



SCOR

**SHOPPING
CENTRES**

2020

**SERVICE CHARGE
OPERATING REPORT**



INNOVATIVE. TRANSPARENT. COMPLIANT.

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"Transparent service charge costs are invaluable whether you are a tenant, a landlord or a managing agent. The 2018/19 SCOR for Shopping Centres presents a highly engaging view of trends in service charge management and benchmarks costs."

**DO WE WANT A NEW
QUOTE FROM RUSSELL
FOR THIS YEAR?**

Russell Heath
Head of Retail, Leisure
& Industrial
Bellrock Technical &
Real Estate Services

1. INTRODUCTION - PROFESSOR ANDREW HOLD, MSU DENVER

Welcome to the 2020 edition of the Service Charge Operating Report (SCOR) for Shopping Centres, which is the ninth 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 Year-end Statements of Service Charge Expenditure (Certificates) to perform a statistically significant analysis of industry compliance with these new regulatory requirements. As a result, this year's SCOR for Shopping Centres focuses exclusively on benchmarking service charge costs, but future publications will resume our evaluation of regulatory compliance.

SCOR for Shopping Centres 2020 benchmarks the service charge costs at UK shopping centres by analysing them according to the new Cost Classes and Categories specified by the RICS Professional Statement, and includes current year (2020) budgetary cost information for a representative sample of 55 UK retail shopping centres that fall within the UK's 60 largest in terms of total annual service charge expenditure. SCOR for Shopping Centres normally includes a longitudinal cost analysis for three years of costs, but due to a lack of historic data, this analysis has been omitted this year

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 services levels delivered to occupiers at individual centres 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 Shopping Centres, 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 service charge budgets supplied to occupiers at 55 UK retail shopping centres within the UK's 60 largest in terms of their individual total annual service charge cost. Due to the COVID pandemic, the publication of many "2020" end-of-period service charge certificates have been 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. One limitation of using 2020 budgetary data is that these estimates were prepared before COVID-19 decimated UK retail operations, and as a result, the actual level of services and expenditure at each centre may have varied considerably. Next year's SCOR will revert back to primarily using cost and compliance information obtained from annual reconciliation certificates whenever possible and also report on the variances between 2020 budgeted and actual expenditure.

SCORs 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 service charge system 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.

Another important methodological issue for retail premises is the reporting of marketing costs. At a number of UK shopping centres, the landlord makes a substantial contribution towards this type of service charge cost, effectively reducing the net cost for occupiers. As a result, service charge budgets and certificates may merely report the "net" marketing spend as a single line item, rather than showing two separate figures for the "gross" marketing cost and the offsetting credit for the landlord's contribution. If a budget or certificate does not detail the landlord's contribution to marketing, it is almost impossible for an occupier to ascertain the total "gross" annual marketing expenditure planned or actually incurred for the centre. In order to provide an accurate cost benchmark for marketing, SCOR for Shopping Centres reports the "net" marketing cost for each centre, but the research team urges occupiers to carefully review certificates and leases for details about landlord contributions to marketing.

A third issue relates to the reporting of the cost per sq. ft., especially when "weighted" apportionment tables are often utilized in the UK shopping centre retail sector. Such weighted apportionment matrices reduce the proportional service charge percentage paid by larger "anchor" tenants, and means that each retail occupier may pay a differing cost per sq. ft. SCOR for Shopping Centres calculates cost per sq. ft. by dividing "total cost" by "total area" and therefore does not take into account any weighting that the landlord and their managing agent may apply. This means that SCOR's cost per sq. ft. will not apply to certain occupiers, since those benefiting from a weighted apportionment will pay a lower rate, and similarly, those lacking such a concession will incur a higher rate.

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 shopping centres, whereas a blank entry will not. As a result, in order to prevent distorted figures, SCOR’s analysis of the specific Major Works costs specifically excluded amounts of “0” when calculating the median costs.

3. DATASET

Detailed cost analysis was undertaken for 55 UK retail shopping centres within the UK’s 60 largest in terms of their total annual service charge cost during 2018. Table 1 and Figures 1, 2 and 3 provide descriptive information about the cost benchmarking dataset.

