



SERVICED OFFICE REVIEW

CENTRAL LONDON Q4 2009



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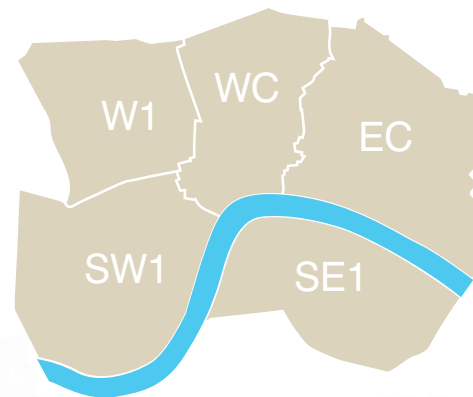
INTRODUCTION

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 of interest in the Central London*** 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 Central London was compiled to provide a comparative analysis of the changes within the serviced office market during Q4 09.



HIGHLIGHTS

Q4 09 COMPARED TO Q4 08:

- Enquiry levels dropped by 10%
- The number of newly signed serviced office tenants rose by 46%
- Average workstation price dropped from £560.00 to £461.00
- Average license length agreement dropped from 9 months to 6.9 months



SUPPLY OF SERVICED OFFICE SPACE

78 serviced office buildings were added to the officebroker.com portfolio during 2009, representing a 36% increase in the number of serviced office buildings available.

The total number of serviced office buildings reached 216 in Central London during Q4 09. This peak figure represents a net increase of 3 buildings during Q4 09, equating to a 1% rise in the number of buildings registered by the end of Q3 09.

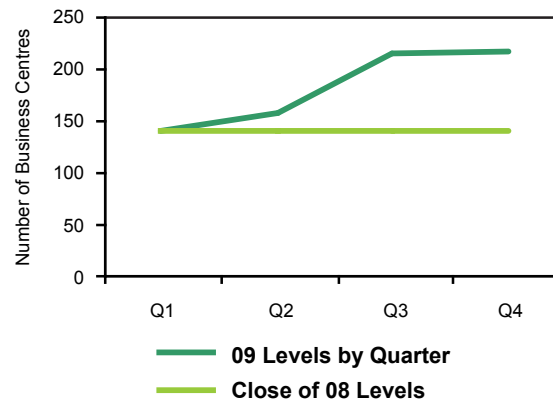
Although the growth seen between these last two quarters of 2009 was nominal (Fig 1), strong growth in Q2 and Q3 contributed to an overall increase of 78 buildings being added to the officebroker.com portfolio during 2009, representing a percentage increase of 36% on the total availability at the close of 2008.

With demand levels in Central London widely predicted to increase* during the first half of 2010, the flattening out of supply levels could lead to a shortage of space if the trend were to continue. This in turn may fuel a revival in the average workstation cost that dropped so substantially during 2009.

