

Assessment of service charge administration on commercial properties in kano

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Abstract:

Service charge over the years has generated a lot of controversies and problems for both landlords and tenants such as the choice of contractor to handle the services. It is evident that non-payment of service charge as and when due can lead to disputes and litigation. This study seeks to explore the administration of service charge in commercial properties using Prime Hub Shopping Complex in Kano as a case study. The study examined the services that constitute service charge administration, its application, and the challenges to effective service charge. The research method employed quantitative approach, where 50 questionnaires were administered to the occupants of the building at study area. The sample frame for this study was the occupants of Prime Hub Shopping Complex. Purposive sampling was used as sampling technique. The data received was analyzed descriptive statistics. Findings from the study reveal that, the space volume method of service charge apportionment was adopted in the shopping complex but tenants prefer the fix percentage method of apportionment. The findings further shows that unfavorable economy and some tenants default in payment were the major challenges of service charge administration. Interestingly, the analysis also indicates that all services and facilities that constitute service charge were rendered to tenants in the case study except elevators and air-conditioning system services. The study recommends that disagreement between managers and tenants should be resolved through scheduled meetings. Professionals should be engaged for proper maintenance of facilities; services providers should enhance service provision in other to improve user service experience in Prime Hub shopping complex.

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1. Introduction

Society tends to develop faster where there exists a healthy and steady investment in real estate developments. The real estate sector especially the commercial real estate, plays an important role in the economic wellbeing of a society and economy of the nation at large, by housing and facilitating economic activities which without doubt are essential for the general progress of society.

Nwankwo [1] Property management is indeed a very important aspect of the real estate discipline. It involves the application of skills in ensuring that the property, its surrounding and amenities are cared for, in order to give value to both the tenant and the landlord.

Smeby [2] defined property management as "the science of getting maximum value from the investment made in assets by assuring proper utilization, preventing loss and pilferage and all other aspects of security-related issues, scheduling timely maintenance, tracking physical location, maintaining proper insurance coverage and scheduling depreciation write-offs. The need for proper management and maintenance leads to the existence of operational costs. These operational costs include rent,

business rates, insurance and often where there is more than one occupier to the building, a service charge.

The task of managing and administering service charge on a multi-tenanted property comes in order to regulate physical and functional obsolescence and to enhance the utility value of service jointly used by the tenants e.g., lighting, cooling, lift, maintenance of garden etc. and to bring it to an acceptable standard [3].

A multi-tenanted commercial property houses a number of tenants that have the sole aim of doing business. The uniqueness of multi-tenanted commercial properties is that so many commercial activities could be housed on one roof and the greater number of people could be working in the same building making available different goods and services to clients within the building structure and utilizing the land area [4]. In addition, it generates lots of income when properly managed. But have so much problems and challenges if not properly managed ranging from tenant selection, security issues, insurance, service charge administration, default in the payment of rent etc. [5]

Peroman [6] defined service charges as the amounts levied on the tenants by the landlords to cover for extra

facilities or services they may provide. These services may include provision of generator, general cleaning of the compound, installation of Air conditioners, gardening or general maintenance. Service charge is the money appointed to each of the tenants in multiple occupied premises such as Block of flats, tenement and shopping complex etc., for maintenance of common service which each tenant otherwise could not have been responsible for.

Service charge is frequently cited as one of the most common sources of conflict between landlords, tenants, property managers, residents and facility managers. Inefficient service delivery by the property manager is identified as a major problem affecting the management of multi-tenanted commercial properties [7]. According to [8] Service charge is seen as a means of making extra profit aside rent by property owners and managers.

This study will strictly examine application of service charge on commercial property and its implementation of best practices, the nature of the services provided, tenants satisfaction with regards to the services provided and challenges/constraints to effective service charge administration with focus on Prime Hub Shopping Complex Taurani LGA of Kano.

1.1 Concept of service charge

Many problems involved with the day-to-day management of commercial properties have led to the formulation and discovery of strategies adopted by professionals in solving various challenges confronting the effective management practice [9].

