SERVICED OFFICE REVIEW

SOUTH EAST Q4 2009

SOUTH EAST

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

* officebroker.com defines the South East region as areas located within the following postcode prefixes: BN, CT, DA, GU, ME, MK, OX, PO, RG, RH, SL, SO and TN

HIGHLIGHTS

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

Q4 09 COMPARED TO Q4 08:

- **Enquiry levels increased by +7%**
- **+ 31% increase in new serviced office tenants (SOT's)**
- **Average number of workstations per SOT climbed to 3.7**
- **Workstation costs dropped to £227.00 p/m – down -18%**
- **Initial license agreements decreased to 6.8 months**

SUPPLY OF SERVICED OFFICE SPACE

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

The total number of serviced office buildings reached 348 in the South East region during Q4 09. This peak figure followed the addition of 16 new offices to the officebroker.com portfolio during Q4 09.

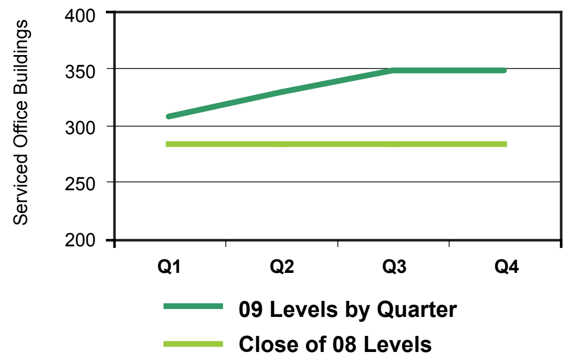
The 16 serviced office buildings added in Q4 09 were part of 66 buildings added during 2009. These additions represented a +23% increase in the total number of serviced office buildings available within the South East.

As demonstrated by Fig.1, Q1-Q3 saw a steady increase in the number of serviced office providers entering the market in the South East. This was followed by a levelling out of supply between Q3-Q4 09 which saw 16 business centres added countered by 16 business centres ceasing to trade.

The increase between Q1-Q3 suggests that serviced office providers may have taken advantage of the drops witnessed in prime rents to convert conventional spaces into new business centres.

This increase in supply could also suggest that expectations amongst serviced office providers are positive for 2010.

Fig 1. Serviced Office Space Growth by Quarter 2009



DEMAND FOR SERVICED OFFICE SPACE

Enquiry levels increased by +7% in Q4 09

NEW ENQUIRIES

The number of new enquiries received for serviced office space increased by +7% in Q4 09, marking the first financial quarter of 2009 to show an increase, with Q1-Q3 09 having registered a decrease averaging -16% compared to 08 levels.

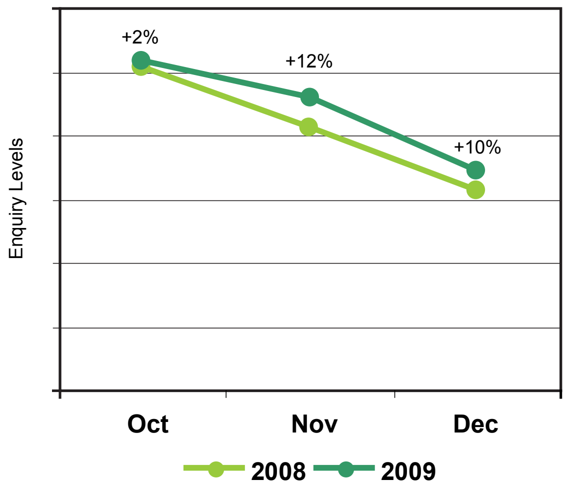
As shown in fig.2, enquiry levels remained above Q4 08 levels throughout October (+2%), November (+12%) and December (+10%) of Q4 09.

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 is perhaps reassuring that enquiry levels have finally begun to increase once more and could reflect a growing confidence in business owners during this period or increased financial assistance for SME's.

The South East was only one of five UK regions to experience growth in enquiry levels during Q4 09, demonstrating a positive response from business owners throughout the region.

Fig 2. South East Enquiry Levels

Oct, Nov, Dec 08 vs 09

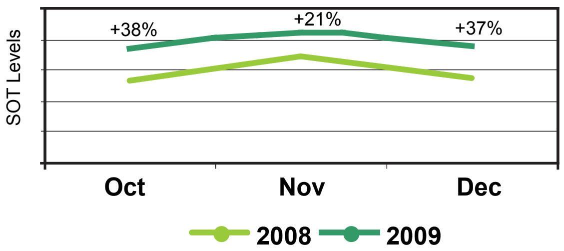


NEW SERVICED OFFICE TENANTS (SOT'S)

+31% increase in new serviced office tenants (SOT's)

The number of new SOT's increased by +31% in Q4 09 compared to Q4 08. This rise occurred following substantial increases in both October (+38%), November (+21%) and December (+37%). (Fig. 4)

Fig 4. New SOT's Oct, Nov, Dec 08 vs 09



This latest quarterly increase in SOT's followed an additional +7% rise in Q3 09, underpinning a recovery in SOT levels, having dropped by an average of -19.5% during Q1 and Q2.

