SERVICED OFFICE REVIEW

WEST MIDLANDS
Q1 2010

WEST MIDLANDS

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 covering the following key areas in the West 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 West Midlands was compiled to provide a comparative analysis of quarter-on-quarter changes within the serviced office market during Q1 10, compared to Q1 09.

*** officebroker.com defines the West Midlands regions as areas located within the following postcode prefixes: B, CV, DY, HR, ST, SY, TF, WR, WS and WV

HIGHLIGHTS

- **9 new serviced office buildings added to the officebroker.com portfolio**

Q1 10 COMPARED TO Q1 09:

- **Enquiry levels increased by +48%**
- **New serviced office tenants (SOTs) rose by +13%**
- **Average number of workstations per SOT reached 3.8**
- **Average workstation price peaked at £204.00**
- **Initial license agreements decreased to 8.1 months**

SUPPLY OF SERVICED OFFICE SPACE

9 New serviced office buildings were added to the officebroker.com portfolio in Q1 09

The total number of serviced office buildings in the West Midlands reached 226 during Q1 10. This new peak figures follows the addition of 10 new buildings and the removal of 1 building that ceased to trade from the officebroker.com portfolio.

As shown by Fig 1, the number of new serviced office buildings had expanded rapidly, seeing a total of 34 buildings added during a 12 month period.

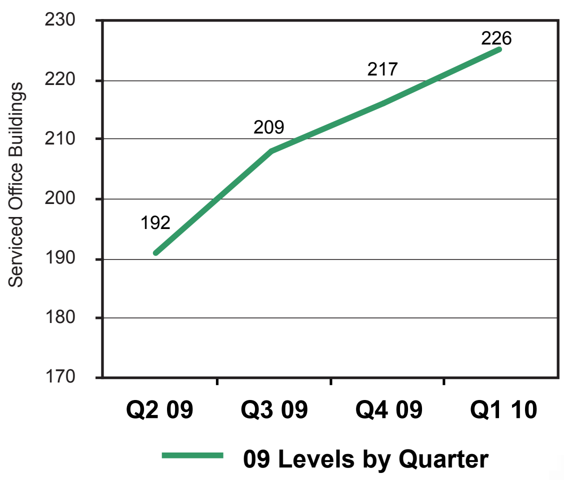
While this rolling-out of new serviced office buildings has not been exclusive to the West Midlands, having increased by +30% nationally between the start and end of 2009, what is unique is that the same rate of expansion has continued into Q1 10.

Having witnessed this period of expansion flat-line in the majority of UK regions after Q4 09, the continued growth in the West Midlands suggests a more favourable climate has been maintained for investment in new serviced office buildings.

If this is indeed the case, it may also suggest that the rally in prime rents witnessed in the commercial property market during the opening period of 2010 has yet to impact upon the West Midlands market to a level that deters additional investment.

This continued rise in serviced office buildings also suggests that providers believe they will be able to attract sufficient tenants, pointing toward a confidence in the future prospects of the West Midlands region.

Fig 1. Serviced Office Space Growth by Quarter 2009



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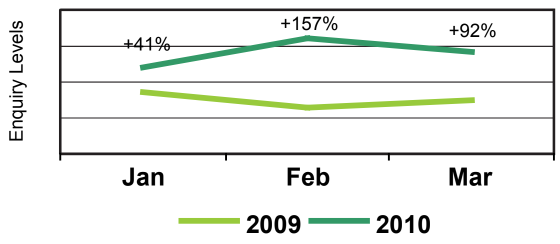
DEMAND FOR SERVICED OFFICE SPACE

Enquiry levels increased by 48% in Q1 10

NEW ENQUIRIES

The number of new enquiries received for serviced office space within the West Midlands increased by +48% overall in Q1 10, building upon previous growth in 2009 and marking the fourth consecutive quarter in which enquiry levels exceeded previous quarterly figures.

Fig 2. Enquiry Levels - Jan, Feb, Mar



As shown in Fig 2, enquiry levels increased month-on-month during Q1 10, with an increase of +41% in January being followed by additional increases in February (+157%) and March (+92%).

