

CHANGE & FLEXIBILITY

The role of serviced office space in office markets and corporate property portfolios

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Executive Summary

With the increasing pace of change, organisations have sought new property solutions which provide greater flexibility. What appears to be required is not flexibility for all uses but appropriate flexibility for the volatile, risky and temporal part of a business. This is the essence of the idea behind the split between the core and periphery portfolio. The serviced office has emerged to fill the need for absolute flexibility. This market is very diverse in terms of the product, services and target market. It has grown and gained credibility with occupiers and more recently with the property investment market. Occupiers similarly use this space in a variety of ways. Some solely occupy serviced space while others use it to complement their more permanent space. It therefore appears that the market is fulfilling the role of providing periphery space for at least some of the occupiers. In all instances the key to this space is a focus on financial and tenurial flexibility which is not provided by other types of business space offered.

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Introduction

Over the last decade, there has been an intense pace of change within major corporate organisations. This has led to a need for corporate property strategies that give increasing prominence to flexibility in occupational form. Evidence suggests that the property market in the UK may act as an inertial force constraining a firm's ability to respond to business change and to introduce new working practices (Gibson and Lizieri 1998). Supply side dominance and the resulting pattern of lease contracts have tended to lead to a lack of choice in occupational arrangements. It has been contended that, in the new economic and management paradigm, an organisation may require different types of business space to support different types of business activity (Lizieri *et al.* 1997). Although the UK property market provides an ownership pattern which may be acceptable for the long term *core* activities of a business, it has provided few products which support the flexible *peripheral* activities which need to grow and shrink with the organisation's competitive environment. More recently, however, absolute flexibility has been provided by the serviced office sector, where fully fitted space is available on a pay-as-you-use arrangement with the addition of a range of services from IT to secretarial support.

Serviced office space or business centres are not a new concept but have undergone a redefinition in the last decade, shaking off their image as second hand space in poor quality locations, designed mainly for small start-up companies, to become a more rigorously managed branded product. Key players who have sought to develop this market in the UK include Regus, HQ Business Centres and Marylebone Warwick Balfour (MWB). Although some space is still designed for the small company, the top end is located in the highest quality office space available in prime London locations. Major blue-chip corporations and multinationals are an important client group for these products. Furthermore, many new business parks have serviced space as an integral part of the product mix. The serviced sector has experienced very rapid growth in the last ten years, at a time when other market sectors have been depressed.

Despite the growth in demand for, and supply of, serviced office space, no investigation has been undertaken to understand the dynamics of supply and demand in this sub-market. Gaining insight into how and why this type of business space was chosen by the occupier and its relationship with other office space employed by the organisation is important in testing and further developing a core-periphery model of business space demand. Motivations for choosing serviced space will differ: some firms may use serviced space for short-term projects, as temporary overflow space, or to gain an initial presence in and familiarity with a market. Others may be unwilling to accept long term onerous commitments or prefer the "one stop" nature of the serviced office environment. On the supply side, mapping out this sub-market within the overall business space market is important in understanding the relationship between serviced offices and other types of business space. It must also be recognised that the serviced office market itself is diverse and therefore requires its own typology. Data on the growth of the formal serviced office sector in recent years will provide valuable insights but must be placed in the context of the overall state of the market.

This paper will reports on findings of an extended research project. The aims of the wider study include:

1. *An examination of both the demand and supply sides of serviced offices in order to gain a greater understanding of its place within the overall UK office market;*
2. *A clear understanding of the rationale for occupying serviced offices and the relationship of this space with other office space occupied by an organisation; and*
3. *The development of a typology for this sub-market which can articulate the individual segments.*
4. *An analysis of the valuation/appraisal issues within the periphery market*

This paper will review the findings in the first two of these dimensions and provide comment on the third. The final aim is covered in another report which explicitly examines the valuation of serviced office space.¹

This research was undertaken through separate surveys of the providers of serviced offices and the current occupiers. The data gathered on the supply side was based on a series of interviews with the major (multiple site) UK suppliers of serviced office space. These interviews were based on a semi-structured questionnaire which sought to examine the rationale for entering the market, their perception of the structure of and their place within the overall sub-market, and the prospects for its future development. Face to face interviews were undertaken with the largest operators, while telephone interviews were undertaken for smaller regional organisations. In total 15 firms participated.

A survey of occupiers who use serviced office space at the “top” end of the market (prime locations, high quality services) was also undertaken. This survey provided information on occupational demand including: an analysis of the type of organisations which occupy serviced offices and of the functions/activities which serviced offices support; an analysis of the motivations for occupying this type of space; and an exploration of the relationship between serviced offices and other business space occupied. This survey was distributed through a range of business centres in order to gain a wide view of the market. In total 118 surveys were completed.

This report is divided into five sections. This first section provides a broad context for the research and the aim of the work. The following section establishes the theoretical background for this work by reviewing some of the key literature related to flexibility and the development of the core-periphery portfolio concept. The subsequent two sections consider the findings from the supply and demand perspectives based on an analysis of the two surveys. The final section draws out the key conclusions and offer signposts for the future research.

¹ An associated piece of work was sponsored by Cityb@se plc to examine the current practice as regards the valuation of serviced office space. The final report is due to be published in November 1999.

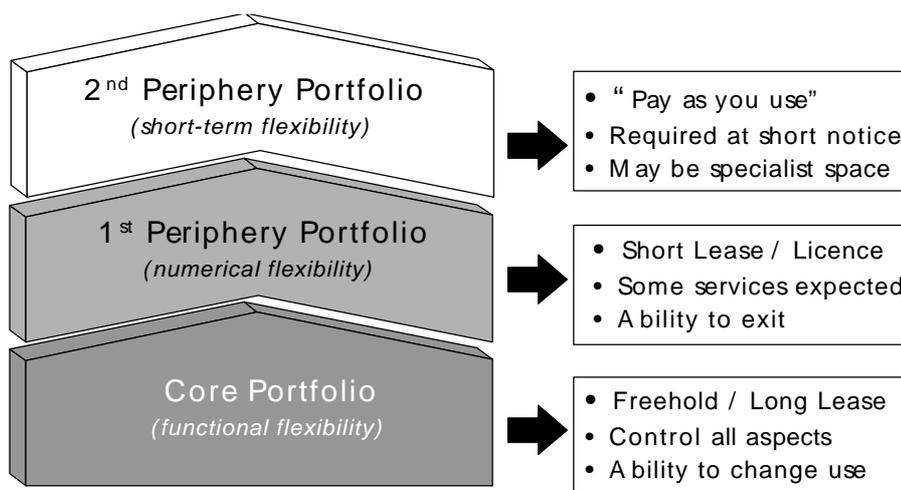
Flexibility in Corporate Property

The rise of the serviced office during the last decade is seen to be driven by the need for ever-greater flexibility. Organisations are changing where and how they manage their operations on an increasingly regular basis. This has created a need for not only flexible human resources but also flexibility in the capital infrastructure underpinning an organisation of which property forms a key element.

The need for flexible resources is well documented in the management literature and corporate property is no exception. With the increasing pace of change, organisations have examined their activities more closely in order to decide which are core and which non-core functions (Hamel and Prahalad 1989). This idea has been mapped onto their resources, in particular in the human resource literature which differentiates between core and periphery staff (IPM 1986). The essence of the argument is that organisations need to differentiate between these two groups in terms of contract of employment and future investment. On the one hand, their core staff will be employed on long-term contracts with substantial fringe benefits. This group will also receive continued investment in terms of training and development. On the other hand, the peripheral staff are those who need to flex with both the business and the economic demands of the organisation and therefore will be engaged in a variety of less permanent arrangements from part-time labour to full outsourcing.

Taking this model, Gibson and Lizieri (1999) developed the idea of the core-periphery business space model (Figure 1). The argument was that occupiers, and corporate property managers, should similarly differentiate between their core and periphery portfolio. The core portfolio was that space which the organisation felt was likely to be required long term but for which the use might change over time. Thus, although in contractual terms long-term commitment was possible, with freehold likely, there needed to be functional flexibility: that is, the building could support a variety of uses and activities, changing over time.

Figure 1: The Core – Periphery Portfolio



Supporting the core would be two layers of peripheral space. The first would be space with shorter term contractual arrangements, for instance leases of 3 and up to 10 years duration. This space could support short term contracts, specific project or any other activity where the long-term future is uncertain.

The most important characteristic of this layer is the exit strategy although some facilities management services may also be included. Organisations need to be able to release this space when it is no longer required. The final layer is space on demand. This layer is where speed of occupation and supporting services become the key driving force. This layer is where much of the serviced office space would fit.

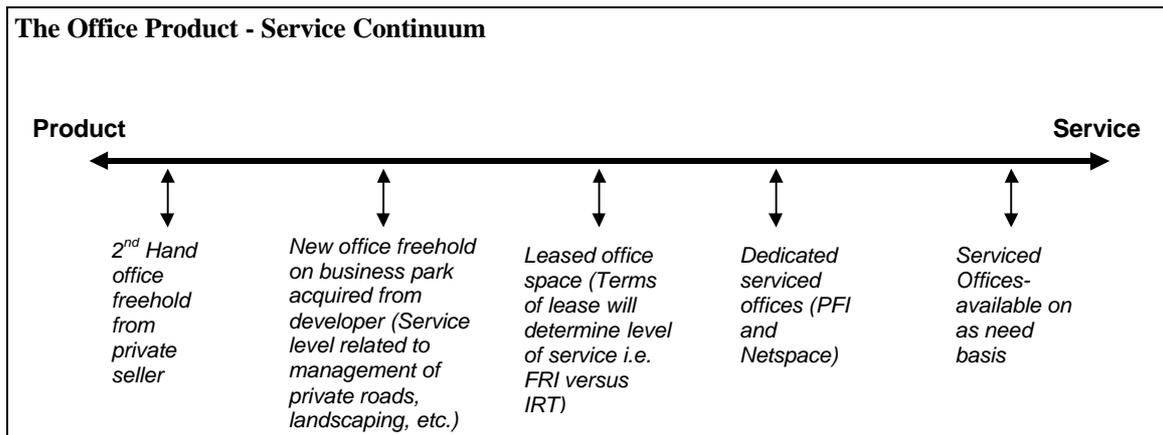
The search for flexibility in corporate property portfolios is not new. Much of the alternative workplace literature refers to the need for flexibility of location as being an important driver for organisations which have adopted such techniques (See Apgar 1998, Kolbe *et al.* 1995). This concept has been further considered by Becker (1999, Becker *et al.* 1997) who develops the idea of the lean portfolio. Both of these models look at flexibility within the organisation's portfolio from a physical and functional perspective. They examine the way the portfolio can be managed to support the wide range of business activities which are continually evolving within organisations. But, these ideas fail to address who actually owns and services the space.

As well as physical and functional flexibility, organisations are increasingly seeking financial, including tenurial, flexibility. There is less evidence of an examination of this idea in the literature. Redman and Tanner (1991) report that corporate real estate executives in the US cited that a key benefit of leasing, and sale and lease back agreements, was increased flexibility. Additionally, the lack of flexibility is often given as a significant reason for relocation (Daniels 1983, Harris Research Group 1994). Both of these provide support for the contention that ownership arrangements form an important aspect in creating of inhibiting flexibility within organisations.