Cost year	No. of shopping centres	Type of document	Total area (sq.ft.)	Total service charge cost
2020	55	Service Charge Budget	51,416,721	£428,833,912

Table 1: Characteristics of the cost benchmarking dataset for SCOR for Shopping Centres 2020.

Figure 1 shows that, for analysis purposes, the properties were split into three size bandings; those below 600,000 sq. ft., above 600,000 sq. ft. up to 1,200,000 sq. ft. and those above 1,200,000 sq. ft.

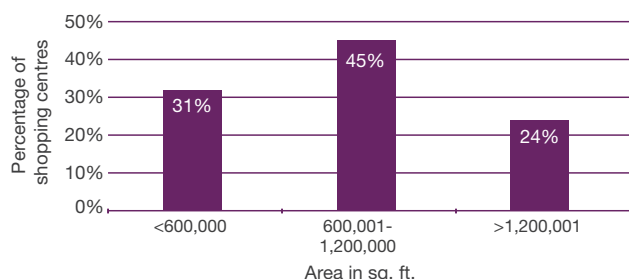


Figure 1: Property sizes (in sq. ft.) of all the shopping centres in the dataset.

Figure 2 illustrates that one fifth of the shopping centres (11) were within Greater London.

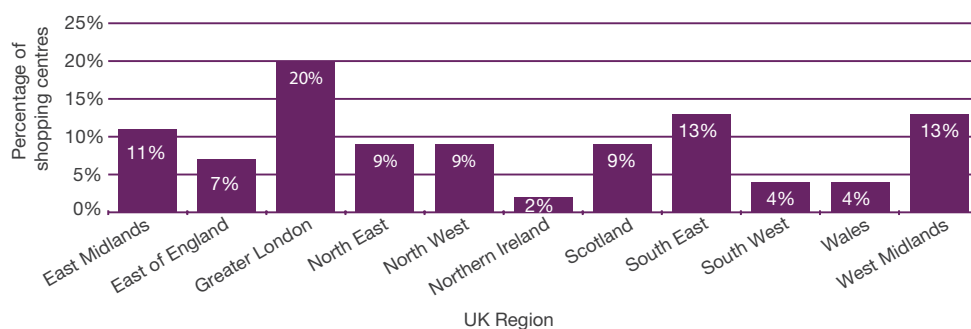


Figure 2: Geographical location of the shopping centres in the dataset.

In regards to the age of the shopping centres, the dataset was split into four groupings as illustrated in Figure 3.

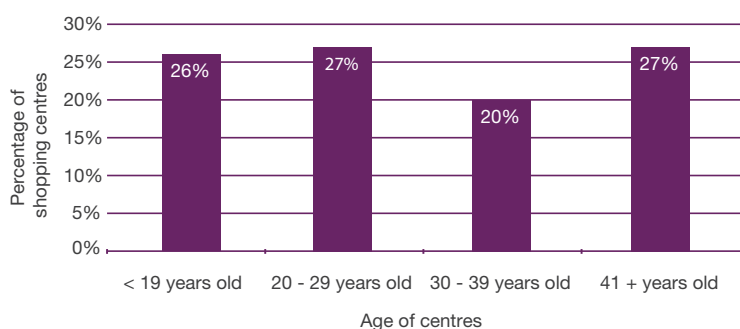


Figure 3: Age of the shopping centres in the dataset.

4. FINDINGS AND ANALYSIS

4.1 Cost Benchmarking

Table 2 and Figure 4 show the lower quartile, median and upper quartile costs, in £ per sq.ft., for London and the Rest of the UK. Based upon these median figures, occupiers in London pay approximately 50% more than tenants in the rest of the UK. This “London-weighting” increases in higher cost centres as can be observed by the 60% difference between the upper quartiles for London and the rest of the UK.

