



JONES LANG
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Real value in a changing world

Retail

OSCAR

2008

Service Charge Analysis for Shopping Centres



Foreword

There has been a lot of focus recently on Service Charges, as both Retailers and landlords focus on tight cost control to protect margins in these tough economic times. This is an area where landlord and Retailer interests should align, with landlord contributions to marketing and void costs making them an important contributor to service charges, as well as the stewards of this expenditure.

Greater transparency, dialogue and sharing of best practice are critical to improving value, and quality benchmarking data is an essential facilitator of this. That is why we at CSC are so pleased to see the increased number of contributors to Jones Lang LaSalle's OSCAR exercise, and to play our part in providing a robust benchmarking platform.



Trevor Pereira

Trevor Pereira
Commercial Director CSC



In these challenging times, the need for transparency on service charges is essential. The information contained in the Jones Lang La Salle Retail Oscar provides an effective and informative tool for all parties involved in the retail industry dealing with service charges. House of Fraser supports the compilation of the report as a valuable basis on which to compare service level costs across a broad range of centres.



Julie Daver

Julie Daver
House of Fraser
HOUSE OF FRASER

Following the introduction of the RICS Code of Practice and the current downturn in the worldwide economic climate, the ability for all parties to benchmark service charges is paramount. OSCAR is the most valuable tool available to UK Property Managers to accomplish this; however 'beating' OSCAR should not be the only goal. Reducing occupancy costs wherever possible should be the main aim, whilst still maintaining value for money on the required services for the property to operate successfully.

Jones Lang LaSalle's Retail OSCAR has long assisted in aiding the transparency of services charges and now, for many to become more compliant with the RICS Code of Practice.

PPML have always found the information it contains a useful tool to enable us to advise our clients as to the accuracy, necessity and legitimacy of the charges they are asked to pay. This is essential for all parties in an increasingly difficult market.



Peeter Pargma
Pargma Portfolio Management Limited

Peeter Pargma



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Data Contributors

We are very grateful to the following organisations for their major contribution to the data used in the production of Retail OSCAR



We also thank the following managing agents who have assisted us in compiling the necessary service charge data on behalf of their clients.



Introduction

The accurate measurement and monitoring of costs set out in the OSCAR report is an essential tool for the Chartered Surveyor in developing effective property management strategies and measuring management performance.

RICS has worked closely with Jones Lang LaSalle to ensure that the new industry Service Charge Cost Categories are compatible with those used in OSCAR. The highly respected OSCAR work is a considerable contribution towards our objective of more consistency and transparency within the property management sector.



Christopher Edwards

Chair, RICS Service Charge Group

Jones Lang LaSalle's Retail OSCAR continues to be the largest survey of shopping centre service charge information in the UK. The significant, representative sample of shopping centres which contribute to this report allows the reader to examine current trends and comparisons across type, size and location of each of the RICS approved heads of expenditure.

As detailed later in this report, the figures used in the 2008 Retail OSCAR relate to year end 2007 service charge expenditure. These figures will reflect the changes in the global economy as a result of the initial impacts of the current recession. We expect to see further impact over the coming years' OSCAR reports.

Service charges continue to be an area of constant debate between landlords and their tenants, especially in the shopping centre environment.

The need to balance value for money in terms of services provided against ever increasing shopper expectations of the retail environment has never been more important. Declining retail sales figures have also put a great deal of emphasis on landlords to ensure that service charges in shopping centres represent good value for money and are completely transparent to the paying tenants.

116 shopping centres totalling 41,505,117 sq ft with a combined service charge spend of £201,119,916 were included in Retail OSCAR 2008. Of these 116 contributors, 77 contributed to last year's report and we have 39 new contributors.

	2007	2008	% increase
Number of Centres	104	116	12%
Total Floor Area	36,119,374	41,505,117	15%
Total Service Charge Spend	£148,168,257	£201,119,916	36%

Increasing familiarity with the new RICS cost classes is resulting in consistency of cost allocation across the classes and codes.



Background

There are two methods to calculate the 'average service charge' – the first method is to use the overall average of all the respondents' figures. This can, however, result in skewing of data due to over representation in certain categories. In order to remove the risk of skewed data the 'average service charge' in this report is calculated using the second method which involves taking the overall average figure for each category and then calculating the average of these figures. We consider this method a far more accurate representation of service charge costs across the spectrum. It should also ensure the average figures are not unduly affected by any variances across the sample from year to year.

Shopping centres across the UK vary significantly in terms of construction, age, staffing levels, amounts of common space, levels of security, number of lifts and escalators etc. All these variables must be considered when applying Retail OSCAR indices to individual properties.

Principal findings of the 2008 Retail OSCAR

- The average service charge, including exceptional expenditure by type, has increased from £4.45 per sq ft in the 2007 report to £4.56 per sq ft in the 2008 report, an increase of 2.5%. Average service charge by type (excluding exceptional expenditure) has increased from £4.33 to £4.36 per sq ft, an increase of 0.70%. By way of a comparison the Retail Price Index increased by 4.6% during 2007
- In fact, service charge expenditure (including exceptional expenditure) has decreased in Enclosed Air Conditioned, Enclosed Non Air Conditioned and Part Enclosed schemes, primarily lead by decreases in marketing spend. Moreover, removing exceptional expenditure from both Enclosed Air and Non Air Conditioned schemes also shows a decrease, suggesting an underlying reduction in like-for-like costs. Service charge expenditure in Open schemes has increased partly as a result of rising Exceptional Expenditure costs and also soft services. This increase is in turn driving the increase in the overall average
- The average date of construction of the 66 centres which specified their dates is 1983. As the centres in this report are on average 25 years old, large items of exceptional expenditure are becoming common place
- 77 centres reported the previous year's figures: 48% showed a reduction or nil increase with 52% showing an increase, 39% in excess of RPI
- The labour intensive Soft Services category (Cleaning, Security and Marketing) contributes the greatest proportion of service charge expenditure again this year at 46.89%, an increase from the 2007 level of 45.73%. This figure is broadly consistent with the last 5 year's figures

- Larger centres continue to show the lowest running costs as a result of economies of scale
- For the eleventh consecutive year Region 1 (London and the South East) was the most expensive region
- Costs in Region 3 (North, Scotland and Northern Ireland) continue to be higher than those in Region 2 (South, South West, Midlands, East Anglia and Wales), however, the costs in the 2 regions are starting to get closer to each other again after Region 3 surged ahead in the 2007 report
- Management costs have increased to an average of £1.13 per sq ft compared to £1.09 per sq ft in 2007. This increase is being driven by a significant increase in management fees for part open schemes and increasing staff costs as a result of the increase in minimum wage
- Utility costs have risen for the 5th year in succession from £0.32 per sq ft in 2007 to £0.37 in 2008. Given the volatile state of the energy market in the 2008 calendar we expect future years reporting to show these costs rising
- Cleaning costs have increased by 10% to £0.86 per sq ft after leveling off in 2007. This increase is not as great as the increase shown in the 2006 report (+15%), however, we believe this to be a direct correlation with the increase of the national minimum wage in October 2007 to £5.52 per hour and the increase in statutory holiday entitlement from 20 to 28 days per annum
- Marketing and Promotional expenditure has decreased for the 3rd year in succession both in terms of a rate per square foot and as a percentage of overall expenditure
- Security expenditure has increased for the 5th year in a row to an average of £0.90 per sq ft
- Hard Services expenditure has returned to the 2006 level of £0.86 per sq ft. As familiarity with the RICS cost classes increases the figures in this category should be a true reflection of Hard Services expenditure excluding items of Exceptional Expenditure
- Insurance costs have increased marginally on last year to £0.05 per sq ft
- Exceptional Expenditure costs have increased significantly again after the large increase in 2007. In conjunction with a number of very large items of exceptional expenditure in this year's figures we believe that as owners and their agents become more familiar with the RICS service charge cost classes – expenditure of this kind is being stripped out of previous categories. The average age and dominant type of scheme in the sample (Large Enclosed Air Conditioned) also mean that as aging plant becomes obsolete large exceptional items of expenditure are inevitable

The database

The data used in the Retail OSCAR relates to service charges paid by occupiers to owners or managing agents of shopping centres. For consistency, all costs relating to any non retail uses such as office accommodation, leisure or residential are excluded from this analysis.

The data in this report covers the costs associated with shared services and maintenance of the common parts of the shopping centre. Costs borne by the occupier in relation to their own demised premises are not included. The data which comprises the 2008 Retail OSCAR derives from audited or certified service charge accounts completed during the 2007 calendar year. All figures are analysed on a net of VAT basis.

Costs are calculated by dividing the total service charge expenditure by the gross internal areas of the retail accommodation within the centre. All service charge weightings or differing bases of recovery are ignored.

The 'Definition of Terms' is set out on Page 31 defining the principal cost categories referred to in this analysis.

Retail OSCAR 2008 has seen the introduction of a new size category – Very Large schemes, which are in excess of 750,000 sqft. The new size category will give a more accurate representation of average service charge by size of centre.

The representation of 'Small Centres' in this year's report has decreased again from 11 to 9. This is a concern and an area of the sample size which must be increased in 2009 in order to get a more representative sample. The number of 'Medium Centres' has increased from 27 to 34 while the number of 'Large Centres' has increased from 68 to 73, 10 of which now form the new 'Very Large' size category. These figures have resulted in an additional 5,305,743 square feet of retail space being analysed in Retail OSCAR 2008. This represents a 15% increase against the 2007 report and a 29% increase against the 2006 report.

The 2008 sample is the most geographically balanced sample used for Retail OSCAR. For the first time, Region 2 (South, South West, Midlands, East Anglia and Wales) and Region 3 (North, Scotland and Northern Ireland) provide the largest proportion of the data with 34.5% (40 schemes) of data coming from each region. Northern Ireland has historically been under represented in the sample and a special focus was placed on this region during the data collection phase. The success of this focus is evident in the fact that historically Region 3 has provided the smallest proportion of the sample and in 2008 it is the joint highest contributor in number of centres. Region 1 (London and South East) contributes 31% (36 schemes) of data.

The contribution of each centre type has changed again this year with enclosed air conditioned centres decreasing from 54% of the sample size in 2007 to 49% in 2008, while enclosed non air conditioned centres have increased back to the 2006 levels of 29% from 23% in 2007. Part enclosed centres have increased from 13% in 2007 to 15% in 2008 and open centres have decreased again from 10% to 6% of the sample.



