

Service charges

Tenants are usually responsible for the costs of running the shared elements of a building.

In buildings with multiple tenants, the landlord typically retains responsibility for elements used by all tenants, such as the building structure, communal areas, and equipment like lifts and for the provision of certain services for all tenants of the building. A service charge allows the landlord to recover the costs from tenants for operating, maintaining, repairing, and renewing these elements of the building and providing the services.

Unlike base rent, service charge costs are typically variable. To make the charges fair, reasonable, and transparent, a service charge manager should follow the certain principles to comply with RICS best practice. These are:

1. All expenditure that the owner and manager seek to recover must be in accordance with the terms of the lease.
2. Unless the service charge is agreed to be a fixed percentage or fixed amount, owners and managers must seek to recover no more than 100% of the proper and actual costs of the provision or supply of the services.
3. Owners and managers must ensure that service charge budgets, including appropriate explanatory commentary, are issued annually to all tenants.
4. Owners and managers must ensure that an approved set of service charge accounts showing a true and accurate record of the actual expenditure constituting the service charge are provided annually to all tenants.
5. Owners and managers must ensure that a service charge apportionment matrix for their property is provided annually to all tenants.
6. Service charge monies (including reserve and sinking funds) must be held in one or more discrete (or virtual) bank accounts.
7. Interest earned on service charge accounts – or where separate accounts per property are not operated, a proper and reasonable amount of interest calculated on normal commercial rates – must be credited to the service charge account after appropriate deductions have been made.
8. Where acting on behalf of a tenant, practitioners must advise their clients that if a dispute exists any service charge payment withheld by the tenant should reflect only the actual sums in dispute.

9. When acting on behalf of a landlord, practitioners must advise their clients that following resolution of a dispute, any service charge that has been raised incorrectly should be adjusted to reflect the error without undue delay.
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What costs can be included in a service charge?

The costs that can be included in a service charge depend on the lease agreement and may include:

- servicing communal areas
 - maintaining the building structure
 - management fees
 - certain insurance premiums
 - providing certain services such as security or reception
 - auditing fees
 - VAT
 - contributions to a sinking fund.
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How are service charges administered?

Service charges are typically administered by charging tenants a quarterly fee in advance, as specified in the lease, instead of billing them for each individual expense incurred in servicing the building. At the end of the year, the landlord will adjust the amount paid by debiting or crediting the tenant based on the actual expenses incurred. The lease should outline the administration process, ideally requiring the landlord to provide an annual estimate of the service charge and a detailed account of expenses at the end of each service charge year. However, it is common for estimates and accounts to be delayed or unreliable. It is important to review the lease to ensure the landlord fulfils their obligations regarding service charge administration.

How much should I pay in service charges?

The amount you should pay in service charges is determined by the range of services offered by your landlord, as outlined in your lease agreement. For example, if your office is located in a building with reception facilities, you can anticipate a higher service charge.

Multi schedule service charges

Some properties such as shopping centres or mixed-use developments can have multiple service charge schedules, with tenant contributions based on a number of factors such as the type and location of each constituent unit.

In such cases, the percentage contributions to each schedule should be set out in the lease.

What if I disagree with the service charge?

You must be guided by the lease agreement. For example, if it says each of 10 tenants pay 10% towards the cost of the lift, you cannot subsequently argue that you should not pay as your unit is on the ground floor.

If you disagree with the service charge, it is recommended to carefully review the service charge account to ensure that you are only paying for items specified in your lease and the correct proportion of service costs.

If the charge seems excessive, contacting your landlord is advised. The lease may grant the landlord the right to include additional items that are reasonably deemed applicable to tenants. Negotiation can potentially lead to savings on service charges. If resolution with the landlord is not possible, seeking the expertise of a surveyor specializing in landlord and tenant issues for an independent opinion on the reasonableness of the service charge bill, especially for significant one-time costs, is advisable.

Further information

The RICS has produced a professional statement: [Service charges in commercial property](#). This has been written a guidance for service charge managers but should also provide a useful insight for a tenant.