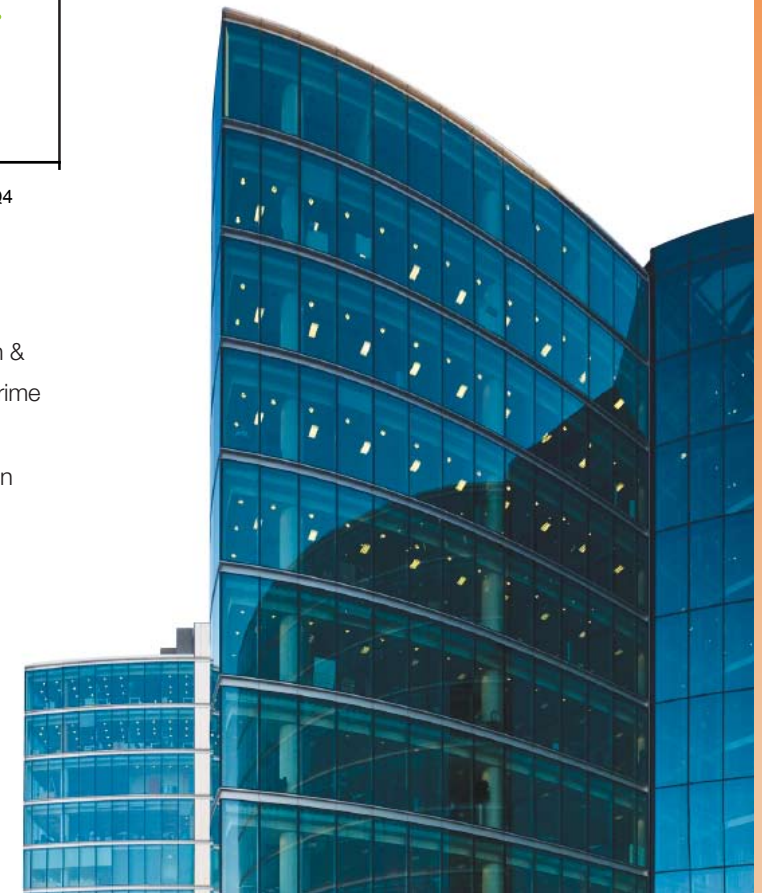
For office providers savvy enough to have predicted the timing of a recovery, and indeed with capital to invest, the opportunity to lease new buildings for conversion to business centres was likely to have been an inviting prospect.

If predictions of increased demand come to fruition, potential evidence for which can be found in the area of this report covering new office occupiers in Q4 09, then those office providers who have / did choose to invest would stand to benefit greatly from an upswing in the market.

Fig 1. Supply levels - Growth by Quarter 2009



Commercial Property agents, including Cushman & Wakefield, reported decreases of up to 20% in prime rental costs for long-term leases on conventional space** in 2009, highlighting the opportunity open to office providers wishing to lay foundations for expansion when the recovery finally arrives.



DEMAND FOR SERVICED OFFICE SPACE

Enquiry levels in Q4 09 down by 10% compared to Q4 08.

As referenced earlier in this report, the demand for serviced office space is expected to increase in 2010, particularly within Central and Greater London – both areas seen as a heartland for the economic recovery.

Using our statistics we compared Central London demand levels between Q4 09 and Q4 08 in order to identify signs that would support or contradict such predictions.

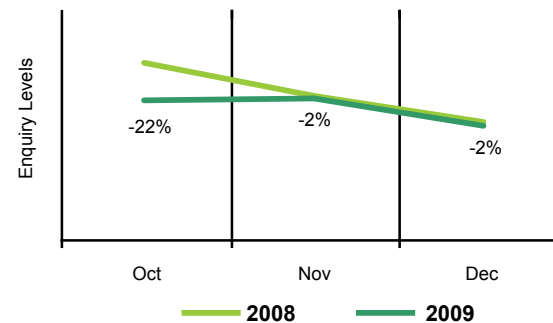
NEW ENQUIRIES

The number of new enquiries received for serviced office space continued to drop during Q4 09, ending 10% below the levels of Q4 08.

Despite the drop in enquiries, the pattern of activity (Fig 2) seen in Q4 09 remained consistent with that of Q4 08. In both sets of data October began strongly before seeing enquiry levels tapering off to a low point in December.

The fact that the overall number of enquiries dropped in Q4 09 compared to Q4 08 could be a result of the 2009 financial downturn. As was widely reported in the media, the near collapse of the banking system in the UK resulted in SME's becoming increasingly restricted financially; making any expansion plans a hesitant process.

Fig 2. Central London Enquiry Levels - Oct, Nov, Dec 2008 v 2009



WORKSTATION ENQUIRIES

Number of workstations, as requested during initial enquiry process, remained stable and in line with that of Q4 08.

Another key indicator that remained consistent during Q4 09 was workstation size requirements. This represented the number of workstations requested by clients during the initial enquiry process.

Despite slight month by month fluctuations (Fig 3), the overall difference between Q4 09 and Q4 08 was only + 4%. But this 4% increase on Q4 08 figures represents the first positive response in this area during 2009, with previous quarters resulting in a deficit averaging -21% on the 2008 levels.