£ Per sq. ft.	London	Rest of the UK
Lower quartile	8.61	6.04
Median	11.03	7.29
Upper quartile	13.22	8.24

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

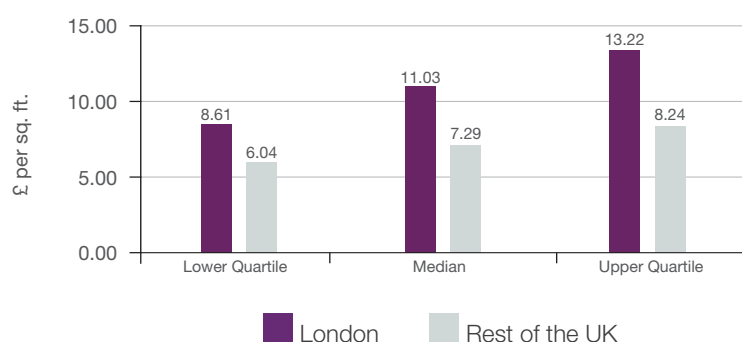


Figure 4: Total service charge costs compared between shopping centres located in London and the Rest of the UK.

4.2 RICS Cost Class benchmarking

In prior editions of SCOR for Shopping Centres, cost benchmarks were only provided for select RICS Cost Categories, and this year that analysis is supplemented by additional benchmarking for all RICS Cost Classes.

4.2.1 RICS Cost Class benchmarking - irrespective of location

In the following analysis of budget figures by Cost Class, Income has been excluded from the illustrations since it represents a negative cost.

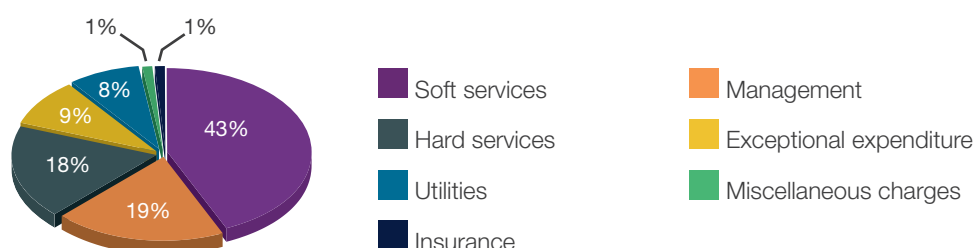


Figure 5: Percentage of total service charge costs per RICS Cost Class across the whole dataset.

Figure 5 illustrates total cost for the 55 centres by Cost Class, and highlights that Soft services, Management, and Hard Services represent 43%, 19%, and 18% of total cost, respectively.

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

Figures 6.1 and 6.2 compare the relative importance of each type of Cost Class budget figures within the London and the Rest of the UK. Soft services account for a larger percentage of total cost in London than the Rest of the UK, (47% versus 42%). However, Management accounts smaller proportion of total cost in London than in the Rest of the UK (16% versus 21%).

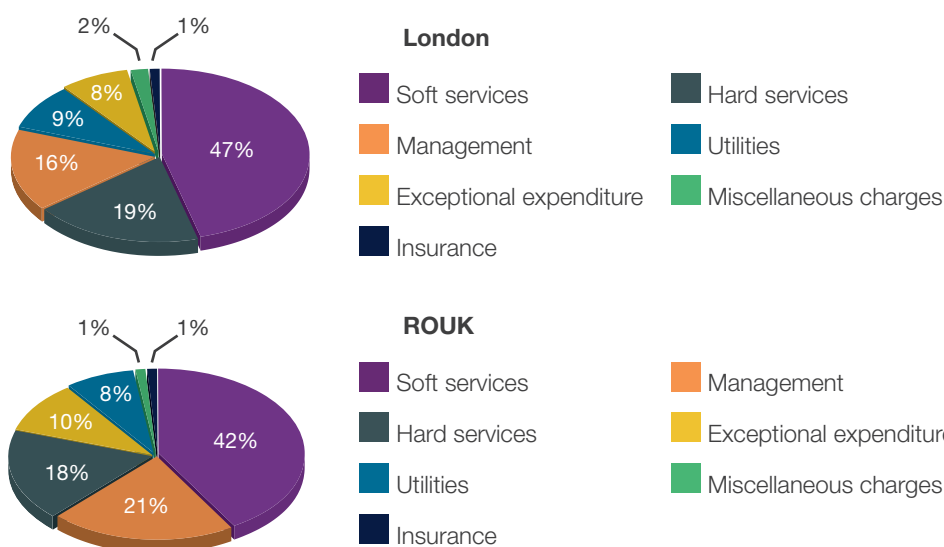


Figure 6.1: Percentage of total service charge costs per RICS Cost Class in shopping centres located in London.

