



# SERVICED OFFICE REVIEW

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## NORTH EAST Q4 2009



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## 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 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 Q4 09.



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

## HIGHLIGHTS

- **28 new serviced offices added to the officebroker.com portfolio in Q4 09**

### Q4 09 COMPARED TO Q4 08:

- **Enquiry levels fell by -20%**
- **+ 69% increase in new serviced office tenants (SOT's)**
- **Average number of workstations per SOT was 2.7**
- **Workstation costs increased to £196.00 p/m – Up 10%**
- **Initial license agreements decreased to 7.2 months**

**SUPPLY OF SERVICED OFFICE SPACE**

**28 new serviced offices added to officebroker.com portfolio in Q4 09.**

The total number of serviced office buildings reached 106 in the North East region during Q4 09. This peak figure followed the addition of 28 new serviced offices being added to the officebroker.com portfolio during Q4 09.

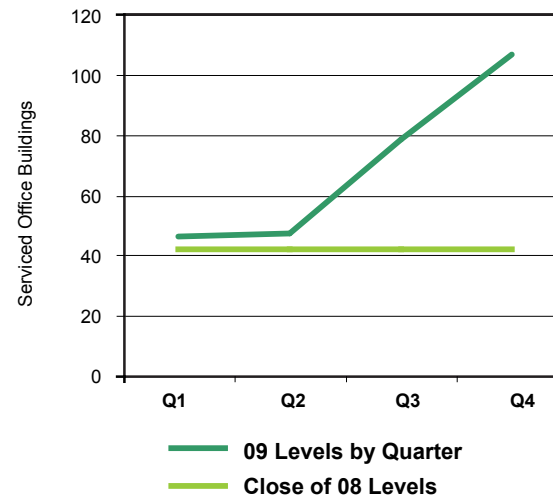
The 28 serviced office buildings added in Q4 09 were part of 64 buildings added during 2009. These additions represented a +60% increase in the number of serviced office buildings available within the North East.

As demonstrated by Fig.1, Q2-Q4 saw a sharp increase in the number of serviced office providers entering the market in North East. This followed a increase of only 5 serviced office buildings between the close of Q4 08 and the beginning of Q2 09.

This sudden increase in supply could suggest that expectations amongst serviced office providers are high for 2010. The increases between Q2-Q4 09 also

coincided with a fall in prime rent levels according to research by DTZ\*\* which fell from £22.00 psf to £20.00 psf during this period.

**Fig 1. Serviced Office Space Growth by Quarter 2009**



## DEMAND FOR SERVICED OFFICE SPACE

Enquiry levels decreased by -20% in Q4 09

### NEW ENQUIRIES

The number of new enquiries received for serviced office space decreased by -20% in Q4 09, marking the fourth consecutive financial quarter to record drop in enquiry levels during 2009.

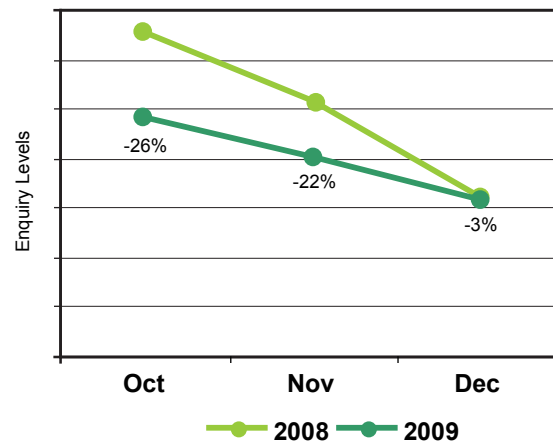
As shown in fig.2, enquiry levels remained below Q4 08 levels throughout October (-26%), November (-22%) and December (-3%) of Q4 09.

The decline in enquiry levels, such as that witnessed in the North East, is a trend that has been experienced nationally throughout both Q4 09 and 2009 as a whole.

