



ADVICE NOTE MANAGEMENT FEES

A summary of good practice when it comes
to management fees charged by your agent



Note:

As the leading trade body for residential leasehold management, ARMA is also an important resource for leaseholders. Our Advice Notes cover a range of topics on the leasehold system to help leaseholders understand their rights and responsibilities and ultimately get the most out of living in their flat.

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SUMMARY

As a trade association for managing agents, ARMA does not set, recommend or give any guidance on fee levels or market rates to its members.

There's no norm or standard management fee for managing a block of flats. The fee will depend upon the size and type of property and the range of services required.

However, ARMA is very keen that its members act ethically when negotiating with and charging fees to landlords including Residents' Management Companies (RMCs) and Right to Manage companies (RTMs).

In this Advice Note, we have set out what we believe is good practice for agents when it comes to agreeing management fees with their clients.

WITHOUT MANAGEMENT FEES, AGENTS WOULD HAVE NO OTHER INCOME TO RUN THEIR BUSINESSES AND PROVIDE A SERVICE.

WHAT ARE MANAGEMENT FEES?

The management fees you pay to your managing agent as a part of your service charges are the lifeblood of those firms. They pay for the offices, salaries, national insurance, pensions and training of staff; not to mention computer systems, telephones, post, stationery and other things that agents have to provide, including a profit element.

Without management fees, agents would have no other income to run their businesses and provide a service.

The rest of your service charge is used to pay for the services, repairs and insurances required for your building. This does not go to your managing agent.



GOOD PRACTICE

ARMA members agree to abide by the RICS Service Charge Residential Management Code (2nd Edition, effective from 6 April 09). With regard to management fees, the Code states:

- “Managing agents and their clients should enter into written management contracts. The basis of fee charging and duties should be contained in the agreement.”
- “Your charges should be appropriate to the task involved and be pre-agreed with the client whenever possible. Where there is a service charge, standard annual fees are usually quoted as a fixed fee rather than as a percentage of outgoings or income. This method is considered to be preferable so that tenants can budget for their annual expenditure. However, where the lease specifies a different form of charging, the method in the lease will be used by managing agents.”
- “The managing agent should give, consistent with the terms of the contract with the client, reasonable and adequate notice of any increases in charges.”
- “If the managing agents’ charges are agreed to be subject to indexation, the index to which they are linked should be agreed in advance in writing.”

The RICS Code also sets out the duties or services that would normally be covered by a standard management fee. And it suggests a list of other duties and services that agents would normally charge for over and above their standard annual fee. Any extra services and their fees should be made clear in the management agreement.

SERVICES AND DUTIES OF AGENTS

ARMA has adopted a similar approach to the RICS Code. We recommend our members agree two lists of services/duties with their clients: one list for duties to be done for the standard management fee; and the other for duties or services that will cost extra.

In practice, agents will normally propose an annual management fee for the whole development — not per flat. The fee per flat can be easily calculated by dividing the total management fee for the development by the number of flats in the building. This is a useful way to make comparisons between agents.

ARMA advises its members to be clear in their management agreements whether they will deduct their fees on certain dates, or whether fees will only be deducted with the express approval of the client. They should also be clear on when and how fees will be reviewed.

Fees as a percentage

Both ARMA and RICS believe it's poor practice to use percentages as a basis for management fees because it establishes an immediate conflict of interest between the client and agent. However, some leases do require the landlord to use percentages to work out fees and so agents may have to follow that precedent.

Average fees per unit

Where you see fees referred to as 'per unit of accommodation', this means an average basic fee per flat.

So if the fee was £6000 for 30 units, the average would be £200 per flat. This doesn't necessarily mean that this is how the average fee will be charged to leaseholders though. That will be determined by the lease.

Major works, long term agreements and fees

It's normal practice for your managing agent to charge additional fees for handling major works and long term agreements. This includes carrying out the required consultation procedures under section 20 of the Landlord and Tenant Act 1985.

Commissions

The RICS Code states that “insurance commissions and all other sources of income to the managing agent arising out of the management should be declared to the client and to tenants.”

The RICS code does not say when the declaration should be made but ARMA is clear that this should also be part of the management agreement and should be declared before the contract is signed by the client and the agent.

ARMA encourages its members to be open and transparent on commissions:

If an agent receives commission directly or such commission is paid to any other member of the same group of companies as a result of undertaking the management, then ARMA requires that it's declared to the client, whether an investor landlord or Residents' Management Company. If a leaseholder or Residents' Association makes a written request, then an agent should declare any commission receivable.

Management handovers and fees

ARMA encourages healthy competition between agents and competitive fee levels are part of any normal business activity.

If an agent is taking over the management of a development from another agent, we believe that caution should be exercised. In particular, the new agent needs to be aware of any disputes over unpaid fees, and whether the relevant documents and funds are available to allow them to manage the development effectively.

The new agent should always ask their client to allow them to contact the previous agent before completing the handover. This will allow them to gather enough information to ascertain whether the proposed fees are sufficient for the future management of the block.

ARMA also believes that agents should consider charging a one-off fee for the work involved with handing over the management of a development, and with setting-up new management.

It's ethically wrong for an agent to undercut a previous management fee if they know they can't devote the staff and other resources to deliver the promised services at the proposed price.

Disputes about management fees

You're quite entitled to dispute the fees charged by your agent even if they're set out in the management agreement. You should ask to see the details that form the basis for the charges and the level of service being provided.

If your agent is charging fees that don't match up with the management agreement, then you should ask for a full and detailed explanation of the reasons for the difference.

The law and management fees

Any management fee charged by a landlord under a long residential lease is subject to the definition under the Landlord and Tenant Act 1985 (S19). Leaseholders can challenge the reasonableness and payability of any service charge before a Tribunal.

Administration charges

The definition of management fees used by Tribunals only covers the provision of services, major works and long term agreements.

Other fees such as those charged for alterations, subletting, registering assignments and deeds of covenants are classed as administration charges. Your managing agent should agree those with you as part of the management agreement. Admin charges can also be challenged at Tribunals.



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FINAL WORD

There's no 'standard' management fee for a block of flats. The amount will depend upon the size and type of your property and the range of services you require.

Managing agents should always act ethically when negotiating and charging their fees. Spending a little time brushing up on good practice will stand you in good stead when agreeing a management fee with your agent.

Note:

Whilst every effort has been made to ensure the accuracy of the information contained in this ARMA Advisory Note, it must be emphasised that because the Association has no control over the precise circumstances in which it will be used, the Association, its officers, employees and members can accept no liability arising out of its use, whether by members of the Association or otherwise.

The ARMA Advisory Note is of a general nature only and makes no attempt to state or conform to legal requirements; compliance with these must be the individual user's own responsibility and therefore it may be appropriate to seek independent advice.