However, even if occupiers seek a variety of forms of ownership and service arrangement, it is not necessarily the case that these forms are being provided by the market. Figure 2 outlines the idea of the office product-service continuum (Gibson and Lizieri, 1999). The premise is that, at the core all organisations require space. What differentiates one offering from another is the amount of additional service the purchaser requires. At the far left of the diagram is freehold property where the occupier takes full responsibility for maintenance, insurance and facilities management services. At the other end of the spectrum, space is available on a "fully serviced" basis where the occupier take no responsibility for the property and expects a totally managed environment. The argument is that these different offerings are appropriate for very different business activities and that an effective corporate portfolio would have a balance of these different types of offerings as appropriate.

Although there is not much evidence of corporate occupiers taking this type of approach, there is growing evidence of their willingness to outsource real estate and facilities management functions. Kimber and Rutherford (1993) examine the outsourcing of real estate services in the US and the British Council of Offices (1995) look at outsourcing now and in the future of property and facilities management services. Both comment on the growing trend but highlight some of the difficulties which have been encountered to date. In both instances, the outsourcing of services is divorced from the provision of the space itself but signals the willingness of corporate occupiers to transfer some of the responsibility for the management and servicing of their portfolios to outside contractors. The next stage in the development must be the linking of space and service as outlined in the figure below.

Figure 2



In the UK, the blending of space and service is best evidenced by the growth of the serviced office market. Although we are interested in the provision of space through the spectrum, the serviced office market typifies peripheral space. Hence the focus of the rest of this paper is on this sub-market. The next section reports on the variety of provision of serviced office space within the UK market by examining the evidence gained from suppliers.

The Supply of Serviced Office Space

In order to investigate suppliers' attitudes to the development of the business centre market, a series of interviews was conducted in the first quarter of 1999. Major suppliers were visited for face-to-face interviews, while other providers were interviewed by telephone (see Appendix A for full list of organisations). Those contacted controlled over 450 business centres and serviced office outlets in the UK. A series of topics were discussed. These included: the firm's motivation for entering the market, the type of clients and the activities performed in their centres, the nature of space and service provision, the firm's view of their competitive position and their perspective on future developments in the market. Interviews were conducted on a semi-structured basis, each topic introduced generally, with specific issues prompted as discussion evolved. The transcripts have been analysed to shed light on key issues.

In this paper, we focus on four main topics: (a) market segmentation; (b) client types, activity and competition; (c) the level and nature of service provision; and (d) future trends in business centre and serviced office provision. The interviews provided clear evidence that serviced office provision does not consist of a single market but, rather, a set of overlapping markets defined by quality of space, location and occupier. There are marked differences of views between suppliers as to what the product being delivered is and should be. These differences do not conform to the market segments identified – strongly divergent views between suppliers at the “top” end of the market emerge, for example. There was, however, the expected consensus that the market would expand still further in the future.

Market Segmentation

The serviced office market appears to be subdivided both by type of occupier and by the nature of space and services provided. A small number of national and international suppliers provide space in prime (class A) buildings in prime locations. The clients of these providers are predominantly “blue chip” companies, multinational firms and UK corporates. Other providers with multiple outlets serve a more domestic (national or regional market). The occupiers in their centres include some corporate firms and professional services firms (IT firms and management consultancy, for example). A high proportion of the firms are, however local to the centre.

Below this level, single site local operators provide a service for smaller local firms, start-up companies and the self-employed. At the margin, the serviced space is more akin to studio and workshop space than prime office. These distinctions are surprisingly clear, despite some blurring around the edges. Thus, many of the national and regional firms initially claim to have “blue chip” clients. However, probing revealed that this was rarely the case – or represented at most a one-off local event such as a corporate firm occupying space while awaiting completion of permanent core regional offices.

Not all suppliers aspired to a higher status. A number of the smaller, local providers indicated that they preferred to let to individuals, small companies and start up firms. They argued that larger firms tended to occupy more space, making the supplier vulnerable to a sudden relocation and, hence, excess vacant space. A smaller firm vacating had less serious cashflow repercussions and was easier to replace. Others, however, sought an upgraded status. This was particularly true amongst regional providers with multiple sites. The advent of high profile operators such as Regus, MWB or HQ has led to apprehensions in the industry that a “star rating” system will emerge in the serviced office sector, akin to the grading of hotels. Not all suppliers would be happy to be labelled two star or three star operators.

Client types, activity and competition

These distinctions between types of providers and types of occupiers are echoed by distinctions in the types of activities carried out in business centres. Start up firms and sole operators are using serviced offices as their core space. For larger firms, the functions are different and more specific. At the top end of the market, a business centre in a prime location may provide business visibility, corporate identity and a presence in a particular market. In many instances, the offices here are “virtual” in the sense that the firm has no formal workstations. The business centre provides telephone answering and mail services and the reception desk while the firm hires communal space – conferencing facilities and board rooms – with associated services (e.g. catering) on a piecemeal basis. Another frequent “high end” use is for market entry. The business centre provides an initial quality base while the market is evaluated. The motivations here are quite different. In the latter case, the business centre is providing “core space” – both property and services – for the firm but space that has in-built flexibility with no long-term commitment. In the latter, the emphasis is on service rather than real estate. The business centre adds to the core space, rather than acting as a substitute, in providing high-end “peripheral” and “virtual” space.

An oft-cited use for service centres is as a base for specific projects and satellite teams. While providers did talk about project-based teams, there was little concrete evidence that this was a common usage. However, functional teams that were being relocated often seemed to utilise national/regional and regional/local providers’ space while a more permanent core property solution was sought. Here, then, the serviced office centre is providing peripheral space in terms of temporary space while core needs are assessed and acquired. The serviced office provides temporal flexibility. This is akin to the market entry usage at the high end of the market.

There was some evidence that a growing number of larger, more established firms were considering serviced office space as their permanent base. This was particularly true amongst “gazelle” industries (high tech., information and communications technologies) and professional business services (management consultancy, recruitment, accountancy, marketing and media). Some of the latter group may represent out-sourcing from the corporate sector. In such industries, aggregate space demand is relatively low, staff are frequently away from the office (encouraging hotelling and hot desking solutions), meeting rooms and conference facilities are of great importance and demand for space and business activity levels are subject to considerable short-term fluctuations. This drives a need for space flexibility, both in terms of aggregate space required and configuration. The business centre provides a more conducive environment than traditional leased property for such needs.

Service provision

There are considerable variations in the extent and standard of service provision, variations that reflect the quality distinctions between providers. At the lower end of the market, the degree of service provision is minimal, often amounting to no more than provision of basic infrastructure, space being let on an unfurnished basis. Here, there is little beyond a reception desk to distinguish serviced space from turnkey operations except that the occupational contract is short-term. Beyond that basic level of provision, the standard package consisted of reception, provision of telephone and answering service, utilities and cleaning. Regional/national suppliers offered secretarial services at an additional charge with the more sophisticated providing facilities such as video conferencing or reprographics. For national/international providers, a full range of services was generally available including catering and social facilities. Typically, fees for space and services were based on a menu system, with communal services (photocopying and reprographics, secretarial support for example) charged according to usage.

In the more detailed discussions with national and international providers, one important division of opinion emerged about the *nature* of business centre provision. The majority of providers believe that they are in the property business: that is, they provide space on a flexible basis with additional services added to the package. A smaller number of operators – but including major players in the market – view themselves as service providers, or “systems integrators”. In a sense, they stand between property and firm, providing the necessary people, information and technology to ensure the efficient use of space, driving down total occupancy cost per worker or cost per unit of output. That they own the buildings or lease them on a long-run basis is, thus, secondary to their operation. This is important for the development of the market, since it provides a clear link between the business centre / serviced office sector of the property market and facilities management and innovations such as Netspace².

Future trends

Whether or not business centre provision is seen as a property activity, most operators noted that the existing structure of the property market acted to constrain development of the sector. In particular, the stigma associated with serviced offices (seen as low grade, secondary space), the valuation penalties associated with short leases and licences by comparison to the lengthy standard UK lease and antipathy from landlords and institutional investors were seen as hampering development. A number of smaller operators spoke positively of the success of major players like Regus, HQ and MWB. Their activity was seen as important in eroding stigma and “educating” the market as to the potential of the sector. However, there was considerable apprehension that a hotel-style star rating system could marginalise local operators leading to a two- or three-tiered market. Even where smaller suppliers were content to operate in local, niche markets, they did not want to be labelled as inferior. A number noted that, although valuation practices and the dominance of long leases created inflexibility in the property market, it was this very inflexibility that drove the demand for serviced office space.

As one might expect, the vast majority of suppliers foresaw continued scope for expansion in the sector. That growth would be driven by a growing awareness of the advantages of flexible provision, a re-evaluation of the investment potential of business centres but, above all, by changes in business practices leading to new ways of using (as opposed to simply occupying) space. The demand for space in business centres was seen as structural and embedded, not a short-term reaction to recession. It was frequently noted that few firms have business plans that extend beyond three, or at best five years. There was, thus, a mismatch between volatile demand and long-term, inflexible supply. This would suggest either a sharp reduction in lease lengths, or increased use of serviced offices and business centres either as core space or as peripheral space to deal with variable or cyclical demand. This, in turn, might imply an increase in the average size of space occupied. This was not a universal view. Amongst some local and regional/national operators, there was some feeling that there was a maximum floor size above which it was more economical to lease in the “conventional” market. This is confirmed by research undertaken by the Chartered Institute of Purchasing and Supply (Estates Gazette, 1998) which compares the cost of conventional leasing with a serviced office solution based on the number of staff and length of occupation.

As the business centre / serviced office sector became more respectable, it was suggested that the presence of a business centre would become integral to the success of multi-let office developments and business parks. Not only could firms use the business centres for expansion space when necessary: they could also make use of the communal facilities such as

² Netspace is a product developed by Regus to fill the gap in the market between conventional leases and serviced offices. The length of contract is likely to be longer (3 to 5 years) and the service provision is tailored to the occupier who is likely to use a significant proportion of the space within a building.

conferencing and board rooms. There were indications that this was already occurring. One operator noted that a number of tenants in an office development were former licensees of the business centre within that complex. Here, the business centre is more clearly offering services rather than real estate, operating as an office hotel (“we are the “Seattle Coffee” of the office market” commented one supplier).

Other innovations in space and service supply were seen as affecting the market and further blurring the distinctiveness of the sector. Joint ventures and consortia of firms combining to acquire and maintain buildings as “swing space” (that is, peripheral space to cope with transitory demand) formed one example. Extended facilities management, Netspace and the property-service provision under Private Finance Initiative (PFI) schemes formed another. In the latter case, the service and occupancy management aspects dominated, while physical space was the prime driver of the former. The business centre sits somewhere between the two, combining space and service.

In summary, the interviews with serviced office space suppliers provided clear indications that there is no single business centre market. Rather, the market is differentiated by type of occupier, quality of product (space and services) and quality of location. There appears to be a clear distinction between that part of the market servicing blue chip corporate occupiers and international firms and that serving the rest of the market. Despite the differentiation, the success of these top-end providers has reduced stigma and may lead to a reappraisal of the investment potential of the sub-sector. The motivation for use of serviced space was seen to vary by type of occupier but flexibility – and the inflexible arrangements in the conventional leasing market – was a leitmotif in the responses. There were differences of views as to the nature of the product: property or service? However, there was a clear consensus that the market would continue to expand rapidly as business centre space and variants of serviced provision became a normal part of firms’ corporate property strategy.

