SERVICED OFFICE REVIEW

NORTH EAST
Q1 2010

NORTH EAST

INTRODUCTION

The following report utilises statistics for Q1 10 from officebroker.com, the UK's leading independent broker of serviced office space to present findings on activity within the serviced office industry.

The report presents results on the following key areas in the North East*** 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 North East was compiled to provide a comparative analysis of the changes within the serviced office market during Q1 10 compared to Q1 09.

*** officebroker.com defines the North East region as areas located within the following postcode prefixes: DH, DL, NE, SR and TS

HIGHLIGHTS

- **1 new serviced office building added to the officebroker.com portfolio in Q4 09**

Q1 10 COMPARED TO Q1 09:

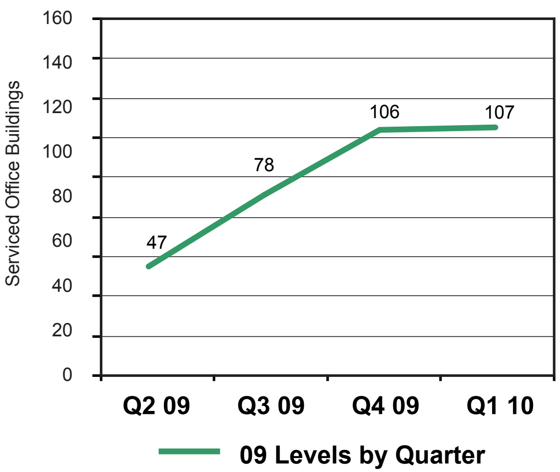
- **Enquiry levels increased by +45%**
- **The overall number of new serviced office tenants fell by -58%**
- **Average number of workstations per SOT was 3.9**
- **Workstation prices peaked at £145.00**
- **Initial license agreements increased to 9.1 months**

SUPPLY OF SERVICED OFFICE SPACE

1 new serviced office building added to the officebroker.com portfolio in Q4 09

The total number of serviced office buildings reached 107 in the North East during Q1 10. This new peak figure followed the addition of 1 new serviced office building to the officebroker.com portfolio.

Fig 1. Serviced Office Space Growth by Quarter 2009



As demonstrated by Fig.1, the total number of buildings offering serviced office space in the North East had grown significantly quarter-on-quarter during 2009. Given this previous growth the increase of <1% in Q1 10 demonstrates a marked change in this activity.

This sudden change could be the result of a lack of suitably placed and priced commercial properties in the North East or, more worryingly, a sudden drop in confidence amongst serviced office providers and landlords. It is however far more likely that this slowdown is the result of the commercial property rally during this same period, pushing up prime rent levels after they had effectively bottomed-out and as a result pricing providers out of an increasingly competitive market.

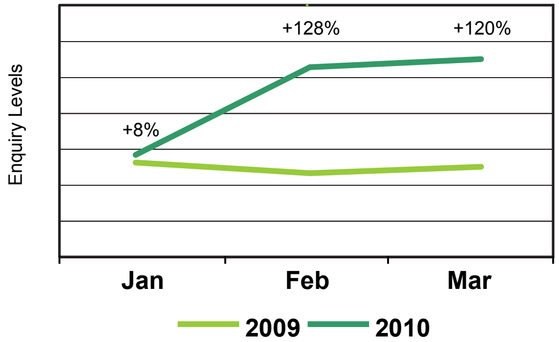
DEMAND FOR SERVICED OFFICE SPACE

Enquiry levels increased by +45%

NEW ENQUIRIES

The number of new enquiries received for serviced office space in the North East increased by +45% overall in Q1 10. This increase marked the first quarterly growth in enquiry levels for over 12 months having decreased by an average of -16% quarter-on-quarter during 2009.

Fig 2. Enquiry Levels - Jan, Feb, Mar



As shown by Fig. 2, enquiry levels in January experienced an increase of +8%. This increase, which occurred before officebroker.com expanded its marketing and affiliate activity*, demonstrates a natural rise in the number of businesses enquiring about serviced office space as a solution to their workspace requirements during the opening period of 2010.

The presence of this pre-expansion growth suggests an increase in both activity and confidence levels amongst businesses during Q1 10.