Figure 6.2: Percentage of total service charge costs per RICS Cost Class in shopping centres located in the Rest of the UK.

Table 3 shows the quartiles of service charge costs by RICS Cost Class (in £ per sq. ft) for both London and the Rest of the UK. This table also includes information about income

RICS cost category	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
	London	ROUK	London	ROUK	London	ROUK
Management	1.57	1.34	1.96	1.54	2.68	1.84
Utilities	0.73	.41	0.84	0.51	1.19	0.65
Soft services	3.45	2.31	4.23	3.05	5.74	3.74
Hard services	1.15	0.98	1.64	1.16	2.75	1.57
Insurance	0.00	0.00	0.02	0.02	0.10	0.04
Exceptional expenditure	1.02	0.20	1.06	0.67	1.84	1.13
Miscellaneous charges	0.00	0.00	0.00	0.00	0.08	0.04
Income	(0.06)	(0.02)	(0.14)	(0.06)	(0.17)	(0.12)

Total service charge	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
	London	ROUK	London	ROUK	London	ROUK
Quartiles of total costs	8.61	6.04	11.03	7.29	13.22	8.24

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

4.2.3 RICS Cost Class benchmarking - by shopping centre size (Rest of the UK only)

In order to evaluate the impact of shopping centre size on the total service charge costs, and how those costs spread across the RICS Cost Classes, this section analyses the differences in costs across shopping centres classified into one of three size categories. This analysis was not carried out on the 11 London centres as the results would not be meaningful due to the small sample size.

RICS cost category	ROUK		
	£ per sq. ft.		
	<600,000 sq. ft. (13 centres)	600,001 - 1,200,000 sq. ft. (2 centres)	> 1,200,000 sq. ft. (9 centres)
Management	1.68	1.38	1.71
Utilities	0.57	0.45	0.57
Soft services	3.33	2.76	3.85
Hard services	1.47	1.15	1.11
Insurance	0.02	0.02	0.04
Exceptional expenditure	0.57	0.62	1.50
Miscellaneous charges	0.00	0.00	0.00
Income	(0.05)	(0.06)	(0.10)

Table 4: Service charge costs across RICS Cost Classes by shopping centre size in the Rest of the UK.

Total service charge	ROUK		
	£ per sq. ft.		
	<600,000 sq. ft. (13 centres)	600,001 - 1,200,000 sq. ft. (2 centres)	> 1,200,000 sq. ft. (9 centres)
Medians of total costs	7.32	6.61	8.21

Table 4 and Figure 7 illustrate that as the size of the shopping centre increases, the spread of costs increases, as shown by the progressively higher inter-quartile ranges. The sums allocated to the Exceptional expenditure Cost Class are far higher in the larger shopping centres compared to the smallest, a rise of approximately 163%.