This part of the survey work confirmed our original hypothesis that the serviced office market was diverse. It is difficult at this stage of the work to propose a clear typology to help clarify the structure of this sub-market but as the market develops this is likely to become clearer. We concur with the view of many suppliers that a “star rating” system would oversimplify the range of provision. The providers who took part in this survey have a good understanding of the drivers behind the choice of a service office to meet occupational needs.

However, this is only part of the wider picture of the market and the way it operates. The following section reviews the findings of the survey of current occupiers of serviced office space

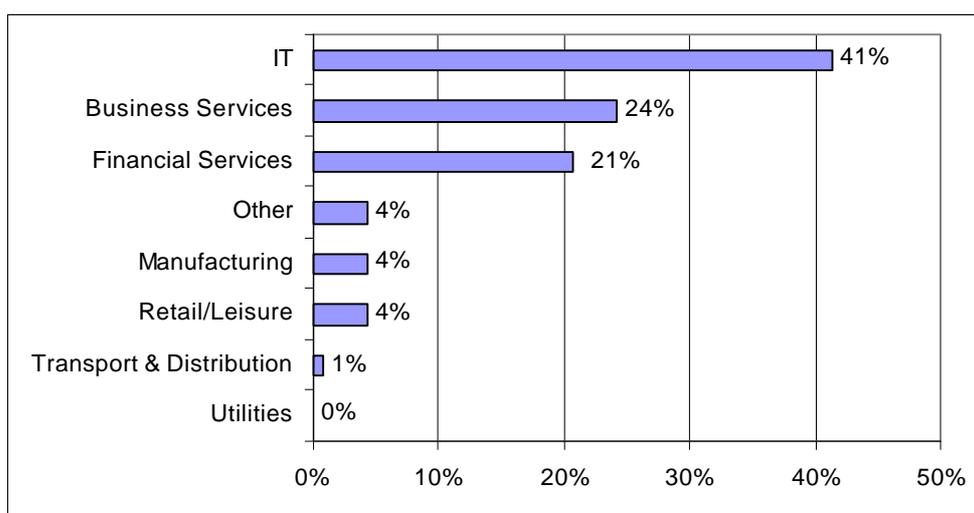
Occupiers

In this section, we examine the characteristics of users of business centres provided by major international/national serviced office providers. Survey forms were distributed to occupiers across a range of suppliers. The results reported are based on 118 organisations which occupy serviced office space. Just under half the responses come from those located in centres in Central London and almost 40% of the others were from centres located in the South and South East. Only 9 % came from centres located in other regional cities including Leeds, Manchester and Edinburgh. The survey form was distributed from, and collected by, the receptions of the business centres but individual confidentiality was preserved. Here, we examine the characteristics of the occupiers, the amount of space and type of services utilised and their reasons for using business centres.

Who Uses Serviced Office Space?

By industrial sector, the largest category of firms were those in information technology, followed by financial services and business services. Together these accounted for just over 85% of the respondents. Two thirds of firms responding were multinational in operation, with only 4% operating solely in a regional niche. The headquarters of the multinational firms were most likely to be in the US (45%) with a quarter being UK based and most of the rest from elsewhere in Europe. Although one third of the organisations claimed to employ less than 20 staff, a similar proportion (37%) employed more than 200 staff³. Of those providing data on turnover, more than 40% had a total turnover of more than £10 million. Only 8% of firms reported turnover of less than £500,000. The firms in the sample, then, represent large multinationals in the information technology, business and financial services sectors. Given the location of the centres and the business environment within which these firms operate, their dominance in serviced offices is not surprising. One interesting observation is that almost one third of the respondents work within US-based multinationals. Their early entry into this shorter term space market is not surprising given their aversion to the UK long lease.

Figure 3: Centre Occupiers: Type of Business



³ It is possible that some respondents provided information on the total employed in the UK only. The same may be true regarding the turnover, although in both the questions we specifically asked for total staff and total income.

Use: How and Why?

The number of staff using the particular business centre or office suite was, generally, small. 60% of respondents had less than five staff using the facilities, with only five firms having more than 20 staff working from the centre. The most frequent activity undertaken from the centre was new business development, cited by some 65% of respondents. 60% state that the space was used by marketing and sales teams while client contact and business identity were mentioned by 40% of those responding. Only five respondents used their centre for spill-over space. Thus, this segment of the serviced office market is most likely to support marketing related functions from new business development to a base for sales teams. In the main, it does not appear to be used for peripheral expansion space or to house project teams or headquarters functions. The functions supported tend to be risky, have an uncertain time span, or suited to new working practices and therefore require a risk related peripheral space solution.

Figure 4: Centre Occupiers: Staffing and Workstations

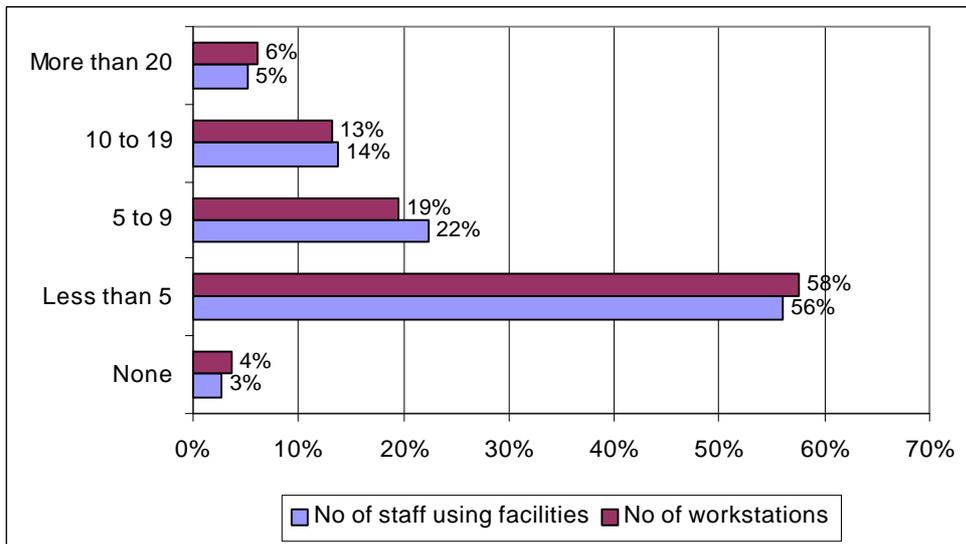
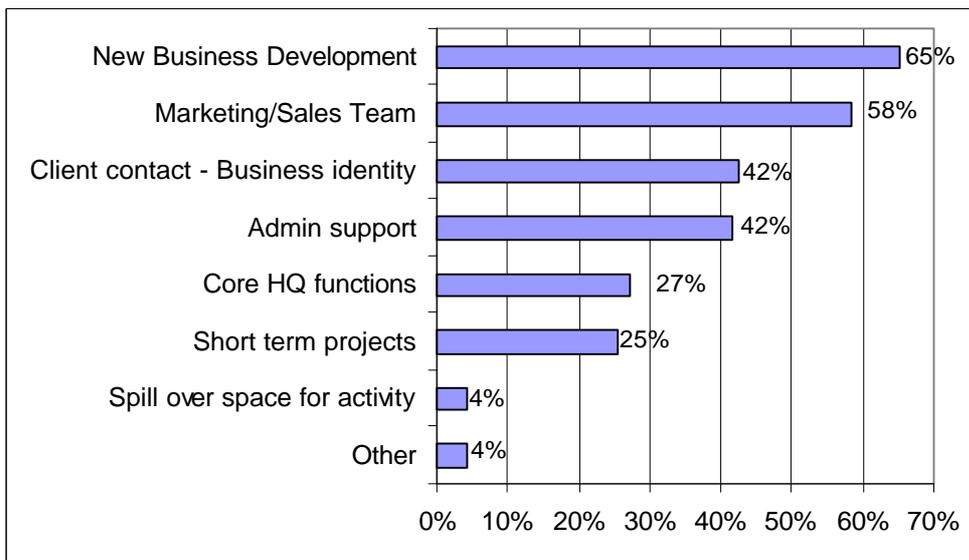


Figure 5: Centre Occupiers: Activities Undertaken From Centre

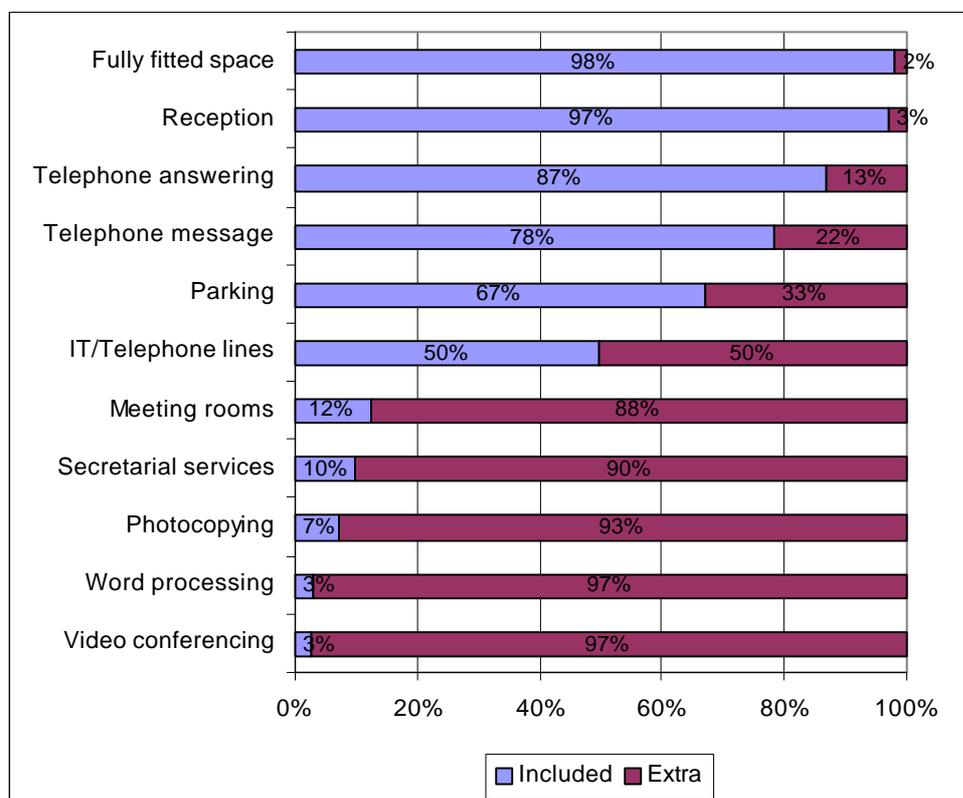


Product Service Balance

Virtually all firms had, as part of their standard package, fully fitted space, a reception, telephone answering and telephone messaging. For two thirds car parking was included in the

standard charge and half of the firms had their IT and telephone network provided by the supplier. There was a clear break point at this service level. The office infrastructure and basic front of office services were seen as core to the serviced office product. Other services, including meeting rooms, secretarial services, word processing, photocopying and video-conferencing were available at extra cost on an as-used basis.