While the level of enquiries during February and March were certainly heightened by officebroker.com's expanded marketing and affiliate activity*, the +41% increase recorded in January represented natural, unrelated growth.

This strong opening month, which near doubled the highest increase witnessed during the last 12 months (+21% in Q4 09), shows that more and more businesses were actively investigating serviced office space as a viable workspace solution, underpinning serviced offices as an increasingly attract prospect for businesses.

Given the continued increase in enquiries recorded during Q1 10, serviced office providers operating throughout the West Midlands, particularly those who have invested in new buildings, can at least be confident of rising levels of interest and should perhaps now focus squarely on ensuring that tours of their building are delivered to their full potential in order to achieve maximum conversion.

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

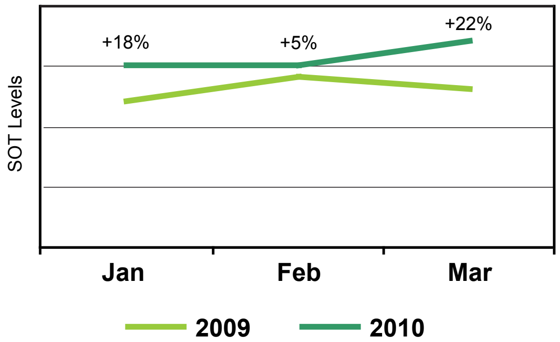
As a direct result of this activity the number of enquiries received by officebroker.com increased substantially during February and March. Such increases, while generating abnormally large changes when placed against previous data, will ensure that the statistics reported by officebroker.com are an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

NEW SERVICED OFFICE TENANTS (SOT'S)

New serviced office tenants (SOT's) increased by +13%

The overall number of clients entering serviced office space in the West Midlands increased by +13% in Q1 10 when compared to Q1 09. This latest increase builds upon the previous growth recorded during 2009 to mark the 4th consecutive quarter in which overall SOT levels increased.

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



While the additional enquiries generated through the expanded marketing and affiliate activity, as outlined in the previous section of this report, will not be converted until at least Q2 10 as a result of a 55 day sales cycle, the natural growth seen throughout Q1 10 provides positive indications that the continued stream of new SOTs who entered the market during the last 12 months is set to continue into 2010.

This continued growth not only provides positive signs for serviced office providers, indicating the possibility of increasingly easier times ahead, it also suggests that confidence levels amongst business owners remains high within the West Midlands.

In comparison to national activity during this same period, the growth recorded within the West Midlands far exceeds that of the national average, having seen only a <1% change in the number of new SOTs entering the market in Q1 10 compared to Q1 09. This again reinforces the serviced office market in the West Midlands as a strong prospect for sustained future growth.

AVERAGE WORKSTATIONS PER SOT

Average workstations per SOT increased to 3.8

Increases in overall SOT levels during Q1 10 corresponded with a +10 rise in the average number of workstations taken by each new tenant, having risen from 3.4 workstations in Q1 09 to 3.8 workstations in Q1 10.

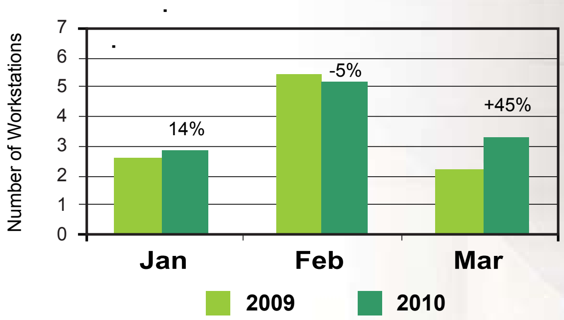
As shown by Fig 4, workstation take-up increased month-on-month in both January (+14%) and March (+45%) while recording a minor decrease in February (-5%).

This increase in workstation requirement levels marks the first growth in this area since 2008, having fallen by an average of -16% quarter-on-quarter during 2009.

When coupled with the rise in SOTs, it again provides positive signals for serviced office providers as well as indicating that businesses are once again, albeit at a slow rate, beginning to expand their operational needs.

