Serviced offices: A new asset class

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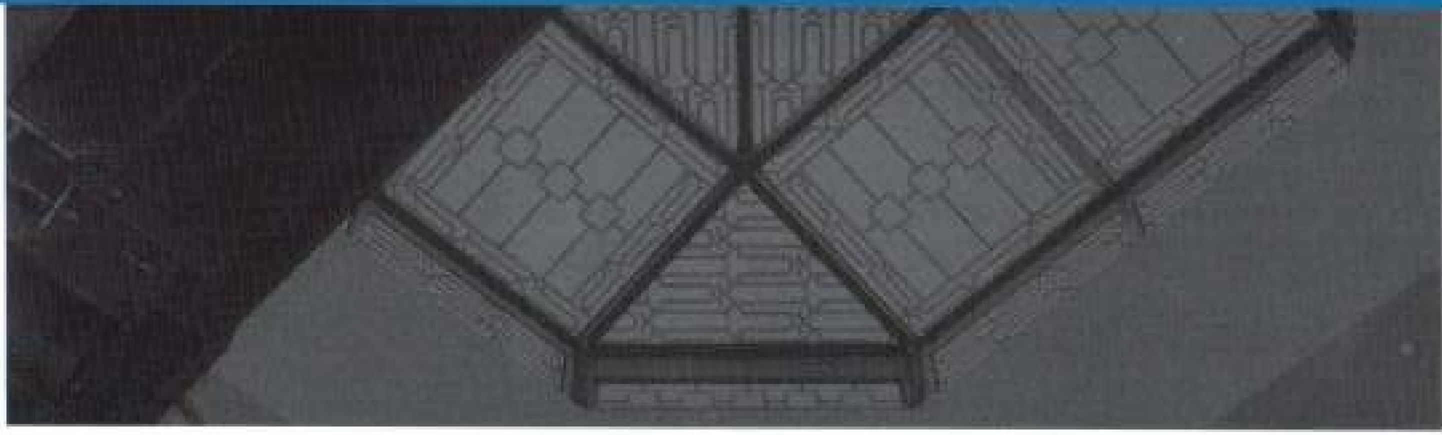

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This report has been produced by Capital Economics Ltd with Professor Michael White of Nottingham Trent University and Professor Neil Dunse of Heriot-Watt University under commission from Office Space in Town to assess the prospects for the serviced office market in the United Kingdom and consider the potential future value of this emerging property asset class.

Image: Office Space in Town, 20 St Dunstans Hill, London, EC3R 8HL.

Foreword

The UK is leading the serviced office market globally, outstripping its European and even US counterparts. It is fitting then, that London should be the centre of debate on the valuation of the serviced office sector.
This report, Serviced Offices: A New Asset Class, offers a valuable contribution to these discussions and important insight into the sector's growth and it's potential.

Brought to the UK in the 1970s from the United States, serviced offices have provided a dependable alternative for mobile and changing business. Today, more businesses than ever are seeking more flexible and dynamic workplaces.

It is unsurprising then that the growth of the serviced office sector in the UK has been so strong. As the findings contained within this report suggest, the growth of the sector is set not only to continue, but accelerate, with optimistic suggestions putting the sector's value in the UK at £120 billion by 2025.

The pace of the sector's expansion makes it timely to reflect on the way serviced offices are seen – which includes how they are valued.

This report argues that valuing serviced offices using a conventional office leasing model may not always give full weight to the unique services and additional income that serviced offices provide, putting the sector at risk of being undervalued. With such a bright outlook ahead for serviced offices, ensuring that an appropriate market-accepted valuation method is agreed across all parts of the serviced offices sector is an issue clearly worthy of debate and discussion.

As the serviced office market continues to grow, as this report convincingly predicts it will, this research will form an important part of the conversation on the valuation of serviced offices – an important question to address, to ensure that the sector is embraced fully and that the potential of the serviced office sector is maximised.

Melanie Leech, Chief Executive, British Property Federation.

