees	0.57	0.59	0.59
Site management resources	0.52	0.59	0.60
Electricity	1.00	1.08	1.17
Security	1.15	1.28	1.35
Cleaning and sustainability	0.97	1.04	1.14
Mechanical and electrical services	1.38	1.32	1.45
Lifts and escalators	0.14	0.14	0.17
Fabric repairs and maintenance	0.47	0.41	0.49
Major works	0.75	0.88	1.02

Table 10:

Service charge expenditure across nine categories compared over three years: 2018-2020.

	2018	2019	2020
Median of total costs (£ per sq.ft.)	9.93	9.14	9.67

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.)	London			Rest of the UK		
RICS Cost Class	2018	2019	2020	2018	2019	2020
Management fees	0.68	0.67	0.68	0.45	0.44	0.50
Site management resources	0.73	0.82	0.83	0.35	0.43	0.44
Electricity	1.44	1.36	1.46	0.69	0.48	0.67
Security	1.96	2.06	2.08	0.69	0.83	0.77
Cleaning and sustainability	1.22	1.27	1.33	0.72	0.87	0.87
Mechanical and electrical services	1.89	2.06	2.12	0.86	0.85	0.89
Lifts and escalators	0.16	0.17	0.22	0.10	0.10	0.13
Fabric repairs and maintenance	0.44	0.39	0.47	0.50	0.44	0.51
Major works	0.97	1.02	1.17	0.44	0.75	1.02

Table 11:

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

	2018	2019	2020	2018	2019	2020
Median of total costs (£ per sq.ft.)	10.86	11.76	12.31	6.31	6.68	6.98

5. 2020 OFFICE SERVICE CHARGES AT A GLANCE

- The medians of the total service charge for office buildings in London and the Rest of the UK were £11.85 and £6.85 per sq. ft., respectively.
- The four most significant RICS Cost Classes are Soft services, Hard services, Utilities and Management, which together represent approximately 89% of total annual service charge spend during 2020.
- Management accounts for 16% of total service charge spend during 2020, irrespective of geographical location.
- In the longitudinal study, over the last three years, service charges across the same 83 buildings have increased by approximately 14% with a 6% increase recorded between the last two years.

Key service charge cost metrics for London and the Rest of the UK by building size:

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	0.69	0.71	0.65
Site management resources	0.69	0.68	1.08
Electricity	1.00	1.68	1.59
Security	1.86	1.89	2.42
Cleaning and sustainability	1.76	1.13	1.24
Mechanical and electrical services	1.69	1.82	2.24
Lifts and escalators	0.23	0.10	0.23
Fabric repairs and maintenance	0.57	0.39	0.40
Major works	2.54	1.35	0.99

London			
	<75,000 sq. ft.	75,000 -150,000 sq. ft.	>150,000 sq. ft.
Median of total costs (£ per sq. ft.)	11.44	10.86	12.34

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	0.61	0.50	0.42
Site management resources	0.36	0.39	0.70
Electricity	0.44	0.47	0.75
Security	0.31	0.97	0.96
Cleaning and sustainability	0.95	0.59	1.02
Mechanical and electrical services	1.20	0.84	0.70
Lifts and escalators	0.11	0.12	0.14
Fabric repairs and maintenance	0.49	0.55	0.36
Major works	2.09	0.19	1.00

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.)	6.70	7.18	7.29

Bellrock will soon be receiving more certificates prepared in accordance with the requirements of the 2018 RICS Professional Statement. 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.

Table 6.1:

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

Table 6.2:

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

This paper and the research behind it would not have been possible without the technical contribution and insight from Professor Andrew Holt, Department of Accounting, Metropolitan State University of Denver, USA

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