SERVICED OFFICE REVIEW

EAST MIDLANDS
Q4 2009

EAST MIDLANDS

INTRODUCTION

The following report utilises statistics for Q4 09 from officebroker.com, the UK's leading independent broker of serviced office space, along with external reports to present findings on activity within the serviced office industry in comparison to Q4 08.

The report presents results on the following key areas in the East Midlands** region:

- 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 in the East Midlands was compiled to provide a comparative analysis of the changes within the serviced office market during Q4 09.

** officebroker.com defines the East Midlands region as areas located within the following postcode prefixes: DE, LE, NG and NN

HIGHLIGHTS

- **24 new serviced offices added to the officebroker.com portfolio in 2009**

Q4 09 COMPARED TO Q4 08:

- **Enquiry levels remained consistent**
- **+ 9% rise in new serviced office tenants (SOT's)**
- **Average workstation price dropped to £211.00 from £222.00**
- **Initial license agreements peaked at 5.9 months - down 17%**

SUPPLY OF SERVICED OFFICE SPACE

24 serviced office buildings were added to the officebroker.com portfolio during 2009, representing a + 24% increase in the total number of serviced office buildings available.

The total number of serviced office buildings reached 102 in the East Midlands during Q4 09. This peak figure followed 4 new offices being added to the officebroker.com portfolio during Q4 09.

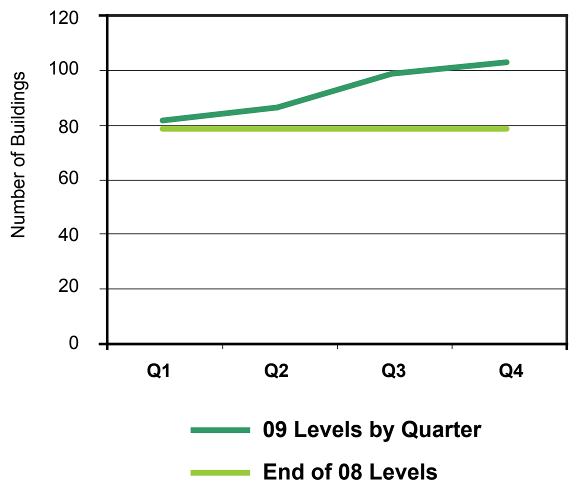
The 4 serviced office buildings added in Q4 09 were part of 24 buildings added during the entirety of 2009. These additions represented a 24% increase in the total number of serviced office buildings available within the East Midlands.

According to commercial property agents DTZ***, prime office rents for conventional space in Nottingham dropped as low as £17.95 during 2009.

Such a decrease could have contributed to an increase in serviced office providers seizing the opportunity to lease new buildings for conversion to business centres.

Securing a financial return on such investments would be dependant on a rise in both demand and average workstation costs, both areas that have nationally decreased in 2009.

Fig 1. Serviced Office Space Growth by Quarter 2009



The upward levels of supply slowed between Q3 and Q4 after sharper increases in Q1 and Q2. It is unclear what brought about this fading in the latter half of 2009, but with the +21% increase registered overall in 2009 it would appear serviced office providers have new space to accommodate any increased uptake that may occur.

DEMAND FOR SERVICED OFFICE SPACE

Enquiry levels remained level within 1% of Q4 08 levels

NEW ENQUIRIES

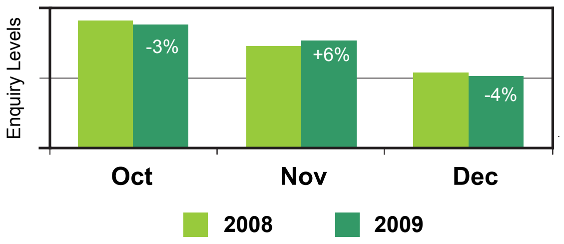
The number of new enquiries received for serviced office space remained largely unchanged during Q4 09, a continuation of the pattern witnessed across the three previous financial quarters of 2009.

Although variations in enquiry levels occurred month-on-month, the overall effect was to return enquiry levels to within 1% of those recorded during Q4 08.

This pattern of consistency also matches the national average recorded during this same period, which also remained within 1% of Q4 09 levels.

So what does the unchanging nature of enquiry levels in the East Midlands suggest about the state of the serviced office market? Well, given the expected impact of recession, the maintaining of enquiry levels suggests that demand and interest has remained consistent amongst businesses within the East Midlands. This could suggest that the region will be well positioned to respond as the UK continues to move out of the long-lasting recession. Alternatively the unchanging nature of demand could suggest a static market with little room for future growth.

Fig 2. Enquiry Levels 08 vs 09 - Oct, Nov, Dec



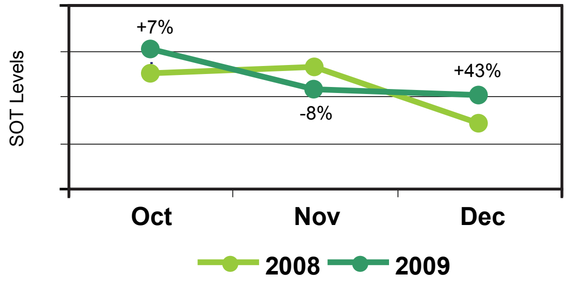
NEW SERVICED OFFICE TENANTS (SOT'S)

+9% increase in new serviced office tenants (SOT's)

The total number of new SOT's fluctuated month on month compared to Q4 08 culminating with an overall increase of +9%.

Such fluctuations reflect similar activity seen in this area during the previous financial quarters of 2009, ending with an annual decline of -11% in the total number of SOT's.

Fig 3. New SOT's - Oct, Nov, Dec



This annual decline, despite the +9% growth of Q4 09, tells us that although enquiry levels have remained stable, as highlighted in the previous section of this report, the conversion rate has fallen.

