Evaluation of Service Charge Determination Methods in Management of Multi-Tenanted Residential Properties in South-East Nigeria

[1*]Johnbosco Ikenna Okafor and [2]Charles Chukwunwike Egolum

[1-2]Department of Estate Management, Nnamdi Azikiwe University, Awka.

[*]Corresponding Author email: ij.okafor@unizik.edu.ng

Abstract: *Service charge is a levy paid by occupiers of a multi-tenanted property to fund the maintenance and services of facilities that are commonly used by the occupiers. Service charge determination is an integral and important aspect of service charge administration. It has been perceived that most of the Estate Surveying and Valuation firms do not apply the appropriate method of determination of service charge payable by occupiers of multi-tenanted residential properties in South East Nigeria. The aim of this study is to evaluate the application of service charge determination methods in management of multi-tenanted residential properties in South East Nigeria. The study adopted quantitative research design to evaluate the application of service charge determination methods in the management of multi-tenanted residential properties in South East Nigeria. The study was carried out in the five South Eastern States of Nigeria namely; Anambra, Enugu, Imo, Abia and Ebonyi. The population of the Study was 102 Estate surveying and Valuation firms who are into service charge administration. Data collected were presented with the use of frequency table. Mean ranking was used to analyse the data and the hypothesis was tested with One-way Analysis of Variance using of SPSS. The result from the analysis revealed that the most applicable method of determination of service charge in South East Nigeria is service charge as agreed with Tenants, followed by Service Charge as Percentage of Rent. It is good to note that the two most applicable methods of determining service charge in South East Nigeria do not have any professional or scientific basis. The analysis of variance produced a F-value of 0.360 with a significance (p-value) of 0.34. Since this p-value is greater than the 0.05 level of significance, the difference in mean scores across the states are not statistically significant. Based on this result, the null hypothesis (H$_{01}$), which states that there is no significant difference in application of service charge determination across the South-Eastern States of Nigeria was accepted. This simply means that the Estate Surveying and Valuation Firms in the five south Eastern States applies the same method in determination of service charge. The Practicing firms of Estate Surveying and Valuation managing multi-tenanted residential properties in South East Nigeria applies majorly unprofessional methods (service charge as agreed with tenants and service charge as percentage of rent) in determining the service charge payable by occupants. The study recommends that Estate Surveying and Valuation firms managing multi-tenanted residential*

properties in South East Nigeria should apply Contractor's method in determining the service charge payable by occupiers of their properties. This method is most appropriate because it is based on market data and it ensures that the actual cost required for the maintenance of commonly used facilities is realized.

Keywords: service charge, determination, methods, management, multi-tenanted residential properties, South-East Nigeria

INTRODUCTION

The emergence of the concept of service charge is linked with the changes in the pattern of housing development in Nigeria (Emoh and Anyoha, 2021). Prior to colonial rule the essence of construction and development of houses was just to provide shelter, people did not really care about the provision of sophisticated facilities in houses as we have during and after colonization. Young (2014) defined service charge as the expenses incurred by the owner of any multi-tenanted property in maintaining the facilities which he provided for the tenants' use and maintenance of common area. Such cost is expected to be borne collectively by the occupants of the property. Kuye (2000) offered a more comprehensive perspective on the concept, referring to it as the "Service maintenance charge." He defined this charge as a mandatory fee imposed on tenants or occupants of multi-tenanted properties, in addition to their rent. This fee is intended to cover obligations that each tenant or occupant would typically be responsible for if they were the sole tenant, but which they are unable to fulfill due to the presence of other tenants with similar responsibilities. While various authors have provided definitions of service charges, the most accurate representation of the term is that articulated by Kuye (2000), who termed it the "Service maintenance charge". This is because service charge is not an extra rent nor is it meant for the consumption of the Landlord, rather it is meant to finance the servicing and maintenance of facilities which are commonly used by occupiers of multi tenanted properties.

Service charge determination and administration is an integral essence of property management and the cornerstone of preserving the quality of a property and its related services resides in the provision of adequate funding by means of ensuring that service charge is paid by the users of the facilities (Emoh and Anyoha, 2021). However, when Property Managers place arbitrary fee on occupants as service charge without applying the appropriate methodology in determining the service charge required for the maintenance of a property there is a high probability that the fund collected may not be enough for the maintenance of such property thereby placing the property in danger of not being properly maintained. This goes to emphasize the need of applying a method that is professional and is based on market evidence in determining the service charge payable by occupiers of multi-tenanted residential properties.