Average service charge

Table 1

Size and type (no of centres)

	Enc A/C	Enc Non	Part	Open	Total
Small Centres	2	1	3	3	9
Medium Centres	12	15	6	1	34
Large Centres	43	19	8	3	73
Very Large Centres	7	1	2	0	10
Total	57	35	17	7	116
Total Last Year	56	24	13	11	104

Table 2

Location and size (no of centres)

	Small Centres	Medium Centres	Large Centres	Very Large Centres	Total
Region 1	2	10	23	1	36
Region 2	3	10	21	6	40
Region 3	4	14	19	3	40
Total	9	34	63	10	116
Total Last Year	11	27	66	-	104

Table 3

Location and size (sq ft)

	Small Centres	Medium Centres	Large Centres	Very Large Centres	Total
Region 1	122,467	1,898,517	8,717,864	1,100,000	11,838,848
Region 2	250,857	1,463,952	7,985,999	5,691,048	15,391,856
Region 3	323,261	2,461,573	7,234,954	4,254,625	14,274,413
Total	696,585	5,824,042	23,938,817	11,045,673	41,505,117
Total Last Year	902,491	5,090,153	30,206,730	-	36,199,374

Table 4

Region and type (no of centres)

	Enc A/C	Enc Non	Part	Open	Total
Region 1	18	12	4	2	36
Region 2	19	10	7	4	40
Region 3	20	13	6	1	40
Total	57	35	17	7	116
Total Last Year	56	24	13	11	104

Table 5

Average - cost class and type (£ per sq ft)

	Enc A/C		Enc Non		Part		Open		Average
	2008	2007	2008	2007	2008	2007	2008	2007	2008
Fees	0.41	0.42	0.41	0.42	0.35	0.28	0.24	0.23	0.36
Site Management	0.80	0.91	0.84	0.85	0.66	0.76	0.54	0.51	0.77
Management Total	1.20	1.33	1.25	1.27	1.00	1.04	0.78	0.74	1.13
Utilities	0.54	0.56	0.44	0.38	0.31	0.26	0.09	0.07	0.37
Soft Services Cleaning	0.98	0.99	1.01	0.86	0.77	0.80	0.59	0.46	0.86
Soft Services Marketing	0.27	0.45	0.24	0.40	0.27	0.29	0.38	0.34	0.33
Soft Services Security	1.07	1.07	1.08	0.96	0.81	0.73	0.58	0.57	0.90
Soft Services Total	2.32	2.51	2.33	2.22	1.85	1.83	1.55	1.37	2.09
Hard Services	1.05	1.13	0.93	1.27	0.72	0.68	0.23	0.25	0.86
Insurance	0.04	0.05	0.05	0.03	0.05	0.09	0.00	0.00	0.05
Exceptional Expenditure	0.15	0.10	0.09	0.03	0.22	0.61	0.24	0.02	0.21
Total Excl Revenue	5.31	5.68	5.09	5.21	4.15	4.51	2.90	2.47	4.69
Income	-0.08	-0.07	-0.06	-0.04	-0.22	-0.39	-0.05	-0.05	-0.13
Total per sq ft	5.23	5.61	5.03	5.17	3.93	4.11	2.85	2.42	4.56
Excl Exceptional Expenditure	5.08	5.51	4.95	5.14	3.71	3.50	2.61	2.39	4.36
Total per sq m	56.31	60.39	54.15	55.65	42.26	44.24	30.69	26.00	42.36

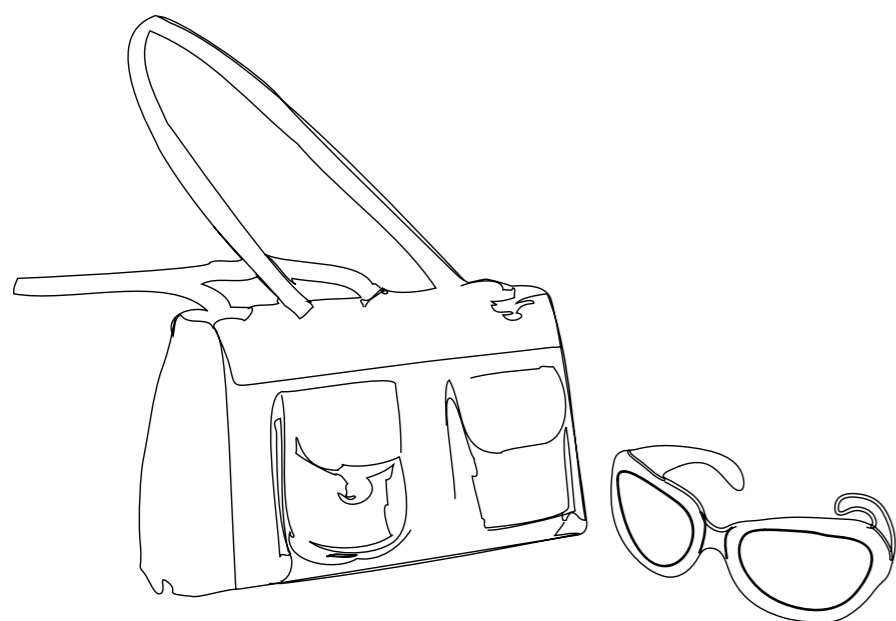


Table 6

Average service charge by cost class and year (£ per sq ft)

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
Management	0.78	0.79	0.81	0.88	0.89	0.83	0.92	1.02	0.98	1.09	1.13	0.92
Utilities	0.24	0.21	0.22	0.19	0.21	0.17	0.18	0.20	0.27	0.32	0.37	0.23
Soft Services Cleaning	0.51	0.53	0.53	0.55	0.67	0.59	0.63	0.67	0.77	0.78	0.86	0.64
Soft Services Marketing	0.26	0.31	0.28	0.33	0.41	0.35	0.41	0.50	0.43	0.37	0.33	0.36
Soft Services Security	0.54	0.61	0.61	0.68	0.72	0.64	0.70	0.74	0.79	0.83	0.90	0.71
Hard Services	0.7	0.71	0.68	0.73	0.83	0.71	0.82	0.89	0.86	0.93	0.86	0.79
Insurance	0.04	0.05	0.04	0.05	0.04	0.04	0.05	0.03	0.03	0.04	0.05	0.04
Exceptional Expenditure									0.02	0.12	0.21	0.12

Average service charge progression by cost class (£ per sq m)

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
Management	8.40	8.50	8.72	9.47	9.58	8.93	9.90	10.98	10.57	11.70	12.12	9.90
Utilities	2.58	2.26	2.37	2.05	2.26	1.83	1.98	2.15	2.89	3.47	3.97	2.53
Soft Services Cleaning	5.49	5.70	5.70	5.92	7.21	6.35	6.78	7.21	8.29	8.39	9.24	6.94
Soft Services Marketing	2.80	3.34	3.01	3.55	4.41	3.77	4.41	5.38	4.63	3.99	3.53	3.89
Soft Services Security	5.81	6.57	6.57	7.32	7.75	6.89	7.53	7.97	8.50	8.96	9.69	7.59
Hard Services	7.53	7.64	7.32	7.86	8.93	7.64	8.79	9.58	9.23	9.97	9.24	8.53
Insurance	0.43	0.54	0.43	0.54	0.43	0.43	0.56	0.32	0.37	0.45	0.49	0.45
Exceptional Expenditure									0.25	1.31	2.22	1.26



Chart 1

Average service charge progression by cost category (£ per sq ft)

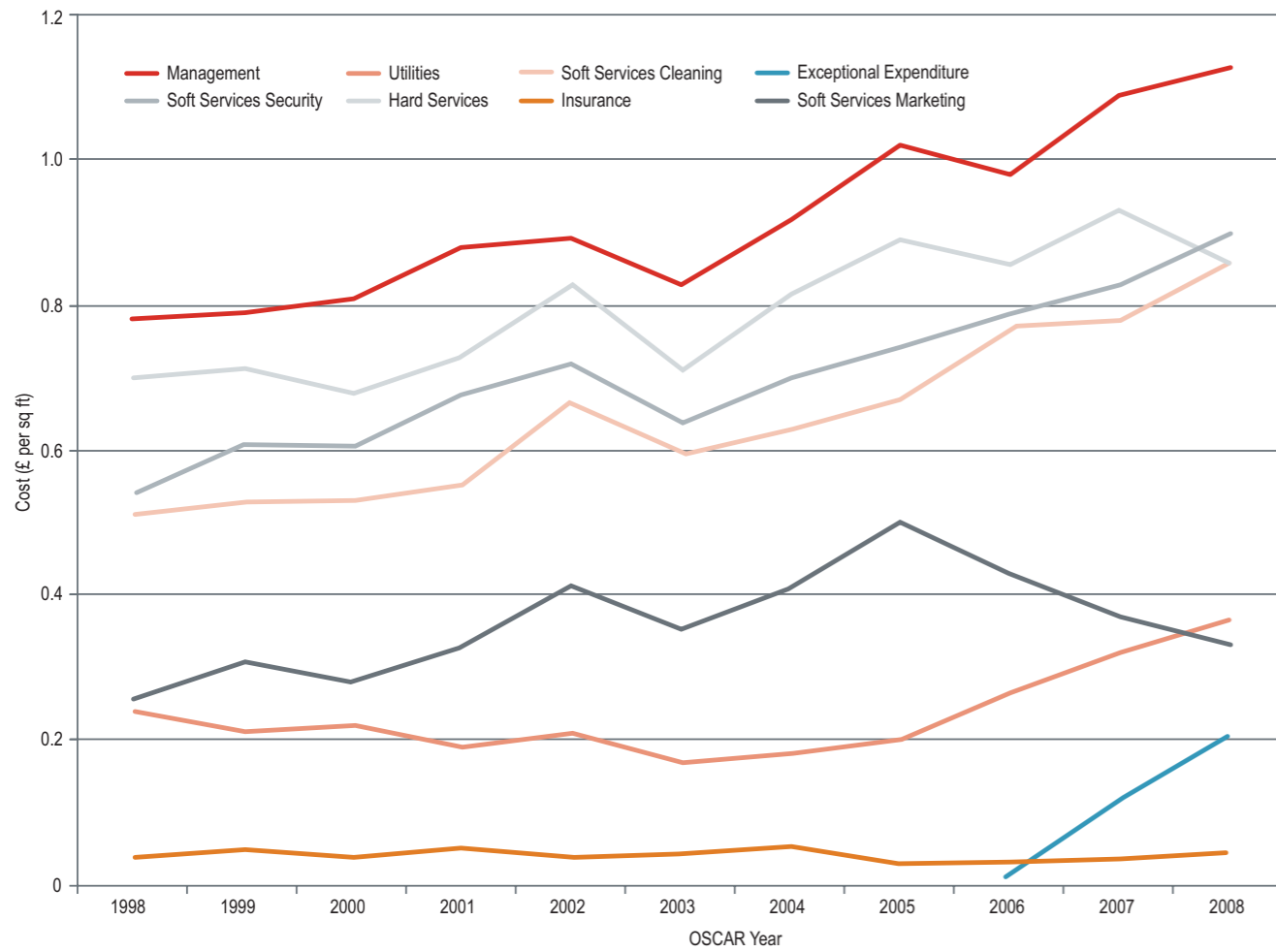


Chart 2

Average service charge progression vs RPI (£ per sq ft)



Retail OSCAR enables owners and occupiers of shopping centres to benchmark the service charge payable on their individual centres against industry recognized average figures.

Chart 2 illustrates that average service charge continues to increase in excess of RPI, however, once RPI inflation is stripped out, the average service charge has risen by £0.49 per sq ft since 1998.

The average service charge by type (including exceptional expenditure) has increased from £4.45 in 2007 to £4.56 per sq ft in 2008, an increase of 2.56% .

Average service charge

Findings

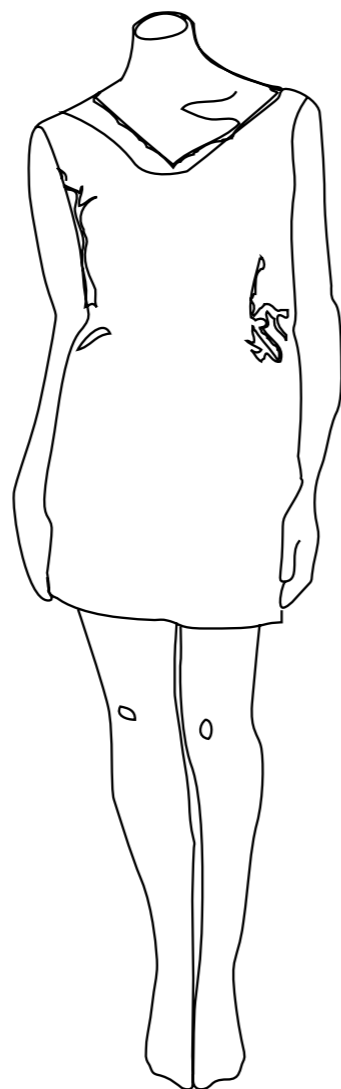
The most expensive type of shopping centre is still 'Enclosed/Air Conditioned' at an average of £5.23 per sq ft (including exceptional expenditure) which reflects a decrease of 7% from 2007. The difference in rate per square foot between air conditioned and non air conditioned centres continues to decrease with the 2008 sample reflecting a difference of 22p per sq ft as opposed to 44p per sq ft in 2007 and 76p per sq ft in 2006. We suspect this is a result of the drive to increase energy efficiency leading to HVAC plant either being used less or air conditioned centres making changes to the existing systems to ensure maximum energy efficiency.

