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New report shows office service charges rise by 9% as firms invest to lure people back to the office

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The recent BDO report also finds above inflation rises in service charges for shopping centres (up 11%) and retail parks (up 14%).

Service charge costs for office spaces rose by 9% in 2024 as wage pressures, overdue maintenance projects and investments designed to attract staff back to the office all contributed to an above inflation rise.

The 9% year-on-year rise was the second consecutive year of above inflation increases in office service costs, following a 15% rise from 2022 to 2023.

The new figures come from BDO's latest PropCost benchmarking report which analysed over £600m pounds' worth of service charge expenditure across over 1,000 properties broken down by four sectors – offices, industrial parks, retail parks and shopping centres.

Developed in conjunction with the Royal Institute of Chartered Surveyors (RICS), this year's Propcost report uses data from eight real estate contributors – JLL, Mapp, Brookfield Properties, British Land, Revantage Europe, CBRE, Newmark and SHW.

BDO's analysis found that the costs making up service charges increased at a greater rate than inflation across most sectors, with changes to the national minimum wage playing a particularly significant role in shaping overall cost trends. However, there were specific cost categories driving service charge rises depending on the asset type.

The report also highlighted the impact of location on service charge costs, with central London offices, for example, experiencing costs almost 70% higher than those in the rest of the UK.

For industrial parks, the report found that service charge costs have been less impacted by inflationary increases compared to other sectors. However, costs have risen due to repairs and maintenance requirements, reflecting a wide variation in needs across different sites.

The report also found that smaller industrial sites incurred higher service charge costs, with economies of scale benefitting larger sites. Additionally, the report notes that service charge costs in London were higher due to increased operational and wage costs, particularly in soft services like security.

For retail parks, the report identified a significant increase in service charge costs over the three-year period, particularly in small sites, which do not benefit from economies of scale. Soft services, including security, landscaping, and cleaning, were key drivers of this increase. Despite these rises, retail parks have managed to keep service charge costs close to budget, reflecting strong cost management amidst challenging trading conditions.

Shopping centres have experienced growing investment volumes, driven by new brands and major retailers expanding their presence. The report highlights a polarisation in performance, with flagship destinations performing best. Service charge costs have increased, particularly in soft services, as shopping centres adapt to changing consumer demands and expand their offerings beyond retail.

Andrea Hunt, BDO's lead partner for service charge accounting said: "This report highlights where inflation has had the biggest impact on service charge costs, and what differences we are seeing in costs across different types of real estate assets.

"We hope that our findings will help decision-makers in the real estate sector to review past costs and improve their future forecasting.

"Our analysis may also prove useful to prospective tenants to help them carry out value for money assessments."