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EVALUATION OF SERVICE CHARGE DETERMINATION AS A VERITABLE TOOL FOR MANAGING MULTI-TENANTED PROPERTIES IN EDO STATE

Adekunle David
Glorious Vision University, Ogwa, Edo State
dadekunle50@yahoo.com

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Abstract

Over the years, service charges have given rise to several disputes and issues for landlords and tenants, including selecting the contractor to perform the services. Disagreements and legal action may result from failure to pay service charges when they are due. This study uses the Edo State as a case study to investigate how service charges are administered in commercial buildings. The study looked at the services that go into administering service charges, how they are used, and the difficulties in doing so. The study utilized a quantitative methodology in which thirty questionnaires were sent to the building's residents in the designated study area. The sampling strategy employed was purposeful sampling. Descriptive statistics were used to assess the received data. The study's conclusions show that although the retail complex used the space volume technique of allocating service charges, the tenants prefer the fixed percentage method. The results also indicate that the main obstacles to service fee management were an unfavorable economy and some tenants' payment defaults. It's interesting to note that, aside from elevator and air conditioning system servicing, all services and amenities that make up a service charge were provided to renters in the case study, according to the analysis. The report suggests holding scheduled meetings to settle disputes between managers and tenants. To improve user service at Edo State, service providers should increase service offerings and hire professionals to maintain the facilities properly.

Keywords: Service Charge Management, Multi-Tenanted Properties, Service Charge Determination

Introduction

Where there is a stable, healthy estate development, society tends to develop more quickly. The real estate industry, particularly commercial real estate, houses and supports economic activities that are unquestionably vital to the overall advancement of society, so contributing significantly to the financial well-being of a society and the nation's economy. Nwankwo, P. C. (2004). Indeed, one of the most crucial facets of the real estate field is property management. It entails using

expertise to make sure that the building, its surroundings, and its facilities are maintained to benefit both the landlord and the renter.

"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," is how Smeby (2004). defined property management. Operational costs arise because competent administration and maintenance are required. These running expenses include insurance, business rates, rent, and, in the case of many occupants in the same building, a service charge.

The management and administration of service charges on a multi-tenanted property is necessary to control both functional and physical obsolescence and to improve the utility value of services that tenants use jointly, such as garden maintenance, lighting, air conditioning, and elevators, and to bring it up to code Olorumeye, T. E. (2012). A commercial property with several tenants accommodates several tenants whose primary purpose is to conduct business. Because so many commercial activities could be carried out under one roof and more people could be employed in the same building, offering a variety of goods and services to customers inside the building structure and making use of the land area, multi-tenanted commercial properties are unique Stren, R. (1972).

If handled well, it also produces a substantial amount of revenue. However, they come with many difficulties if they are not handled correctly, such as choosing tenants, security concerns, insurance, managing service charges, late rent payments, etc. Watts Group Limited, (2014). According to Peroman, W. & Davies K. (2013). Service charges are sums that landlords impose on their tenants to cover the cost of any additional amenities or services they might offer. These services could involve setting up a generator, doing general grounds upkeep, installing air conditioners, gardening, or basic cleaning.

The money allotted to each tenant in a multi-tenant building, such as a shopping complex, block of apartments, or tenement, is known as the service charge. It goes toward maintaining communal amenities that each tenant would not have been able to maintain on their own.

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One of the most frequent points of contention between landlords, tenants, property managers, residents, and facility managers is usually mentioned as the service charge. One of the main issues with managing commercial properties with several tenants is the property manager's ineffective service delivery Bello, M. U. & Ibrahim, I. (2020). According to Zedomi, J. (2018), property owners and managers use service charges as a way to generate additional revenue in addition to rent. One of the most frequent points of contention between landlords, tenants, property managers, residents, and facility managers is usually mentioned as the service charge. With a focus on the Shopping Complex in Market Square, Ekpoma, Esan West LGA of Edo state, this study will closely examine the application of service charges on commercial property and its implementation of best practices, the nature of the services provided, tenants' satisfaction with the services provided, and challenges/constraints to effective service charge administration.