Figure 6: Services Offered

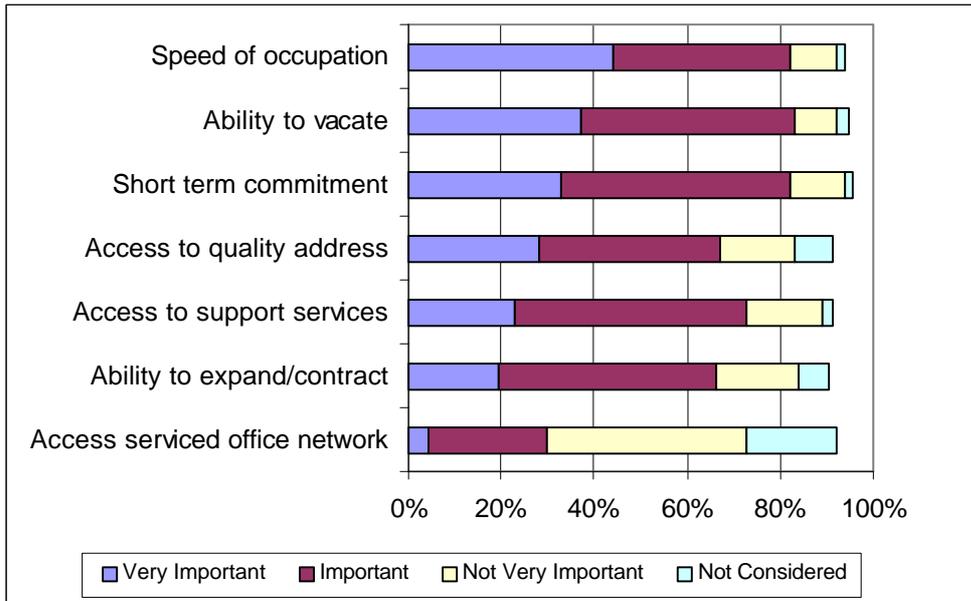


Selecting a Serviced Office

Two thirds of firms had considered alternatives to serviced offices before choosing their current business centre. Firms were then asked to specify which of a given set of reasons were the important justifications for selecting a business centre. As figure 7 shows, there were three reasons which were ranked as very important or important by the vast majority of respondents (over 80%): speed of occupation, ability to vacate and short term commitment. These reflect the inflexibility of the typical UK lease: these firms were not prepared to commit to a fifteen year lease to obtain high quality space and would have been faced with few other options. The serviced office sector therefore is providing a measure of flexibility that seems absent in the conventional market and, hence, is capturing an important niche market share.

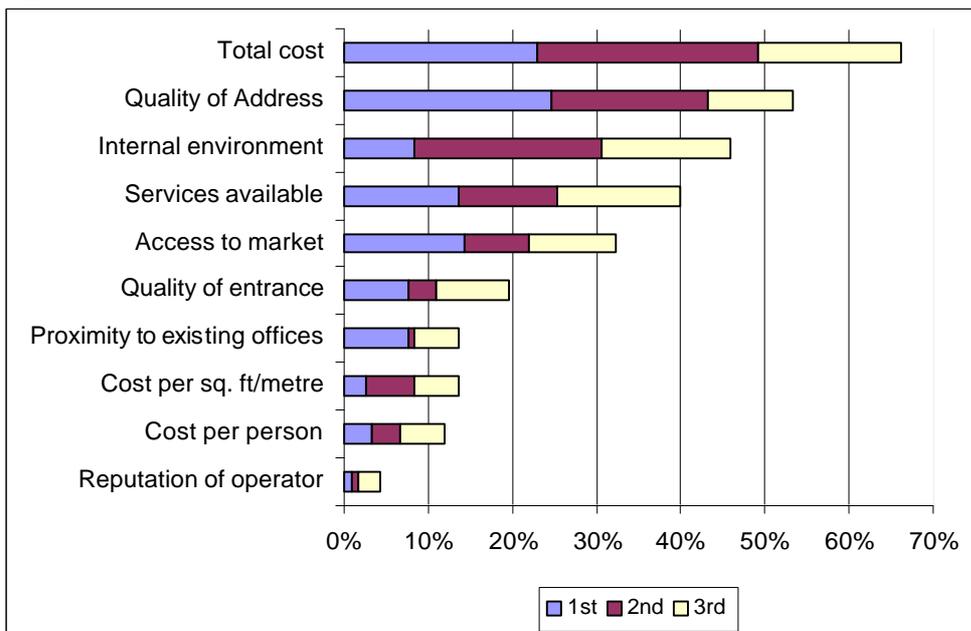
The quality of the address was the factor ranked next cited most often as important or very important (67%). This was followed by a similar proportion who identified access to support services (73%) and the ability to expand and contract (68%) as key reasons for choosing serviced offices. The only criteria included in the list which was felt to be less important was the potential to access a network of serviced offices with less than 30% indicating that this was important. Overall, therefore, the key reasons for choosing serviced office space related to flexibility and service.

Figure 7: Reasons for Selecting Business Centre



A slightly different picture emerges when firms ranked the key criteria used in selecting the serviced office accommodation. Examining those criteria ranked in the top three, total cost emerges as by far the most important factor, followed by quality of address. Other factors seem far less important. Some of the lower ranked factors merit comment. That market access does not rank higher is somewhat surprising, given that new business development was the activity undertaken within this space in almost two thirds of respondents and sales and marketing teams being based in this space in almost 60% of cases. It may be that market access and location are subsumed in the “quality of address” factor, or that the selection of a business centre comes lower down the decision hierarchy after selection of target market and location.

Figure 8: Ranked Selection Criteria for Choice of Centre



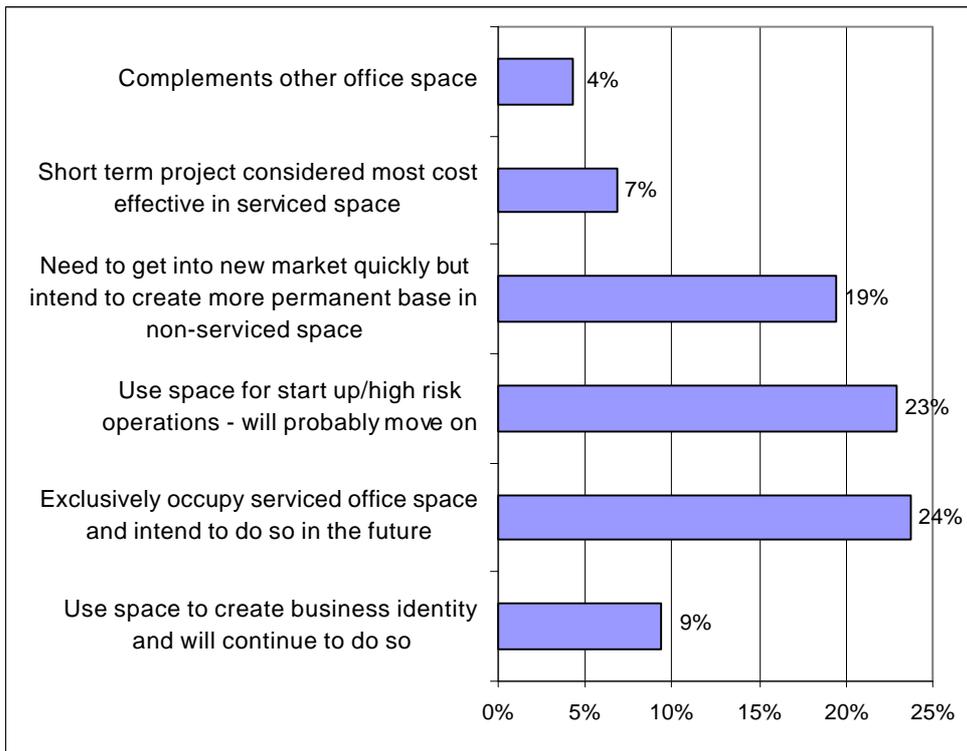
Similarly, given that client contact and business identity were mentioned as activities by half the respondents, one might have expected more than 19% to rank “quality of entrance” in the top three. Again “quality of address” may dominate the physical form. Thirdly, It seems surprising that “reputation of operator” was considered by just 14% of firms. Given the

sample base, it may be that this understates the importance of this factor in that only “respectable” operators were providing sufficiently high level space and services.

Overall Rationale

Firms were asked to specify which of a series of statements best reflected the way that serviced office space fitted into their organisation’s overall office requirements. Of the six provided, firms were divided between three statements: “we exclusively occupy serviced office space and intend to do so in the future” was cited by 26% of the sample as was “we are using this space for start-up / high risk operations only and will probably move into conventional office space in the future if the business is successful”. These two statements reflect a divergence in attitudes towards business centres and serviced space. The first sees serviced office occupancy as core space, but has effectively outsourced the property resource function allowing the firm to focus on its core competencies. The second sees serviced offices as peripheral space – albeit high quality space in this case, suitable for risky or transient operations which are not appropriate to be housed in part of the central core corporate property portfolio. The third statement, selected by 23% of the sample was “We need to get into a new market quickly but intend to create a more permanent base in non-serviced space”. Here the serviced space provides initial market entry flexibility not provided by the conventional sector: a substitute for core space but one which helps control risk (for example of failure to gain market share) by providing easy entry and exit strategies.

Figure 9: Rationale for Selecting Serviced Office



This preliminary analysis of the survey returns provides an indication of the nature of business centre occupation at the high status end of the market. Firms in this part of the market expect quality space, quality services and a quality location. Although overall cost is an important criterion in selecting space, cost per square metre or per person is less important. Thus they appear to be evaluating the property requirements as part of the overall business decision rather than as a property resource decision. While some firms see serviced space as a permanent solution, part of their core portfolio and others see it as peripheral, for temporary, risky or start-up activity, all emphasise the importance of flexibility. The ability to obtain space quickly, expand and contract and, above all, the existence of an exit route, the ability to vacate the space are of critical importance. Thus, the space provided by high quality business centre operators maps onto the changing and more volatile requirements of national and international corporate occupiers. As the research develops, any differences that emerge in studying regional and local operators will be highlighted.

Conclusions and Issues Arising

The original contention of this paper was that corporate property portfolios could be examined in a similar way to human resource portfolios. That is, that organisations require a core resource which is then supported by a range of peripheral resources. The difference between the two groups relates to length of contract and terms of occupation. In the business space market, the availability of products to fulfil the requirements of peripheral space has been dampened by the domination of institutional investors in the UK property market. However, the growth of the serviced office or business centre market and the development of innovative solutions such as PFI and Netspace, provide evidence that these service oriented products are developing.

In order to validate this core-periphery model, this paper reports on an examination of the service end of office product-service continuum. The results of the research so far appear to support the hypothesis that major corporate organisations require differ property-service solutions to support the wide range of business activities with which they are involved. It demonstrates that occupiers as concerned not only with physical and functional flexibility, but in many instance financial flexibility is equally if not more important.

The serviced office market within the UK is very diverse both in terms of the product/service balance being delivered but also in terms of the target market for clients. Much of the recent growth in the UK has been at the “top” end of this sub-market with key national / international providers opening new business centres in Prime Class A buildings focused particularly on blue chip occupiers. These providers are increasing the credibility of the market – a change which appears to be filtering down to the smaller regional and local players. It is interesting to note that there is a lack of consensus between the suppliers as to whether this is a *property business* or a *service business*. This may have implications for investment and appraisal research in the future. In terms of future prospects, the market is considered by all players to have significant growth potential as more organisations recognise the benefits of “outsourcing” at least part of the corporate property portfolio.

The occupiers of serviced offices at the “top” end of the market appear to fall into two camps. The first group uses serviced offices as its sole real estate solution and intends to continue to do so. The second group sees it as temporary space for market entry, business start-up or other risky activities. The commonality is the focus on (financial/tenurial) flexibility both in terms of speed of entry but, most importantly, speed of exit. Total cost and quality of address (most likely interpreted as location) are the key criteria for selecting a serviced office with services available appearing to have considerably less influence. This raises the question of where the *occupiers* see the market in terms of a property business or service business. Given the criteria cited, it may be seen as more the former than the latter. This is an aspect which will be investigated in future research.