The cost of Utilities has continued to rise in this year's sample reflecting an increase of 16% against the 2007 figures. As mentioned in last year's report, the drive to reduce or control energy usage in shopping centres should theoretically have capped, or in most cases reduced, actual energy consumption across the board, therefore it is fair to assume that the increase in overall utility costs is a direct result of increased unit prices in the volatile energy market. The appointment of energy procurement consultants should protect shopping centre owners and tenants from the volatility of the energy markets as much as possible, however, we expect to see the continuation of these increases in the 2009 report.

Soft Services remain the most expensive cost class accounting for 47% of total expenditure, followed by Management (25%), Hard Services (16%), Utilities (7%), Exceptional Expenditure (5%) and Insurance (1%). These figures reflect the same split of expenditure as last year with no major variances at all.

Expenditure on shopping centre marketing and promotions has decreased for the 3rd year in a row from £0.50 per sq ft in 2005 to £0.33 per sq ft in 2008. We believe this is a result of marketing budgets being reduced across the board as landlords and their agents look to reduce service charge costs and ensure that the money that is jointly invested by the tenants and the landlord is used as efficiently as possible.

Exceptional Expenditure has seen another very significant increase in 2008. This year's sample reflects a 75% increase from the 2007 rate of £0.12 per sq ft to £0.21 per sq ft. As previously mentioned, as familiarity with the new RICS cost classes increases, more and more items of expenditure are being taken out of various categories (predominantly M&E and Fabric Repairs) and included under the heading of Exceptional Expenditure. An aging sample size (2008 average date of construction 1983) also means that as centres pass 20 or 25 years old, major works such as lift car and fire protection system replacements are required resulting in increased service charges.



Average service charge components by percentage

Table 7

Average service charge cost class by type (%)

	Enc A/C		Enc Non A/C		Part Enc		Open		Average	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Fees	7.81	7.54	8.18	8.20	9.39	9.12	8.19	9.54	8.39	8.60
Site Management	15.17	15.83	17.62	17.70	18.73	25.53	18.24	21.12	17.44	20.05
Management Total	22.68	23.42	24.57	24.41	24.15	23.12	26.93	30.09	24.58	25.26
Utilities	10.24	9.89	8.64	7.34	7.38	5.78	3.18	2.92	7.36	6.48
Soft Services Cleaning	18.53	17.42	19.86	16.47	18.50	17.85	20.49	18.81	19.35	17.63
Soft Services Marketing	5.02	7.94	4.73	7.64	6.56	6.53	13.02	13.75	7.33	8.97
Soft Services Security	20.06	18.78	21.24	18.49	19.47	16.13	20.08	23.12	20.21	19.13
Soft Services Total	43.61	44.14	45.83	42.59	44.53	40.50	53.59	55.68	46.89	45.73
Hard Services	19.82	19.88	18.22	24.46	17.42	15.01	7.79	10.22	15.82	17.39
Insurance	0.75	0.90	1.07	0.55	1.18	2.00	0.17	0.08	0.79	0.88
Exceptional Expenditure	2.90	1.76	1.67	0.65	5.34	13.59	8.34	1.01	4.56	4.25

Table 8

Average service charge cost class by size (%)

	Small Centres		Medium Centres		Large Centres	
	2008	2007	2008	2007	2008	2007
Fees	10.43	9.32	8.40	7.57	7.78	8.11
Site Management	20.30	21.42	18.23	18.77	15.35	17.17
Management Total	30.73	30.74	26.63	26.34	23.13	25.28
Utilities	6.44	7.11	9.21	8.54	9.21	8.10
Soft Services Cleaning	19.40	15.80	19.75	17.59	19.49	18.62
Soft Services Marketing	6.75	8.54	4.40	8.31	6.22	9.35
Soft Services Security	20.77	18.89	23.43	20.61	19.67	19.14
Soft Services Total	46.92	43.22	47.58	46.51	45.38	47.11
Hard Services	16.55	18.80	18.35	19.04	17.92	19.48
Income	-1.74	-1.65	-2.68	-2.27	-1.60	-4.54
Insurance	0.78	0.74	0.32	0.60	1.11	1.15
Exceptional Expenditure	0.33	1.02	0.37	0.73	4.23	2.78

Chart 3

Average service charge progression by cost class as % of total expenditure

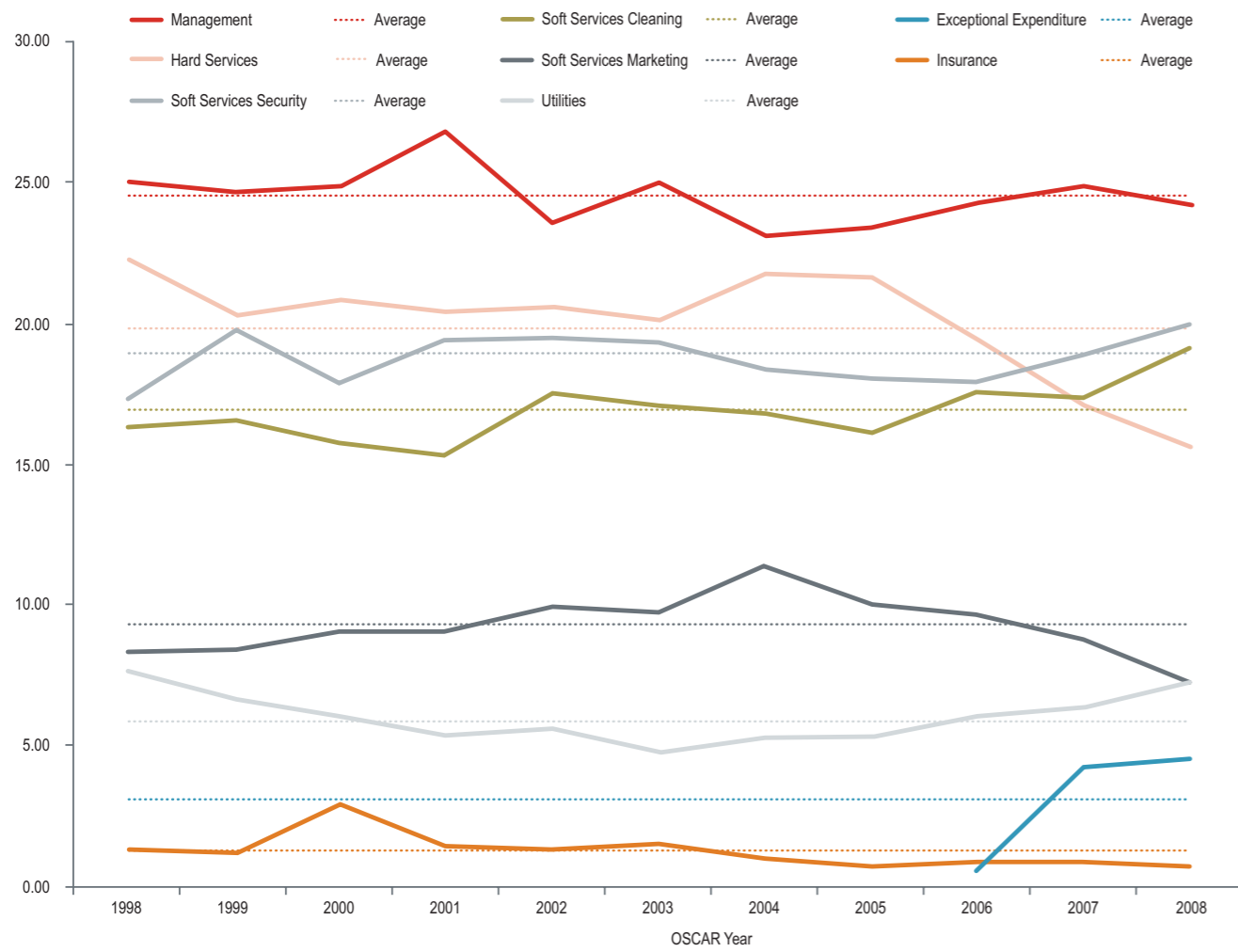
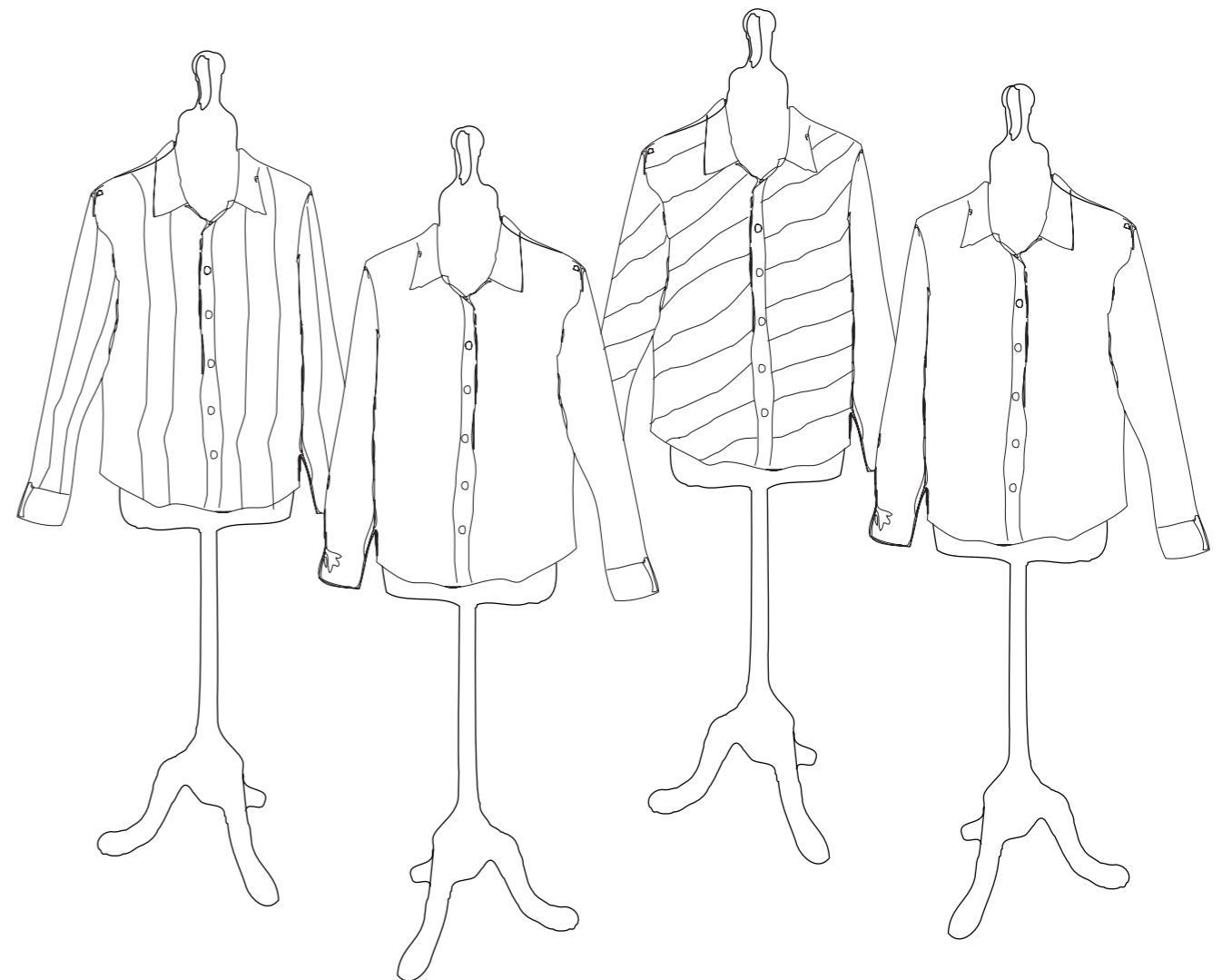


