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LESSEES GET CLARIFICATION ON MANAGEMENT FEES

“I personally pay the managing agent of the block of leasehold flats where I live an £1,800 management fee each year – isn’t this excessive? What do they do for such a fee?” This is a real question put to the Association of Residential Managing Agents (ARMA), which receives many like it each year.

The initial answer is the £1,800 is not the management fee but the service charge which lessees are committed to pay under the terms of the lease they have entered into when they bought the flat. This charge will often include insurance, lighting, cleaning and repairing of common parts, maybe gardening, the cost of estate staff as well as a possible contribution to a reserve fund and, of course, where the lease permits a management fee for the agent which might actually be a fraction of the total service charge and will usually include VAT.

Even with this clear in their minds, many lessees still question the management fee and how it is arrived at, often because individual lessees are not party to the contract that employs the managing agent.

To assist all lessees in understanding how management fees are arrived at and what they consist of, ARMA has published a Lessee Advisory Note, *Management Fees*, which is available at www.arma.org.uk/publications.cfm and by post, which explains the requirements of the recognised Codes of Practice, what fees might be payable over and above the annual day-to-day management of a property, the need for transparency on such matters as commissions and the legal rights to challenge the fees.

“Lessees now and again approach us for guidance on what is an average/reasonable fee”, states ARMA’s chairman, Brett Williams, “and in reality we cannot answer them. Firstly, because as a trade body we wish to see open market forces on fees not a ‘going rate’. Secondly, every block of flats is different in terms of size, age, estate staff, mechanical installations etc. But it should be borne in mind that, say, a £175 pa per flat management fee equates to about 50 pence a day to have most elements of your ‘home management’ dealt with – I am not sure you could get anywhere near such a deal if this related to the management of a freehold house!”

INCREASING FEES

“At the same time, many lessees will have seen their management fees increase over the last few years”, continues Williams, “this is not just because of past inflation; a great deal of the increases have to be laid at the Government’s doorstep. Indeed when introducing the last major piece of leasehold legislation, the Government recognised there would be increased management fees.”

To help lessees understand just how much legislation, that affects leasehold management, has been introduced in the last six years, ARMA has also published a Lessee Advisory Note *Recent Changes to the Role of the Managing Agent* available from www.arma.org.uk/publications.cfm or by post. The guidance addresses 35 of the main changes and outlines the impact of each on the residential leasehold sector.

“Our sector is not as glamorous as lettings, estate agency and commercial property activities and, certainly, is nowhere near as profitable”, continues Brett Williams, ARMA’s chairman. “Ours is a competitive market struggling with increased costs through the growing burden of legislation so I have a word of warning for lessees – ‘beware of cut price management fees’. Yes, look at the cost but also look to see if the managing agent can deliver at that fee. In fact cost should not be the issue, it is whether the fees offer value for money.”

Notes to Editor:

1. About ARMA

Formed in 1991, ARMA is the only body in England and Wales to focus exclusively on matters relating to the block or estate management of long leasehold residential property. With over 220 corporate members managing in excess of 800,000 units in more than 32,000 blocks of flats or estates (at least 60% of which are lessee-controlled properties), the Association’s founding principal aims are to represent its members and the interests of lessees, resident management companies and investor freeholders.

2. For further press information contact David Hewett on 020 7622 6123 or david@arma.org.uk

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Attached: *LAN 13: Management Fees*

LAN 11: Recent changes to the role of the Managing Agent