



The UK Business Centre Market

A Report for The Business Centre Association **June 2017**



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Executive Summary

This report is about the characteristics of the UK's business centre sector, and about who takes space in these business centres. It is based on a survey of BCA members conducted by independent consultants CBRE. Survey responses were received from 31 members who between them operate around 580 business centres – about 23% of the estimated total market. This report presents information on the state of the sector as at 31 December 2015, and as at 31 December 2016, and builds on the BCA's two previous reports about the sector covering 2013 and 2014. We define the business centre sector as comprising serviced offices, managed offices and light industrial units.

Key findings of the 2015 and 2016 surveys

Despite the challenges of Brexit and wider economic uncertainty, the business centre sector continued to grow in 2015 and 2016, with turnover up 13% and numbers of workers up 11%.

The EU referendum caused growth to slow, with noticeable slowdowns in activity during 2016, and 38% of operators saying that Brexit had a negative impact on their business.

However, the effects of the EU referendum had subsided by the end of 2016, and 20% of operators felt Brexit had been positive for their business.

Competition in the market, and high levels of demand from small, new businesses, caused operators to continue to innovate, and create clearer and more distinctive customer offers. 35% of operators plan to increase the amount of space that they devote to co-working facilities in 2017.

The sample covers about 18m sq ft of floorspace. The average size of serviced office centres is stable at around 19,000 sq ft and managed offices average around 52,000 sq ft.

Over 70 centres opened in 2015, continuing the significant increase in centre openings seen in 2013 and 2014. Centres opening more recently are smaller on average than older centres.

Occupancy was down on average in 2016 compared with both 2015 and 2014, falling from 80% in 2014 to 76% in 2016.

The average cost of a standardised unit of serviced office space rose by 13% in 2016 compared to 2015. Managed office rates also rose by 13% and light industrial rates rose by 14%.

Facilities continued to improve, with a clear focus on improving technology. The percentage of centres offering broadband connections has risen from 74% in 2013 to 98% in 2016.

The type of occupier who takes space in a business centre has remained broadly the same over the four years we have conducted the survey. The biggest concentration of occupiers is in the business services (27%) and industrial/distribution (22%) sectors, though there are substantial regional variations.

Occupier firms in business centre space are getting slightly smaller on average, typically taking 3-4 desks. But firms are staying longer than ever once they arrive, with the proportion of customers staying longer than 3 years almost tripling between 2013 (14%) and 2016 (39%).

The key trends

The survey represents about 18m sq ft of floorspace (in 2016 – the 2015 sample is slightly larger). The number of occupier firms in the centres included in the survey has risen by 28% each year on average since 2013 and the number of workers has risen by 11% each year on average. Turnover increased by 13% in 2016 compared with 2015 and by an average of 16% each year since this survey was first conducted in 2013.

Space is being more efficiently used, with an 18% increase in average turnover per square foot and a 17% increase in average workers per centre between 2015 and 2016. The amount of space taken per worker has fallen by 8% annually on average between 2013 and 2016.

The EU referendum caused both customers and operators of flexible space to pause, though most operators feel that this pause was temporary and that the sector has remained resilient in the face of Brexit. 38% of operators said Brexit had had a slightly negative impact on their business, but a further 34% said it had had no impact. Around 20% of operators said Brexit had had a positive impact.

A combination of new entrants to the flexible office market, the rapid growth of demand from self-employed people and new small businesses, and rising external costs, have all generated fresh competition in the sector.

Operators are becoming increasingly sophisticated and understand their 'market niche' better than ever before. Customer offers are becoming more distinct. Merger and acquisition activity within the sector has created clearer strategies for competition and growth. This has not, however, put an end to experimentation and innovation.

Demand for space has risen sharply over the last two years, but customers are also continuing to be demanding, particularly on technology provision and the quality of the office space.

Around 35% of operators were planning to increase the space they devote in their centres to co-working, compared with only 4% who said they planned to devote less space. However, this does not mean that co-working has taken the entire flexible space world by storm: 50% of respondents planned no change in this aspect of their operations.

The centres

The strong pattern of new centre openings observed in 2014 has continued into 2015, though members opened rather fewer centres in 2016, possibly as a result of Brexit concerns. The operators in our sample opened over 70 centres in 2015, and over 20 more in 2016.

By the end of 2016, the centres in the sample represented 17.9m sq ft of flexible space. The serviced office sector continues to dominate the market, particularly in Central London where 2.0m sq ft out of the total of 2.3m sq ft of space in the sample is serviced office space.

As in previous surveys, the North and Midlands have a high concentration of light industrial and workshop space.

The average size of a serviced office centre is 19,000 sq ft, which is in line with previous surveys.

Managed office centres are typically larger than serviced office centres, averaging around 52,000 sq ft across the UK.

Smaller centres seem to be on the rise. The average number of desks in serviced offices in 2015 and 2016 was around 200, whereas in previous surveys it was around 250. There is a noticeable increase in the number of centres with fewer than 100 desks, and a noticeable decrease in the number of centres with more than 450 desks.

Average occupancy fell from 80% in 2014 to 76% in 2016. Regional differences observed in previous surveys persist, with Central London experiencing average occupancy rates of 80% compared with around 65-67% in Scotland and Wales.

The average cost of a standardised amount of flexible office space grew by 13% between 2015 and 2016, and by 14% for light industrial and workshop units. Managed office rates and light industrial rates grew even more strongly between 2014 and 2015, by 24% and 16% respectively, after a period of stable pricing in 2013 and 2014. Data inconsistencies in older surveys mean that it is not possible to make long-run comparisons about serviced office rates.

Facilities continue to improve, with a clear focus on providing the latest technology. Whereas in 2013, 74% of centres provided broadband, 98% of centres now do so. A similar trend is observed in WiFi provision. The proportion of centres offering co-working facilities rose from just over 50% in 2014 and 2015 to 66% in 2016.

The occupiers

The characteristics of businesses taking space remained broadly stable in 2015 and 2016 compared with previous years. Across the UK, around 27% of occupiers are in the business services sector, with the industrial and distribution sector accounting for 22%. Excluding uncategorised businesses, these two sectors again account for the largest concentration of occupiers. 14% of businesses are in the 'creative' sector (technology, media and telecoms).

There are substantial regional variations in business composition, reflecting specialisms and cluster effects. For example, 64% of occupiers in the City of London are in financial or business services while 39% of East Midlands businesses are in industrial and distribution.

The average number of workers per centre continues to rise, from 209 in 2014 to 228 in 2015 and then 243 in 2016, reflecting increased occupational density.

In a reversal of the finding of our 2014 survey, which saw an increase in the size of firms taking space, we now find that smaller businesses are again becoming more dominant, with a significant increase in the prevalence of sole trader businesses and a reduction in the number of firms with more than 5 desks.

Firms are staying even longer, with a marked increase in stays over 3 years. In 2013, 14% of customers were staying for more than 3 years; by 2016 this had nearly tripled to 39%.

The most common reason that businesses give for why they leave flexible space is that they've outgrown it. The proportion of businesses leaving because of business failure is broadly stable at 13% in 2016 (compared with 9% in 2014).

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