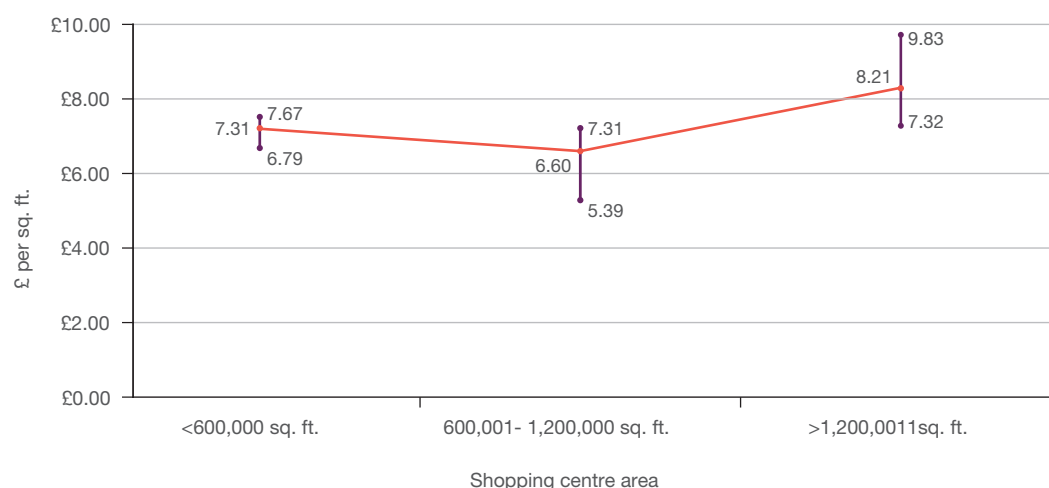


Figure 7: Quartiles of service charge costs by shopping centre size in the Rest of the UK.

4.2.4 RICS Cost Class benchmarking - by shopping centre age (Rest of the UK only)

To investigate the impact of centre age on each type of RICS Cost Class, the centres in the Rest of the UK were classified into three age categories as shown in Table 5.

RICS cost category	ROUK			
	£ per sq. ft.			
	<19 yrs (11 centres)	20 - 29 yrs (13 centres)	30 - 39 yrs (8 centres)	>40 yrs (12 centres)
Management	1.71	1.41	1.69	1.48
Utilities	0.45	0.59	0.44	0.52
Soft services	3.51	3.36	2.83	2.28
Hard services	1.36	1.23	1.07	1.14
Insurance	0.02	0.01	0.01	0.02
Exceptional expenditure	0.62	0.71	1.37	0.63
Miscellaneous charges	0.00	0.00	0.00	0.01
Income	(0.04)	(0.09)	(0.09)	(0.02)

Total service charge	ROUK			
	£ per sq. ft.			
	<19 yrs (11 centres)	20 - 29 yrs (13 centres)	30 - 39 yrs (8 centres)	>40 yrs (12 centres)
Medians of total costs	6.80	7.45	7.05	7.05

Table 5: Service charge costs across RICS Cost Classes by shopping centre age in the Rest of the UK.

Table 5 and Figure 8 illustrate that the age of a shopping centre does not help to explain cost variations between centres. The only trend to note is that as shopping centres age, less is spent on Soft services as a proportion of total cost.

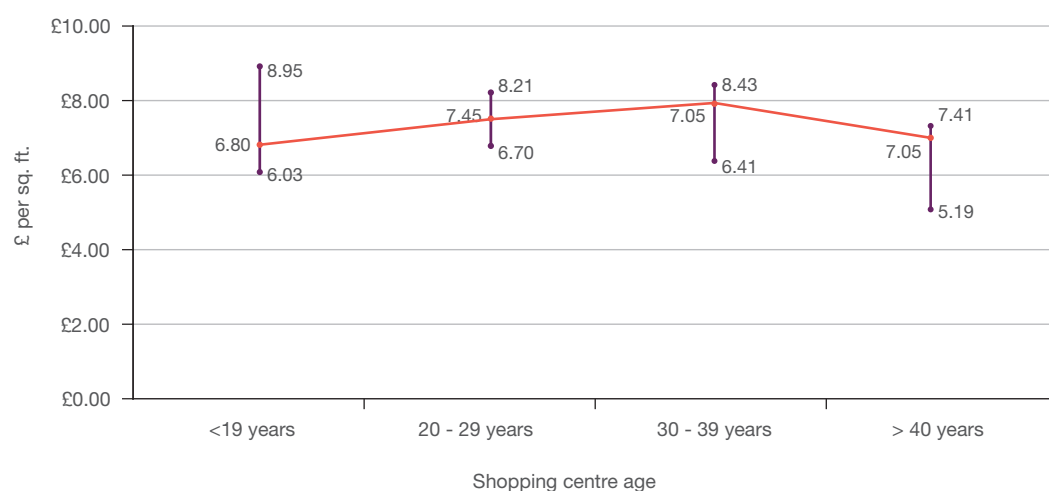


Figure 8: Quartiles of service charge costs by shopping centre age in the Rest of the UK.