Determining the Amount of Service Charge

Olayonwa G. O. (2000) listed the following methods of apportionment:

a. Setting a percentage payment for each tenant, where the total percentage for the tenants will be 100%;

b. Base the apportionment on the floor area each tenant occupies;

c. Base the apportionment on the ratable value of the unit the tenant occupies;

d. Using the mode of the service, which is impractical due to the difficulty in quantifying certain services, such as security.

Collection of Service Charge

According to Nwankwo, P. C. (2004). The rent should be collected along with the provisional service charge in a new rental agreement. The provisional service charge for a property under management should be requested at least one month in advance of the end of the current service charge year. The manager may have determined the service charge amount by examining the cost trend for the majority of the service charge year that is currently ending, but any request for a higher amount must be supported by a reasonable explanation to the tenants.

Commercial Properties

Business property was defined by Ozigbo, I. & Ozigbo, C. A. (2013) as a combination of office and retail space. Udechukwu, C. E. (2009) noted that a variety of income-producing properties used largely for commerce (buying and selling) are included in the category of commercial properties. Olusegun, K. G. (2011) Commercial properties are divided into categories such as shops, supermarkets, banking halls, offices, warehouses, and purpose-built retail malls. Department stores, chain stores, mobile shops, etc. are also covered. According to Johnson, T. Davies, K. & Shapiro E. (2000), there are four basic types of commercial properties: retail (i.e., premises where products are sold to the general public), industrial warehouses, and offices. Commercial properties, which can be roughly classified into stores, offices, showrooms, and warehouses, are buildings that are primarily used to house business activities such as trading and services, according to Kuye, G. O. (2000). Due to the funds needed for its acquisition, Oladokun, T. T. & Ojo, O. (2011) noted that multi-tenanted commercial real estate is frequently mentioned as a household's largest investment. The management of such a capital-intensive investment may have contributed to its success.

Types of Commercial Properties

The phrase "commercial properties" has several different definitions. In the United States, the term "commercial property" refers to real estate that generates revenue, and this category includes office buildings, industrial real estate, hotels, malls, retail establishments, medical facilities, farmland, multifamily housing buildings, warehouses, and garages Hoesli, M. & MacGregor, B. D. (2000). According to Kuye, G. O. (2000), commercial properties are those that are primarily utilized for trading, or buying and selling; as a result, they are generally categorized to include stores, offices, showrooms, and warehouses. The following are the primary commercial property kinds that are pertinent to this study: Stores and offices.

Methodology

This study used a quantitative research methodology. The Shopping Complex's residents made up the target group, and purposeful sampling was employed. The primary tool used in this study to collect data was a questionnaire. The 30 tenants in the case study comprise the sample size for this

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study, and each tenant received a questionnaire. Percentages, and frequency tables were used to examine the field data.

Features of the case study

The Shopping Complex is a commercial building in the Ekpoma, Esan West Local Government Area of Edo State, situated at Market Square. The neighborhood is primarily commercial, with major landmarks including First Bank, Zenith Bank Plc., Union Bank and Alli Market Square. The property consists of one storey with a total of 30 businesses and offices.

Results and findings

Table 1 shows the response rate from the questionnaire while Table 2 describes the type of space allotment. The results of the outcome from the questionnaire were shown in Tables 3 to 9 respectively.

Table 1: Response rate

	Frequency	Percentage %
No of Questionnaires administered	30	100
No of retrieved	20	66.7
No of un-retrieved	7	23.3
No of void	3	10

Table 2: Type of space allotment

Space allotted	Frequency	Percentage %
Office	16	64
Shop	9	36
Total	25	100

Table 1 and 2 shows that 64% of the respondents are office occupants, while 36% are shop occupants; more than half of the respondents own office.

Table 3: How long have you been in occupation

Period	Frequency	Percentage %
1 – 4 years	13	52
5 – 8 years	9	36
9 years and above	3	12
Total	25	100

Table 3 shows the response to period occupants have been occupying the building, 52% of the total occupants have been in occupation for 1 – 4 years, 36% have been occupying the building for a period of 5 - 8 years, while 12% for 9 years and above. This implies that more than half of the respondents have at least been on the property for more than 3 years.