Table 9

Average service charge progression by cost class as % of total expenditure

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
Management	25.24	25.07	25.22	27.24	23.93	25.35	23.47	23.76	24.70	25.26	24.58	24.86
Utilities	7.77	6.78	6.07	5.45	5.69	4.88	5.33	5.44	6.14	6.48	7.36	5.96
Soft Services Cleaning	16.50	16.81	15.96	15.55	17.76	17.33	17.08	16.35	17.82	17.63	19.35	17.16
Soft Services Marketing	8.41	8.55	9.20	9.14	10.07	9.89	11.57	10.22	9.81	8.97	7.33	9.48
Soft Services Security	17.48	20.06	18.13	19.64	19.81	19.60	18.73	18.33	18.20	19.13	20.21	19.18
Hard Services	22.66	20.64	21.12	20.67	20.87	20.41	22.07	21.92	19.81	17.39	15.82	20.07
Insurance	1.29	1.18	2.96	1.47	1.24	1.49	1.09	0.79	0.80	0.88	0.79	1.27
Exceptional Expenditure									0.56	4.25	4.56	3.12



Average service charge components by percentage

Findings

'Management' expenditure which includes management fees and site management costs (accounting fees, site management resourcing costs and health and safety) makes up 24.58% of the total average service charge spend. Charts 4 and 5 show this figure is consistent with last year's data. Percentage contributions in both enclosed centre types remain relatively constant, however, whilst there is an increase in site management costs in Part Open centres from 18.73% to 25.53% there are decreases site management costs in Open schemes from 21.12% to 18.24%.

'Utilities' (electricity, gas, water and fuel) averages 7.36% of service charge expenditure. Utilities expenditure percentages vary quite significantly across the various centre types with figures ranging from 10.24% of service charge in enclosed air conditioned centres to 3.18% of service charge for open centres.

'Soft Services', the labour intensive areas of Cleaning, Landscaping, Security and marketing and promotions remains the most significant service component by percentage at 46.89% of total spend, this is made up of Security 20.21% (19.13% 2007), Cleaning 19.35% (17.63% 2007) and Marketing/Promotions 7.33% (8.97% 2007). Cleaning and Security costs have both increased as a result of increased minimum wage and statutory holiday entitlement. The total soft services figure is a slight increase from last year but the overall figure remains consistent with the previous five years which have reflected 47 - 48% of total expenditure.

'Hard Services', which include M&E, fabric and building maintenance, account for 15.82% of the average service charge spend in 2008 – a decrease from 17.39% in 2007 and 19.81% in 2006. The primary reason for this decrease continues to be that items of Exceptional Expenditure are now being stripped out of these costs more effectively. Percentage of total spend has remained constant in Enclosed Air Conditioned schemes at 19.82%, however, the remaining scheme categories have seen relatively significant changes compared to 2007. The largest variance is shown in Enclosed Non Air Conditioned centres which show a decrease from 24.46% in 2007 to 18.22% in 2008. Part enclosed schemes have increased from 15.01% in 2007 to 17.42% in 2008 and Open schemes have decreased from 10.22% in 2007 to 7.79% in 2008.

'Insurance' expenditure as a percentage of total average spend has decreased in 2008 to 0.79% from 0.88% in 2007. Insurance expenditure has decreased as a percentage of total spend, however, the rate per sq ft has increased from £0.04 per sq ft in 2007 to £0.05 per sq ft in 2008.

'Exceptional Expenditure' has increased to 4.56% of the total average spend against 4.25% in 2007. The spend in this category has remained relatively constant this year after the large increases shown last year. We believe that this figure will increase in the future as owners, centre management and surveyors become increasingly familiar with the category definition and the types of non recurrent expenditure that should be classified as exceptional.

Chart 4

Average service charge cost class by type (%) 2008

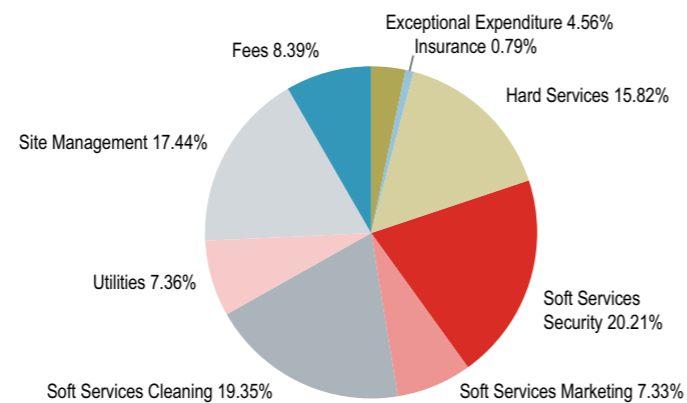
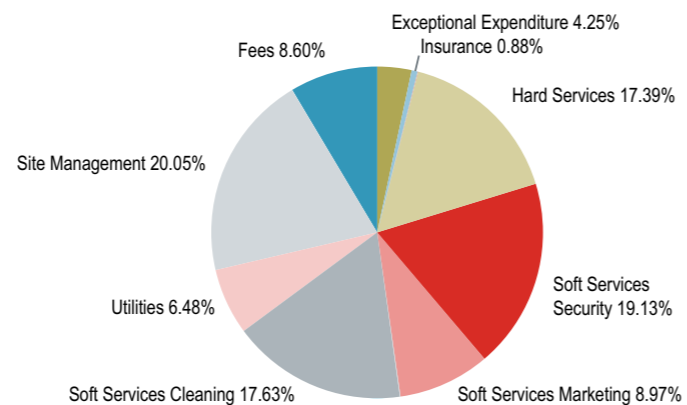


Chart 5

Average service charge cost class by type (%) 2007



Service charge by location

The shopping centres that have contributed data have been split into 3 regions:

- **Region 1** London and South East – a total of 36 centres
- **Region 2** South, South West, Midlands, East Anglia and Wales – a total of 40 centres
- **Region 3** North, Scotland and Northern Ireland – a total of 40 centres

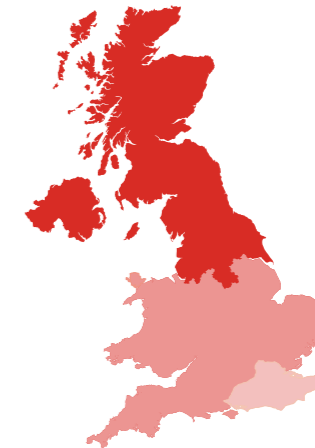


Table 10

Average Service charge progression by location (£ per sq ft)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Region 1	3.69	3.67	3.69	4.35	4.61	4.44	4.94	5.12	5.21	5.79	5.64
Region 2	3.02	3.03	2.88	3.09	3.63	3.35	3.56	4.27	4.12	4.35	4.35
Region 3	2.49	2.86	3.10	3.16	3.54	3.39	3.51	4.14	4.04	5.14	4.67

Average Service charge progression by location (£ per sq m)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Region 1	39.72	39.50	39.72	46.82	49.62	47.79	53.17	55.11	56.05	62.33	60.75
Region 2	32.51	32.61	31.00	33.26	39.07	36.06	38.32	45.96	44.32	46.78	46.84
Region 3	26.80	30.79	33.37	34.01	38.10	36.49	37.78	44.56	43.47	55.33	50.30

