SERVICED OFFICE REVIEW

YORKSHIRE AND HUMBERSIDE Q1 2010

YORKSHIRE & HUMBERSIDE

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 on the following key areas in the Yorkshire & Humberside*** regions:

- 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 Yorkshire & Humberside regions was compiled to provide a comparative analysis of the quarter-on-quarter changes within the serviced office market during Q1 10.

*** officebroker.com defines the Yorkshire & Humberside region as areas located within the following postcode prefixes: BD, DN, HD, HG, HU, HX, LN, LS, S, WF and YO

HIGHLIGHTS

- **Net increase of 1 new serviced office building added to the officebroker.com portfolio**

Q1 10 COMPARED TO Q1 09:

- **Enquiry levels increased by +25%**
- **New serviced office tenants (SOT's) decreased by -55%**
- **Average number of workstations per SOT increased to 3.4**
- **Workstation costs peaked at £161.00 – Down -18% on Q1 09 levels**
- **Initial license agreements rose to 8.6 months**

SUPPLY OF SERVICED OFFICE SPACE

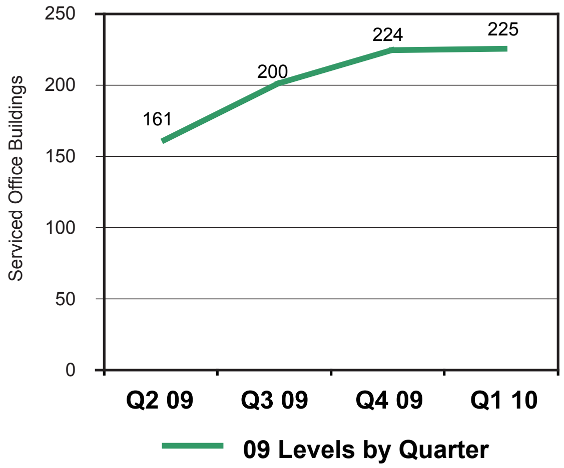
Net increase of 1 new serviced office building to the officebroker.com portfolio

The total number of serviced office buildings in Yorkshire & Humberside increased by 1 during Q1 10. This new peak figure occurred as a result of 5 new serviced office buildings being added and 4 serviced office buildings ceasing to trade during this period.

As demonstrated in Fig 1, the number of serviced office buildings operating in Yorkshire & Humberside had risen substantially throughout 2009. This increase, which occurred at a time when rents for commercial property in the UK had effectively bottomed out, demonstrates that providers and landlords had made substantial investments at this time.

This preparation, which underlines the expectation of increased and growing demand for serviced office space in future years, appears to have now levelled out, indicating that not only has a saturation point been reached in terms of supply, but also that activity in the commercial property market has accelerated rising prime rent levels to the point where further investment has been deterred.

Fig 1. Serviced Office Space Growth by Quarter 2009



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DEMAND FOR SERVICED OFFICE SPACE

Enquiry levels increased by +25% in Q1 10 compared to Q1 09

NEW ENQUIRIES

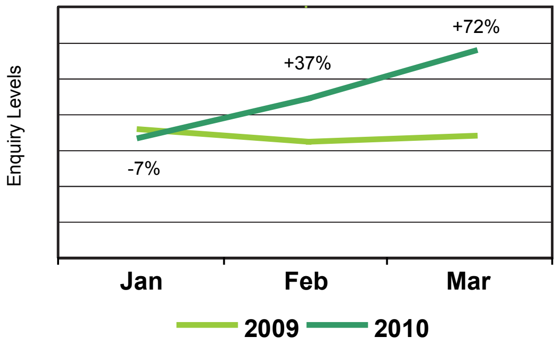
The overall number of enquiries received for serviced office space in Yorkshire & Humberside during Q1 10 increased by +25% on those received during the same period of 2009.

As can be seen in Fig 2, enquiry levels initially fell behind 09 levels in January (-7%) before increasing significantly in the following months of February (+37%) and March (+72%).