Service charge according to Bello and Ibrahim [7] is a levy payable by tenants especially in multiple occupations for the maintenance of common services provided by the landlord for their enjoyment. However, [10] defined it as the money appointed to each of the tenants in multiple occupied premises such as Block of flats, tenement and shopping complex etc. for maintenance of common service which each tenant otherwise could not have been responsible for.

Jiboye [11] opined that the complexity and quality of environmental services in modern property, particularly multi-tenanted property, air-conditioned offices and enclosed shopping mall can result in service charges being a relatively higher proportion of rent. Such charges become a sensitive issue between tenant and landlord. However, Royal Institute of Chartered Surveyors (RICS) [12] view service charge as costs of servicing and operating a property, to comply with the landlord lease obligations for the provision of services. Oladapo [13] stated that the maintenance of common areas, facilities and services in a commercial property is necessary to ensure the quality of occupation and enhance the economic life of the building. From a narrow perspective, Olusola [14] opined that 'It is not just tenants that pay service charge. Property owners also sometimes pay service charge where for instance the company occupying the property whether as the owner or tenant engages an outside manager to take care of the maintenance of its property.'

1.2 Determining the amount of service charge

Olayonwa [15] stated that the apportionment methods include;

- a. Specifying a percentage payment for each tenant in which the aggregation of the percentage for the tenants will be 100%;
- b. Using the floor area occupied by each tenant as the basis of apportionment;
- c. Using ratable value of the unit occupied by the tenant as the basis;
- d. Using mode of the service but, impracticable because of the difficulty in quantifying some services like security.

1.3 Collection of service charge

Nwankwo [1] opined that in a new letting, provisional service charge should be collected with the rent. In a property that is currently being managed, the provisional service charge should be demanded before the end of the current service charge year, at least a month before. The amount of service charge can be a sum which the manager has arrived at by analyzing the trend of costs over the greater part of the now expiring service charge year but such demand for a higher figure must go with a suitable explanation to the tenants.

1.4 Commercial properties

Ozigbo and Ozigbo [16] specified business property as composite of office property and retail property. [17] Pointed out that commercial properties include the various types of income-producing Properties that are used primarily for trade (buying and selling). [18] Classified commercial properties into stalls, shops, purpose-built shopping mall, supermarkets, banking halls, offices and warehouses. Also included are chain stores, departmental stores, mobile shops, etc. Johnson, Davis and Shapiro [19] in their own opinion identified four common categories of commercial properties as follows retail (properties where goods are sold to public), industrial warehouses and offices.

According [20] commercial properties are structures which are mainly used to house business activities such as trading and services, broadly categorized into shops, offices, showrooms and warehouses. Oladokun and Ojo [21] stated that investment in multi-tenanted commercial property is most time expressed as the biggest investment of a household due to its capital requirement for its procurement. The success of such capital-intensive investment could be attributed to its management.

1.5 Types of commercial properties

There are a number of different meanings to the term commercial properties. In USA, commercial properties refer to an income producing property and includes office buildings, industrial property, medical centers, hotels, malls, retail stores, shopping centers, farm land, multifamily housing buildings, warehouses and garages [22]. [20] believes commercial properties relate to properties that are basically used for trading i.e., buying and selling, thus

broadly grouped covering shops, offices, showrooms and warehouses. The major types of commercial properties relevant to this study include the following; shops and offices.

2. Methodology

The research method adopted for this research is quantitative. Purposive sampling technique was used and the target population comprise of the occupants in Prime Hub Shopping Complex. Questionnaire was the main instrument for data collection for this research. The sample size for the research is the 50 occupants in the case study and questionnaire was administered to all occupants. The data gathered from the field was analyzed using frequency table, mean ranking, and percentages.

2.1 Features of the case study

Prime Hub Shopping complex is a commercial property located at plot 7 Zoo Road, in Tarauni Local Government Area of Kano State. The property is managed by a registered estate surveyors and valuers' firm 'Salam and Partners' which is one of the main reasons why the property was selected to be case study for this study, as it is managed by professional estate surveyors and valuers. The property comprises of three floors with a total of 50 shops and offices. The neighborhood is mainly commercial, with notable landmarks such as; Ado Bayero Mall (Shoprite), Zenith Bank Plc., Chicken Republic and Sahad Stores.