In conclusion, the serviced office market is developing into an important part of both the property market and corporate property portfolios in UK organisations. As more evidence is gathered on the motivations of different types of occupiers, it will be possible to further test the core-periphery property model. The work to date supports the concept but also demonstrates that for some types of organisations no core space, as defined in the model, is actually required. It is important to recognise that there is may be no link between core activities, core staff and core space as these must be independently assessed. This also will be explored in further work.

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APPENDIX A

BUSINESS CENTRE AND SERVICED OFFICE PROVIDERS

The following providers kindly agreed to be interviewed as part of the research programme:

- Acacia Group
- Argyll Business Centres
- Arlington Management Services Ltd.
- Citibase Ltd.
- First Base
- Gainsborough Business Centres Ltd.
- Harvard Managed Offices
- HQ Business Centres
- Kilbracken Properties Ltd.
- Kirkcave Limited
- Lenta Business Space
- Longford Business Centres Ltd.
- Marylebone Warwick Balfour
- Premier House
- Regus

The views in the report are those of the research team and should not be considered to be representative of those of any of our respondents. The research team gratefully acknowledge their co-operation.

APPENDIX B

QUESTIONNAIRE OF BUSINESS CENTRE AND SERVICED OFFICE OCCUPIERS

Business Centres, Serviced Offices and Virtual Space A Survey of Occupiers

Section A: Background Information

1. In which of the following sectors is your organisations core business activity?

(Please tick the most relevant box below & specify here if possible): _____

IT, Technology, Telecoms	<input type="checkbox"/>	Pharmaceuticals, Healthcare	<input type="checkbox"/>
Business Services	<input type="checkbox"/>	Leisure, Hotels, Brewers	<input type="checkbox"/>
Media & Communication	<input type="checkbox"/>	Electricity, Water, Gas	<input type="checkbox"/>
Manufacturing & Extractive Industries	<input type="checkbox"/>	Transport	<input type="checkbox"/>
Financial, life insurance	<input type="checkbox"/>	Retail & Distribution (including banks, food)	<input type="checkbox"/>

2. Which best describes the type of organisations?

Multinational – US based	<input type="checkbox"/>	UK Operation Only	
Multinational – UK based	<input type="checkbox"/>	National	<input type="checkbox"/>
Multinational – Other	<input type="checkbox"/>	Regional	<input type="checkbox"/>
European	<input type="checkbox"/>	Local	<input type="checkbox"/>

3. How large is your total organisation?

<u>Total staff employed</u>		<u>Turnover (Including overseas income)</u>	
Less than 5	<input type="checkbox"/>	Less than £200,000	<input type="checkbox"/>
6 to 19	<input type="checkbox"/>	£200,000 to £500,000	<input type="checkbox"/>
20 to 50	<input type="checkbox"/>	£500,000 to £1 million	<input type="checkbox"/>
50 to 199	<input type="checkbox"/>	£1 million to £10 million	<input type="checkbox"/>
200 to 500	<input type="checkbox"/>	£10 million to £100 million	<input type="checkbox"/>
More than 500 employees	<input type="checkbox"/>	More than £100,000	<input type="checkbox"/>

Section B: Information on Serviced Office Accommodation

4. What activity(s) are undertaken within this serviced office?

(Please tick relevant box(es) below & specify): _____

New business development	<input type="checkbox"/>	Client contact- business identity	<input type="checkbox"/>
Short term projects	<input type="checkbox"/>	Marketing / Sales Team	<input type="checkbox"/>
Administrative support	<input type="checkbox"/>	Spill over space for activity	<input type="checkbox"/>
Core headquarters functions	<input type="checkbox"/>	housed elsewhere	<input type="checkbox"/>
Other <i>(Please specify)</i>		_____	

5. Number of staff from your organisations regularly using this facility:

(Please give actual number if known) _____

None permanently (address/mailbox only)	<input type="checkbox"/>	11 to 15	<input type="checkbox"/>
1	<input type="checkbox"/>	16 to 20	<input type="checkbox"/>
2 to 5	<input type="checkbox"/>	21 to 25	<input type="checkbox"/>
6 to 10	<input type="checkbox"/>	More than 25 staff	<input type="checkbox"/>

6. Number of workstations/desks used by your organisation within this facility:

(Please give actual number if known) _____

None (address/mailbox only)	<input type="checkbox"/>	11 to 15	<input type="checkbox"/>
1	<input type="checkbox"/>	16 to 20	<input type="checkbox"/>
2 to 5	<input type="checkbox"/>	21 to 25	<input type="checkbox"/>
6 to 10	<input type="checkbox"/>	More than 25	<input type="checkbox"/>

7. Which of the following services provided within this facility are used by your organisation

(Please indicated where these are included in your charge or paid on an "as used" basis)

	Included	Pay as Use		Included	Pay as use
Fully fitted space	<input type="checkbox"/>	<input type="checkbox"/>	Telephone message	<input type="checkbox"/>	<input type="checkbox"/>
IT and telephone lines	<input type="checkbox"/>	<input type="checkbox"/>	Word processing	<input type="checkbox"/>	<input type="checkbox"/>
Parking	<input type="checkbox"/>	<input type="checkbox"/>	Photocopying	<input type="checkbox"/>	<input type="checkbox"/>
Reception	<input type="checkbox"/>	<input type="checkbox"/>	Meeting rooms	<input type="checkbox"/>	<input type="checkbox"/>
Secretarial services	<input type="checkbox"/>	<input type="checkbox"/>	Video-conferencing	<input type="checkbox"/>	<input type="checkbox"/>
Telephone answering	<input type="checkbox"/>	<input type="checkbox"/>	Virtual business address	<input type="checkbox"/>	<input type="checkbox"/>
FM services (Cleaning, security)	<input type="checkbox"/>	<input type="checkbox"/>	Other: _____	<input type="checkbox"/>	<input type="checkbox"/>

Business Centres, Serviced Offices and Virtual Space A Survey of Occupiers

Section C: Selection of Serviced Office Accommodation

8. Did you consider other types of office property before choosing serviced office space?

Yes No

9. What were the main reasons for selecting serviced office space?

(Please rank each of the following criteria in terms of importance):

<u>Reasons Considered</u>	<u>Very</u> <u>Important</u>	<u>Important</u>	<u>Not very</u> <u>important</u>	<u>Not</u> <u>considered</u>
Speed of occupation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short-term commitment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inclusion or access to support services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Expansion / contraction capabilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ability to vacate with no long-term liability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to network of other serviced offices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to <i>quality address</i> at reasonable cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other <i>(Please specify)</i> _____				

10. What criteria were used when selecting this serviced office accommodation?

(Please tick relevant box(es) below for all criteria considered and

RANK the TOP THREE – 1 for most important, 2 for 2nd most important...):

	<u>Considered</u>	<u>Rank</u>		<u>Considered</u>	<u>Rank</u>
Total cost	<input type="checkbox"/>	_____	Access to market / clients	<input type="checkbox"/>	_____
Quality of entrance	<input type="checkbox"/>	_____	Proximity to existing offices	<input type="checkbox"/>	_____
Internal working environment	<input type="checkbox"/>	_____	Reputation of operator	<input type="checkbox"/>	_____
Quality of location / address	<input type="checkbox"/>	_____	Cost per sq foot	<input type="checkbox"/>	_____
Cost per person	<input type="checkbox"/>	_____	Services available	<input type="checkbox"/>	_____
Other criteria <i>(Please specify)</i> _____					

11. Which or the following statements best reflects the way serviced office space fits into your organisations overall office requirements?

- We only use this space to create a business identity and will continue to do so.
- We only occupy serviced office space and intend to do so in the future.
- We are using this space for start-up / high risk operations only – will probably move into conventional office space in the future if the business is successful.
- We need to get into a new market quickly but intend to create a more permanent base in non-serviced space.
- We have a short-term project that we consider more cost effective to house in serviced space.
- Generally complements our other office space – used to cope with general fluctuations in space needs – serviced offices are now a regular part of our overall office portfolio

Other *(Please specify)* _____

12. Additional comments:

If you have any comments or observations about serviced office space generally or particular points related to how your organisation uses this space please add these comments below.

Please return the completed form to the Reception of your office.
The forms will then be returned to The University of Reading for analysis.