4.3 RICS Cost Category benchmarking

This section analyses ten material RICS Cost Categories; Management fees, Site management resources, Electricity, Security, Cleaning & sustainability, Mechanical & electrical services, Lifts & escalators, Fabric repairs & maintenance, Marketing & promotions and Major works. All other costs categories were aggregated together and reported as “Other” costs.

4.3.1 RICS Cost Category benchmarking - irrespective of location

Figure 9 shows the relative importance of each cost category across the 55 centres. Of these, 36% of the total cost was incurred on just two Cost Categories: Cleaning & sustainability and Security (both of which are contained within the Soft services Cost Class). As mentioned in the methodology section, Marketing & Promotions is analysed on a “net” basis, after deducting the Landlord’s contribution to marketing & promotions. Future SCOR for Shopping Centres publications will analyse marketing on a “gross” basis in order to report a more objective measurement of these costs at each centre.

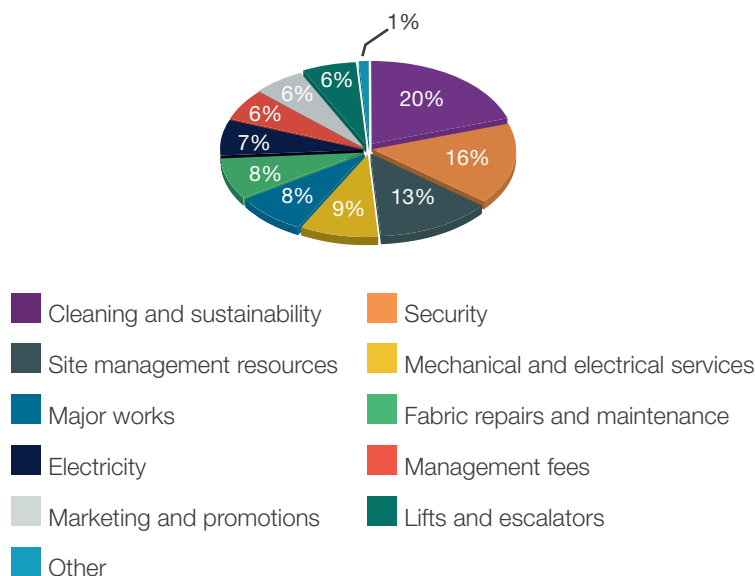


Figure 9: Percentage of total service charge costs per selected RICS Cost Categories across the whole dataset.

4.3.2 RICS Cost Category benchmarking - London and the Rest of the UK

Figures 10.1 and 10.2 illustrate the costs split by Cost Category in London and the Rest of the UK, respectively. The results indicate that Fabric repairs & maintenance shows a material reduction in its percentage contribution to the totals costs between London and the Rest of the UK, 13% in the capital against 6% elsewhere.

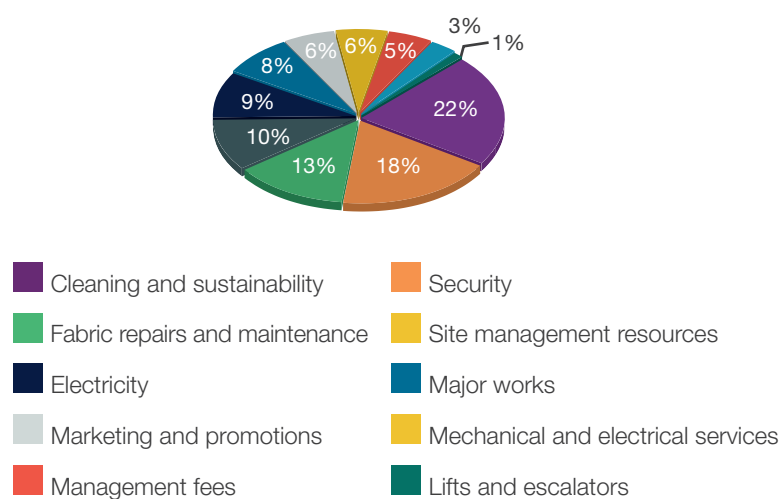


Figure 10.1: Percentage of total service charge costs per selected RICS Cost Categories in shopping centres in London.