3. Results and findings

Table 1 shows the response rate from the questionnaire while Table 2 describe the type of space allotment. The results of the outcome from questionnaire were shown in Tables 3 to 9 while the constraints to effective service charge and facilities/services that constitute service charge are shown in Table 10 and 11 respectively.

Table 1: Response rate

	Frequency	%
No. of Questionnaire administered	50	100
No. of retrieved	35	70
No. of void	6	12
No. of un-retrieved	9	18

Table 2. Type of space allotment?

Space allotted	Frequency	Percentage %
Shop	11	31.4
Office	24	68.6
Total	35	100

Table 1 and 2 shows that 68.6% of the respondents are office occupants, while 31.4% are shop occupants; more than half of the respondent's own office.

Table 3 shows response to period occupants have been occupying the building, 5.7% of the total occupants have been in occupation for less than a year, 51.4% have been occupying the building for a period of 1-3 years, 28.6% for a period of 4-6years, while 14.3% for 7-9 years. This implies that more than half of the

respondents have at least been in the property for more than 3 years.

Table 3: How long have you been in occupation

Period	Frequency	Percentage %
Less than a year	2	5.7
1-3 years	18	51.4
4-6 years	10	28.6
7-9 years	5	14.3
10 years and above	0	0
Total	35	100

Table 4: How do you pay your service charge?

Period	Frequency	Percentage %
Monthly	2	5.7
Quarterly	0	0
Annually	16	45.7
Inclusive with rent	17	48.6
Total	35	100

Occupants were asked about how they pay their service charge. 5.7% pay monthly, and 45.7% pay annually, while 48.6% pay it together with their rent and none pay quarterly. This table shows that the management do not have a fixed time as to when they collect service charge.

Table 5: Method of service charge apportionment adopted

Methods	Frequency	Percentage %
table Floor space area	7	20
Site area	3	8.6
Space volume	19	54.3
Fixed percentage	6	17.1
Total	35	100

Table 5 show the method of apportionment of service charge by the occupants. 20% pay their service charge using Floor space area, 8.6% pay using site area, and 54.3% pay using space volumes, while 17.1 pay using fixed percentage. This implies that most of the occupants pay service charge on the basis of Space volume occupied.

Table 6: What method of service charge do you prefer?

Method	Frequency	Percentage %
Floor space area	8	22.9
Site area	2	5.7
Space volume	11	31.4
Fixed percentage	14	40
Total	35	100

Table 6 shows response to the question for which method of payment is most preferred by tenants. 22.9% prefer to pay using Floor space area, 31.4% prefer using Space volume, 40% prefer fixed percentage while 5.7% prefer site area method. This shows that most tenant prefer the fixed percentage method.

Table 7: Is the amount paid for service charge enjoyed?

	Frequency	Percentage %
Yes	25	71.4
No	10	28.6
Total	35	100

Table 7 shows that 71.4% of the occupants enjoy the service charge paid and they are very satisfied with the services provided. While 28.6% of the respondents do not enjoy the service charge paid.

Table 8: How quick is maintenance carried out by the property manager after complaints are lodged?

	Frequency	Percentage %
Immediately	23	65.7
Not immediately	9	25.7
No response	3	8.6
Total	35	100

The occupants were asked how quick maintenance is carried out after they lodge complaints. 65.7% of the occupants said maintenance work is carried out immediately, and 25.7% said they do not respond immediately to their complaints, while 8.6% said that no response at all. This illustrates that complaints are attended to by the facility managers immediately it is reported.

Table 9: How do you rate maintenance of the property?

	Frequency	Percentage %
Excellent	18	51.4
Good	10	28.6
Fair	5	14.3
Bad	2	5.7
Total	35	100

Table 9 shows that 26% of the respondents say maintenance of the property by the maintenance team is excellent, 28.6 say it's good, and 14.3 say it's fair, while 5.7 say the maintenance of the property is bad. This implies that majority of the tenants are very satisfied with how the property is being managed.