Globally the United Kingdom's serviced office market is a world beater. By far the largest internationally, the sector's pace of expansion is set to accelerate further. As a result, serviced offices are now being viewed by institutional investors as a separate asset class. However, they require a market-wide accepted valuation, and this report, for the first time, puts forward such a valuation. It reveals how the United Kingdom serviced office market is potentially significantly undervalued and offers institutions a framework to help them fully embrace the sector and serviced offices to maximise their growth potential.

Currently, we estimate that the United Kingdom's serviced office market is worth £16bn, using the conventional office leasing business model. However, using a dedicated serviced office model, based on workplace rental income, plus the additional charges from supplying a range of services typical to such offices, we estimate that the sector is worth close to twenty per cent more at £19bn.

Even this valuation will seem restrained based on the sector's future growth. Based on cautious forecasts, we estimate that the United Kingdom serviced office sector could see its value rise from under £20bn to £62bn by 2025; on more optimistic projections it could increase in size over fivefold and be worth over £120bn. These exciting predictions are based on a raft of favourable trends and developments that are having a very positive impact on the sector and making it a compelling investment proposition.

Today, United Kingdom serviced offices account for around 36 per cent of the world's serviced offices, with more serviced office centres than in the Americas, and more than in the rest of Europe, the Middle East, Africa and Asia Pacific combined.

Serviced office centres have grown by over 30 per cent in the United Kingdom since 2008. London is by far the largest and most mature market, with Manchester the second largest, followed closely by Birmingham. Most recent data for the largest British cities suggests growth in the market is accelerating – with Bristol, for example, recently seeing an eight per cent increase in centres.

While the serviced office market in the United Kingdom is more mature than other markets globally, it is still young and underdeveloped, with large untapped potential for further expansion, and there are sound economic and business behavioural reasons to believe that growth in demand for serviced offices will not only continue but will accelerate over the coming decade.

In the 1990s, businesses generally only had the option of a 25 year lease to secure office space. But now workers are mobile and can work away from a central office hub. Email and conference call facilities make a fixed centralised office less important. Also office based start-ups require more flexible contracts, while established businesses increasingly use satellite offices or temporary spaces to accommodate expansion.

Our growth forecasts reflect this changing reality of modern business. Serviced offices are an attractive option for a wide variety of firms – not just new start-ups or small companies, but also larger enterprises looking to maintain a presence in distant markets or establish a project office – as they offer services and contractual terms that cannot be matched by conventional commercial accommodation.

We have identified three core growth drivers underpinning the sector's expansion. First, growth in small firms and business start-ups, which comprise a disproportionately high share of current serviced office users. It's forecast that more than 4.5 million new small businesses will be established over the coming decade, helping to fuel strong demand for serviced offices.

Second, the above average growth, roughly double that projected for the economy as a whole,which is expected in key sectors such as communications, information, professional, scientific and technical services, where use of serviced offices is most concentrated.

Lastly, we expect a more footloose globalised workforce and changing working practices to encourage businesses to shift away from conventional leased space; for example, just as typing pools are now history, the mainstay of corporate HQs, bulk administration, is becoming automated and outsourced.

Clearly, the serviced office sector has the scale and prospects to be considered as a property asset class in its own right. Of course, our top-down valuation of the industry is not a replacement for site-specific valuations and it is important that individual valuations of serviced offices have a framework that properly reflects their value as an asset.

As part of this report, Professors Neil Dunse and Michael White of Heriot-Watt and Nottingham Trent Universities have employed a site-specific valuation framework, which should help the industry and institutional investors take full account of serviced office assets and is consistent with the top-down valuation approach that we have taken in our research.

The Red Book, published by the Royal Institute of Chartered Surveyors (RICS), which is the authority on United Kingdom commercial property valuations, does not currently provide specific advice for serviced offices.

Although some valuation agents are more long-sighted, many wrongly consider the serviced offices no differently to conventional space, while others may heavily discount future serviced office income from the variety of services that they typically provide based on inaccurate perceptions of the business model.

As the sector increases in size, greater comparable evidence will become available leading to greater accuracy in valuation, which will be reflected in yields. Higher transparency within the sector itself will also increase its attractiveness to institutional investors.