LITERATURE REVIEW

Service Charge Determination Methods
Odumodu (nd) outlined four methods of determining service charge payable by a tenant to include;

Direct Comparison Method. He posits that this method is very appropriate where the property is a new one and the comparable property is in close proximity to the property in question. This method entails comparing the cost of financing the services and maintenance of a new property with the cost of financing the services and maintenance of an already existing similar property within the same neighbourhood.

Service Charge as a Percentage of Rent. This method is usually adopted by quacks and few professional property managers. The problem with this method is that rent is not an index for measuring the cost of financing the maintenance and services of a facility. When this method is adopted, the percentage is usually as high as possible leading occasionally to the collection of an amount higher than the actual service charge.

Service Charge as Agreed with the Tenants. In properties with difficult tenants some astute managers succeed in reaching agreement on how much the tenants will be ready to pay as service charge deposit. Where this approach is adopted in determining the service charge, selective approach is equally adopted in the application of the fund. In this regard management is forced to select the most vital services which the agreed amount can carry. However, it is most likely that the managers of the facility shall constantly experience service charge deficit if this method is adopted.

Contractor's Tender (Actual Cost of Services and Maintenance). This method adopts the tender submitted by service contractors as basis for determining the service charge amount payable by tenants in the year. The property manager is expected to invite tenders for the running of available services from reputable service contractors.

Classification of Property
According to Kalu(2001) property can be classified into realty (real property) and personal Charttels.
a.   **Real Property:** This includes land and buildings and anyone who owns a house is said to own a real property.
b.   **Chattels:**   This includes all physical items that individuals possess, such as jewellery, furniture, household goods, clothing, and vehicles.

Types of Real Property
a.   **Residential Properties:** These properties are essential for human habitation and tend to be in high demand, particularly when situated in desirable locations. They serve as living spaces for individuals and families, providing necessary shelter (Aina and Somefun 2007). Examples of residential properties include bungalows, duplexes, semi-detached houses, multi-storey buildings, self-contained units, and various types of flats, such as one-bedroom, two-bedroom, and three-bedroom options.
b.   **Commercial Properties:** Commonly known as investment or income properties, these are designed to generate profit for their owners, either through capital appreciation or rental income. They are exclusively utilized for business activities. Examples include hotels, office complexes, retail shops, and shopping centers.
c.   **Industrial Properties:** These properties are dedicated solely to industrial activities. Examples encompass factory-office combinations, warehouses, manufacturing

facilities, and development parks. Industrial properties are generally categorized into three main types: factories built for specific industrial functions, modern multi-purpose buildings adaptable for light industrial use or warehousing, and multi-storey factories and warehouses.

d. **Special Properties:** As indicated by their name, these properties are specifically designed and enhanced for particular purposes and rarely change ownership in the market. They are exempt from property tax but are subject to other fees. Examples include police stations, cemeteries, public libraries, gas stations, and venues for entertainment.

e. **Agricultural Properties:** These lands are designated for agricultural or farming activities, regardless of their physical characteristics or quality. This category includes agricultural land, pastures, woodlands, and any structures associated with the intensive farming of livestock or fish, as well as farm buildings and residences. Agricultural properties can be further classified into arable land.

f. **Recreational Properties:** These properties are designated for the enhancement of health and well-being through leisure and enjoyment. Examples encompass sports fields, gymnasiums, playgrounds, public parks, and swimming pools.

g. **Institutional Properties**: These properties serve educational functions, with examples including schools and universities.

Forms of Residential Property Ownership

Aina and Somefun (2007) categorized property ownership into three distinct forms: multi-tenanted, owner-occupied, and single-tenant properties.

i. **Multi-Tenanted Properties;** refer to those that are simultaneously occupied by multiple tenants, each of whom must have reached an agreement with the landlord regarding the periodic payment of a service charge. This charge is intended to cover the provision and upkeep of shared areas and amenities within the building, which may include generators, gardens, waste disposal, security services, and the cleaning of windows and gutters.

ii. **Owner-Occupied;** are properties occupied by the owner, this serves as an investment, as he will pay rent if he occupies another property that is left to him. Therefore he saves the money he would have spent on paying rent as he occupies his property.

iii. **Single Tenanted Property;** is a property that is let exclusively to a tenant under terms and conditions agreed on between the landlord/landlady and tenant, most important that the tenant must pay for the period of his tenancy.