**Business Centres, Serviced Offices and Virtual Space
A Survey of Occupiers**

**Business Centres, Serviced Offices and Virtual Space
A Survey of Occupiers**

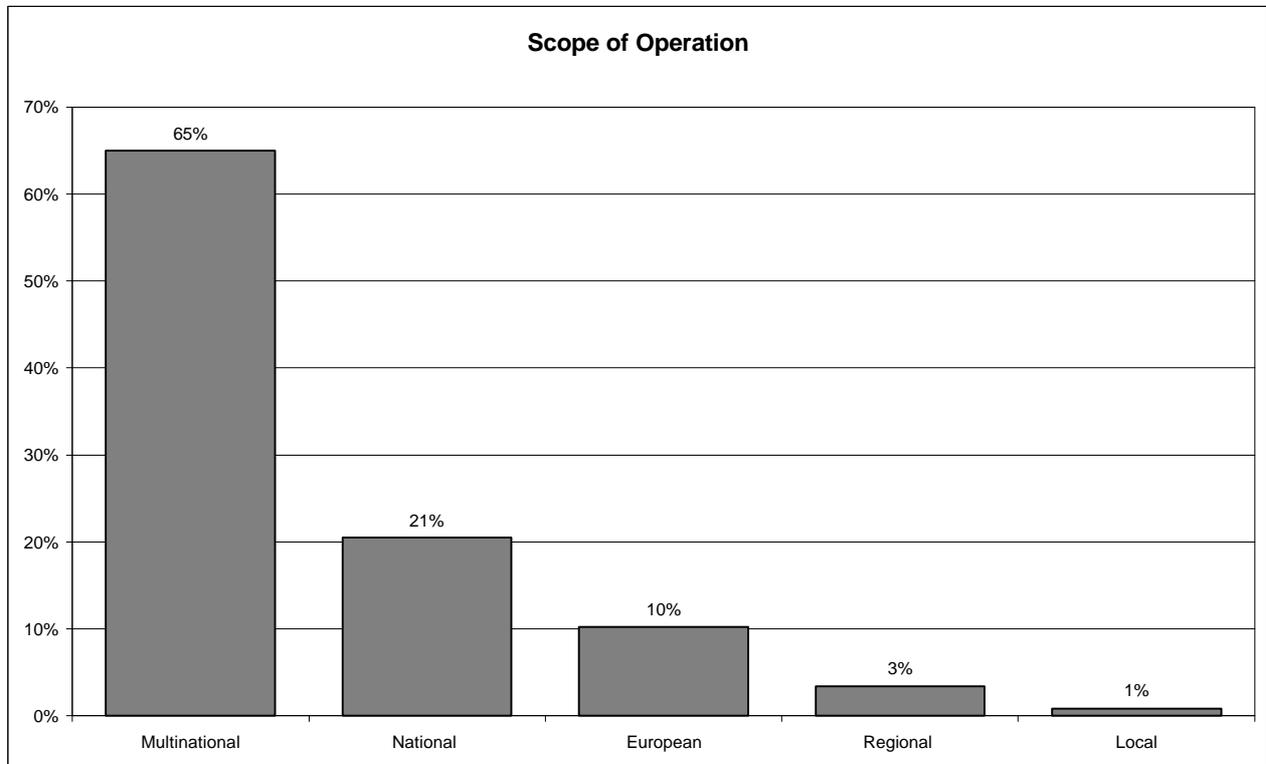
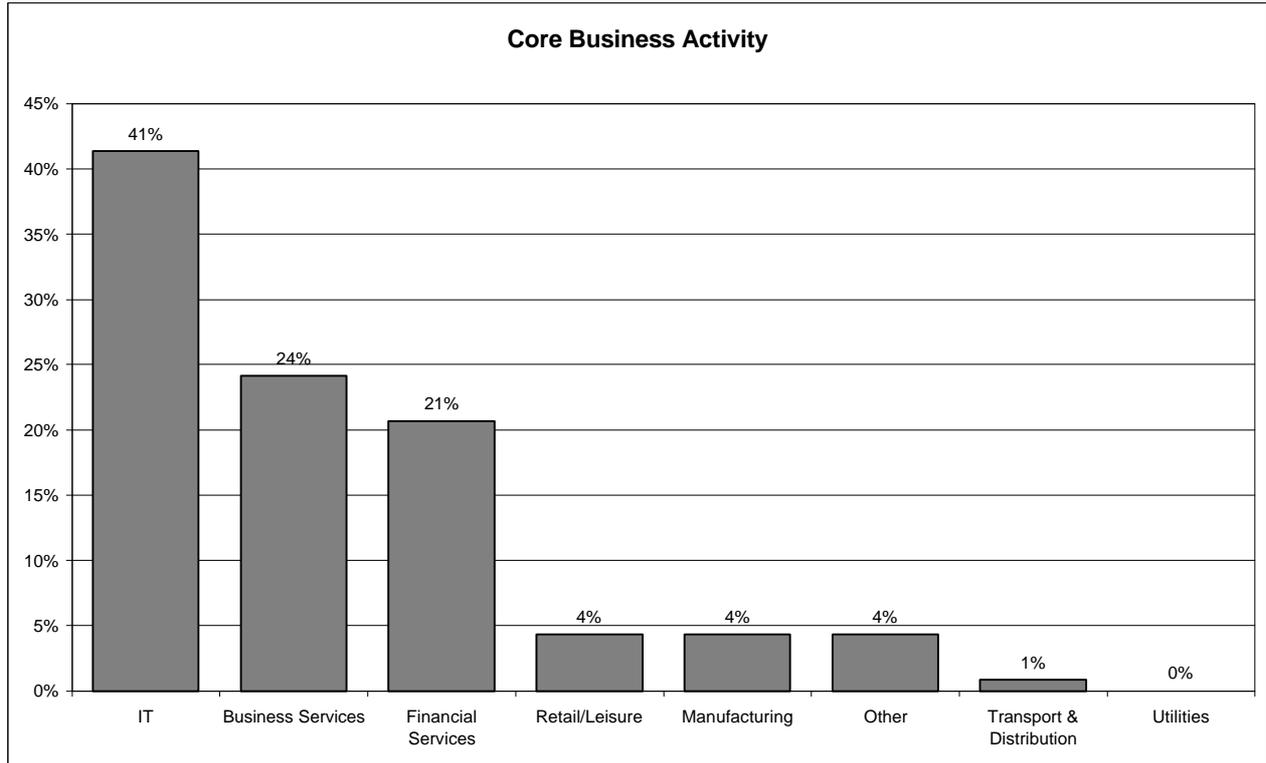
APPENDIX C

Analysis of Responses from Survey of Serviced Occupiers

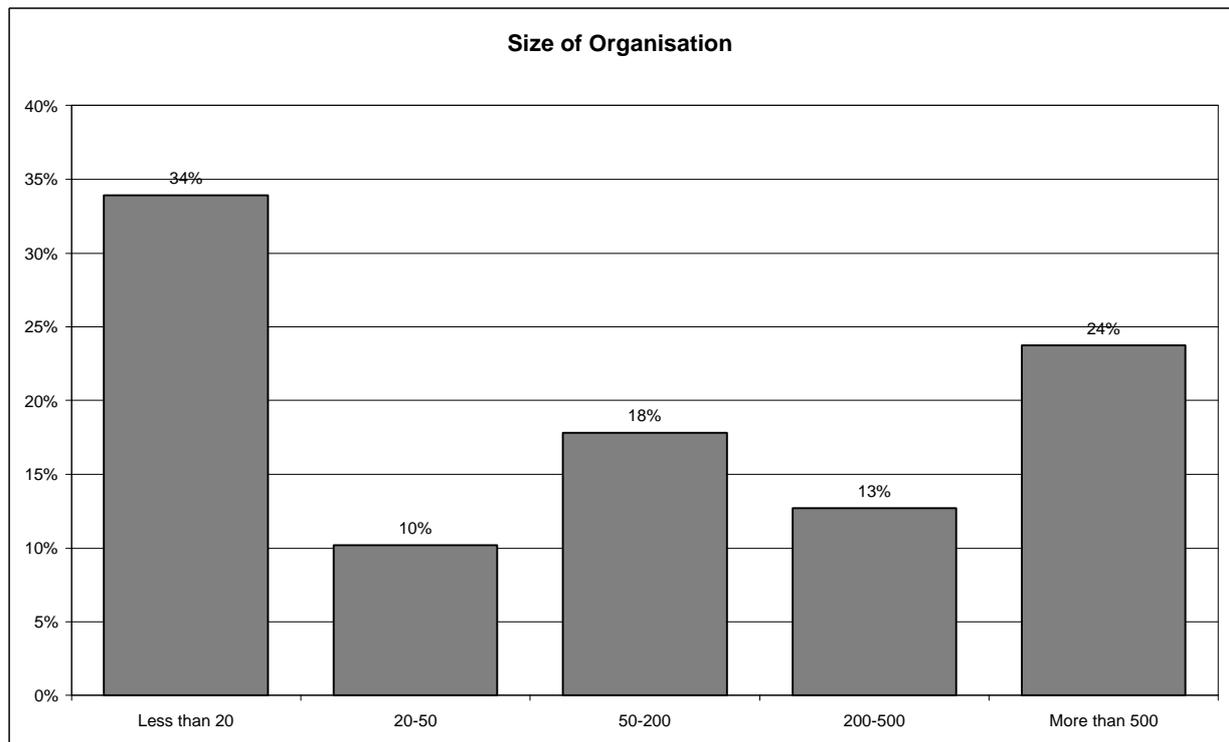
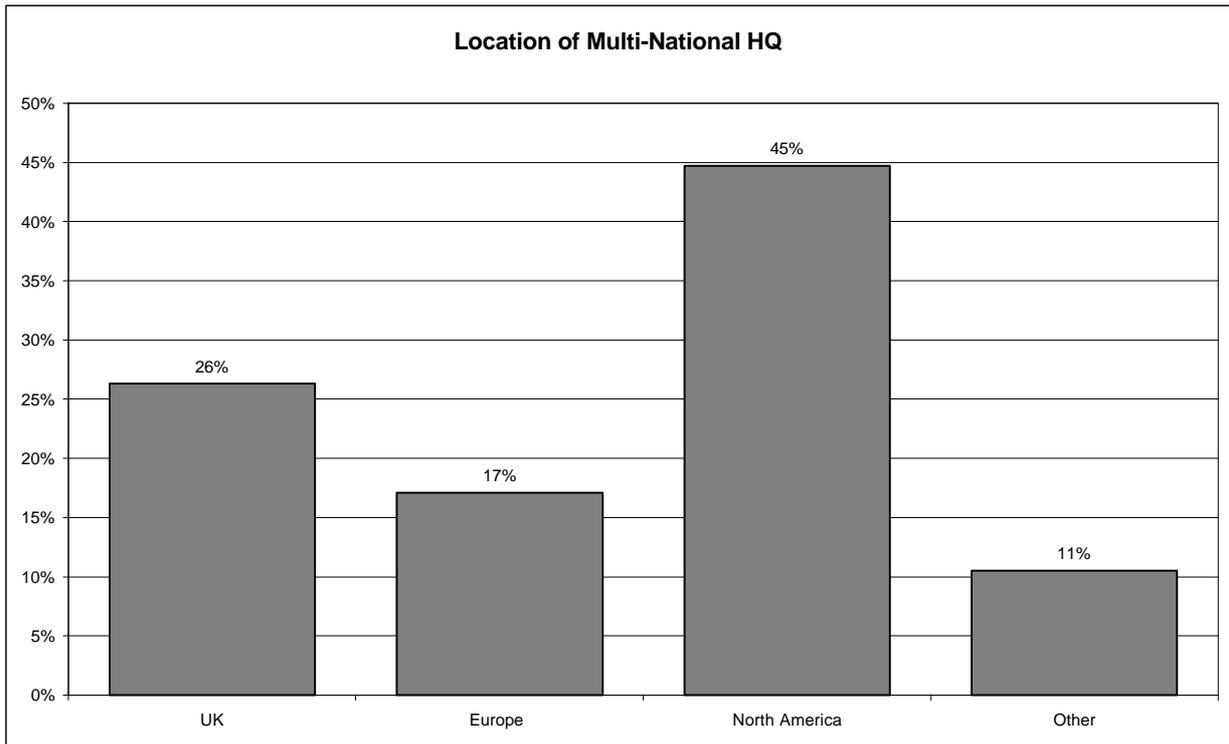
List of Charts

Core Business Activity
Scope of Operations
Location of Multi-National Headquarters
Size of Organisation
Turnover
Activities Undertaken
Number of Staff Using Facility
No of Workstations
Services provided
Consideration of Alternatives
Reasons for Selection
Ranked Criteria for Making Choice
Rationale for Using Serviced Offices