As a region the North West has seen the second largest decrease in enquiry levels during Q4 09, with only Wales (-30%) experiencing a higher drop. In comparison, National enquiry levels remained static, altering <1% on those received during Q4 08.

Given the state of the UK economy in Q4 08 it is perhaps understandable why enquiry levels continued to drop. But with Q4 09 representing the financial quarter which officially brought the UK economy out of recession, it would be hoped that enquiry levels would reflect both this economic turnaround and the growing confidence amongst business owners. Despite the poor enquiry levels of October and November 09, the narrowing of 08 and 09 figures seen in December Q4, moving to within 3%, could point toward such a change.

**Fig 2. North East Enquiry Levels**  
Oct, Nov, Dec 08 vs 09



**NEW SERVICED OFFICE TENANTS (SOT'S)**

**+69% increase in new serviced office tenants (SOT's)**

The number of new SOT's increased by +69% in Q4 09 compared to Q4 08. This rise occurred following substantial increases in both October (+120%) and November (+80%) while experiencing a relatively moderate rise in December (+17%). (Fig. 3)

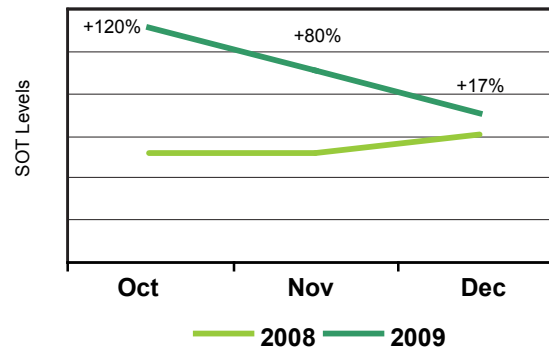
This latest quarterly increase in SOT's follows similar increases in Q1 and Q2 09, which recorded an average increase of +33% in the number of new SOT's entering the serviced office market. Q3 09 did however record a -22% drop on 08 levels.

Continued growth in this area suggests a large number of new, individual businesses are entering serviced office space in 2009. This, coupled with the closing gap between 08 and 09 enquiry levels, points toward North East businesses having responded positively to the challenges of 2009.

The lower levels of SOT's seen in 2008 may also reflect how businesses were responding to the threat 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 passed, with SOT's on the increase in the North East and a new influx of businesses taking advantage of the inherently recession and budget friendly nature of serviced office space.

**Fig 3. New SOT's Oct, Nov, Dec 08 vs 09**



**AVERAGE WORKSTATIONS PER SOT**

**Average workstations per SOT reached 2.7 – down from 7.2 in Q4 08**

The overall increase in new SOT's during Q4 09 corresponded with a decline in workstation take-up.

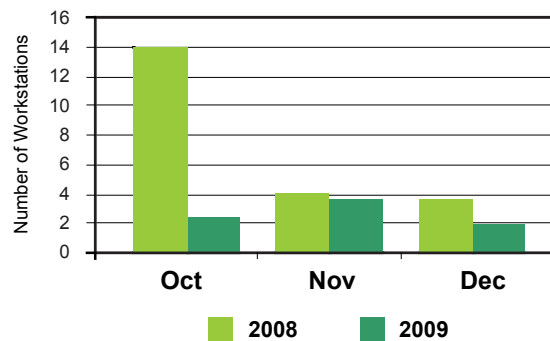
At the close of Q4 09 the average number of workstations per SOT was 2.7, a decrease of -63% on the 7.2 workstations being opted for during Q4 08.

A month-by-month analysis (Fig. 5) shows a substantial decrease in the average number of workstations per SOT during October 09 (-82%), where workstation take-up plummeted from an average of 13.9 in October 08 to just 2.4 in October 09. Decreases also occurred in November (-10%) and December (-47%) highlighting the lack of larger deals entering the serviced office market during 2009.

Smaller workstation requirements have become a trend throughout 2009, reducing in the North West by an average of -26% between Q1-Q3 09 and nationally by 34%.

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.