Chart 6

Average service charge progression by location

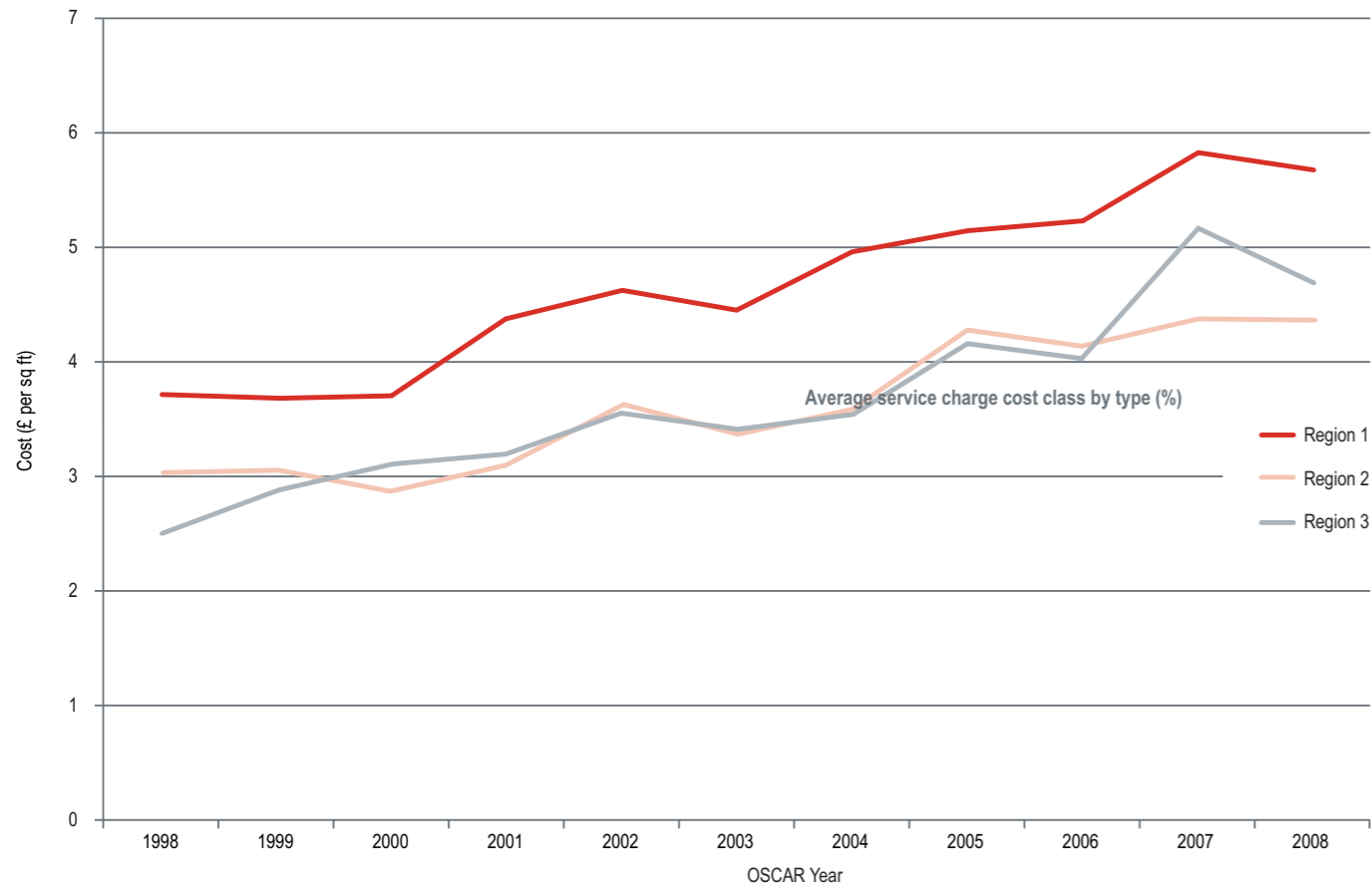
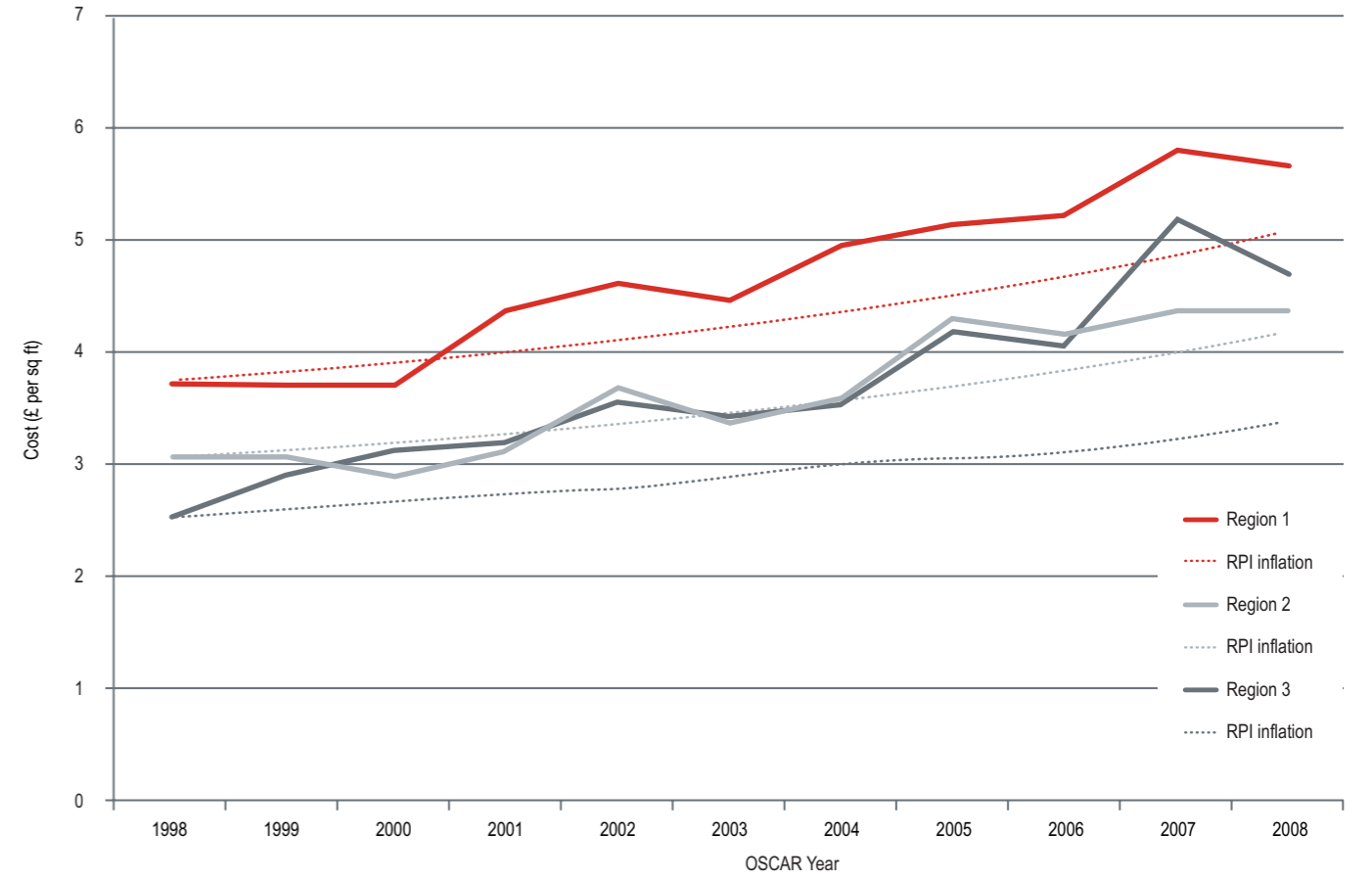


Chart 7

Average service charge progression by location (against RPI)



Service charge by location

Findings

Variations between the 3 regions are in the main a reflection of the difference in living costs across the UK. It is therefore no surprise that Region 1 remains the most expensive region for the 11th consecutive year at an average of £5.64 per sq ft (£5.79 2007).

Region 3 remains the 2nd most expensive at £4.67 per sq ft, a significant reduction from £5.14 per sq ft in 2007 (data included a number of large items of exceptional expenditure) and Region 2 comes in as the cheapest region at an average of £4.35 per sq ft which is the same figure as recorded in 2007.

The 2007 report showed a significant departure between the costs in Region 2 and Region 3, primarily as a result of refurbishment costs linked to competition with new developments in the region. These two regions had historically tracked each other almost identically. Chart 6 shows that these costs are starting to come closer to each other once more. We predict that these costs will meet again and track each other once more and that the 2007 data may prove to be somewhat of an outlier in the long term. As Chart 7 illustrates, costs in all three regions have increased in excess of RPI since 1998. Region 3 continues to show expenditure which is the furthest in excess of RPI (£1.32 variance), Region 1 expenditure is also well in excess of RPI inflation (£0.59 variance) and Region 2 is the closest to RPI at a variance of 22p per sq ft.



Cost class by location

Table 11

Service charge by location (£ per sq ft)

	Enclosed (A/C)						Enclosed (Non A/C)					
	Region 1		Region 2		Region 3		Region 1		Region 2		Region 3	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Fees	0.42	0.39	0.38	0.4	0.43	0.49	0.43	0.48	0.37	0.38	0.42	0.4
Site Management	0.84	0.88	0.72	0.8	0.82	1.06	0.93	0.87	0.75	0.77	0.84	0.89
Management Total	1.26	1.27	1.10	1.21	1.25	1.55	1.35	1.35	1.12	1.15	1.26	1.30
Utilities	0.56	0.55	0.52	0.56	0.55	0.57	0.49	0.38	0.40	0.35	0.42	0.41
Soft Services Cleaning	1.08	1.01	0.94	0.98	0.95	0.99	1.08	0.94	0.88	0.82	1.06	0.82
Soft Services Marketing	0.32	0.44	0.24	0.53	0.25	0.38	0.37	0.26	0.38	0.35	0.01	0.56
Soft Services Security	1.15	1.11	1.01	0.99	1.04	1.12	1.23	1.27	0.84	0.77	1.13	0.84
Soft Services Total	2.54	2.55	2.18	2.49	2.24	2.49	2.67	2.47	2.11	1.94	2.20	2.22
Hard Services	1.23	1.19	0.95	0.96	1.00	1.26	1.28	1.79	0.83	0.89	0.66	1.11
Income	-0.05	-0.05	-0.13	-0.12	-0.05	-0.05	-0.07	-0.01	-0.01	-0.01	-0.10	-0.08
Insurance	0.03	0.03	0.03	0.04	0.06	0.10	0.04	0.01	0.06	0.02	0.06	0.06
Exceptional Expenditure	0.16	0.01	0.09	0.16	0.20	0.13	0.22	0.09	0.02	0.01	0.01	0.00
Total per sq ft	5.73	5.55	4.74	5.30	5.25	6.04	5.98	6.07	4.53	4.36	4.51	5.01
Total per sq m	61.65	59.72	51.04	57.08	56.51	65.04	64.39	65.27	48.70	46.87	48.52	53.94
No. of centres	18	19	19	20	20	17	12	8	10	7	13	9
% change	3.24	-	-10.50	-	-13.06	-	-1.42	-	3.81	-	-10.00	-

	Part Enclosed						Open					
	Region 1		Region 2		Region 3		Region 1		Region 2		Region 3	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Fees	0.36	0.46	0.38	0.22	0.30	0.31	0.29	0.28	0.22	0.22	0.21	0.2
Site Management	0.87	0.92	0.65	0.69	0.52	0.85	0.49	0.51	0.63	0.59	0.31	0.27
Management Total	1.23	1.39	1.02	0.91	0.82	1.16	0.77	0.79	0.85	0.80	0.52	0.47
Utilities	0.52	0.62	0.22	0.21	0.27	0.16	0.13	0.10	0.05	0.07	0.16	0.06
Soft Services Cleaning	0.90	1.48	0.88	0.72	0.55	0.57	0.65	0.59	0.62	0.44	0.39	0.41
Soft Services Marketing	0.30	0.17	0.29	0.30	0.23	0.37	0.58	0.57	0.26	0.27	0.45	0.36
Soft Services Security	0.93	1.21	0.75	0.73	0.80	0.39	0.97	0.93	0.37	0.44	0.64	0.67
Soft Services Total	2.13	2.87	1.92	1.75	1.58	1.33	2.20	2.09	1.25	1.15	1.49	1.44
Hard Services	1.07	1.00	0.75	0.74	0.46	0.28	0.17	0.20	0.21	0.29	0.41	0.17
Income	-0.51	-0.22	-0.15	-0.10	-0.13	-1.30	0.00	0.00	-0.04	-0.05	-0.19	-0.10
Insurance	0.11	0.16	0.04	0.06	0.02	0.14	0.02	0.01	0.00	0.00	0.00	0.00
Exceptional Expenditure	0.71	3.55	0.13	0.08	0.00	0.07	0.01	0.00	0.35	0.01	0.27	0.11
Total per sq ft	5.27	9.37	3.94	3.65	4.59	3.16	5.50	5.27	3.92	3.42	4.15	3.59
Total per sq m	56.71	100.81	42.41	39.30	49.41	34.00	59.20	56.73	42.20	36.83	44.66	38.63
No. of centres	4	2	7	8	6	3	2	2	4	7	1	2
% change	-43.75	-	7.99	-	45.30	-	4.39	-	14.68	-	15.61	-

Cost class by type and size

Table 12

Service charge by type and size (£ per sq ft)

	Enclosed (A/C)						Enclosed (Non A/C)					
	Small Centres		Medium Centres		Large Centres		Small Centres		Medium Centres		Large Centres	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Fees	0.78	0.8	0.48	0.46	0.38	0.38	1.26	0.94	0.43	0.42	0.35	0.34
Site Management	1.48	1.69	0.98	1.11	0.72	0.77	2.01	1.27	0.99	0.93	0.68	0.73
Management Total	2.26	2.49	1.45	1.58	1.10	1.16	3.26	2.21	1.42	1.36	1.03	1.07
Utilities	0.90	1.22	0.60	0.62	0.51	0.49	0.95	0.82	0.51	0.42	0.36	0.29
Soft Services Cleaning	1.38	1.42	1.11	1.07	0.94	0.93	2.68	1.53	0.97	0.91	0.94	0.72
Soft Services Marketing	0.13	0.31	0.36	0.49	0.22	0.45	0.34	0.26	0.13	0.42	0.34	0.40
Soft Services Security	1.82	1.80	1.41	1.31	0.95	0.92	4.18	2.49	1.19	0.89	0.84	0.78
Soft Services Total	3.33	3.54	2.88	2.87	2.11	2.30	7.20	4.28	2.29	2.22	2.12	1.90
Hard Services	1.86	1.85	1.29	1.35	0.93	1.00	6.15	4.74	0.85	0.89	0.68	1.00
Income	0.00	0.00	-0.06	-0.12	-0.10	-0.06	0.00	0.00	-0.12	-0.05	-0.02	-0.03
Insurance	0.11	0.10	0.02	0.03	0.04	0.06	0.00	0.00	0.02	0.03	0.08	0.03
Exceptional Expenditure	0.01	0.00	0.00	0.03	0.16	0.13	0.00	0.00	0.01	0.01	0.15	0.05
Total per sq ft	8.47	9.19	6.18	6.37	4.76	5.07	17.56	12.05	4.98	4.89	4.38	4.31
Total per sq m	91.15	98.93	66.54	68.49	51.19	54.52	188.99	129.65	53.63	52.57	47.14	46.40
No. of centres	2	3	12	14	36	39	1	2	15	9	18	13
% change	-7.82	-	-2.92	-	-6.17	-	45.76	-	1.93	-	1.65%	-