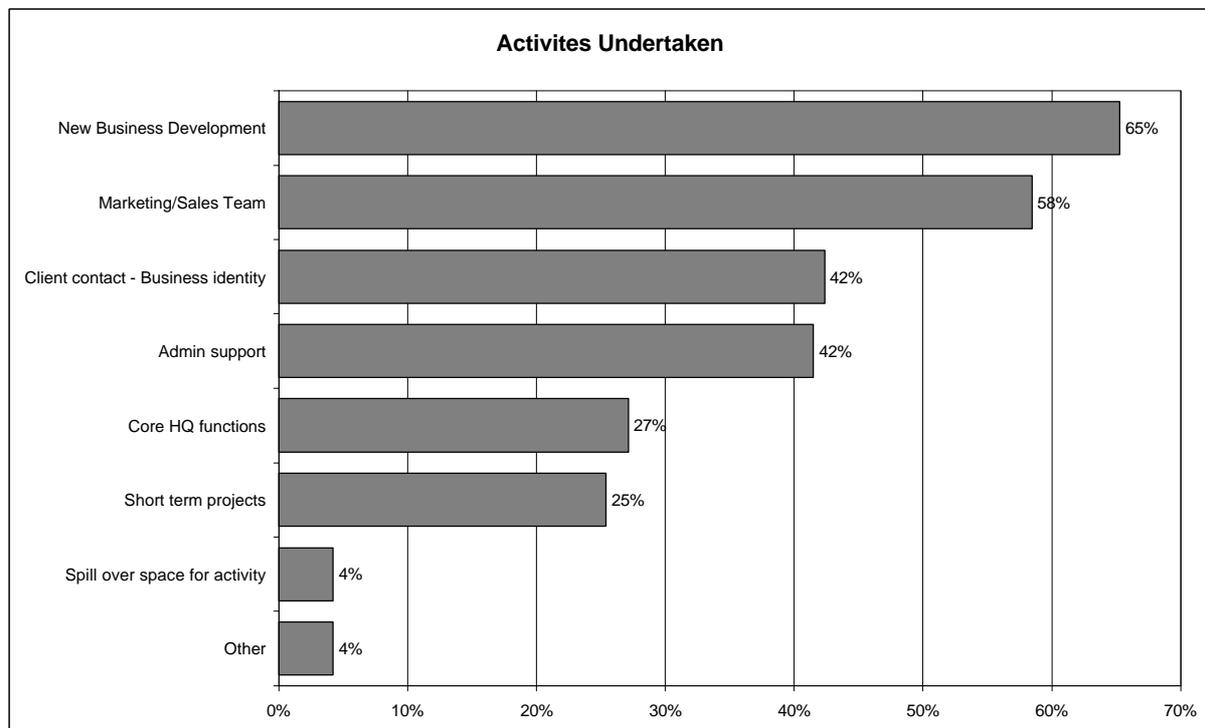
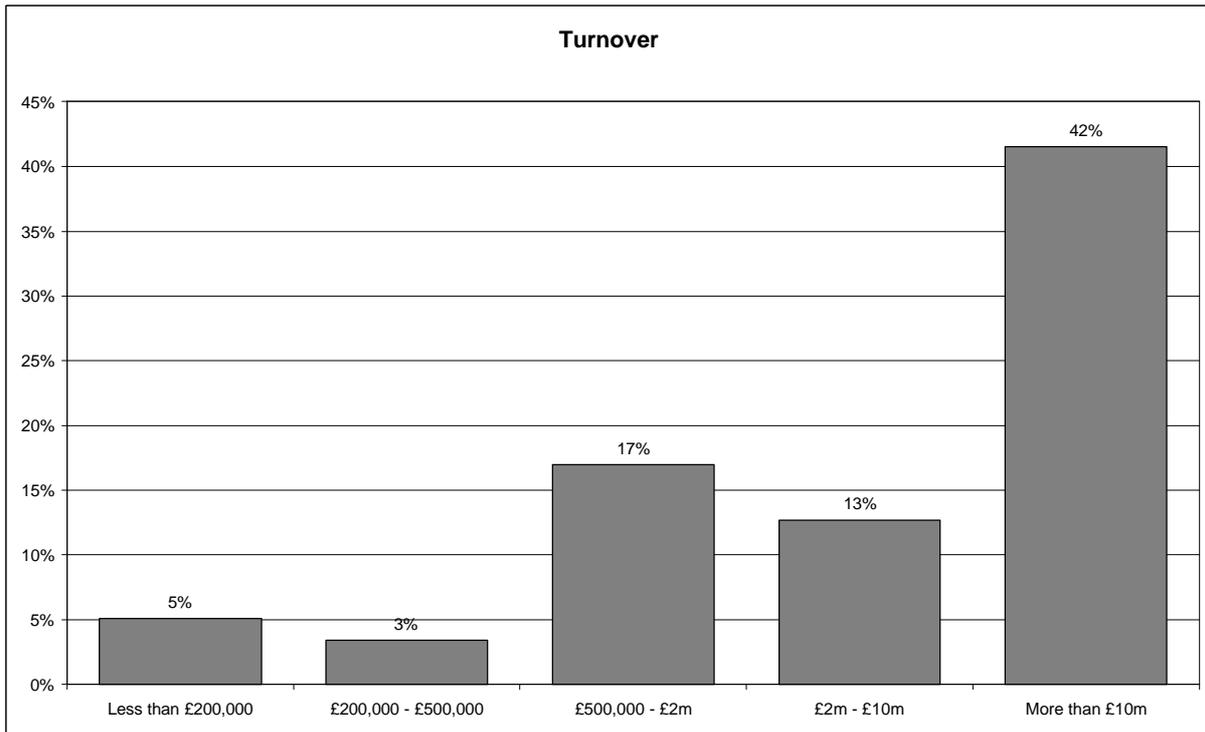
Business Centres, Serviced Offices and Virtual Space A Survey of Occupiers