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



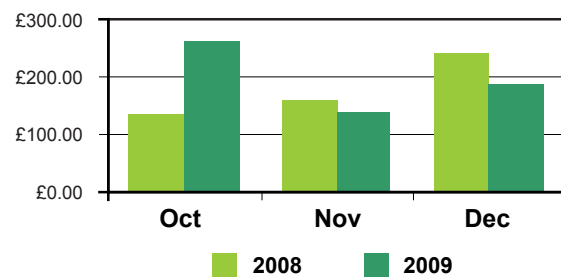
One explanation to this trend could be that the new SOT's entering the market are predominantly start-up ventures. With start-ups naturally requiring smaller workstation requirements, this could explain why workstation sizes have fallen so significantly. Alternatively the cut in workstation requirements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

## SERVICED OFFICE SPACE COSTS

**Average price per workstation  
increased to £196.00 p/m - up 10%  
on Q4 08**

During Q4 09 the average price per workstation increased to £196.00 from £179.00 in Q4 08. A +10% increase during the financial quarter.

**Fig 5. 2008 vs 2009 Average Workstation Price**



A month by month comparison (Fig. 5) of Q4 09 reveals that the higher prices commanded in October 09 underpinned this increase, having risen +93% from £136.00 in 08 to £263.00 in 09.

This upswing in October 09 costs suggests that a series of high value deals took place, most likely in business

centres offering Grade 'A' space. This high value / low quantity balance is reiterated by the low workstation requirements recorded during the same period.

The remainder of Q4 09 however showed the continued decreases in average workstation costs that had become common place between Q1-Q3 in the North East, averaging a -40% decrease on 08 levels.

A positive sign from the remainder of Q4 09 is that the deficit between 08 and 09 workstation costs are much improved on the average -40% recorded between Q1-Q3 09. With November (-11%) and December (-24%) showing this marked improvement and the injection of the high value deals in October it could suggest that workstation costs will continue to push back toward the higher levels seen in 08.

Compared to the national average workstation cost of £258.00 p/m recorded for Q4 09, the North East's average cost of £196.00 per workstation places it £62.00 per workstation behind these nationwide levels.

## INITIAL LICENCE LENGTHS

**Initial license length  
commitment falls to 7.2 months  
- 9% down in Q4 09**

New SOT's are signing initial licences averaging 7.2 months in Q4 09, 0.7 months (-9%) shorter than in the same period in 2008.

In light of the falling workstation costs experienced during the majority of Q4 09, it would be reasonable to assume that buyers may have looked to take advantage, securing longer terms at more favourable rates. The nominal decrease (-9%) recorded in licence lengths however suggest 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 Q4 09, the following findings can be drawn:

1. Enquiry levels have continued to fall but moved closer to the higher 08 levels by the close of Q4 09.
2. The overall number of new serviced office tenants rose during the financial quarter – suggesting an increase of individual new businesses entering the serviced office industry.
3. Larger workstation requirements have remained absent from the market, suggesting that smaller workstation requirements will continue to dominate.
4. Average workstation costs continued to fall but showed tentative signs of recovery toward the close of Q4 09.
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](http://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](http://www.officebroker.com) for help finding serviced office space, or to advertise a building online.

## REFERENCES

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## Sources

- \* officebroker.com defines the North East region as areas located within the following postcode prefixes: DH, DL, NE, SR and TS
- \*\* [http://www.dtz.com/portal/downloadContent;jsessionid=Z6UBFAX1YHJVJBTyMuwbcA\\*.portalNode1?image=55d4a69167566210VgnVCM1000000c02a8c0STFL&item=3ef138eb86966210VgnVCM1000000c02a8c0\\_\\_\\_&ctd=RESEARCH](http://www.dtz.com/portal/downloadContent;jsessionid=Z6UBFAX1YHJVJBTyMuwbcA*.portalNode1?image=55d4a69167566210VgnVCM1000000c02a8c0STFL&item=3ef138eb86966210VgnVCM1000000c02a8c0___&ctd=RESEARCH)



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