# SERVICED OFFICE REVIEW

## EAST Q4 2009

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




* officebroker.com defines the East region as areas located within the following postcode prefixes: AL, CB, CM, CO, HP, IP, LU, NR, PE, SG, SS and WD

## HIGHLIGHTS

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

### Q4 09 COMPARED TO Q4 08:

- **Enquiry levels decrease -17%**
- **+ 12% rise in new serviced office tenants (SOT's)**
- **Average workstations per SOT peaked at 3**
- **Average workstation price dropped to £228.00 p/m from £306.00 p/m**
- **Initial license agreements decreased to 6 months - down 21%**

## SUPPLY OF SERVICED OFFICE SPACE

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

The total number of serviced office buildings reached 182 in the Eastern region during Q4 09. This peak figure followed an addition of 14 new offices being added to the officebroker.com portfolio during Q4 09.

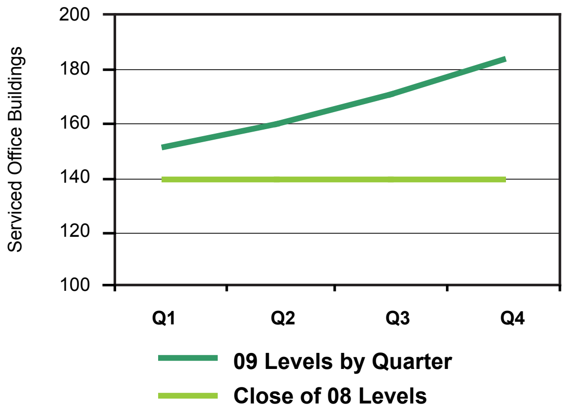
Those 14 serviced office buildings added in Q4 09 were part of 44 buildings added during the entirety of 2009. These additions represented a +24% increase in the number of serviced office buildings available within the Eastern region of the UK.

As demonstrated by Fig.1 the influx of new serviced offices was continuous with a marginally steeper rise taking place at the beginning of Q2 and running through until the close of Q4.

Such an increase could suggest that serviced office providers are expecting demand to increase in 2010, leading to the establishment of new business centres in order to accommodate this.

Establishing such centres may also have become increasing more attractive to serviced office providers as a result of a drop in prime rent levels on commercial property leases.

**Fig 1. Serviced Office Space Growth by Quarter 2009**




## DEMAND FOR SERVICED OFFICE SPACE

**Enquiry levels decreased by -17% in Q4 09**

### NEW ENQUIRIES

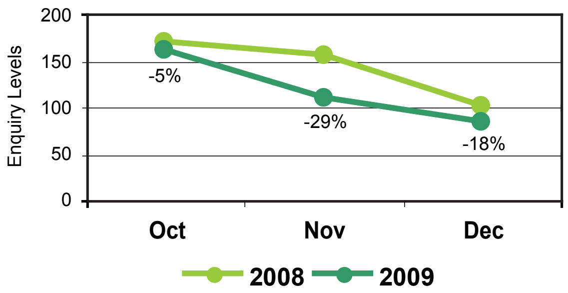
The number of new enquiries received for serviced office space decreased by -17% in Q4 09 and followed drops averaging -9% in the three previous financial quarters of 2009. The 17% decrease of Q4 09 marked the largest such decrease.

As shown in fig.2, enquiry levels remained below Q4 08 levels on a month-by-month basis during Q4 09.

The decline in enquiry levels is a trend witnessed nationally throughout Q4 09, with areas such as Wales experiencing decreases as large as -30% below the Q4 08 levels.

In comparison to the national average of <1% recorded for this period however, the -17% shown in the Eastern region of the UK does little to suggest that the serviced office market has attracted increased interest as a result of the economic downturn.

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

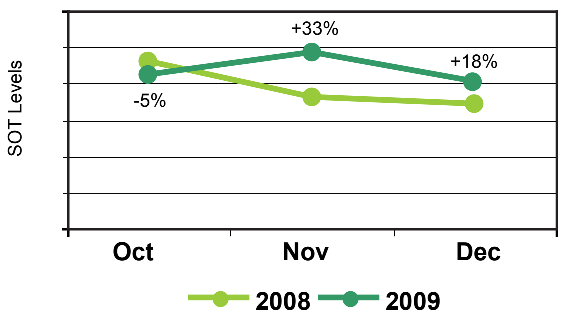


## NEW SERVICED OFFICE TENANTS (SOT'S)

**+ 12% increase in new serviced office tenants (SOT's)**

The number of new SOT's rose by +12% in Q4 09 compared to Q4 08. This rise occurred following a +33% increase in October and a further +18% increase in December.

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




Growth in Q4 09 represented the first rise in SOT levels during 2009, with Q1-Q3 each registering a -9% deficit on Q4 08 levels.

This return to growth coincided with the UK economy finally exiting its long-lasting recession. Suggesting that as confidence began to grow so did the number of new businesses entering serviced office space. The rise in SOT levels came despite the lowest 2009 enquiry levels being received during Q4 – again suggesting that business owners felt more confident in moving their plans forward during Q4 09.