This January deficit, which placed Yorkshire & Humberside as one of only three UK regions to record decreases in enquiries during the opening month of Q1, coincided with the onset of extreme winter weather within the region. Given that the other regions to record a deficit during January were Wales and the North West, themselves both severely affected by the weather, it is reasonable to assume the disruptive effects of this weather deterred businesses from engaging in the search for a workspace solution.

Having declined in line with national averages during 2009, the overall increase in enquiry levels during Q1 10 is the first sustained increase to be recorded in Yorkshire & Humberside since 2008.

Fig 2. Enquiry Levels - Jan, Feb, Mar



Given the general levels of stability recorded between 2008 – 2009, it is reasonable to assume that the large increases occurring in February and March were a direct impact of the expanded marketing and affiliate activity implemented by officebroker.com*. While this change demonstrates officebroker.com had not previously optimised its presence across the entire Yorkshire & Humberside region, having been restricted to the regions larger cities, this increase in both market share and awareness underlines a healthy and active interest in serviced office space as a viable workspace solution.

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

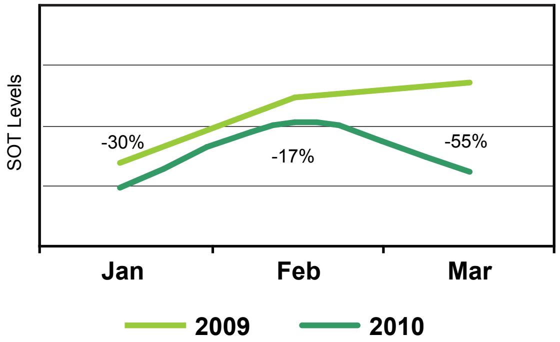
As a direct result of this activity the number of enquiries received by officebroker.com increased substantially during February and March. Such increases, while generating abnormally large changes when placed against previous data, will ensure that the statistics reported by officebroker.com are an 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) decreased by -55%

The number of SOTs entering the market decreased by -55% in Q1 10 compared to Q1 09 levels, marking the largest decrease of its kind in over 12 months.

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



A month-on-month comparison of Q1 10, as shown in Fig 3, reveals that the number of SOTs entering the serviced office market in Q1 10 consistently fell below 09 levels. This process began in January when a -30% drop on 09 levels was recorded before narrowing slightly in February (-17%) only to increase yet further in March (-55%).

Given the disruption to transport and services likely to have been caused by the prolonged winter weather, it is perhaps not surprising that the number of SOTs signing for or completing moves dropped during the opening quarter of 2010. And while if looking at this data in isolation demand for serviced office space appears to have entered a sudden and dramatic decline, this is not likely to be the reality.

Having recorded an increase in SOTs in three out of four of the previous quarters and rising +9% overall in 2009, the abnormal declines of Q1 10 are likely to be followed by additional growth in Q2 10 as those businesses displaced and disrupted in Q1 10 reactivate their plans.

AVERAGE WORKSTATIONS PER SOT

Average workstations per SOT reached 3.4 – increasing by +7%

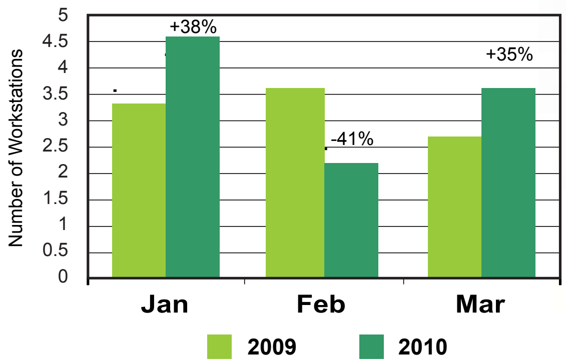
Despite the reduced number of SOTs completing the move to new serviced offices in Q1 10, those that did had workstation requirements +7% larger than those during the same period of 2009.

Having increased from 3.2 workstations per SOT in Q1 09 to 3.4 workstations by the close of Q1 10, this rise in requirements continues a trend that first began in Yorkshire & Humberside during Q3 09.