Fig 4. Q1 09 vs Q1 10

Average Workstations per new SOT



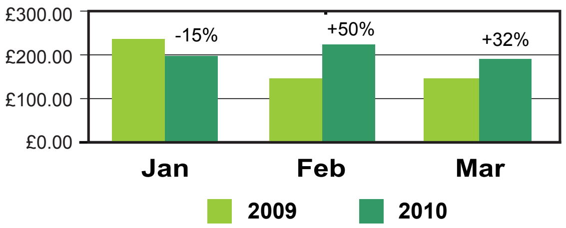
Assuming that the economic climate remains stable, it is reasonable to assume that the West Midland's serviced office market will continue to benefit into Q2 10. But with the 3.8 workstations per SOT rate remaining below the national average of 4.3 workstations during Q1 10, serviced office providers within the West Midlands will most likely experience a more drawn out recovery than some.

SERVICED OFFICE SPACE COSTS

Average price per workstation increased from £176.00 to £204.00

The average price per workstation increased from £176.00 in Q1 09 to £204.00 in Q1 10, an increase of £28.00 per workstation and representing a +39% rise.

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



A month by month analysis of Q1 10 reveals that average workstation prices exceeded Q1 09 levels month-on-month in both February (+50%) and March (+32%) despite initially falling behind during January (-15%).

As with the rise in workstation requirements, the increase recorded in this area was the first of its kind for over 12 months, having decreased by an average of -21% quarter-on-quarter during 2009.

Given the severity of the price decreases during 2009, which saw workstations in the West Midlands priced around £55.00 below the national average of £252.00, the increase on Q1 09 levels should be welcomed by serviced office providers.

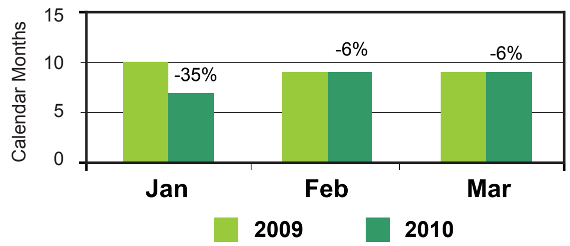
INITIAL LICENCE LENGTHS

Initial license length commitment fell to 8.1 months

New SOTs entering in the West Midlands were signing initial licenses averaging 8.1 months in Q1 10 compared to 9.5 months in Q1 09. This change represented an overall decrease of 1.4 months (-15%) and resulted in the second consecutive quarter in which initial license length declined in the West Midlands region.

Despite this decline the average license length of 8.1 months still remained above the national average for the same period (8.0 months), showing SOTs in the West Midlands continue to show greater long-term commitment than in other areas of the UK such as the South East (7.3), East Midlands (6.1) and even Central London (7.8).

Fig 6. Initial Licence Lengths Q1 09 vs Q1 10



In our previous West Midlands Review one suggestion given for falling licence lengths was the direct influence of serviced office providers, keeping licences shorter in order to position themselves more favourably during a recovery. If this factor is indeed dominant, the continued decreases in licence length could suggest that providers do not believe the strong performance of Q1 10 will continue or that they do not yet believe it to have peaked.

Alternatively, business leaders themselves may still remain reluctant to over-commit due to continued uncertainty in the economic recovery and the impact of the impending General Election.

SUMMARY

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

1. Enquiry levels have continued to grow both naturally and as a direct result of officebroker.com's expanded marketing and affiliate activity.
2. The overall number of new serviced office tenants has continued to increase for the 4th consecutive quarter again highlighting an influx of new businesses into the serviced office industry.
3. Workstation size requirements increased for the first time in over 12 months.
4. Average workstation costs finally began to recover after suffering heavily throughout 2009.
5. Initial license lengths continued to fall for the second consecutive quarter but still remains above the national average.

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:

Simon Jones
simon.jones@officebroker.com
0870 112 3667 (Option 2)
Sir Robert Peel Mill, Mill Lane, Fazeley,
Staffordshire, B78 3QD

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.

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