	Part Enclosed						Open					
	Small Centres		Medium Centres		Large Centres		Small Centres		Medium Centres		Large Centres	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Fees	0.42	0.28	0.31	0.18	0.29	0.31	0.32	0.31	0.21	0.24	0.17	0.17
Site Management	0.79	0.84	0.60	0.95	0.55	0.67	0.77	0.78	0.31	0.35	0.39	0.36
Management Total	1.21	1.12	0.90	1.13	0.83	0.99	1.09	1.09	0.52	0.59	0.56	0.53
Utilities	0.26	0.27	0.19	0.22	0.37	0.27	0.07	0.07	0.16	0.07	0.09	0.07
Soft Services Cleaning	0.61	0.54	0.87	0.88	0.62	0.84	0.87	0.65	0.39	0.43	0.38	0.34
Soft Services Marketing	0.14	0.22	0.15	0.37	0.31	0.28	0.47	0.52	0.45	0.49	0.26	0.19
Soft Services Security	0.82	0.44	0.75	1.09	0.82	0.66	0.65	0.70	0.64	0.63	0.49	0.47
Soft Services Total	1.57	1.19	1.77	2.35	1.75	1.79	2.00	1.87	1.49	1.55	1.14	1.01
Hard Services	0.64	0.83	0.60	0.63	0.74	0.66	0.23	0.27	0.41	0.24	0.16	0.24
Income	-0.18	-0.34	-0.18	-0.12	-0.34	-0.51	-0.05	-0.05	-0.19	-0.21	-0.01	-0.02
Insurance	0.02	0.06	0.01	0.08	0.06	0.10	0.00	0.00	0.00	0.00	0.01	0.00
Exceptional Expenditure	0.04	0.30	0.00	0.00	0.54	0.92	0.00	0.05	0.27	0.22	0.48	0.01
Total per sq ft	3.57	3.43	3.29	4.28	3.94	4.22	3.34	3.25	2.66	2.46	2.42	1.85
Total per sq m	38.44	36.93	35.39	46.06	42.44	45.39	35.97	34.99	28.65	26.48	26.06	19.93
No. of centres	3	2	6	3	6	8	3	4	1	1	3	6
% change	4.16	-	-23.16	-	-6.54	-	2.85	-	8.24	-	30.93	-

Table 12a

Service charge by type and size (£ per sq ft)

	Enclosed (A/C)		Enclosed (Non A/C)	
	Very Large Centres		Very Large Centres	
	2008	2007	2008	2007
Fees	0.32	0.34	0.34	0.34
Site Management	0.68	0.56	0.56	0.56
Management Total	1.00	0.90	0.90	0.90
Utilities	0.52	0.49	0.49	0.49
Soft Services Cleaning	0.86	1.27	1.27	1.27
Soft Services Marketing	0.36	0.00	0.00	0.00
Soft Services Security	0.82	0.86	0.86	0.86
Soft Services Total	2.04	2.13	2.13	2.13
Hard Services	1.01	1.18	1.18	1.18
Income	-0.04	-0.09	-0.09	-0.09
Insurance	0.04	0.22	0.22	0.22
Exceptional Expenditure	0.43	0.11	0.11	0.11
Total per sq ft	4.99	4.94	4.94	4.94
Total per sq m	53.72	53.20	53.20	53.20
No. of centres	7	1	1	1

This year's data continues to show that there are clear economies of scale in most shopping centres, generally the larger the shopping centre, the lower the service charge as a rate per square foot. We believe this is due to the fact that proportionately more retail space is serviced from the common areas of the larger schemes.

For the second year in a row, however, the exception to the rule is Part Enclosed centres, where the large centres are actually the most expensive, followed by the small centres, with medium centres proving to be the cheapest. This anomaly is being driven by significant increases in utilities, marketing and hard services whereas the medium and small part enclosed centres are showing decreases.

Part Enclosed centres show the smallest difference between the most and least expensive sizes with a gap of only £0.65 per sq ft whereas Enclosed Air Conditioned centres are the highest* with a difference of £3.71 per sq ft between small and large centres. We suspect these increases are the result of many large part enclosed schemes having a significant amount of enclosed space.

* Enclosed Non Air Conditioned centres (£13.15 per sq ft difference between small and large) have been excluded as the data is skewed by sample size.

The gap between the least and most expensive centres by type and size has increased dramatically this year when compared to last year. In 2007 the gap between the most expensive (Enclosed Non Air Conditioned) and the least expensive (Open) was £10.20 per sq ft whereas in 2008 the gap between the two categories is now £15.14 per sq ft.

New Size Category – Very Large

As the sample size of Retail OSCAR grows there is an increasing number of very large schemes contributing data. There is now sufficient data for the creation of a new size category for schemes in excess of 750,000 sq ft.

This new category will provide a much more meaningful service charge benchmark for landlord's and tenants of the much larger schemes across the UK which was not necessarily available from previous Retail OSCAR publications. It is hoped that this will further aid us in growing our sample size by allowing more of the top shopping centre landlords across the UK willing to contribute data towards a benchmarking exercise which is more relevant to their assets.

As comparable data is not available this year the Very Large schemes have been stripped out of table 12 and placed into table 12a to the right. Provided the sample size remains at least the same as the current year the information will be incorporated into one table in the 2009 report.

	Part Enclosed		Open	
	Very Large Centres		Very Large Centres	
	2008	2007	2008	2007
Fees	0.52	0.00	0.00	0.00
Site Management	0.97	0.00	0.00	0.00
Management Total	1.49	0.00	0.00	0.00
Utilities	0.55	0.00	0.00	0.00
Soft Services Cleaning	1.14	0.00	0.00	0.00
Soft Services Marketing	0.72	0.00	0.00	0.00
Soft Services Security	0.93	0.00	0.00	0.00
Soft Services Total	2.79	0.00	0.00	0.00
Hard Services	1.19	0.00	0.00	0.00
Income	-0.07	0.00	0.00	0.00
Insurance	0.16	0.00	0.00	0.00
Exceptional Expenditure	0.21	0.00	0.00	0.00
Total per sq ft	6.33	0.00	0.00	0.00
Total per sq m	68.09	0.00	0.00	0.00
No. of centres	2	0	0	0

Chart 8

Average 2008 - service charge cost class by type (%)

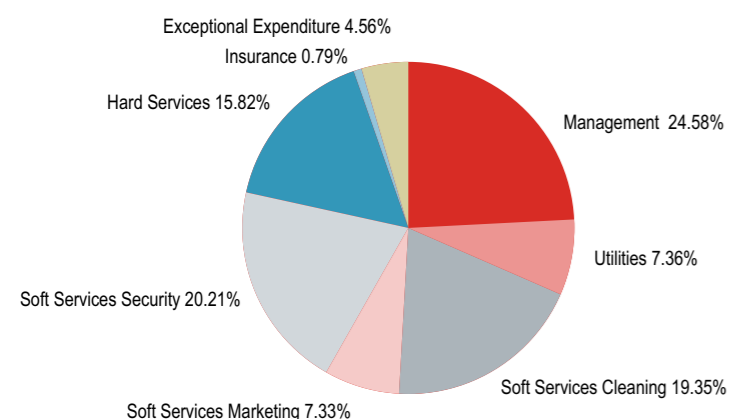
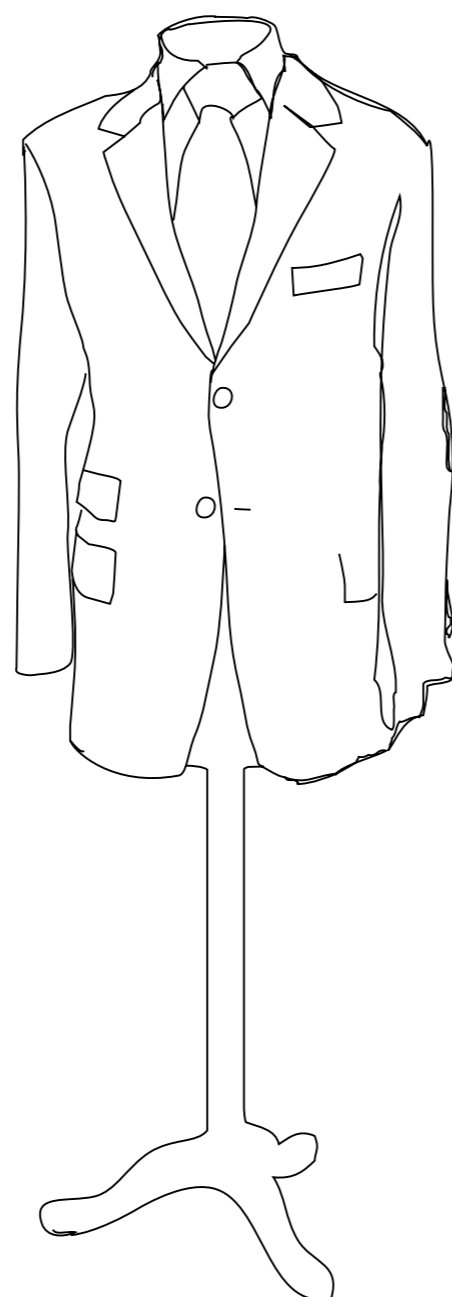
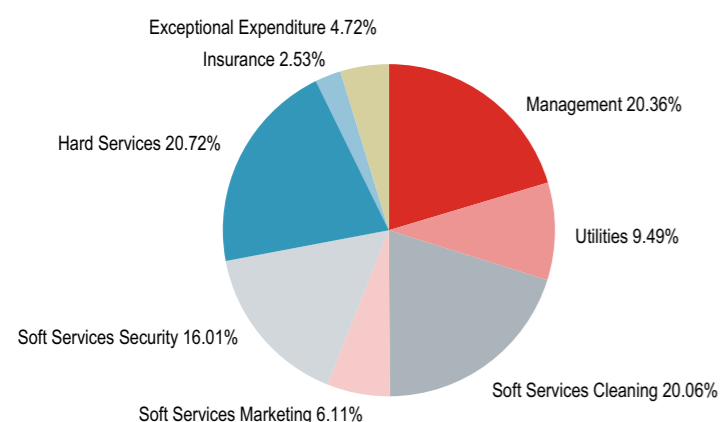


Chart 9

Very large centres - service charge cost class by type (%)



Service charge by size and location

This analysis enables comparison by size across each of the regions and illustrates the spread of aggregate cost by location and size.

As per the trend described earlier in this report, Region 1 schemes remain the most expensive at an average of £7.13 per sq ft across the 3 size classifications followed by Region 3 at an average of £4.87 per sq ft with Region 2 the least expensive at an average of £4.28 per sq ft.

These figures follow the same general trend recorded in the 2007 report, however, the difference between Region 1 and Region 3 has more than doubled this year from £0.98 per sq ft in 2007 to £2.26 per sq ft in 2008, and the difference between Region 3 and Region 2 has more than halved from £1.39 per sq ft in 2007 to £0.59 in 2008.

As mentioned previously in this report the gap between expenditure in Region 3 and Region 2 has closed considerably this year after increasing dramatically in 2007 led by extensive Exceptional Expenditure. In time the expenditure gap in these two regions should close further and continue to track very close to each other as they have done historically – see Chart 6 on page 18 for details.