Looking at the quarterly activity on a month-by-month basis, increases in workstation requirements rose above 09 levels in both January (+38%) and February (+35%) while decreasing in February (-41%).

Fig 4. Q1 09 vs Q1 10

Average Workstations per new SOT



Having recorded an overall increase in workstation requirements in two consecutive quarters, the prospects for serviced office providers within this region look good – assuming an increasing number of SOTs return to the market from Q2 onward. If this does occur and the demand for larger numbers of workstations continues it will also bring a rise in workstation prices as supply reduces in line with increased demand.

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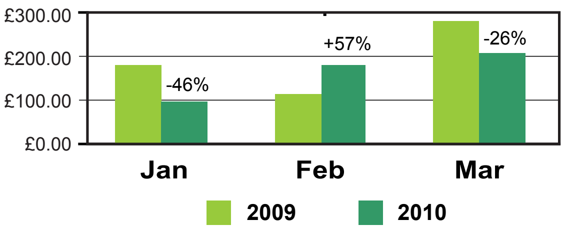
SERVICED OFFICE SPACE COSTS

Average price per workstation was £161.00 - down -18% on Q1 09

During Q1 10 the average price per workstation dropped to £161.00, equating to a decline of -18% on the Q1 09 average of £191.00.

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



The decline recorded in the opening quarter of 2010 represented the biggest percentage decrease in the region since 2008.

Throughout 2009 workstation prices in Yorkshire & Humberside had been amongst the least affected anywhere in the UK, declining by only -3% in comparison to the national average of -16% recorded during the same year.

Given the change recorded in the opening quarter of Q1 10, which is unlikely to have been affected by the weather as with other areas of the market, questions must be raised as to why the stability seen in 2009 has dissipated. Could this change be the result of those businesses entering the market opting for lower quality space, or could this have occurred due to serviced office providers reducing rates in an attempt to attract additional clients?

Whatever the reason for this previously stable area of the market becoming unsteady, if workstation prices continue to fall into Q2 10, future tenants stand to benefit greatly.

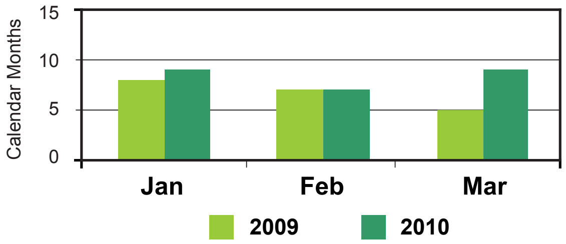
INITIAL LICENCE LENGTHS

Initial license length commitment increased to 8.6 months

New SOT's were signing initial licences averaging 8.6 months in Q1 10, an increase of +5% on the Q1 09 level of 8.2 months.

As a region, Yorkshire & Humberside has consistently benefited from tenants signing longer initial licenses, exceeding the national average in the previous five financial quarters. Given the committed nature of SOTs throughout the region, this latest increase not only reassures serviced office providers that long term deals remain prominent in the market, but also delivers a clear message that businesses throughout Yorkshire & Humberside remain focused on the long-term.

Fig 6. Initial Licence Lengths Q1 09 vs Q1 10



If this ability and willingness to commit long-term can be maintained along with growing workstation requirements and an immediate increase in SOTs, serviced office providers throughout Yorkshire & Humberside could experience an extremely positive 2010. While such benefits will of course depend on the predicted return of SOTs to the market, continued economic recovery and future government policy will prove equally as important.

SUMMARY

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

1. Enquiry levels, having remained relatively stable in recent years, have increased as a wider section of the market was incorporated into officebroker.com's activity.
2. The overall number of new serviced office tenants decreased after three previous periods of growth with the disruptive effects of extreme weather highlighted as the cause.
3. Workstation requirements increased for the third consecutive quarter.
4. Having remained stable throughout 2009 workstation prices recorded their biggest decreases since 2008.
5. Initial license lengths increased and continued to exceed national averages demonstrating the willingness of businesses entering serviced office space in Yorkshire & Humberside to show long-term commitment.

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.

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