The framework employed by Professors Dunse and White enables a professional valuer to carefully assess the variety of cash flows of a serviced office operation and analyse the risk associated with each component to deliver a consistent, detailed and fair valuation.

They consider this approach, which explicitly considers income streams within the discounted flow valuation, to be the most appropriate and is an application of the investment method, the main methodology for valuing such assets as commercial properties, but adapted to take account of the unique characteristics of serviced offices.

"We estimate that the United Kingdom serviced office sector could see its **value rise from under £20bn** to **£62bn by 2025.**"

Office Space in Town, Liverpool House, 40 New Broad Street, London, EC2M 1JH

01

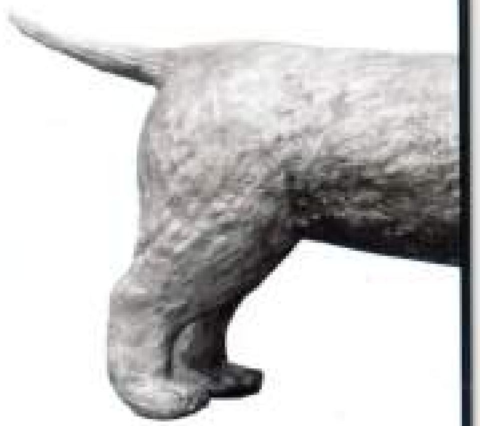
Serviced offices today – a British success story

The United Kingdom is the world's largest market for serviced offices; it is a British success story.

The sector's growth reflects the changing realities of modern business, and the need for cost efficient flexibility and scalability. Serviced offices are an attractive option for a variety of firms – not just new start-ups or small companies, but also larger enterprises looking to maintain a presence in distant markets or establish a project office – as they offer services and contractual terms that cannot be matched by conventional commercial accommodation.

But, although there has been recent strong growth, the market is still in its infancy.

Today the country's 2,300 serviced office centres provide workstations, meeting rooms, office facilities and services for around 1.6 per cent of all workers in the United Kingdom. Looking to the future, there is the potential for it do the same for many more.



The United Kingdom is the world's largest market for serviced offices – **the sector is a British success story**

The serviced office market is a British success story.

The United Kingdom is the largest national serviced office market. According to data from a global office broking agency, it accounts for 36 per cent of the world's serviced offices – with more serviced office centres than in the Americas, and more than in the rest of Europe, the Middle East, Africa and Asia Pacific combined. Ramidus Consulting, in a report for the City of London, estimates that there are over 6,000 centres operating in over 100 countries around the world. Just 50 cities account for 46 per cent of the total global market; of these 50, twelve are in the United Kingdom.

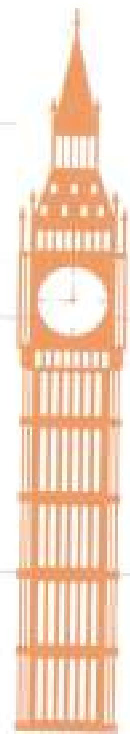
The United States is the second largest market, but still lags behind the development seen this side of the Atlantic.