## AVERAGE WORKSTATIONS PER SOT

**Average workstations per SOT reached 3 – down from 3.7 in Q4 08**

The overall increase in new SOT's during Q4 09 corresponded with a decline in workstation take-up.

At the close of Q4 09 the average number of workstations per SOT was 3.0, a decrease of -19% on the 3.7 workstations being opted for during Q4 08.

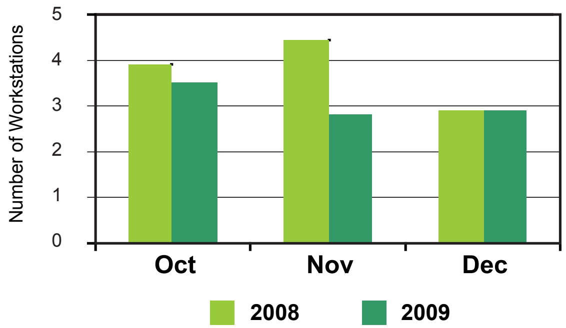
A month-by-month analysis shows decreases in October (-10%) and November (-37%) before a partial recovery toward Q4 08 levels in December (-4%).

Smaller workstation requirements have become a trend throughout 2009, reducing in the East of England by an average of -12% between Q1-Q3 09 and nationally by -18%.

One explanation to this trend could be that the new SOT's entering the market are predominantly start-up ventures. With start-ups naturally requiring smaller workstation requirements, this could explain why workstation sizes have fallen so significantly. Alternatively the cut in workstation requirements could demonstrate the scale of downsizing taking place as a result of the economic downturn.

A common thread throughout however is that smaller workstation requirements show no sign of altering within the East in the immediate future. As such service office providers may have increasingly come under pressure to re-configure office templates in order to match this demand.

**Fig 4. Q4 2008 vs Q4 2009 - Average Workstations Placed per New SOT**



## SERVICED OFFICE SPACE COSTS

**Average price per workstation fell to £228.00 - Down 25% on Q4 08**

Another influencing factor on the rise in new SOT's may be the competitive prices being offered by serviced office providers during this period.

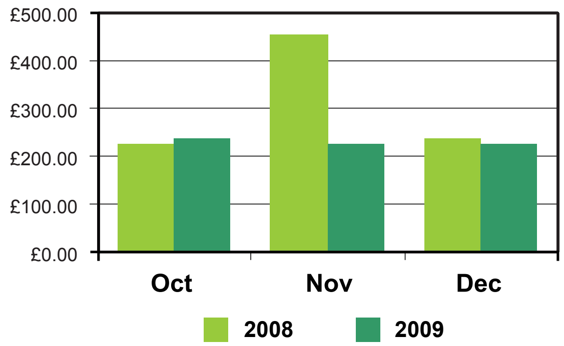
During Q4 09 the average price per workstation fell to £228.00 p/m from £306.00 p/m in Q4 08. This contributed to the -15% decrease in workstation prices experienced annually in the East during 2009.

A month by month comparison of Q4 09 reveals that average workstation costs have fallen below Q4 08 levels in both November (-51%) and December (-6%) while October (+6%) registered a small increase.

Looking at the quarter, it is clear that the majority of the -25% price change recorded in Q4 09 occurred because of the figures recorded in November 08. A series of high value deals took place during this month, which in turn corresponded with a rise in the average number of workstations (Fig. 5). It is the absence of these larger deals which has affected the average cost per workstation during Q4 09. It is possible that if the number of SOT's continues to increase beyond Q4 09 the subsequent squeeze on supply will bring about a rise in workstation costs. In addition, as the economy once again begins to find its feet, it may lead to a rise in the higher workstation demands that accompanied the increase workstation costs on 08.

The national average workstation cost for Q4 09 was £258.00, placing the Eastern region £30.00 behind.

**Fig 5. 2008 vs 2009 Average Workstation Price**



## INITIAL LICENCE LENGTHS

**Initial license length commitment falls to 6.2 months - 37% down in Q4 09**

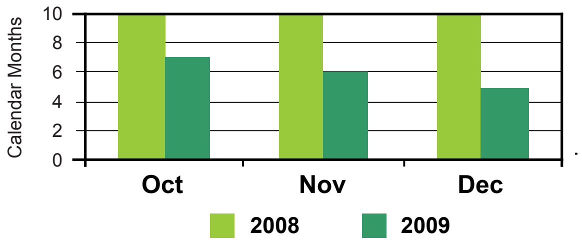
New SOT's are signing initial licences averaging 6.2 months in Q4 09, 3.7 months (-37%) shorter than in the same period in 2008.

In light of the falling workstation costs in Q4 09, it would be reasonable to assume that tenants may have looked to take advantage, securing longer terms at more favourable rates. The 3.7 month decrease 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 6. 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 have fallen
2. The overall number of new serviced office tenants rose during the financial quarter – suggesting an influx of new businesses into the serviced office industry
3. Larger workstation requirements remained absent from the market – suggesting that smaller requirements will continue to dominate
4. Average workstation costs continued to fall
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.

Contact officebroker.com for help finding serviced office space, or to advertise a building online.

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