SERVICED OFFICE REVIEW

UNITED KINGDOM 2009

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INTRODUCTION

The following report utilises 2009 statistics from officebroker.com, the UK's leading independent broker of serviced office space, along with external reports to present findings on the activity within the serviced office industry.

The report presents results on the following key areas:

- Supply of and demand for serviced office space.
  - In terms of the number of enquiries, the size and shape of those enquiries and the number of placements

- New Serviced Office Tenants:
  - In terms of workstation prices and initial license length commitment

Using the statistics from these areas, a detailed overview of the serviced office industry across the United Kingdom was compiled to provide a comparative analysis of the changes that have occurred between 08 and 09.

HIGHLIGHTS

- **According to officebroker.com the supply of serviced office space grew by +30% during 2009, following a net increase of 725 new serviced office buildings to the officebroker.com portfolio.**

2009 COMPARED TO 2008:

- **Overall enquiry levels through officebroker.com declined by -7% on 08 levels**
- **+ 13% increase in the number of new, individual serviced office tenants (SOT's)**
- **Average number of workstations per SOT was 3.8**
- **Average workstation costs dropped -16% to £252.00 per month**
- **Initial license agreements decreased to 7 months**

SUPPLY OF SERVICED OFFICE SPACE

According to officebroker.com the supply of serviced office space grew by +30% during 2009, following the addition of 725 new serviced office buildings to the officebroker.com portfolio

The total number of serviced office buildings on the officebroker.com database reached 2456 in the United Kingdom during 09. This peak figure followed the addition of 948 new office buildings to the officebroker.com portfolio and the removal of 218.

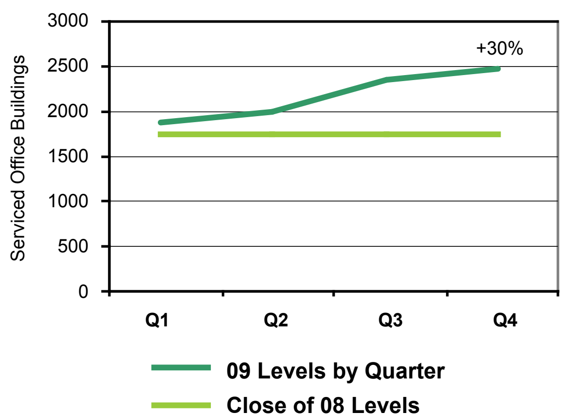
This generated a net increase of 725 buildings during 2009, equated to +30% growth in the number of serviced office buildings operating within the United Kingdom.

As shown by Fig.1, the biggest increase in new serviced office buildings took place between Q2 and Q3. This period of growth coincided with prime rent levels in key UK locations falling to new lows*.

This suggests that serviced office providers took advantage of these declines in prime rent levels to acquire additional spaces for conversion to new business centres.

Such activity by serviced office providers suggests that their expectations for 2010 are high, despite an existing over-supply in the market.

Fig 1. Serviced Office Buildings Growth by Quarter 2009



DEMAND FOR SERVICED OFFICE SPACE

Overall enquiry levels declined -7% during 09

NEW ENQUIRIES

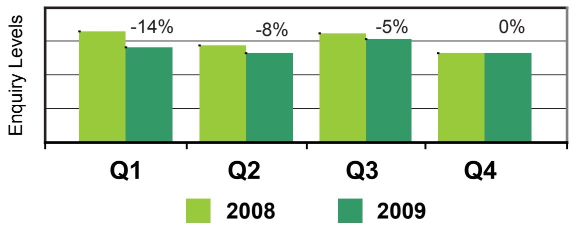
The number of new enquiries being received for serviced office space during 09 declined by -7% on 08 levels.

As shown in Fig.2, the deficit between 08 and 09 enquiry levels improved quarter-on-quarter, returning to within 1% of the higher 08 levels by the close of Q4.

Given that Q4 09 officially marked the period in which the UK economy meekly emerged from recession, the return to 08 enquiry levels during Q4 provides evidence of a renewed confidence amongst businesses as they once again consider taking or increasing their operational space.

It is the opinion of officebroker.com that 2010 will see a return to the higher enquiry levels of 2008, with 2009 having served as a buffer for the recovery needed to allow this to take place. The recovery in enquiry levels predicted for 2010, assuming the economy continues to recover, would lay the foundations for subsequent growth in 2011.

