



UK SHOPPING CENTRE SERVICE CHARGES IN 2021

The Cost Saving Opportunities

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The challenges of 2020 are clear to all and the impact will remain throughout 2021, bringing cost control in to sharp focus. When it comes to Service Charges, the RICS Professional Statement provides that occupiers should be consulted on budgets and property managers *“should ensure that the standard of service provision (and therefore cost to occupiers) does not unnecessarily exceed the reasonable requirements and needs of occupiers”*.

Tenants will be struggling to deal with occupational costs and many landlords will no longer be either able or willing to fund a gap in income versus service costs incurred. Added to that, landlords will have an increasing service charge liability through voids and shortfalls from capping provisions and all-inclusive rents. So, it is in all parties' interests to limit service charges in the short term for 2021 as well as looking for longer term opportunities.

Accordingly, we asked our Consultancy Team to consider the potential scope for savings in the year ahead. As a starting point, we took the base position from our Assure Index for 2020 (set before the pandemic in January 2020) and completed a 'Build a Budget' exercise, considering realistic cost saving opportunities. The outcomes suggested a range of cost reductions between 16% and 27%. Applying these figures to the Assure Index provides the following projections for UK shopping centres:

Tier	Annual Service Charge Budget	2020 Median (£/psf)	2021 Range (£/psf)
Tier 1	£2,000,000 and above	£7.15	£5.22 → £6.01
Tier 2	£1,300,000 to £2,000,000	£5.72	£4.18 → £4.80
Tier 3	£750,000 to £1,300,000	£4.90	£3.58 → £4.12

For further information, refer to the Assure Index – UK Shopping Centres 2020

These figures have been calculated by looking at the proportion of spend in each cost category and then assessing the level to which reductions could be achieved based on our experience from the 2nd half of 2020, early consultation on 2021 budgets and our own thoughts on what could be achieved in critical circumstances. A line by line summary of the resultant adjustments and the comparison with 2020 are set out overleaf.

The key factors contributing towards the potential saving opportunities are manpower services, such as security and cleaning, where there is scope to reduce hours (fewer trading hours, reduced footfall and closed off areas/amenities) and the closure or reduced staffing of facilities, such as customer service desks etc. Then there is scope to reduce and/or eliminate costs associated with non-urgent repairs and exceptional works as well as a series of less significant adjustments that have a meaningful impact when taken in aggregate. Each scheme is different and some offer greater potential for cost savings than others. For example, if a scheme is below benchmark rates and there are no major works, there is far less scope to achieve savings at the upper end of the range.

When undertaking any research of this nature, especially when it involves projections, a series of assumptions have to be made and whilst some of these adjustments might be questioned, there is no doubt that all potential saving opportunities must be examined and incorporated into budgets as we head in to 2021.

2021 - The Range of Cost Saving Opportunity

Service	Proportion of Spend - 2020 Budget	Lower Level Adjustment	Lower Level Comparison	Upper Level Adjustment	Upper Level Comparison
Management Fees & Accounting Fees	6.44%	100%	6.44%	100%	6.44%
Site Mgmt Resources inc H&S	15.14%	70%	10.7%	70%	10.70%
Utilities	8.75%	87%	7.61%	87%	7.61%
Security	19.40%	84%	16.29%	80%	15.52%
Cleaning & Environment	20.02%	85%	17.02%	84%	16.82%
Refuse Removal	3.38%	90%	3.04%	87%	2.94%
Marketing (less LL contribution)	5.12%	82%	4.20%	25%	1.28%
M&E Services	8.47%	83%	7.03%	81%	6.86%
Fabric - Repairs & Maintenance	8.78%	54%	4.74%	45%	3.95%
Income - Commercialisation & Interest	-3.67%	0%	0.00%	0%	0.00%
Insurance	0.50%	87%	0.44%	87%	0.44%
Exceptional Expenditure/Major Works	7.65%	84%	6.42%	0%	0.00%
Total	100.00%		83.95%		72.57%



For further details and to discuss the findings in more detail, please contact:

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Analysis undertaken by



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