4.3.2 RICS Cost Category benchmarking - London and the Rest of the UK /

4.3.3 RICS Cost Category benchmarking - by shopping centre size (Rest of the UK only)

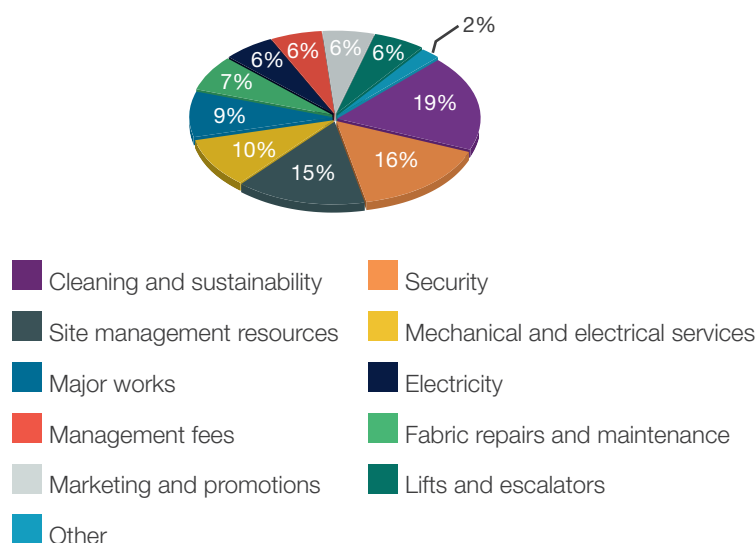


Figure 10.2: Percentage of total service charge costs per selected RICS Cost Categories in shopping centres in the Rest of the UK.

Table 6 shows the quartiles of service charge costs by selected RICS Cost Category across London and the Rest of the UK, the results are given in £ per sq. ft.

RICS cost category	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
	London	ROUK	London	ROUK	London	ROUK
Management fees	0.48	0.34	0.56	0.41	0.79	0.49
Site management resources	0.96	0.89	1.34	1.05	1.81	1.33
Electricity	0.48	0.32	0.67	0.40	1.13	0.52
Security	1.42	0.92	2.04	1.13	2.40	1.38
Cleaning and sustainability	1.40	1.03	1.79	1.36	2.58	1.67
Mechanical and electrical services	0.48	0.56	0.90	0.75	1.23	0.97
Lifts and escalators	0.12	0.09	0.13	0.12	0.27	0.15
Fabric repairs and maintenance	0.11	0.16	0.30	0.24	1.10	0.64
Marketing and promotions	0.01	0.15	0.46	0.44	0.73	0.54
Major works	0.79	0.16	1.04	0.59	1.86	0.96

Total service charge	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
	London	ROUK	London	ROUK	London	ROUK
Quartiles of total costs	8.61	6.04	11.03	7.29	13.22	8.24

Table 6: Service charge costs across selected RICS Cost Categories split between London and the Rest of the UK.

4.3.3 RICS Cost Category benchmarking - by shopping centre size (Rest of the UK only)

Table 7 illustrates the impact of shopping centre size on selected RICS Cost Categories. Once again, this analysis was not carried out on the shopping centres in London due to the centres within this geographical location.

Centre size does not appear to materially affect costs across the selected Cost Categories. The only difference of any note is that the largest centres spent approximately 100% more on Major works when compared to the other two size bandings.

RICS cost category	ROUK		
	Median costs (£ per sq. ft.)		
	<600,000 sq. ft. (13 centres)	600,001 - 1,200,000 sq. ft. (2 centres)	> 1,200,001 sq. ft. (9 centres)
Management fees	0.42	0.39	0.46
Site management resources	1.06	0.98	1.23
Electricity	0.48	0.36	0.47
Security	1.19	1.07	1.04
Cleaning and sustainability	1.42	1.24	1.45
Mechanical and electrical services	0.83	0.75	0.74
Lifts and escalators	0.12	0.11	0.13
Fabric repairs and maintenance	0.24	0.26	0.23
Marketing and promotions	0.43	0.21	0.57
Major works	0.59	0.48	1.21

Table 7: Service charge costs across selected RICS Cost Categories by shopping centre size in the Rest of the UK.