Fig 2. Officebroker.com Enquiry Levels 08 vs 09 by Financial Quarter

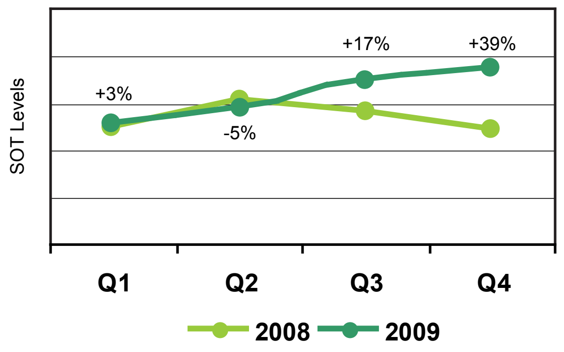


NEW SERVICED OFFICE TENANTS (SOT'S)

+ 13% increase in the number of new, individual serviced office tenants (SOT's)

The number of new SOT's increased throughout the United Kingdom by +13% in 09 compared to 08. Substantial increases in Q3 (+17%) and Q4 (+39%) followed a small decrease in Q2 (-5%) which itself was preceded by nominal rise in Q1 (+3%).

Fig 3. SOT Levels 08 vs 09



Following the -5% decline in Q2, the strong growth witnessed in the final two quarters of 09 coincided with the revival in enquiry levels. The strength of the increase witnessed during this period helps to underpin this growth as continued and sustained.

Positive responses in these key areas of the supply and demand process reinforce a return to action for many businesses that may have been lying dormant throughout the financial hardships of 2009. Given the renewed vigour shown in both Q3 and Q4, it would appear that this dormant period has now ended, drawn out by the improved financial stability and increased confidence amongst businesses.

An increase in the number of businesses entering serviced office space could also indicate a marked difference in the way businesses are choosing to operate following the harsh lessons administered through recession, with many start-ups and SME's taking advantage of serviced office space during these uncertain times.

This refocusing on short and mid-term business needs may however continue to be applied by SME's even after economic recovery. With the lessons of recession still fresh in the mind of business owners, the adoption of a more flexible, malleable working model may well continue to appeal.

The lower levels of SOT's seen throughout the majority of 08 could also reflect how businesses were responding to the impact of the impending recession, with business owners becoming hesitant and less willing to commit due to the uncertainty of the financial climate.

Continued growth in this area however shows that any hesitancy has now past, with SOT's on the increase throughout the UK as a new influx of businesses take advantage of the inherent recession and budget friendly nature of serviced office space.

AVERAGE WORKSTATIONS PER SOT

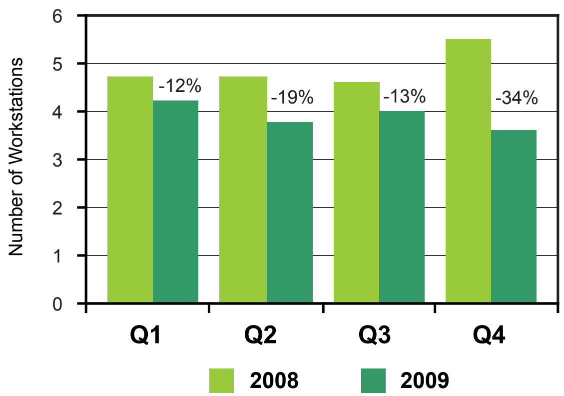
Average workstations placed per SOT dropped to 3.8

Despite an overall increase in SOT's during 09, the average number of workstations placed per SOT remained below 08 levels, decreasing by an average of -26%. But given the rises noted in other areas, what could have brought about this decrease in workstation sizes?

One noticeable absentee from the serviced office market throughout 09 were corporate clients. In 08, corporate clients had been active within the serviced office sector, often calling upon this type of space to act as a base from which project specific work could be carried out, much of which required larger numbers of workstations.

It would appear the absence of corporate clients was the result of such project work being cancelled or placed on hold throughout the recession. But as the economy of the United Kingdom begins to recover and positive predictions for 2010 emerge, corporate clients have once again begun to place enquiries, suggesting that 2010 will see average workstation requirements edging back toward the higher levels recorded in 08.

Fig 5. Q4 2008 vs Q4 2009 - Average Workstations Placed per New SOT



Another reason for the dominance of smaller workstation requirements is believed to be the types and styles of businesses entering serviced office space during this period.

As a result of the recession the UK saw a high number of redundancies, often affecting highly skilled individuals such as those in the financial sector. The surge in the number of new, individual SOT's entering the market is believed to have been heavily influenced by this factor, a result of many of these individuals setting up in business and leading to a wave of boutique, specialist firms being born, who, while still requiring a professional base of operations, naturally have small space requirements to operate successfully.

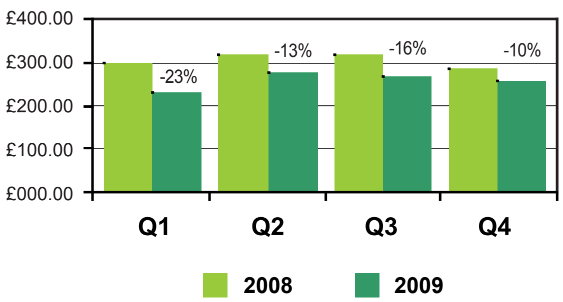
This area of the market will also have undoubtedly been affected by the general downsizing taking place amongst businesses as they sought to cut costs and add flexibility to their short and mid-term prospects.