Such a fall points to a shrinking market for serviced office space within the East Midlands, perpetuated by its failure to attract new enquiries and convert existing ones. This situation could be made all the more acute given that the number of serviced office buildings has increased throughout 2009, a factor which would spread an already thinning market further.

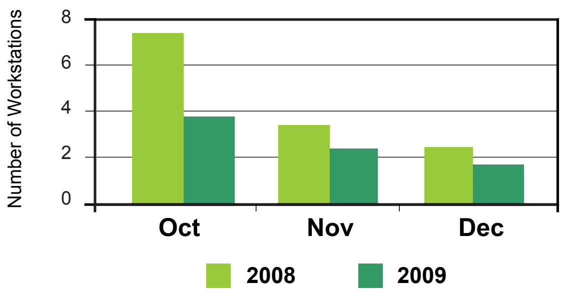
AVERAGE WORKSTATIONS PER SOT

Average workstations per SOT reached 2.6 – Down - 41% on Q4 08

Another area of the market which experienced a decline during Q4 09 was the number of workstations being taken by new SOT's.

In Q4 08 new SOT's entering the market took on average 4.4 workstations per placement, but in Q4 09 that number had fallen by -41% to create an average workstation take-up of 2.6 per new SOT.

Fig 4. Q4 2008 vs Q4 2009 - Average Workstations Placed per new SOT



This near halving of workstation take-up again points toward a declining market for serviced office space in the East Midlands. Decreases in workstation take-up also occurred in previous financial quarters of 2009. If we also take into account the overall drop in SOT's witnessed in these periods, it becomes clear demand and take-up have both suffered heavily throughout 2009.

One explanation to these trends could be that the new SOT's entering the market are predominantly start-up ventures. With start-ups naturally requiring smaller workstation requirements, this could explain why workstation sizes have fallen so significantly. Alternatively the cut in workstation requirements could demonstrate the scale of downsizing taking place as a result of the economic downturn.

A common thread throughout however is that the trend for smaller workstation requirements shows no sign of altering within the East Midlands. As such service office providers may increasingly come under pressure to re-configure office templates in order to match this demand.

Whatever the reason, the 41% decline seen during this period suggests a need for office providers to re-evaluate the importance of smaller clients. While previously it may have been more desirable to focus on clients with larger requirements, the results from Q4 09, which reflect a trend also witnessed in Q1-Q3 09, suggest that smaller workstation requirements will continue to dominate the market for the foreseeable future and office providers will need to address this change in habit.

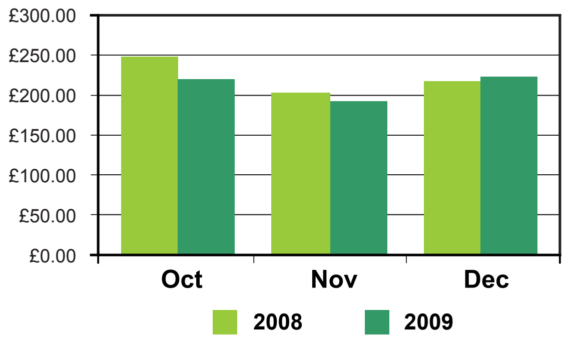
SERVICED OFFICE SPACE COSTS

Average price per workstation fell to £211.00 from £222.00 in Q4 08

Despite declines in other areas the impact upon the average price per workstation in the East Midlands has been minimal, falling only -5% below Q4 08 levels.

A month by month comparison of Q4 09 reveals that average workstation costs remained below 08 levels during October (-10%) and November (-5%) before rising marginally above 08 levels in December (+2%).

Fig 5. 2008 vs 2009 Average Workstation Price



The average workstation cost of £211.00, despite being £47.00 below the national average of £258.00 recorded for Q4 09, represents one of the smallest changes in this area of any UK region. With only a -5% decrease the East Midlands compares favourably to the nationwide average of -10% and to that of areas such as the West Midlands (-25%) and even Central London (-18%).

This continued drop however, while positive for buyers entering the market, could mean a long period of recovery will be needed for the serviced office providers.

INITIAL LICENSE LENGTHS

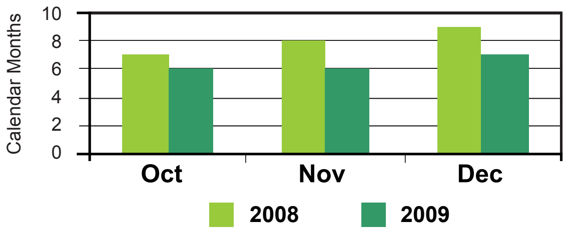
Initial license length commitment falls to 6.3 months - 17% down on Q4 08

New SOT's are signing initial licences averaging 6.3 months in Q4 09, 1.4 months (-17%) shorter than in the same period in 2008.

In light of the declining workstation costs of Q4 09, it would be reasonable to assume that tenants may have looked to take advantage, securing longer terms at more favourable rates. The 1.4 month decrease (-17%) in licence lengths however suggests 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.

Fig 6. 2008 vs 2009 - Initial Licence Lengths



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 Q3 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.

SUMMARY

When taking into account all the information for Q4 09, the following key findings can be drawn:

1. Enquiry levels have remained consistent with 2008 levels
2. The overall number of new serviced office tenants increased during the financial quarter but declined annually.
3. Q4 demonstrated that smaller workstation requirements continue to dominate, suggesting that streamlined operations have been adopted.
4. Average workstation costs continued to fall but proved more favourable in the region than in the UK as a whole.
5. Initial license lengths fell as SOT's failed to capitalise on the lower rates available from serviced office providers.

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/resources.

EDITOR'S NOTES

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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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