United Kingdom
- London
- Manchester
- Birmingham
- Bristol

North and South America
- New York
- Los Angeles
- Atlanta
- Dallas

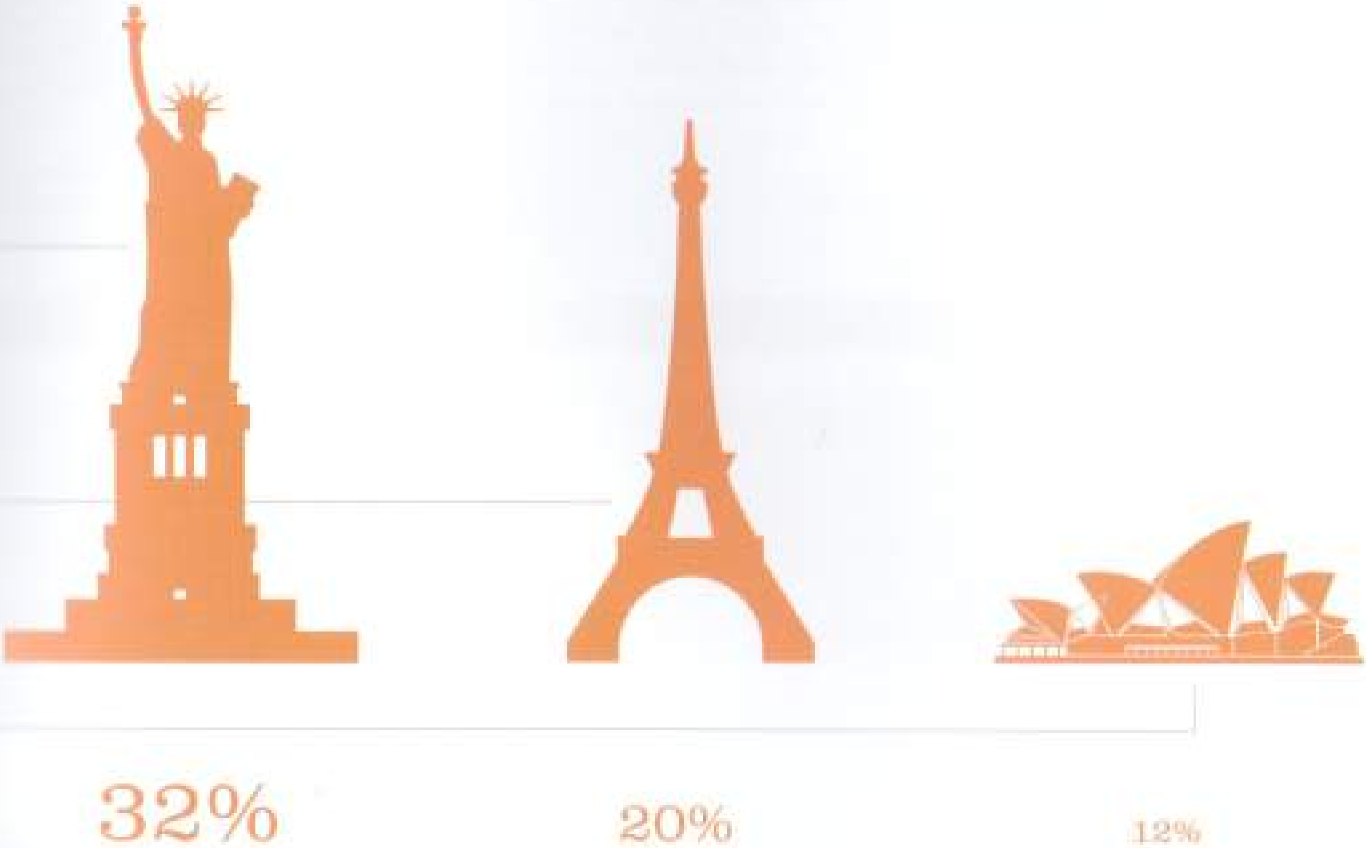
EMEA
- Paris
- Dublin
- Madrid
- Munich

Asia Pacific
- Hong Kong
- Tokyo
- Sydney
- Melbourne



36%

Share of the number of serviced office centres by region, July 2011 (percent) and largest four markets in each region



Source: Instant Offices Limited 2011 (latest data available)

There has been strong growth recently, but it is still a market in its infancy with clear and sizeable untapped potential.

Although Britain is ahead of competitors abroad, the serviced office market remains in its infancy.

We estimate that there were around 2,300 serviced office centres in the United Kingdom in 2014 – accounting for approximately two per cent of the total office space square footage nationally.

But, the market has grown strongly in recent years.

Although the concept of serviced offices first emerged in the 1970s, it is only in the last decade that the serviced office market has started to make inroads into the conventional office market and establish itself as an important sector in its own right.

The latest (albeit unofficial) data shows that the number of serviced office centres has grown by 31 per cent since 2008, which represents 4.6 per cent annual growth.

London is by far the largest and most mature market, and comprised 34 per cent of the national market in 2014. Manchester is the second largest market for serviced offices followed closely by Birmingham.

The most recent data for the largest British cities suggests growth in the market is accelerating – with Bristol, for example, seeing an eighteen per cent increase in the number of centres between 2013 and 2014.