When analysing the results for February and March, which incorporates the additional enquiries generated as a result of marketing and affiliate activity, the traditional new year surge seen during January is magnified, resulting in an increase of +128% in February and +120% during March. While any additional placements generated from these new enquiries will not be recorded until Q2 10, the channelling of these additional enquiries through officebroker.com reveals a previously underdeveloped market for serviced office space in the North East, presenting the opportunity for officebroker.com to report more accurately on this area of the market in future reports.

*Effective from 1st February 2010, officebroker.com extensively expanded its online marketing activity and affiliate program.

As a direct result of this activity the number of enquiries received by officebroker.com increased substantially during February and March. Such increases, while generating abnormally large changes when placed against previous data, will ensure that the statistics reported by officebroker.com are an even more accurate assessment of the serviced office market here in the UK.

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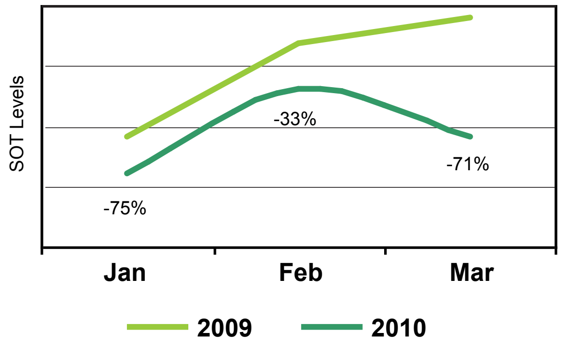
NEW SERVICED OFFICE TENANTS (SOT'S)

Decrease of -58% in new serviced office tenants (SOT's)

The number of new SOTs entering serviced office space decreased by an average of -58% during Q1 10 when compared to Q1 09. These significant decreases followed a sustained period of growth in the North East during the closing stages of 2009.

Fig 3. New SOT's - Jan, Feb, Mar



While the decreases recorded in this period appear vast, they were undoubtedly heavily influenced by the recurring spells of severe weather that caused extensive disruption in the North East for large periods of Q1 10. The impact of this weather stopped tours being arranged and disrupted the preparation needed for businesses to carry out the successful occupation of new premises.

Support for this uncontrollable influence on the North East's serviced office market being responsible for the decreases shown, is provided by the increase in SOTs recorded during 3 out of 4 quarters in 2009 and the region ending 2009 with an overall increase of +22%.

Due to the extreme results shown for the North East during Q1 10 is difficult to assess the overall state of the serviced office market at this time. Having effectively suffered a "false start" to the New Year, the response by North East businesses will not become fully apparent until Q2 10. It is however possible that even these results will suffer a hangover effect brought on by the disrupted start to 2010.

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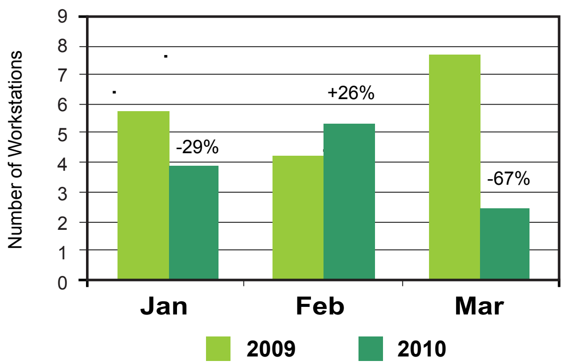
AVERAGE WORKSTATIONS PER SOT

Average workstations per SOT reached 3.9 – down from 5.8 in Q1 09

Having witnessed the number of workstations placed per SOT fall by an average of -40% during 2009, serviced office providers operating in the North East would have been hoping for stability if not growth in this area during the opening period of 2010. Unfortunately, workstation take-up has continued to fall during Q1 10, decreasing by -49% on Q1 09 levels with the average number of workstations slipping from 5.8 to 3.9.

Fig 4. Q1 09 vs Q1 10

Average Workstations per new SOT



A month-by-month analysis (Fig. 4) shows that decreases occurred in both January (-29%) and March (-67%) while February (+26%) recorded an increase. While the decrease in January and subsequent increase in February mostly cancelled one another out, the large decrease recorded in March was responsible for driving down overall workstation numbers during Q1 10.