Total service charge	ROUK		
	£ per sq. ft.		
	<600,000 sq. ft. (13 centres)	600,001 - 1,200,000 sq. ft. (2 centres)	> 1,200,000 sq. ft. (9 centres)
Medians of total costs	7.32	6.61	8.21

4.3.4 RICS Cost Category benchmarking - by age of shopping centre (Rest of the UK only)

Table 8 illustrates that the age of a shopping centre makes little difference to the overall service charge costs. The only trends to note are that as shopping centres age, less is spent on Security, Cleaning & sustainability and Marketing & promotions while more is spent on Fabric repairs & maintenance.

RICS cost category	ROUK			
	£ per sq. ft.			
	<19 yrs (11 centres)	20 - 29 yrs (13 centres)	30 - 39 yrs (8 centres)	>40 yrs (12 centres)
Management fees	0.40	0.40	0.45	0.40
Site management resources	1.26	0.98	1.17	0.91
Electricity	0.36	0.48	0.38	0.39
Security	1.25	1.24	1.14	0.87
Cleaning and sustainability	1.40	1.59	1.40	1.13
Mechanical and electrical services	0.70	0.86	0.75	0.96
Lifts and escalators	0.12	0.11	0.12	0.12
Fabric repairs and maintenance	0.23	0.20	0.43	0.41
Marketing and promotions	0.54	0.46	0.11	0.21
Major works	0.16	0.59	1.37	0.51

Total service charge	ROUK			
	£ per sq. ft.			
	<19 yrs (11 centres)	20 - 29 yrs (13 centres)	30 - 39 yrs (8 centres)	>40 yrs (12 centres)
Medians of total costs	6.80	7.45	7.05	7.05

Table 8: Service charge costs across selected RICS Cost Categories by age of shopping centre in the Rest of the UK.

5. 2020 SHOPPING CENTRE SERVICE CHARGES AT A GLANCE

In analysing the 2020 budgeted service charge costs for 55 UK retail shopping centres within the UK's 60 largest in terms of their individual total annual service charge cost, the results were as follows:

- The medians of the 2020 total service charge for shopping centres in London and the Rest of the UK were £11.03 and £7.29 per sq. ft., respectively.
- The most significant RICS Cost Class is Soft services, accounting for 43% of total cost with Management making up a further 19% of total cost during 2020.

At a glance, Table 3 shows the quartiles of Service charge budgeted costs across RICS Cost Classes split between London and the Rest of the UK.

RICS cost category	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
	London	ROUK	London	ROUK	London	ROUK
Management	1.57	1.34	1.96	1.54	2.68	1.84
Utilities	0.73	.41	0.84	0.51	1.19	0.65
Soft services	3.45	2.31	4.23	3.05	5.74	3.74
Hard services	1.15	0.98	1.64	1.16	2.75	1.57
Insurance	0.00	0.00	0.02	0.02	0.10	0.04
Exceptional expenditure	1.02	0.20	1.06	0.67	1.84	1.13
Miscellaneous charges	0.00	0.00	0.00	0.00	0.08	0.04
Income	(0.06)	(0.02)	(0.14)	(0.06)	(0.17)	(0.12)

Total service charge	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
	London	ROUK	London	ROUK	London	ROUK
Quartiles of total costs	8.61	6.04	11.03	7.29	13.22	8.24

- An analysis of service charge budgeted costs in the Rest of the UK showed that neither the size nor the age of the shopping centres had a material effect on the overall service charge costs or the way they were split across different RICS cost lines

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.

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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We would also like to thank James Bell and Charlotte Hammacott of Bellrock for their hard work on collating the data.

Service Charge Operating Report for Shopping Centres 2020

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