Fig 3. Q4 2009 vs Q4 2008

Initial Workstation Requirements

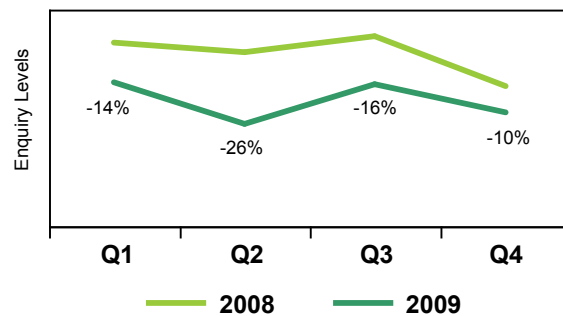


OVERALL ENQUIRY LEVELS

Q4 09 enquiry levels 10% below Q4 08 – But improved on the 18% average drop between Q1-Q3 09.

A decline in Central London enquiries during Q4 proved to be a continuation of decreases seen in the previous financial quarters of 2009.

Fig 4. Enquiry Levels: 2008 vs 2009 by Quarter



Interestingly Q4 09 experienced the smallest deficit of any quarter in 2009, which despite being 10% down on Q4 08 showed a noticeable improvement on the average 18% decrease experienced between Q1 – Q3 (Fig 4).

It is feasible that this movement back toward the higher figures of 2008 could be an early indication of the predicted recovery. If the market is to recover then enquiry levels would be expected to return and surpass 2008 levels. Although Central London has not yet seen this happen, the recuperation shown in Q4 09 may well herald the beginning of such a resurgence in 2010.

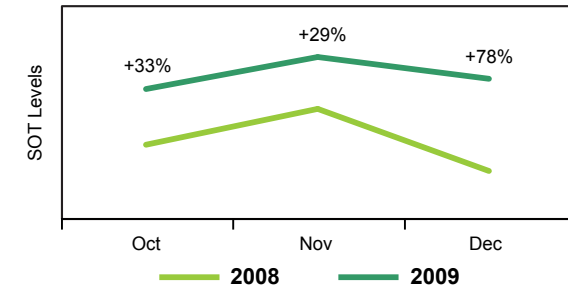
NEW SERVICED OFFICE TENANTS (SOT'S)

46% increase in new serviced office tenants (SOT's).

In direct contradiction to the sharp decline in enquiry levels during Q4 09, the number of serviced office tenants (SOT's) entering serviced office space during Q4 09 has improved considerably compared to the same period in 2008 (Fig 5).

While SOT levels increased month on month during Q4 09, the arrival of a spike in the number of new SOT's in December resulted in a significant boost to the quarterly results, contributing to an overall rise of 46%.

Fig 5. Serviced Office Space Take Up: Oct, Nov, Dec 2008 v 2009



It is reassuring that the number of SOT's entering the market has increased, particularly when coupled with the increase in workstations per SOT (Detailed below), as they indicate a rise in confidence levels and positive actions by business owners.

The lower levels of SOT's seen in 2008 may reflect how businesses were responding to the impact of 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 begun to fade, with SOT's on the increase in Central London and a new influx of businesses taking advantage of the inherently recession and budget friendly nature of serviced office space.

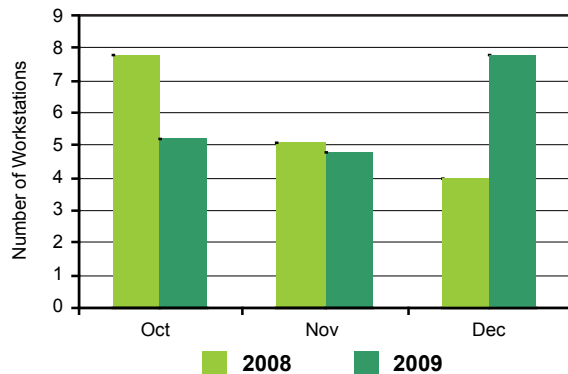
AVERAGE WORKSTATIONS PER SOT

Average workstations per SOT reached 5.9 during Q4 09

The average number of workstations placed per SOT reached 5.9 by the end of Q4 09, an increase of 0.3 workstations above the average recorded for Q4 08.