The reason for this decrease, far from being directly linked to the lower number of SOTs, is driven by the long-standing absence of those businesses, such as corporate clients, seeking larger requirements in the North East region.

Smaller workstation requirements had undoubtedly become the dominant trend throughout 2009, reducing in the North East by an average of -26%. As in our Serviced Office Review: North East Q4 09 report, one explanation to this trend could be that those SOT's entering the market have and remain predominantly start-up ventures. With start-ups naturally requiring smaller workstation requirements, this could explain why workstation sizes have fallen so significantly.

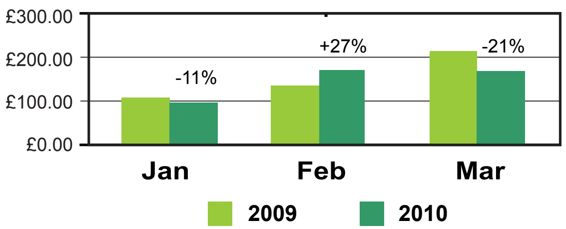
A common thread throughout however is that smaller workstation requirements show little sign of altering within the North East during the immediate future. As such service office providers may increasingly come under pressure to re-configure office templates in order to match this demand.

SERVICED OFFICE SPACE COSTS

Average price per workstation decreased to £145.00

During Q1 10 the average price per workstation decreased to £145.00 from £152.00 in Q1 09, representing a change of -5%. Despite recording a decrease the deficit is itself a marked improvement on the -32% decrease that occurred quarter-on-quarter during 2009.

Fig 5. Average Price Per Workstation Q1 09 vs Q1 10



A month-by-month breakdown of Q1 10 (Fig 5.) shows price decreases in both January (-11%) and March (-21) while February saw an increase of +27%.

The increase recorded in February also coincides with a rise in workstation numbers and the smallest dip in enquiry levels seen in this quarter, suggesting conditions during February were more favourable. Whether the increased activity seen in February reflects how the North East region would have performed without disruptions is unclear, but the levels of activity witnessed in February closely resemble the activity witnessed in Q4 09.

Compared to the national average workstation cost of £242.00 recorded for Q1 10, the North East's average cost of £145.00 means workstation prices within the region are on average £97.00 behind national levels.

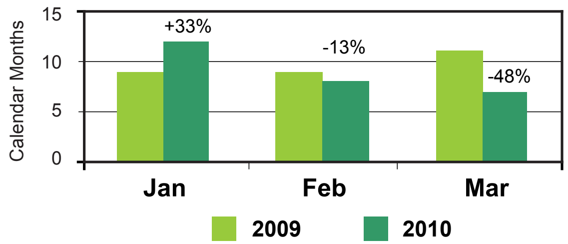
INITIAL LICENCE LENGTHS

Initial license length commitment increase to 9.1 months

New SOT's are signing initial licences averaging 9.1 months in Q1 10, 0.6 months (+7%) longer than in the same period of 2009.

As shown by Fig 6, decreases in licence lengths occurred in both February (-13%) and March (-48%) but increased during January (+33%) to help record the overall increase of +7%.

Fig 6. Initial Licence Lengths Q1 09 vs Q1 10



Despite the month-by-month slide in license lengths during Q1 10, the overall increase from 8.5 months in Q1 09 to 9.1 in Q1 10 resulted in the second consecutive quarter in which an overall increase in license length was achieved.

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SUMMARY

When taking into account all the information for Q1 10, the following key findings can be drawn:

1. Enquiry levels increased both organically and as a result of the expanded marketing and affiliate activity carried out by officebroker.com.
2. The increases witnessed in SOTs during 2009 was heavily disrupted, most likely as a result of the severe weather that caused widespread disruption with the region during the quarter.
3. Larger workstation requirements have remained absent from the market, suggesting that smaller workstation requirements will continue to dominate.
4. Average workstation prices have continued to fall, but along with other areas of the market showed positive signs during February.
5. Initial license lengths rose overall for the second consecutive quarter.

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

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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