Continued growth throughout Q4 09 shows that a large numbers of new, individual businesses are now entering the serviced office market. This, coupled with the increase in enquiry levels, points toward South East businesses having responded positively to the effects of economic growth.

The lower levels of SOT's seen in 2008 could have reflected how businesses were responding to the threats of the recession, with business owners becoming hesitant and less willing to commit due to the uncertainty of the financial climate.

Continued growth however shows that any hesitancy has now past, with SOT's on the increase in the south East and a new influx of businesses taking advantage of the inherently recession and budget friendly nature of serviced office space.

AVERAGE WORKSTATIONS PER SOT

Average workstations per SOT reached 3.7

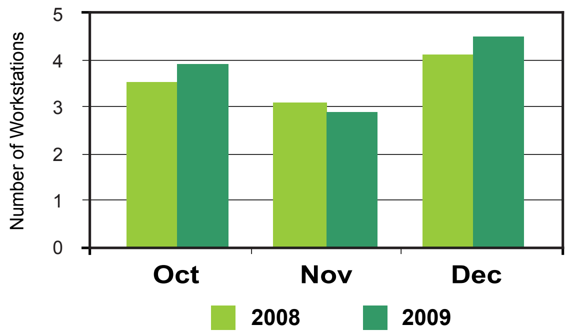
The overall increase in new SOT's during Q4 09 corresponded with a nominal increase in the number of workstations being taken.

At the close of Q4 09 the average number of workstations per SOT was 3.7, an increase of +5% on the 3.6 workstations being opted for during Q4 08.

A month-by-month analysis (Fig. 5) shows that workstation requirements increased during both October (+12%) and December (+9%) of Q4 09 while falling back slightly on 08 levels during November (-9%).

Smaller workstation requirements have become a trend throughout Q4 09, reducing nationally by -34%, but with both the number of SOT's increasing and workstation requirements on the up, it would suggest that businesses in the South East responded positively to the economic recovery and were once again expanding their operations.

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



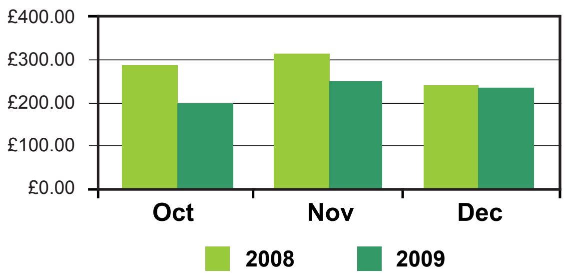
SERVICED OFFICE SPACE COSTS

Average price per workstation was £227.00 p/m - down -18% on Q4 08

During Q4 09 the average price per workstation decreased to £227.00 from £279.00 p/m in Q4 08, representing a -18% p/m decrease.

A month by month comparison (Fig. 6) of Q4 09 reveals that average workstation costs fell below those of Q4 08 month-on-month.

Fig 6. 2008 vs 2009 Average Workstation Price



By far the largest decrease was recorded in October, falling -32% below Q4 08 levels, before narrowing to -20% in November and moving to within -1% in December.

Despite Q4 09 representing the fourth consecutive quarter to record a fall in average workstation costs, having decreased by an average of -24% between Q1-Q3 09, the positive movement toward 08 levels witnessed over the course of Q4 09 could point toward signs of a recovery as the market enters 2010.

Compared to the national average workstation cost of £258.00 recorded for Q4 09, the South East's average cost of £227.00 per workstation places it £31.00 per workstation behind national levels.

INITIAL LICENCE LENGTHS

Initial license length commitment falls to 6.8 months

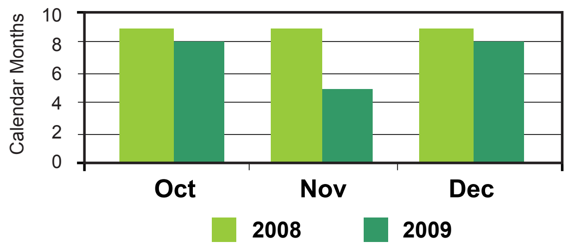
New SOT's are signing initial licences averaging 6.8 months in Q4 09, 2.1 months (-23%) shorter than in the same period in 2008.

In light of the falling workstation costs experienced during Q4 09, it could be reasonable to assume that buyers may have looked to take advantage, securing longer terms at more favourable rates. The decrease of 2.1 months recorded in average licence lengths 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 Q4 09, the following findings can be drawn:

1. Enquiry levels have continued to increase throughout Q4 09.
2. The overall number of new serviced office tenants rose during the financial quarter – suggesting an increase in the number of new businesses entering the serviced office market.
3. Larger workstation requirements have shown signs of returning to the market, suggesting that businesses are once more expanding their operations.
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.

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.

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