SERVICED OFFICE SPACE COSTS

Average price per workstation fell to £252.00 – dropping -16% from 08

During 09 the average price per workstation in the UK fell to £252.00, representing a -16% decline on the average workstation cost of £300.00 recorded during 08.

Fig 6. Avg Workstation Cost 08 vs 09



Falling workstation costs have, as shown in Fig 6, been a trend affecting the serviced office industry throughout 2009. Despite seeing the deficit between prices shorten to their lowest point during the closing quarter of 09, it is a trend which looks likely to continue into 2010.

In 09 one of the most influential factors affecting how potential clients were choosing office space was undoubtedly price. This cost driven approach, coupled with the amount of serviced office space sitting empty due to an over-supply in the market, produced increased competition amongst serviced office providers as they sought to fill their redundant space, leading to workstation costs being reduced in order to attract potential SOT's.

Another factor which could have influenced the decline in workstation costs during 09 was that of the quality of space being opted for by SOT's. With budget clearly a prime consideration, businesses which may have previously opted for space in a Grade A building, may have become increasingly willing to opt for less prestigious space in order to cut their fixed costs.

INITIAL LICENSE LENGTHS

Initial license length agreements fell to 7 months

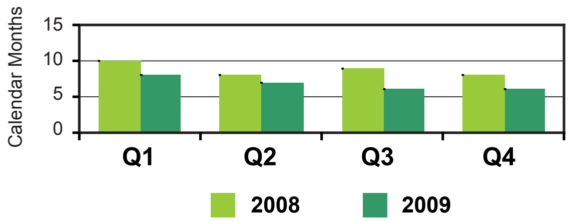
During 09 new SOT's throughout the UK were signing initial licence agreements averaging 7 months, a full 2 months shorter than in 2008.

In light of the falling workstation costs experienced during 09, it would be reasonable to assume that potential tenants may have looked to take advantage, securing longer terms at more favourable rates. The decrease of 2 months in those licenses being signed however suggests that this has not been the case.

One possible explanation could be a reluctance by business owners to over-commit, particularly with the harsh lessons of a recession still fresh. This reduction in commitment levels could suggest that businesses are unsure about their prospects in 2010.

A secondary explanation could be the direct influence of office providers. If a recovery is to happen in 2010, then allowing occupants to secure terms beyond Q2 10 may be counter productive. By encouraging occupants to reduce initial licence length, providers are ensuring the opportunity to renegotiate rates at an earlier juncture. This would allow current market rates to be introduced, creating an environment where profit levels could be raised in line with market demand.

Fig 7. 2008 vs 2009 Initial Licence Lengths



SUMMARY

When taking into account all the information for 09, the following key findings can be drawn:

1. Enquiry levels moved steadily back toward 08 levels throughout 09, drawing level by the close of Q4 09.
2. The overall number of new serviced office tenants rose during 09 – suggesting an increase of individual new businesses entering the serviced office industry.
3. Larger workstation requirements remained absent from the market, highlighting the types of businesses that have been created as a result of the recession.
4. Average workstation costs continued to fall as a result of over-supply, downsizing and the types of businesses entering the market in 09.
5. Initial license lengths fell as SOT's failed to capitalise on the lower rates available from serviced office providers.

PREDICTIONS FOR 2010

1. The second half of 2009 has provided a series of encouraging signs, suggesting the serviced office market has become increasingly popular amongst business start-ups and SME's. This exposure, coupled with the investment by serviced office providers in new business centres, points toward serviced offices becoming far more prominent in 2010 and beyond.
2. As the UK economy continues to improve, corporate clients will reinstate projects leading to an increase in average workstation requirements. This in turn will lead to the current over-supply issue reducing and supporting an increase in average workstations costs.
3. The lower figures recorded in 09 will continue to regain ground on the higher figures of 08, securing a return to 08 levels by the close of 2010 assuming the economy remains stable. Potential setbacks to this activity will be the drying up of government impetus packages or a lack of private investment to replace it.

RESEARCH

For more information in relation to officebroker.com's research, or for further details on any other UK region, please contact us via the following channels:

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officebroker.com research is also available online at www.officebroker.com.

EDITOR'S NOTES

officebroker.com is an independent specialist for serviced office space. Working with over 95% of all UK office space providers, officebroker.com offers free, consultative advice to assist businesses seeking office space in the UK and internationally.

Clients receive expert advice from regional consultants, who offer support and guidance throughout the process of finding office space, arranging a tour, and finalising the contract.

Contact officebroker.com for help finding serviced office space, or to advertise a building online.

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