SERVICED OFFICE REVIEW

WALES Q4 2009

WALES

INTRODUCTION

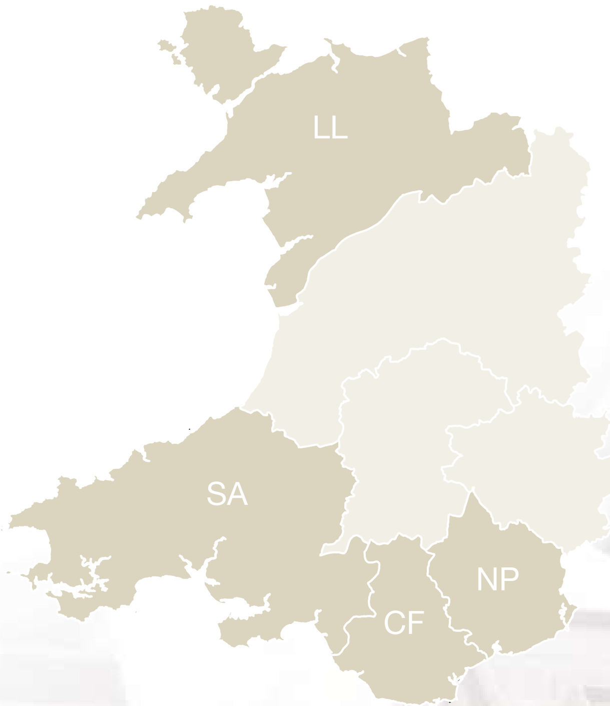
The following report utilises statistics for Q4 09 from officebroker.com, the UK's leading independent broker of serviced office space, along with external reports to present findings on activity within the serviced office industry in comparison to Q4 08.

The report presents results on the following key areas in Wales*:

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



* officebroker.com statistics account for activity within the following postcode prefixes: CF, LL, NP and SA

HIGHLIGHTS

- **7 new serviced offices added to the officebroker.com portfolio during the entirety of 2009 - Representing a +17% increase**

Q4 09 COMPARED TO Q4 08:

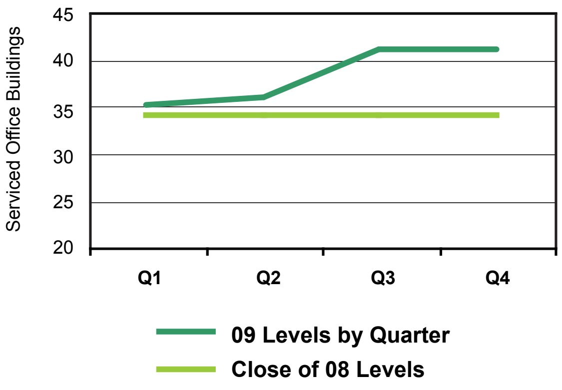
- **Enquiry levels fell - 30%**
- **+ 89% rise in new serviced office tenants (SOT's)**
- **Workstation per SOT decreased - 53% to 3.5**
- **Average workstation price increased to £532.00 from £402.00**
- **Initial license agreements decreased to 4.8 months - down 54%**

SUPPLY OF SERVICED OFFICE SPACE

7 serviced office buildings were added to the officebroker.com portfolio during 2009, representing a +17% increase in the number of serviced office buildings available.

The total number of serviced office buildings reached 41 in Wales during Q4 09. This peak figure followed the addition of 7 new offices to the officebroker.com portfolio between Q1 – Q4 09.

Fig 1. Serviced Office Space Growth by Quarter 2009



As shown in Fig. 1 the increases in new serviced office buildings took place between Q1-Q3 09 before levelling off and remaining static between Q3-Q4 09.

Unlike many other UK regions, prime rents on commercial property have remained stable** in Wales throughout 2009, including key business areas such as Central Cardiff.

The static nature of these prime rents, estimated to be £21 psf, may have limited the number of new serviced office building being established in Wales during this period. As in other areas of the UK, where prime rent levels fell substantially, there had been a large influx of new serviced office building most likely fuelled by the opportunity to secure new spaces for conversion to business centres at these lower rates.

It is feasible that those serviced office providers who have invested in the creation of new business centres have timed their acquisitions well, as with the UK's recently confirmed exit from recession it may well lead to a slow, but sure recovery in demand levels and subsequent rise in prime rents.