Table 4: How do you pay your service charge?

Period	Frequency	Percentage %
Monthly	3	12
Quarterly	2	8
Annually	8	32
Inclusive with rent	12	48
Total	25	100

Occupants were asked about how they pay their service charges. 12% pay monthly, 8% pay quarterly and 32% pay annually, while 48% pay it together with their rent. This table shows that the management do not have a fixed time as to when they collect service charges.

Table 5: method of service charge apportionment adopted

Methods	Frequency	Percentage %
Table floor space area	5	20
Site area	4	16
Space volume	6	24
Fixed percentage	10	40
Total	25	100

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Table 5 shows the method of apportionment of service charges by the occupants. 20% pay their service charge using Floor space area, 16% pay using site area, 24% pay using space volumes, while 40% pay using fixed percentage. This implies that most of the occupants pay service charges based on the Space volume occupied.

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

Methods	Frequency	Percentage %
Table floor space area	6	24
Site area	3	12
Space volume	7	28
Fixed percentage	9	36
Total	25	100

Table 6 shows the response to the question for which method of payment is most preferred by tenants. 24% prefer to pay using Floor space area, 12% prefer site area method, 28% prefer using Space volume, while 36% prefer fixed percentage. This shows that most tenant prefer the fixed percentage method.

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

	Frequency	Percentage %
Yes	16	64
No	9	36
Total	25	100

According to Table 7, 64 percent of the tenants are happy with the services they received and find the service charge to be worthwhile. On the other hand, 36% of those surveyed said they were unhappy with the service charge.

Table 8: In what time frame does the property manager respond to complaints by performing maintenance?

	Frequency	Percentage %
Immediately	19	76
Not immediately	4	16
No response	2	8
Total	25	100

The residents were questioned about the speed at which repairs are completed following their concerns. Residents said that maintenance is completed promptly in 76% of cases, that their complaints are not promptly addressed in 16% of cases, and that they receive no response at all in 8% of cases. This demonstrates how facility managers handle complaints as soon as they are brought to their attention.

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

	Frequency	Percentage %
Excellent	13	52
Good	9	36
Fair	2	8
Poor	1	4
Total	25	100

Table 9 reveals that 52% of respondents think the maintenance personnel does an excellent job of maintaining the property, 36% believe it's good, 8% say it's fair, and 4% say it's poor. This suggests that most tenants are quite happy with the way the property is being run.

Conclusion and Recommendation

According to the research, the majority of the residents have lived in the complex for one to three years. Tenants pay the service charge in addition to their rent.

The Volume of Space Although the property uses a fixed % method of apportionment for service charges, most renters prefer this approach. Tenants like the service charge they pay and are happy with the way the managing company keeps the property and respond as quickly as

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possible to tenant complaints. The main obstacles to service fee management, according to the research, are an adverse economy and building vacancies. Problems with service fee management also include disagreements between managers and renters, some tenants not paying their bills on time, and services that are not provided.

All services and amenities that require a service charge are provided within the shopping complex, except the air conditioning and elevators. In the case study area, security and firefighting apparatus are seen as vital. However, gardening, controlling pests, and eliminating rodents receive very little attention. According to the study, managers and renters should arrange meetings on a weekly or monthly basis to talk about how the building's service charge is run. This will help to prevent arguments between the parties.

This facilitates the tenants' comprehension of the extent and rationale behind the service charge. The controlling company ought to hire experts to maintain the services and facilities better. Every facility that offers a range of services needs a qualified staff to maintain it. Tenants who fail to pay their service charges on time will face harsh consequences, such as having their access to the services revoked or having their service fee amount reviewed increased for the next year. The controlling company ought to make an effort to provide a lift or elevator for convenient access, particularly for workplaces on the top floor. They should also prioritize gardening, increasing the number of flowers planted both inside and outside the complex, as this enhances the property's aesthetic appeal. For the residents to be able to work at their workspace securely, rodents and pests must also be kept under control. Frequent fumigation of the building and its environs could archive this.

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