METHODOLOGY

The study adopted quantitative research design to evaluate the application of service charge determination methods in the management of multi-tenanted residential properties in South East Nigeria. The study was carried out in the five South Eastern States of Nigeria namely; Anambra, Enugu, Imo, Abia and Ebonyi. The population of the Study is 102 Estate surveying and Valuation firms who are into service charge administration. Data collected were presented with the use of frequency table. Mean ranking was used to analyse the data and the hypothesis was tested with the use of One-way Analysis of Variance.

DATA PRESENTATION AND ANALYSIS

Data Presentation

The data collected from 102 respondents out of 138 respondents across the five states of South-East Nigeria are summarized below. Frequencies and percentages were computed to give a clear picture of the responses.

Table 4.1: Data Presentation

State	Distributed Questionnaire	Returned Questionnaire	Percentage (%)
Anambra	36	31	86.11
Imo	26	26	100
Enugu	51	32	62.75
Abia	18	9	50
Ebonyi	7	4	57.14
Total	138	102	73.9

Table 4.1 shows that Enugu state has the highest number of firms practicing Service Charge in management of multi-tenanted residential properties followed by Anambra state and the least was Ebonyi State. The questionnaire returned are responses from Estate Surveying and Valuation firms engaging in the practice of service charge determination and administration in the study area. The returned questionnaire forms a total of 73.9% of the entire population. The low number of firms in Abia and Ebonyi is as a result of the fact that Estate Surveying and Valuation practice in these States are still evolving.

Data Analysis
To evaluate application of service charge determination methods in management of multi-tenanted residential properties in South-East, Nigeria.

Table 4.2: Most Applicable Method of Determination of Service Charge in Multi-Tenanted Residential Properties in Anambra State

Method of Determination	Frequency	Weighted Score	Mean Score	Rank
Direct Comparison with similar facilities	5	5 x 1 = 5	0.16	5
Contractors Tender (actual cost)	7	7 x 2 = 14	0.45	3
Service Charge as Percentage of Rent	5	5 x 3 = 15	0.48	2
Service Charge as Agreed with Tenants	13	13 x 4 = 52	1.68	1
Any Amount Requested from Tenants	1	1x 5 = 5	0.16	4
Total	**31**	**91**		

The most applicable method of determination of service charge in Anambra State (from Table 4.2)is "service charge as agreed with Tenants" (Mean = 1.68), followed by Service Charge as Percentage of Rent (Mean = 0.42). It is good to note that the two most applicable methods of determining service charge in Anambra State as evidenced in table 4.2 do not have any professional or scientific basis.

Table 4.3: Most Applicable Method of Determination of Service Charge in Multi-Tenanted Residential Properties in Enugu State

Method of Determination	Frequency	Weighted Score	Mean Score	Rank
Direct Comparison with similar facilities	3	3 x 1 = 3	0.097	4
Contractors Tender (actual cost)	5	5 x 2 = 10	0.32	3
Service Charge as Percentage of Rent	11	11 x 3 = 33	1.065	1
Service Charge as Agreed with Tenants	12	12 x 4 = 24	0.77	2
Any Amount Requested from Tenants	0	0x 5 = 0	0	5
Total	**31**	**70**		

The most applicable method of determination of service charge in Enugu State (from Table 4.3)is "service charge as Percentage of Rent" (Mean = 1.065), followed by Service Charge as Agreed with Tenant (Mean = 0.77). It is good to note that the two most applicable methods of determining service charge in Enugu State as evidenced in table 4.3 do not have any professional or scientific basis.

Table 4.4: Most Applicable Method of Determination of Service Charge in Multi-Tenanted Residential Properties in Imo State

Method of Determination	Frequency	Weighted Score	Mean Score	Rank
Direct Comparison with similar facilities	4	4 x 1 = 4	0.16	4
Contractors Tender (actual cost)	1	1 x 2 = 2	0.08	5
Service Charge as Percentage of Rent	8	8 x 3 = 24	0.96	2
Service Charge as Agreed with Tenants	10	10 x 4 = 40	1.6	1
Any Amount Requested from Tenants	2	2x 5 = 10	0.4	3
Total	**25**	**80**		

The most applicable method of determination of service charge in Imo State (from Table 4.4)is "service charge as agreed with Tenants" (Mean = 1.6), followed by Service Charge as Percentage of Rent (Mean = 0.96). It is good to note that the two most applicable methods of determining service charge in Imo State as evidenced in table 4.4 do not have any professional or scientific basis.