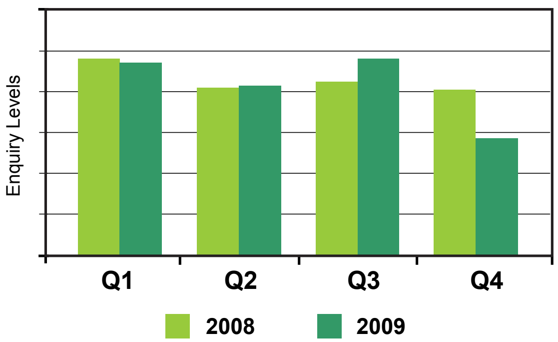
DEMAND FOR SERVICED OFFICE SPACE

Enquiry levels dropped by -30% in Q4 09 following increases earlier in 2009

NEW ENQUIRIES

The number of new enquiries received for serviced office space in Wales dropped by -30% in Q4 09 resulting in the total number of enquiries for 2009 ending -4% below those of 2008.

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



As shown in Fig. 2 enquiry levels for serviced office space in Wales had remained buoyant throughout Q1-Q3 09, registering an increase in Q2 (+1%) and Q3 (+13%) before falling by -30% in Q4.

The -30% decline in enquiry levels was the largest decrease of its kind seen in any region of the UK during Q4 09.

NEW SERVICED OFFICE TENANTS (SOTS)

89% increase in new serviced office tenants (SOT's)

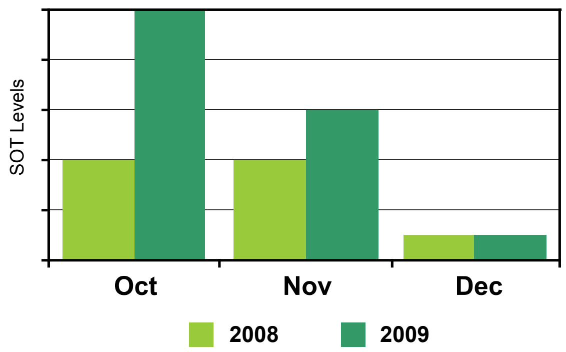
The number of new SOT's rose by +89% in Q4 09 compared to Q4 08. This occurred following a +150% rise in October and a substantial +50% increase in November. Results for December finished level with those of Q4 08.

The exceptional growth seen in Q4 followed another large increase in Q3 (+109%), both of which compensated for Q1 and Q2 which saw an average decline of -45% in the number of new SOT's.

Although the number of SOT's rose nationally during Q4 09, the increases that occurred in Wales outperformed all other UK regions, placing above the North East (+69%) and West Midlands (+63) as the areas most successful in attracting new SOT's throughout Q4 09.

Growing exposure to the serviced office market will also have fuelled education levels, creating the opportunity for serviced office providers to capitalise and potentially increase overall market share if client experiences prove to be positive.

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



AVERAGE WORKSTATIONS PER SOT

Average workstations per SOT reached 3.5 – falling 53% on Q4 08

The overall increase in new SOT's during Q4 09 corresponded with a substantial drop in the number of workstations being opted for.

Closer analysis of Q4 shows the biggest deficit to have occurred in October, falling -82% below Q4 08 levels. Workstation levels did however increase during November (+88%), before levelling out in December.

It is clear that the -53% decrease in workstation size requirements was a direct result of the larger deals seen in October Q4 08 failing to materialise in Q4 09.

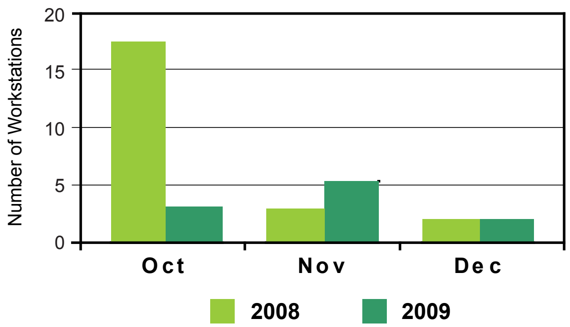
The disappearance of SOT's with larger workstation requirements could be the direct result of the economic downturn, demonstrating the streamlining and refocusing taking place within businesses in order to conserve and protect their core needs.

