



The  
Property  
Institute

## ADVICE NOTE

# MANAGEMENT FEES

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



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## NOTE

As the leading trade body for residential leasehold management, TPI 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.

## SUMMARY

As a trade association for managing agents, TPI 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, TPI 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.

### What are management fees?

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

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.

### Good practice

TPI members agree to abide by the RICS Service Charge Residential Management Code. With regard to management fees, the Code states:

- "Your charges must be reasonable for the task involved and be pre-agreed with the client whenever possible. Where there is a service charge, basic 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 leaseholders can budget for their annual expenditure. However, where the lease specifies a different form of charging, the method in the lease should be used by managing agents."
- "You should give reasonable and adequate notice of any increases in charges in accordance with the terms of your contract. If the charges are agreed to be subject to indexation, the index to which they are linked should be agreed in advance in writing."
- You should make it clear what services you are proposing to provide and at what cost, as well as the extent and limit of any additional services available. You must not purposely underestimate costs or provide leaseholders with misleading estimates of future service charges.

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

TPI 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 can be a useful way to make comparisons between agents, but differences in the business model and services offered in relation to the management fee quoted should also be borne in mind.

TPI 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 TPI 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, which sometimes provide for different flats to pay a different service charge percentage (if, for instance, flats are different in size to one another, and percentages are calculated on a floor area basis).

### 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 TPI 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.

TPI encourages its members to be open and transparent on commissions as well as all sources of income from a management instruction, and the following extract has been taken from paragraph 2.3 of the TPI Standards:

*The Annual Declaration is defined as “An annual declaration In Writing made with the Service Charge Accounts.”*

*The Managing Agent:*

- a) *Must make an Annual Declaration to the Client and Leaseholders, identifying all sources of income and related income or other benefits it has received in relation to the Service Charge including insurance fees, interest, Associated Companies and in-house service providers;*
- b) *It is best practice to make an Annual Declaration to the Client and to Leaseholders, identifying all amounts of income and related income or other benefits in relation to the Service Charge including insurance fees, interest, Associated Companies and in-house service providers.*

#### **Management handovers and fees**

TPI 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.

TPI 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 s.19 of the Landlord and Tenant Act 1985.

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. Administration charges can also be challenged at Tribunals.

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.

### Further information

- You can find out more about the Royal Institution of Chartered Surveyors and the RICS Service Charge Residential Management Code by visiting: [www.rics.org](http://www.rics.org).
- You can find out more about the TPI Consumer Charter and Standards by visiting: [www.tpi.org.uk](http://www.tpi.org.uk).

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