Expenditure in Small Region 1 schemes has continued to increase, albeit at a reduced rate in 2008, to an average of £10.44 per sq ft. This is an increase of 14.6% compared to 2007 and an incredible 78.5% from 2006. This may be a function of a decreasing sample size over the past 2 years.

Table 13

Service charge by size and location (£ per sq ft)

	Region 1		Region 2		Region 3	
	2008	2007	2008	2007	2008	2007
Small Centres	10.44	9.11	3.74	3.78	5.79	7.28
Medium Centres	5.69	5.83	5.22	5.36	4.57	5.44
Large Centres	5.26	5.28	3.88	4.02	4.27	4.57
Average £ per sq ft	7.13	6.74	4.28	4.39	4.87	5.76
Average £ per sq m	76.72	72.52	46.01	47.20	52.45	62.01
% change	5.78	-	-2.52	-	-15.42	-

Table 14

Variance from average (£ per sq ft)

	Region 1		Region 2		Region 3	
	2008	2007	2008	2007	2008	2007
Small Centres	3.31	2.37	-0.54	-0.61	0.92	1.52
Medium Centres	-1.44	-0.91	0.94	0.98	-0.31	-0.32
Large Centres	-1.87	-1.46	-0.40	-0.37	-0.61	-1.20
Very Large Centres	-£2.64	-	-£0.05	-	-£0.96	-

Table 13b

Variance from average (£ per sq m)

	Region 1	Region 2	Region 3
	2008	2008	2008
Very Large Centres	4.49	4.23	5.83
Average £ per sq ft	4.49	4.23	5.83
Average £ per sq m	48.36	45.51	62.69

Table 15

Variance from average (£ per sq m)

	Region 1	Region 2	Region 3
	2008	2008	2008
Small Centres	£35.64	-£5.81	£9.86
Medium Centres	-£15.46	£10.12	-£3.30
Large Centres	-£20.18	-£4.31	-£6.56
Very Large Centres	-£28.36	-£0.48	£10.24

Average service charge by size, location and type

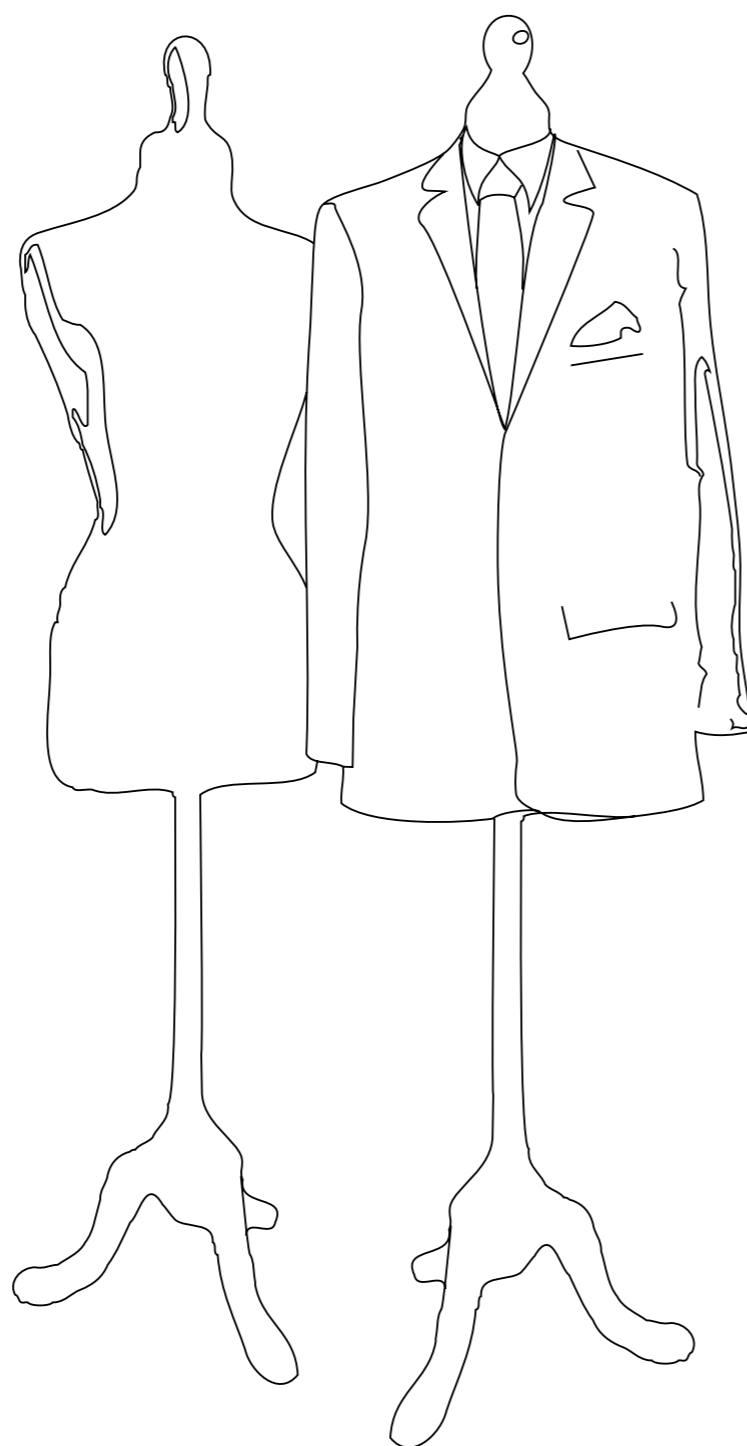
This analysis brings together all the variables in the report. These figures can be used as a very simple benchmark for any centre.

As per the 2007 report, Small, Enclosed Non Air Conditioned in Region 1 are by far and away the most expensive centres at £17.56 per sq ft. The sample size is too small to draw any meaningful conclusions from the data. The result is that this category is heavily skewed and as such it is our opinion that this figure should be discounted.

The second outlier in the 2007 report (Large, Part Enclosed, Region 1) has been smoothed by doubling the sample size in the 2008 report, it is a priority to do the same in 2009 for the Small, Enclosed Non Air Conditioned, Region 1 category.

Once the outlier has been discounted for the 2nd year in a row, Small, Enclosed Air Conditioned, Region 3 schemes are the most expensive at £8.47 per sq ft whereas Large, Open, Region 2 schemes are the least expensive at £1.99 per sq ft.

Chart 16 shows that the gaps in the sample that were identified last year have not been filled in 2008. It must remain a priority to fill these gaps going forward in order to get a more representative sample. The biggest area for improvement is that we must strive to increase the number of Small schemes. Smaller schemes are typically the most expensive type of scheme and a decreasing sample of Small schemes will skew the average figures.



Average service charge by size, location and type

Table 16

Service charge by size location and type (£ per sq ft)

	Enclosed A/C						Enclosed Non A/C					
	Region 1		Region 2		Region 3		Region 1		Region 2		Region 3	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Small Centres	-	-	-	-	8.47	9.19	17.56	12.05	-	-	-	-
Medium Centres	6.61	6.49	6.32	6.25	5.53	6.38	5.92	4.83	4.67	4.42	4.81	5.48
Large Centres	5.44	5.13	4.35	5.04	4.82	5.18	4.54	3.97	4.43	4.27	4.22	4.79

	Part Enclosed						Open					
	Region 1		Region 2		Region 3		Region 1		Region 2		Region 3	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Small Centres	-	-	4.50	5.33	3.11	1.54	3.32	3.23	3.36	3.26	-	-
Medium Centres	3.05	2.85	4.09	5.04	2.73	3.43	-	-	-	-	2.68	2.48
Large Centres	7.50	15.89	3.73	2.78	3.21	1.98	3.29	3.15	1.99	1.53	-	1.83

Table 17

Service charge by size location and type (£ per sq m)

	Enclosed A/C						Enclosed Non A/C					
	Region 1		Region 2		Region 3		Region 1		Region 2		Region 3	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Small Centres	-	-	-	-	91.18	98.97	189.06	129.70	-	-	-	-
Medium Centres	71.20	69.83	68.06	67.24	59.56	68.67	63.77	52.01	50.30	47.59	51.78	58.96
Large Centres	58.59	55.26	46.81	54.28	51.85	55.78	48.88	42.75	47.67	46.01	45.45	51.61

	Part Enclosed						Open					
	Region 1		Region 2		Region 3		Region 1		Region 2		Region 3	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Small Centres	-	-	48.41	57.32	33.48	16.56	35.71	34.75	36.12	35.09	-	-
Medium Centres	32.78	30.63	-	54.29	29.38	36.94	-	-	-	-	28.84	26.66
Large Centres	80.68	171.07	40.13	29.92	34.54	21.31	35.40	33.87	21.41	16.50	-	19.73

Conclusion

Retail OSCAR continues to provide owners and occupiers the opportunity to identify changes in service charge costs on a year by year basis and to benchmark the costs of individual shopping centres and their particular environment.

It is important to stress the unique nature of individual shopping centres and their environments, which means direct comparisons should be made with care.

This year's report covers 41.5 million square feet of retail space across 116 shopping centres of various sizes, types and locations across the UK with a combined total service charge expenditure in excess of £200 million.

The principal findings of this years report have shown:

1. **Of the 77 centres which were included in both the 2007 and 2008 reports 48% reported no increase in total service charge expenditure, while 10% have shown increases broadly in line with RPI and the remaining 42% have reported year on year increases in excess of RPI**
2. The average service charge by type (including exceptional expenditure) has increased over the past 12 months from £4.45 per sq ft to £4.56 per sq ft - an increase of 2.5%. Average service charge by type (excluding exceptional expenditure) has increased from £4.33 per sq ft to £4.36 per sq ft

3. Service charge expenditure has decreased in Enclosed Air Conditioned, Enclosed Non Air Conditioned and Part Enclosed schemes. Expenditure in Open schemes has increased as a result of increased Exceptional Expenditure. This increase is driving the increase in the overall average
4. Utilities and Security costs continue to rise for the 5th year in succession. Management costs have also risen in 2008. Cleaning costs have risen in 2008 after remaining constant in 2007
5. For the 2nd consecutive year Marketing/Promotional and Hard Services expenditure has decreased
6. Exceptional Expenditure has continued to rise in 2008
7. **Region 1 remains the most expensive region in the UK for the eleventh consecutive year**
8. As a general rule economies of scale exist, with large centres benefiting from proportionately more retail space being serviced from the common areas, resulting in lower levels of service charge compared to small centres
9. The focus for 2009 must be to grow the sample size and fill the current informational gaps

Looking to the future

Looking ahead, it seems likely that increasing legislative requirements, especially in the areas of staff costs and the environment, may be offset to a certain extent by recessionary pressures as landlords review unit costs, overall levels and more cost effective procurement. In particular at Jones Lang LaSalle we are concentrating on the following key areas:

- Engagement with tenants over agreed service levels
- Hours of Operation
- Further procurement efficiencies
- Labour intensive spend including Cleaning & Security
- Plant & Fabric Maintenance
- Environmental areas

Energy

After falling away at the end of 2006, at the start of 2007 inflation returned to energy markets with a vengeance. Prices peaked around the middle of 2008 and subsequently fell away into mid-2009 on the back of global economic turmoil and uncertainty and the recession in the UK. There is a view that as the economy bottoms out and growth re-emerges, energy prices will follow. Political and environmental issues will continue to put pressure on the supply side, whilst the continuing growth of the major emerging economies is creating additional demand side pressure. Long-term, risk-managed purchasing strategies, as well as improved demand management will remain at the fore.