Table 4.5: Most Applicable Method of Determination of Service Charge in Multi-Tenanted Residential Properties in Abia State

Method of Determination	Frequency	Weighted Score	Mean Score	Rank
Direct Comparison with similar facilities	2	2 x 1 = 2	0.22	3
Contractors Tender (actual cost)	1	1 x 2 = 2	0.22	3
Service Charge as Percentage of Rent	3	3 x 3 = 9	1	2
Service Charge as Agreed with Tenants	3	3 x 4 = 12	1.3	1
Any Amount Requested from Tenants	0	0x 5 = 0	0	4
Total	**9**	**25**		

The most applicable method of determination of service charge in Abia State (from Table 4.5) is "service charge as agreed with Tenants" (Mean = 1.3), followed by Service Charge as Percentage of Rent (Mean = 1). It is good to note that the two most applicable methods of

determining service charge in Anambra State as evidenced in table 4.5 do not have any professional or scientific basis.

Table 4.6: Most Applicable Method of Determination of Service Charge in Multi-Tenanted Residential Properties in Ebonyi State

Method of Determination	Frequency	Weighted Score	Mean Score	Rank
Direct Comparison with similar facilities	1	1 x 1 = 1	0.25	4
Contractors Tender (actual cost)	1	1 x 2 = 2	0.5	3
Service Charge as Percentage of Rent	1	1 x 3 = 3	0.75	2
Service Charge as Agreed with Tenants	1	1 x 4 = 4	1	1
Any Amount Requested from Tenants	0	0x 5 = 0	0	5
Total	**4**	**25**		

The most applicable method of determination of service charge in Ebonyi State (from Table 4.6) is "service charge as agreed with Tenants" (Mean = 1), followed by Service Charge as Percentage of Rent (Mean = 0.75). It is good to note that the two most applicable methods of determining service charge in Ebonyi State as evidenced in table 4.6 do not have any professional or scientific basis.

From the above analysis of the most applicable method of determination of service charge in the five South Eastern States of Nigeria (Anambra, Enugu, Imo, Abia and Ebonyi) is "Service Charge as Agreed with Tenants" followed by "Service charge as Percentage of Rent". These two most applicable methods are not professional; this establishes the fact that there is a challenge in the methods of service charge determination in South East Nigeria.

Test of Hypothesis

Null Hypothesis (H$_O$)

Statement:
There is no significant difference in the application of service charge determination methods in management of multi-tenanted residential properties in the South-Eastern States of Nigeria

This hypothesis examines whether there is any difference in the way service charges are determined in the management of multi-tenanted residential properties across the South-Eastern States of Nigeria. Different methods such as direct comparison, contractor's tender, percentage of rent, and agreement with tenants are commonly used. The aim of this hypothesis is to find out whether these methods vary significantly from one state to another. To test this hypothesis, One-Way Analysis of Variance (ANOVA) was used. The mean scores of the various methods of service charge determination obtained from Tables 4.2 to 4.6 were used for the analysis. One-Way ANOVA is appropriate because it compares the mean values of more than two independent groups, which in this case are the South-Eastern states.
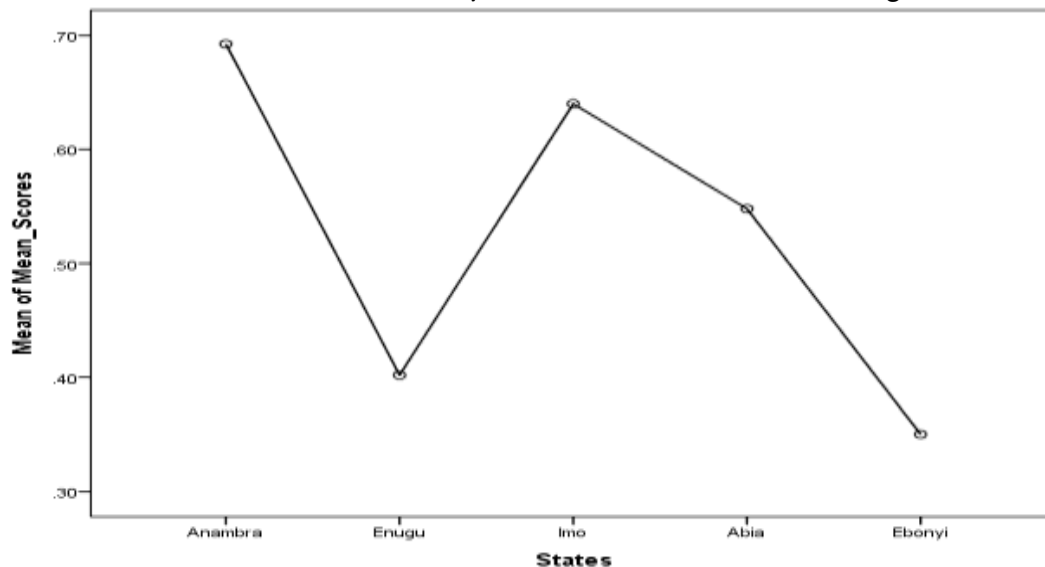
Figure 4.1: The mean plot of service charge determination practices among states.
The mean plot shows noticeable differences in the average service charge determination practices among the states. Anambra State recorded the highest mean score, indicating a higher level of agreement or preference for the methods used in determining service charges. This is followed by Imo and Abia States. Enugu State shows a lower mean score, while Ebonyi State has the lowest mean score among the states. These variations on the mean plot suggest that the methods used for determining service charges are not exactly the same across all the South-Eastern States.