Alternatively, the smaller workstation requirements, coupled with the overall increase in SOT's, could suggest that the serviced office market has experienced an influx of new-start businesses. Such new-start businesses, who naturally have smaller requirements, would probably find the recession and budget friendly nature of serviced office space appealing – driving this change in demand.

Smaller workstation requirements have become a trend throughout 2009, reducing in Wales and nationally by an average of -14% between Q1-Q3 09.

In order to match this change in demand, serviced office providers may have felt it necessary to re-configuring office floors in order to secure new SOT's.

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



SERVICED OFFICE SPACE COSTS

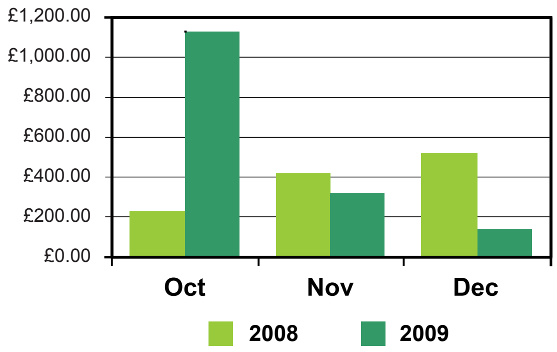
Average price per workstation ended at £532.00 - Up 33% on Q4 08

The average price per workstation rose to £532.00 in Q4 09 from £402.00 in Q4 08. On closer inspection however it becomes clear that this rise was the result of a series of high value deals during October of Q4 09. Despite these deals leading to an overall increase, the spike seen in October does appear to run against the wider trend of falling workstation costs seen during the majority of Q4 and Q3.

It may also be sensible to assume that the overall drop in workstation costs could be linked directly to the overall rise in SOT's. With both an increase in the number of serviced office providers and a decline in workstation costs, businesses looking to secure office space will have been faced with a wider than ever choice and falling costs – drawing new clients to serviced offices.

While such a decline reflects a nationwide trend rather than an exclusive trend in Wales, it would appear that despite a decline in workstation costs, Wales has achieved levels far in excess of national averages. This is best reflected in the +£222.00 difference between the national average workstation cost of £252.00 and the average workstation cost of £474.00 recorded for Wales during the entirety of 2009.

Fig 6. 2008 vs 2009 Average Workstation Price



INITIAL LICENCE LENGTHS

Initial license length commitment falls to 4.8 months - 54% down in Q4 09

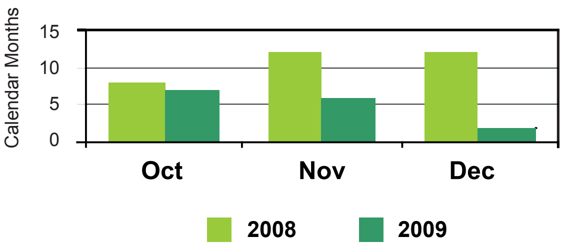
New SOT's are signing initial licences averaging 4.8 months in Q4 09, 5.7 months (-54%) shorter than in the same period in 2008.

In light of the free-falling workstation costs of Q4 09, it could be reasonable to assume that buyers may have looked to take advantage, securing longer terms at more favourable rates. The 5.7 month decrease (+54%) in licence lengths however suggests 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 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.

Fig 7. 2008 vs 2009 Initial Licence Lengths



SUMMARY

When taking into account all the information for Q4 09, the following key findings can be drawn:

1. Enquiry levels fell by their largest margin of 2009 in Q4 09.
2. A continued influx of new SOT's placed Wales as the region witnessing the biggest increase in SOT's during Q4 09.
3. Workstation requirements continued to fall, suggesting a change in the shape and size of businesses entering the market.
4. A series of high value deals in October Q4 drove the average cost per workstation up - suggesting an uptake of 'Grade A' space.
5. Licence lengths continued to fall as businesses failed to capitalise on an overall weakening of the market.

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.

REFERENCES

Sources

* defines the Wales region as areas located within following postcode prefixes: CF, LL, NP and SA

** hhttp://www.dtz.com/portal/downloadContent?image=ff54a69167566210VgnVCM1000000c02a8c0STFL&item=aab7a69167566210VgnVCM1000000c02a8c0____&ctd=RESEARCH