The system of Energy Performance Certificates (EPCs) is becoming embedded, but a new element of environmental legislation will come to the fore from 2010 onwards – the Carbon Reduction Commitment (CRCs). This will place responsibility for accounting for carbon emissions with the ultimate UK parent company of any business consuming above a specified threshold. The detailed implications for property owners and managers

are still being worked through, but what is clear is that organisations should have a clear strategy for measuring consumption accurately at every property they are responsible for. There will, as a consequence, be increased administration costs, but also risks (penalties) and rewards for owners on the performance of their property.

Security

The industry is now 3 years into the licensing regime in England and Wales and well into the renewal process for staff and managers. Licensing has not had the dramatic indirect effect on costs that was at first feared, although it did nudge up hourly charges by single figures. The increase in statutory annual leave entitlement from 20 days, in two stages, to 28 days, implemented finally in April 2009, has also had a small impact on hourly costs.

However, the impact of economic uncertainty (and latterly recession) has had a stabilising effect on costs as staff vacancies and churn has reduced.

Increasingly, smart suppliers and buyers are responding by looking for solutions which drive down cost, whilst maintaining or even improving security. For example, the greater use of technology, or simply questioning the basic operational requirement that lies behind many specifications.

Definition of terms

M&E Services

Inflation on Maintenance costs has historically exceeded the RPI indices and this is unlikely to change even in the medium term as resources and skill sets continue to be an issue. The current historic low RPI is reflected in the proposed industry sector index increase, but in most cases suppliers are willing to forego increases and manage to a similar annual cost to retain business. Use of technology is becoming more prevalent to improve efficiencies, in communication and service levels, whilst achieving cost benefits.

The introduction of the AC inspections is a continuing part of the 'green agenda' and is adding to the costs of maintaining air conditioning systems. M&E contractors will be at the forefront of energy management initiatives and works to actively reduce consumption/CO2 emissions as part of the CRC's.

Cleaning & Environmental

As with security, cleaning has been affected by the increase in statutory annual leave. Again inflation has been mitigated by the impact of the recession. Economic recovery will remove this constraint and property managers will need to have worked out ways to manage costs down. The smaller increases in the minimum wage will not greatly affect costs, particularly in the current employment market.

Reduced availability of landfill sites and above inflation increases in landfill tax are encouraging greater efforts to recycle waste and to find innovative ways of reducing waste.

Fabric Repairs and Maintenance

Tenants continue to increase emphasis on their buildings being presented in excellent order, with corresponding planned maintenance programmes in place. This should have the effect of smoothing year-on-year costs and reducing unplanned exceptional expenditure.

Site Management Resources

We predict that Site Management Resources will remain fairly constant in terms of cost, with most companies adopting a no or low annual salary increase. The same pressures apply, with a limited pool of good quality facilities and building management staff and ever increasing training needs to keep pace with the legislative and technical developments.

Lift & Escalators

Lift companies and insurance inspectors are still coming to terms with SAFed's 'Guidelines on the supplementary test of in-service lifts (2006) and the way the new tests are to be called for by competent persons. Until this improves the previous guidelines, SAFed Lift Guidelines (LG1), are likely to be referred to where there are fixed frequency group tests.

A limited pool of good quality suppliers and labour will continue to put pressure on salary levels but the impact upon contract prices in the short to medium term is low.

Water

The industry regulator has agreed to above inflation rises to finance investment in aging infrastructure.

Conclusion

Expectations remain that there will be increasing pressures on labour costs arising from statutory, regulatory and other environmental requirements, but that these will be offset by nil or below inflationary increases in the costs of labour other than for specialist areas. Further legislative requirements i.e. air conditioning inspections, will also place upward pressure on service charge costs. Energy costs continue to be volatile, but in general terms the pressures are now upward. Finally, the burden of new environmental legislation will predominantly be borne more by older, air conditioned stock where there is less opportunity to be gained from economies of scale and technical innovations.

In most cases, however, we consider that future trends in overall service charge costs will evidence increasing focus on cost-effective and value for money service charges reflecting the economic environment.

Jones Lang LaSalle looks forward to reporting on service charge spend in Oscar 2009 to review these trends.

This year's Retail OSCAR incorporates a re-alignment in our Cost Categories to the RICS Service Charge Code's Cost Class definitions. We detail below for ease of reference the new Cost Class headings and the cost categories included under each of the new cost class headings.

Management

1. Management Fees

- Management fees: owner or managing agent fees for managing and administering building services excluding rent collection, etc

2. Accounting Fees

- S/C audit fees: auditor's fees to review the year end service charge reconciliation

3. Site Management Resources

- Staff costs: direct employment or contract costs for provision of staff for management of on-site facilities
- Receptionists / concierge: direct employment or contract costs for provision of reception and concierge staff, including associated administrative and training costs
- Site accommodation (rent / rates): rent, service charge and rates associated with site management accommodation
- Office costs (telephones / stationery): costs of equipping and running site management office
- Petty cash: miscellaneous minor expenditure incurred in relation to site management duties
- Help desk / call centre / information centre: operational costs for providing help desk / call centre / information centre facilities

4. Health, Safety and Environmental Management

- Landlord's risk assessments, audits and reviews: consultancy fees and other costs associated with provision and review of owner's health and safety (H&S) management systems

Utilities

5. Electricity

- Electricity: electricity supply to common parts and retained areas and central plant excluding occupier direct consumption
- Electricity procurement / consultancy: consultancy and procurement fees for negotiating electricity supply contract and auditing of energy consumption
- Fuel (standby electrical power): fuel oil to run any standby electrical power systems

6. Gas

- Gas: gas supply to owner's central plant, excluding occupier direct consumption
- Gas procurement / consultancy: consultancy and procurement fees for negotiating gas supply contract and auditing of energy consumption

7. Fuel Oil (heating)

- Fuel oil: fuel oil supply to owner's central plant, excluding occupier direct consumption
- Fuel oil procurement / consultancy: consultancy and procurement fees for negotiating oil supply contract and auditing of energy consumption

8. Water

- Water and sewerage charges: water supply to central plant, common part and retained areas excluding occupier direct consumption
- Water consultancy: consultancy fees incurred in reviewing water usage

Soft Services

9. Security

- Security guarding: direct employment or contract costs incurred in providing building security guarding
- Security systems: servicing and maintenance of building security systems (e.g. CCTV, access control, intruder alarm)

10. Cleaning and Environmental

- Internal cleaning: cleaning of internal common parts and retained areas
- External cleaning: cleaning of external common parts and retained areas
- Window cleaning
- Hygiene services / toiletries: cleaning and servicing of common parts' toilet accommodation

Definition of terms

- Carpets / mats hire: provision of dust and rain mats to common parts areas
- Waste management: refuse collection and waste management services provided for building occupiers
- Pest control: pest control services provided to common parts and retained areas
- Internal floral displays: providing and maintaining floral displays within the common parts areas
- External landscaping: provision and maintenance of external landscaped areas and special features
- Seasonal decorations: provision and maintenance of seasonal decorations to common parts areas

11 Marketing and Promotions

- Events: promotional events.
- Marketing: marketing and advertising in accordance with marketing strategy
- Research: research into local market conditions, customer surveys, etc.
- Staff costs: direct employment or contract costs for provision of marketing and promotional activity
- Landlord's contribution to marketing: financial contributions made by landlord towards marketing and promotions
- Local authority contribution to marketing: financial contributions made by the local authority towards marketing and promotions

Hard Services

12. Mechanical & Electrical Services (M&E)

- M&E maintenance contract: planned maintenance to the owner's M&E services, including contractors' H&S compliance
- M&E repairs: repair works to the owner's M&E services
- M&E inspections and consultancy: auditing quality of maintenance works, condition of M&E plant and H&S compliance
- Life safety systems maintenance: planned maintenance works to the owner's fire protection, emergency lighting and other specialist life safety systems, including contractors' H&S compliance
- Life safety systems repairs: repair works to the owner's fire protection, emergency lighting and other specialist life safety systems
- Life safety systems inspections and consultancy: auditing quality of maintenance works, condition of plant and H&S compliance

13. Lifts and Escalators

- Lift maintenance contract: planned maintenance works to lifts in the common part and retained areas, including contractors' H&S compliance
- Lift repairs: repair works to common parts' lifts
- Lift inspections and consultancy: auditing quality of maintenance works, condition of lift plant and H&S compliance
- Escalator maintenance contract: planned maintenance works to escalators in the common parts and retained areas, including contractors' H&S compliance
- Escalator repairs: repair works to common parts escalators
- Escalator inspections and consultancy: auditing quality of maintenance works, condition of escalator plant and H&S compliance

14. Suspended Access Equipment

- Suspended access maintenance contract: planned maintenance works to the owner's suspended access equipment, including contractors' H&S compliance
- Suspended access repairs: repair works to the owner's suspended access equipment
- Suspended access inspections and consultancy: auditing quality of maintenance works, condition of suspended access equipment and H&S compliance

15. Fabric Repairs and Maintenance

- Internal repairs and maintenance: repair and maintenance of internal building fabric, common part and retained areas
- External repairs and maintenance: repair and maintenance of external building fabric, structure, external common part and retained areas
- Redecorations: redecoration and decorative repairs

Income

- 16. **Interest: distinct activities that yield a true income to the service charge account.**
 - Interest: interest received on service charge monies held within owner's or agent's bank account
- 17. **Income from Commercialisation: income yielded from any facilities installed and / or maintained at the occupier's expense.**
 - Car park income
 - Vending machine income
 - Other income
 - Operational expenses
 - Contract charges: overheads, expenses and operational costs incurred in providing any of the above facilities
 - Repairs and maintenance
 - Staff costs

Insurance

- 18. **Engineering Insurance: landlord's engineering insurances.**
 - Engineering insurance
 - Engineering inspections
- 19. **All Risks Insurance Cover: landlord's all risk insurance costs.**
 - Buildings insurance
 - Loss of rent insurance
 - Public and property owner's liability insurance
 - Landlord's contents insurance
- 20. **Terrorism Insurance: landlord's terrorism insurance costs.**
 - Terrorism insurance

Exceptional Expenditure

21. Major Works

- Project works: exceptional and one-off project works, over and above routine operational costs
- Refurbishments
- Plant replacement
- Major repairs

22. Forward Funding

- Sinking funds: forward funding of specific major replacement projects (e.g. plant and equipment replacements, roof replacements)
- Reserve funds: forward funding of specific periodic works to even out fluctuations in annual service charge costs (e.g. internal / external redecorations)
- Depreciation charge: depreciation charge in lieu of sinking / replacement fund contribution to major plant and equipment

Size bands

Small centres	50,000 sqft to 99,999 sq ft
Medium centres	100,000 sqft to 249,999 sq ft
Large centres	250,000 sqft to 749,999 sq ft
Very Large centres	over 750,000 sq ft

Shopping centres

For the purpose of this review a shopping centre is defined as a group of shops (in excess of 10) comprising gross internal floor area of at least 50,000 sq ft (4,645 sq m), under common ownership with shared services and common parts. Excluded from this survey are retail parks.

Types of centres

For the report we have categorised shopping centres into four types:

- Enclosed (air-conditioned)
- Enclosed (non air-conditioned)
- Part-enclosed / open
- Open

'Enclosed' centres have covered malls and a form of door / barrier at the boundary.

'Part-enclosed / open' centres have a combination of open areas and enclosed malls.

'Open' centres have no malls that are enclosed.

Historic comparison

Historic figures have been reformatted as far as possible under the new code of practice to allow like-for-like comparisons. However, in some cases it has not been possible to extract this information for certain costs, for example water rates, that were previously within 'Administration' and now appear under a different cost class of Utilities. Therefore a direct comparison between the old and new service charge formats is not always possible.

Geographical areas



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