From Table 10 it shows that unfavorable economy has the highest mean score of 4.37 followed by vacancy in the building with a mean of 3.51. This implies that they have been perceived to be major challenges facing service charge. The occupants also consider default in payment by some tenants and delay in service maintenance as major challenges too as they are ranked 3rd and 4th respectively.

Table 10: Constraints to effective service charge

Challenges	N	Mean	Std. Deviation	Mean Ranking
Poorly rendered services	35	2.40	1.57	8 th
Bias method of bill sharing	35	2.31	1.54	10 th
Poor record keeping	35	2.46	1.59	7 th
Mismanagement of fund(s)	35	2.31	1.54	10 th
Some tenants default in payment	35	3.23	1.82	6 th
Services not carried out as and when due	35	2.77	1.69	4 th
Conditions of payment not satisfactory	35	2.71	1.67	5 th
Disagreement between managers and tenants	35	3.49	1.89	3 rd
Unfavorable economy (inflation)	35	4.37	2.12	1 st
Vacancy in the building	35	3.51	1.90	2 nd

Table 11: Facilities/Services that constitute service charge

Facilities/Services	N	Mean	Std. Deviation	Mean Ranking
Maintenance and repairs of lifts	35	1.46	1.22	11 th
Maintenance of Air conditioning system	35	1.49	1.24	12 th
Maintenance of standby electricity generator	35	4.14	2.06	7 th
Provision of security	35	4.66	2.20	1 st
Provision of cleaners	35	4.34	2.10	4 th
Gardening	35	3.63	1.93	10 th
Clearing of septic tanks and soak away pits	35	4.23	2.10	5 th
Pest control and rodent eradication	35	3.82	1.98	9 th
Maintenance of Firefighting system	35	4.57	2.20	2 nd
Repair and redecoration of common space	35	4.20	2.10	6 th
Refuse disposal	35	4.43	2.14	3 rd
Maintenance of parking lots	35	4.03	2.04	8 th
Maintenance of sewage treatment plant	35	3.97	2.00	9 th
Repairs and maintenance of water pumps/borehole	35	4.43	2.14	3 rd

From Table 11, it shows that more than half of the respondents agreed that the services and facilities listed are provided in the complex. Provision of security was ranked 1st with a mean score of 4.66. Firefighting system which ranked 2nd position has a mean of 4.57 and repairs and maintenance of water borehole ranked 3rd with a mean of 4.43. Lifts/elevators and air conditioning system has the lowest mean ranking with a mean score of 1.46 and 1.49. This implies that lift facilities and air conditioning system are not provided in the complex.

4. Conclusion and Recommendation

The research reveals that Majority of the occupants have been occupying the complex between 1-3 years. Service charge is paid by tenants inclusive with their rent. The Space Volume Method of service charge apportionment is adopted in the property, but most tenants prefer the fixed percentage method of apportionment. The service charge fee paid by tenants is enjoyed and they are satisfied with how the managing firm maintains the

property and attend to tenants complaints in the shortest possible period.

The research reveals that unfavorable economy and vacancy in building are the major challenges of service charge administration. Disagreement between managers and tenants, some tenants default in payment and services not carried out as and when due are also considered to be challenges of service charge administration. All facilities/services under service charge are carried out in the shopping complex except elevators/lifts and air-conditioning system. Security and firefighting equipment are considered very essential in the case study area. But very little attention is given to gardening, pest control and rodent eradication.

The study recommends that disagreement between managers and tenants should be avoided by having scheduled meetings between the managers and tenants; it could be on a weekly or monthly basis to discuss the operation of service charge in the building. This helps to broaden the understanding of the occupants on the scope and justification of service charge. The managing firm should engage professionals for improved maintenance of facilities/services. Each facility providing various services should have professional team for its maintenance. occupants who default in payment of service charge should be given a strong punitive action in form of disconnection from the use of the services being enjoyed or an upward review in such tenants' service charge amount for the subsequent year.

The managing firm should try to provide elevator/lift for easy access, especially for offices located at the top floor. They should also put emphasis in gardening by planting more flowers within and outside the complex as it improves aesthetic value of a property. Pests and rodents should also be controlled to enable the occupants operate safely in their work space. This could be achieved by regular fumigation of the premises and its surroundings.

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