ANOVA
Table 4.7: One-Way ANOVA for Determination of Service Charge

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.422	4	.106	.360	.34
Within Groups	5.868	20	.293		
Total	6.291	24			

The ANOVA result further confirms this observation. The analysis produced an F-value of 0.360 with a significance (p-value) of 0.34. Since this p-value is greater than the 0.05 level of significance, the difference in mean scores across the states are not statistically significant. This means that the variations observed in the mean plot are due to chance. Based on this result, the null hypothesis (H_{01}), which states that there is no significant difference in the application of service charge determination methods across the South-Eastern States of Nigeria, is accepted.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Findings.
1. The result from the analysis revealed that the most applicable method of determination of service charge in South East Nigeria is service charge as agreed with Tenants, followed by Service Charge as Percentage of Rent. It is good to note that the two most applicable methods

of determining service charge in South East Nigeria (as evidenced in table 4.2 to 4.6) do not have any professional or scientific basis.

2. The null hypothesis states that there is no significant difference in the application of service charge determination methods in management of multi-tenanted residential properties in the South-Eastern States of Nigeria. The analysis of variance produced a F-value of 0.360 with a significance (p-value) of 0.34. Since this p-value is greater than the 0.05 level of significance, the difference in mean scores across the states are not statistically significant. This means that the variations observed in the mean plot (see fig 4.1) are due to chance. Based on this result, the null hypothesis (H_{01}), which states that there is no significant difference in application of service charge determination across the South-Eastern States of Nigeria, is accepted**.** This simply means that the Estate Surveying and Valuation Firms in the five south Eastern States applies the same method in determination of service charge.

CONCLUSION

The Practicing firms of Estate Surveying and Valuation managing multi-tenanted residential properties in South East Nigeria applies majorly unprofessional methods (service charge as agreed with tenants and service charge as percentage of rent) in determining the service charge payable by occupants. The danger in the use of this methods is that in most cases the amount required for the maintenance of commonly used facilities in a property is usually not realized which may subject the facilities to inadequate maintenance thereby defeating the essence of service charge. On the other hand, application of such unprofessional methods can lead to over charging of service charge from Occupiers beyond what is required, which may lead to extortion.

Recommendation

The study recommends that Estate Surveying and Valuation firms managing multi-tenanted residential properties in South East Nigeria should apply Contractor's method in determining the service charge payable by occupiers of their properties. This method is most appropriate because it is based on market data and it ensures that the actual cost required for the maintenance of commonly used facilities is realized. It shall help to forestall cases of undercharging or overcharging of service charge.

REFERENCE

Aina, O. C. and Somefun, A. O. (2007). The Effects of Facilities Provision on Rental Values of Residential Properties in Ikeja. Lagos State. *Journal of Land Use and Development Studies,* 3(1): 60-67.

Emoh, F. I. and Anyoha, K. M. (2021). An evaluation of the challenges of service charge administration on commercial property management in Onitsha, Anambra State. *International Research Journal of Applied Sciences, Engineering and Technology.* 7(3), 36-51.

Kalu, I. U. (2001). *Property valuation and appraisal.* Imo State, Nigeria: Adyodo Press.

Kuye, O. (2000). *Estate office practice*. Lagos, Mangroove Publishers.

Odumodu, A. (nd). *Advanced Property Management Lecture note.* An unpublished lecture note on advanced property management for 500 level Students of Estate Management Department, NnamdiAzikiwe University, Awka.

Young, M. I. (2014). *Service Charges in commercial Property* New York, Routledge (T&F Group).