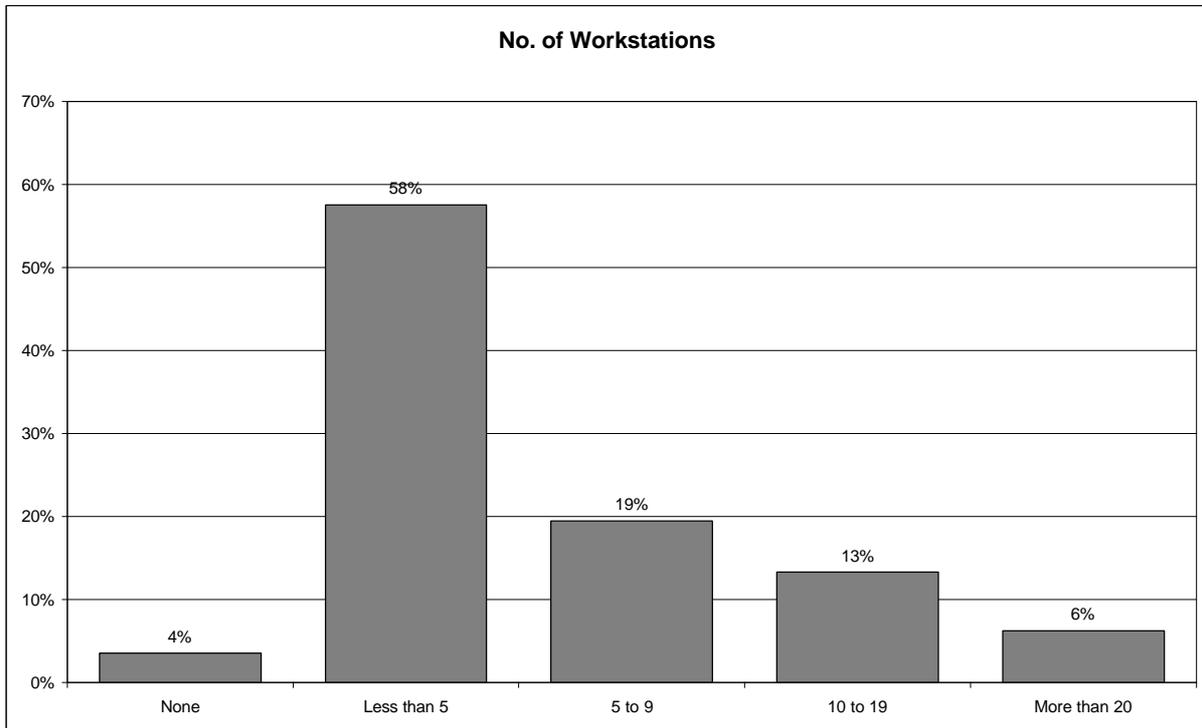
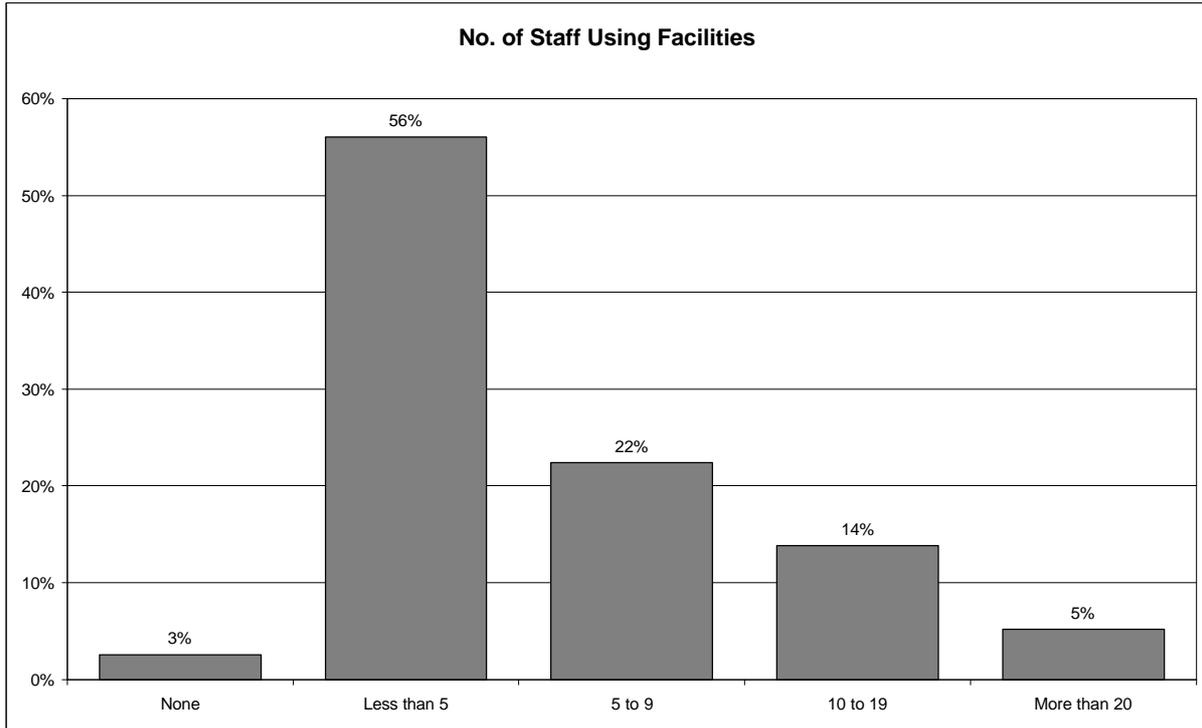
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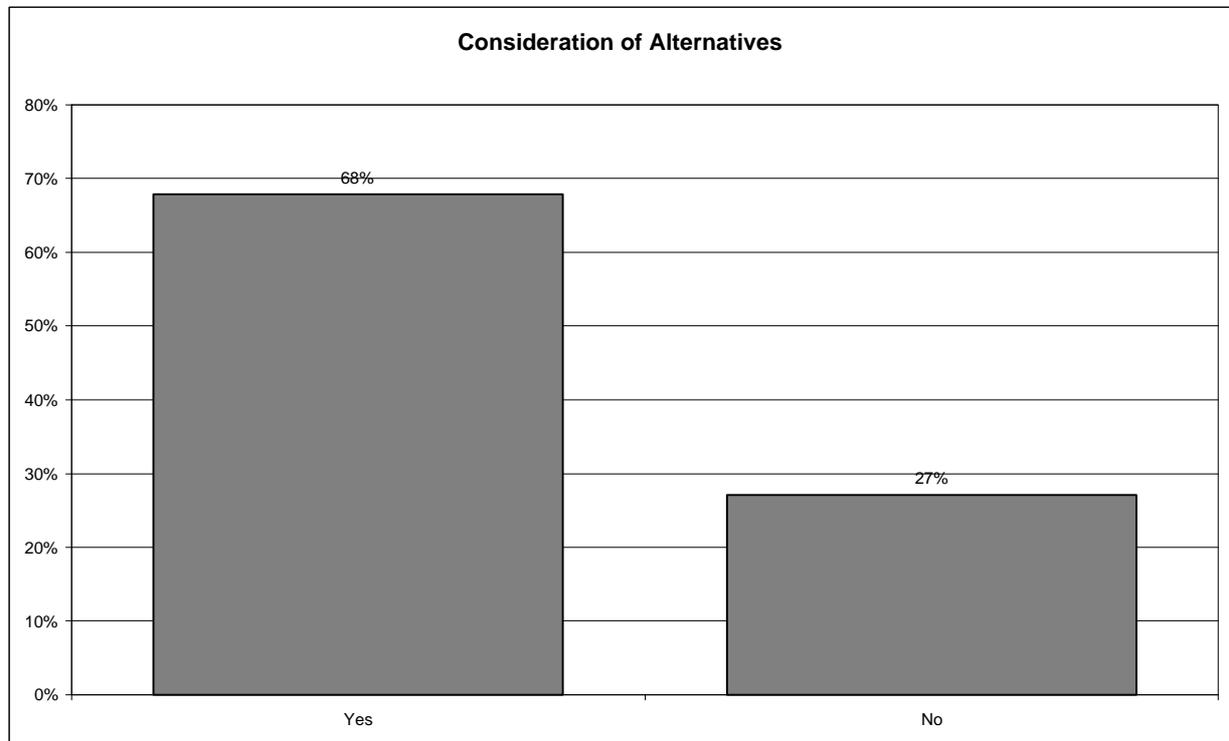
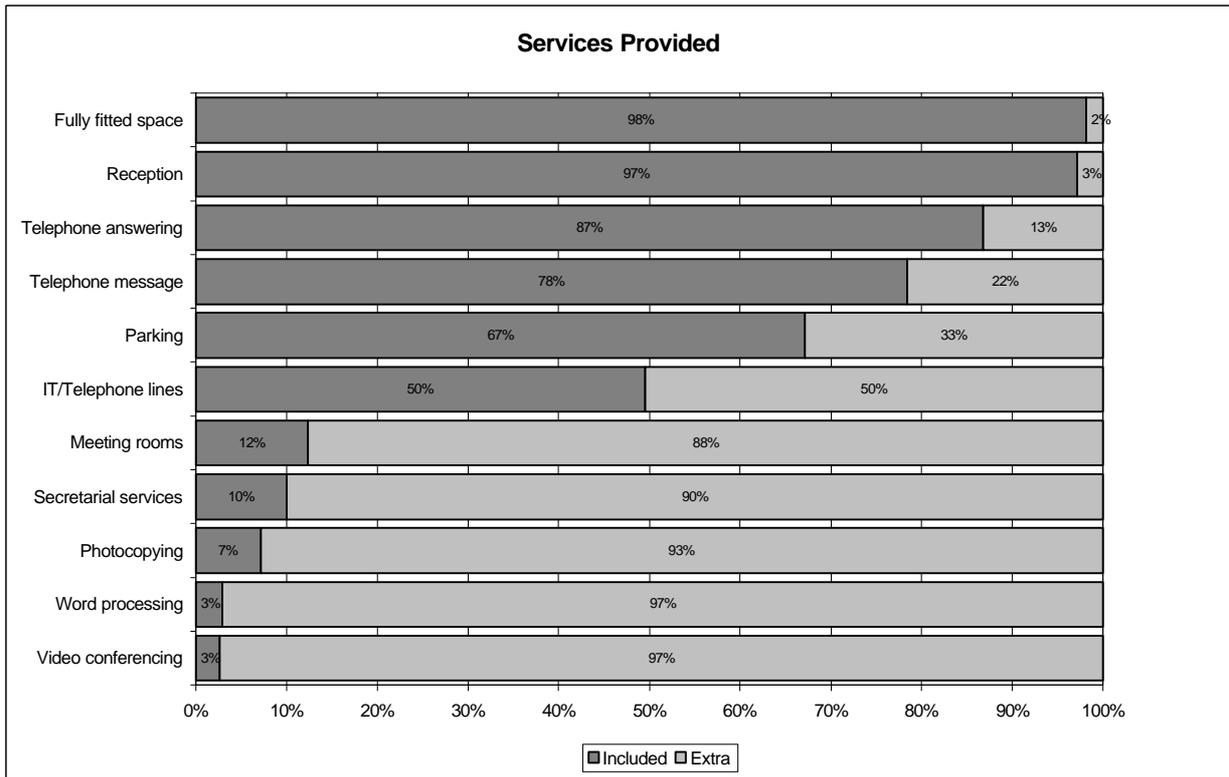
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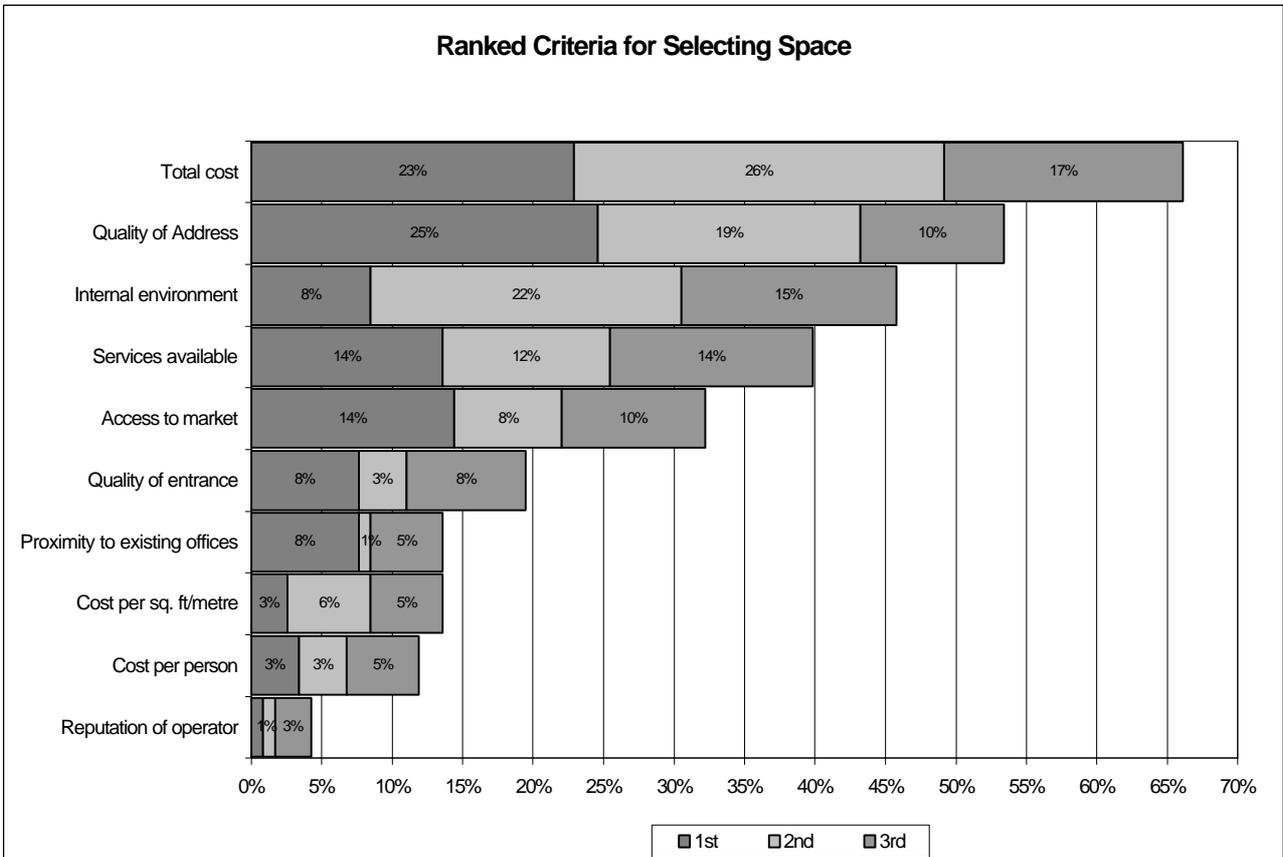
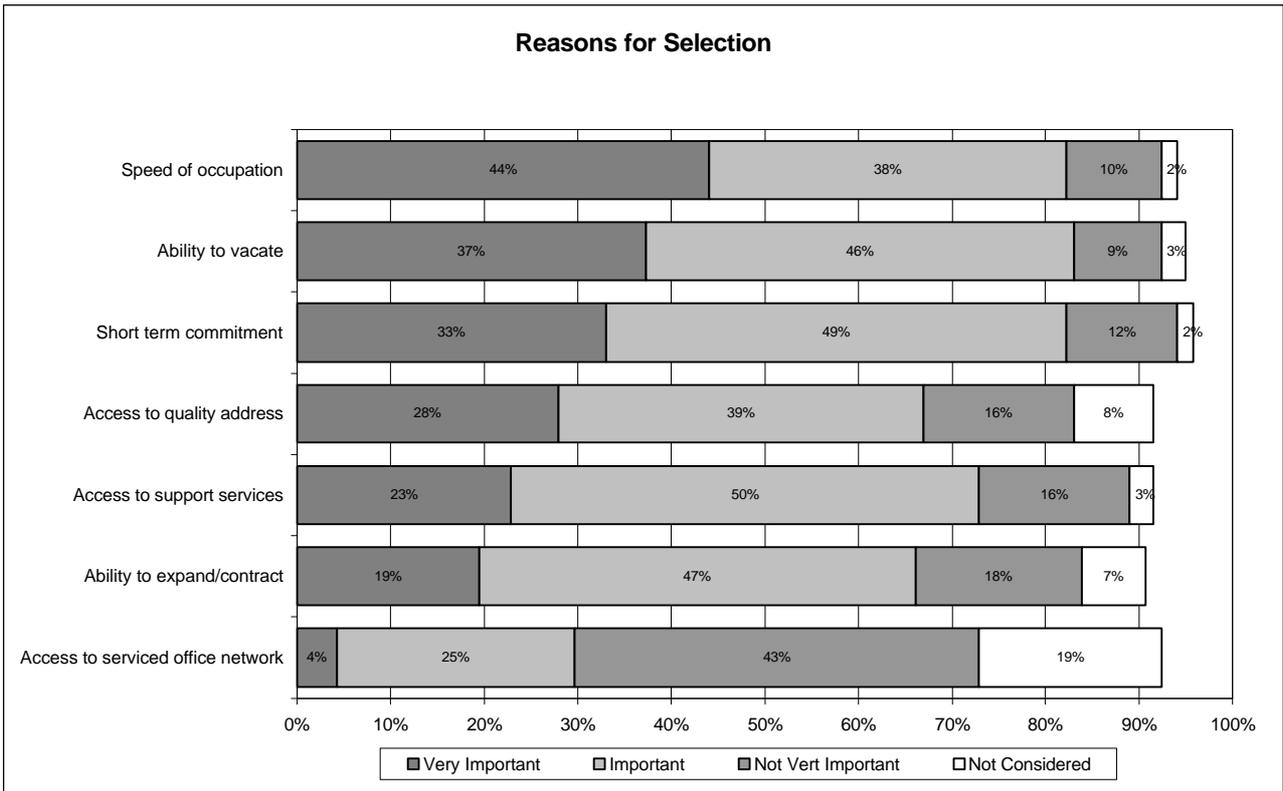
Business Centres, Serviced Offices and Virtual Space A Survey of Occupiers



Business Centres, Serviced Offices and Virtual Space A Survey of Occupiers



Business Centres, Serviced Offices and Virtual Space A Survey of Occupiers



Business Centres, Serviced Offices and Virtual Space A Survey of Occupiers

Rationale For Using Serviced Offices