However, as shown in Fig 6, this average figure is not necessarily a fair representation of the overall activity witnessed during the quarter.

Fig 6. Q4 2008 vs Q4 2009
Average Workstations per SOT



While in both October and November 09 the average number of workstations per SOT dropped, an unexpected spike in December resulted in the financial quarter registering an increase.

This December spike disrupts the consistent pattern of decreased workstation sizes witnessed from Q1 09 right through to November Q4 09. As these types of SOT's have proved few and far between during 2009, serviced office providers can take some comfort knowing that SOT's wanting space in greater volume have reappeared in the marketplace.

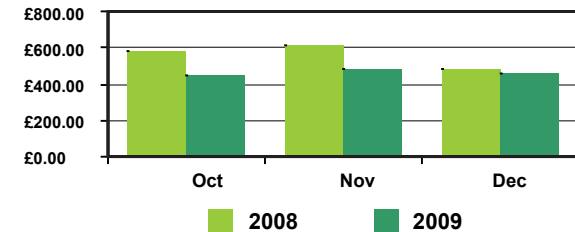
WORKSTATION PRICES

Q4 09 - Average price per workstation £461.00 – 18% down on Q4 08

Another influencing factor on the rise in SOT's may be the competitive prices offered by serviced office providers during Q4 09.

During Q4 09 the average price per workstation fell to £461.00 from £560.00 in Q4 08, supporting an overall decrease of 23% in workstation prices in Central London during 2009 (Fig 7).

Fig 7. 2008 v 2009 - Central London Average
Workstation Cost



One positive sign from these otherwise negative figures is that the 18% decrease seen in Q4 was the smallest drop of the year, with previous quarters having experienced an average price per workstation drop of 25%.

A month by month comparison also reveals that the biggest decreases occurred during October and November, with December finding itself only £28.00 (6%) below its 2008 level.

The movement of 2009 figures toward those of 2008 mirrors closely the activity seen in the enquiry section of this report, suggested the return of demand has brought a direct response from office providers in their costing, signalling a possible return toward pre-recession trading habits.

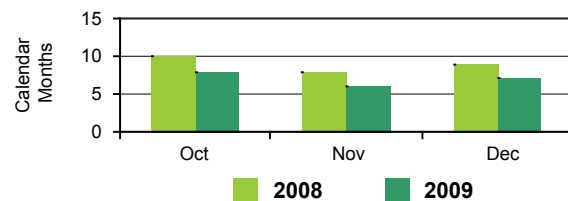
INITIAL LICENSE LENGTHS

Average license length agreement dropped from 9 months to 6.9 months between Q4 08 and Q4 09

In Q4 09 new SOT's were signing initial licences 2 months (23%) shorter than in the same period in 2008, meaning the average license length stood at 6.9 months.

In light of the lower workstation costs 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 2 month decrease in licence lengths however suggests this has not been the case.

2008 v 2009 - Central London Initial Licence Lengths



One possible explanation could be a reluctance by business owners to over-commit, particularly with the harsh lessons of a recession still fresh. Such a reduction in commitment levels would not only allow them greater flexibility of movement, but also allow an insight into confidence levels. Could it suggest that businesses are unsure about their prospects in 2010, or could the predictions of economic recovery mean businesses are reducing commitment to prepare for expansion in the later half of 2010?

A secondary explanation could be the direct influence of serviced office providers. If, as key areas of this report's findings suggest, a recovery is in the ascendency, 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 continued to drop but showed signs of a recovery in the closing stages of Q4
2. The overall number of new serviced office tenants continued to increase throughout the financial quarter – highlighting an influx of new businesses into the serviced office industry
3. Q4 saw a return of SOT's requiring larger numbers of workstations to the market
4. Average workstation costs continued to fall but saw the deficit between the higher Q4 08 costs narrow substantially
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 Central London 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.

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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