Serviced office market activity across the United Kingdom, 2014.

	Active business centres	Number of employees	Average monthly workstation rate	Average licence length (months)
United Kingdom	2,281	341,803	£340	9.0
England	2,076	311,009	£344	9.0
Scotland	153	22,853	£316	8.9
Wales	32	4,795	£250	7.0
Northern Ireland	21	3,147	£246	N/A
East Midlands	121	18,132	£189	8.0
Central London	143	21,209	£267	9.0
Central London	275	41,209	£673	9.0
Greater London	500	74,849	£456	9.0
North East	67	9,965	£227	9.0
North West	226	33,888	£210	8.5
South East	264	39,485	£249	8.0
South West	140	20,904	£246	8.0
West Midlands	173	25,924	£257	10.5
Yorkshire & Humberside	169	25,240	£198	8.8

Source: OfficeBroker.com Limited, The Instant Group and Capital Economics
Note: Our calculations are based on the average of available data from The Instant Group, OfficeBroker.com and the City of London.

The sector's growth reflects the changing realities of modern businesses, and the need for cost efficient flexibility and scalability.

Recent strong growth is unsurprising, as serviced offices provide the flexibility and scalability needed by businesses in the modern and volatile economy.

In the 1990s, businesses generally only had the option of a 25 year lease to procure office space. But businesses' working practices, needs and technologies have changed markedly since then. Workers are more mobile and can generally work remotely away from a central office hub. With the advance of communications such as email and conference call facilities, a large, fixed centralised office is less important. What's more, office based start-up businesses require more flexible contracts to ensure they do not over-commit, while more established businesses are increasing their use of satellite offices, as well as temporary spaces to accommodate expansion.

Whether the occupier is a start-up business making its first commitment to property or a large corporate business taking project or overflow space, serviced offices have responded to changing market conditions by providing flexible, often cost effective and practical solutions.

Serviced office market activity across top ten United Kingdom markets, 2014

		Number of employees	Annual growth in active business centres 2012 to 2014	Average Workstation Rate (£)
	United Kingdom	541,803	3.8%	340
1	Greater London	74,849	8.0%	456
2	Central London	41,308	4.5%	673
3	Manchester	6,144	8.3%	258
4	Birmingham	6,004	2.0%	249
5	Leeds	5,694	16.7%	246
6	Sheffield	5,095	-2.4%	321
7	Bristol	5,066	18.2%	272
8	Edinburgh	4,646	6.8%	346
9	Glasgow	4,196	0.0%	314
10	Nottingham	3,896	13.0%	248

Source: OfficeBroker.com Limited, The Instant Group, and Capital Economics

Why serviced offices?

Instantaneous availability

The typical serviced office is available at short notice, meeting the demands of businesses with limited time constraints. It can provide a fully functional office within a matter of hours or days.

Flexibility to grow and contract

Providers of serviced office accommodation attract many new start-up businesses, and the potential for 'overnight' expansion without relocating is a priority for these growing businesses.

Low establishment costs

A serviced office tenant may be restricted in the financial resources available, especially in the infancy of a relatively new business or where established enterprises want to test new markets. There are advantages for these tenants to be gained from sharing high value infrastructure for an affordable price. These tenants on their own may not be able to afford access to the quality or functionality of equipment provided by the serviced office, such as phone systems, printers, copiers, or internet.

Pay-as-you-use system

A serviced office tenant only pays for services and personnel when required, rather than supporting the ongoing permanent cost of these items.

User friendly licenses

Rather than dealing with complex and intricate lease documents, often involving legal assistance, a typical serviced office agreement is written in a basic format. It is designed to be 'user friendly' and avoid unnecessary terms and clauses typically found in a commercial office lease.

Short-term agreements

In direct contrast to a typical office lease structure over multiple years, an agreement for serviced office accommodation can be over much shorter periods.

Serviced offices are **an attractive option** as they offer services that cannot be easily matched by traditional commercial accommodation

Image: Office Space in Town, 3-6 Boundary Row, London, SE1 8HP

02

Powerful drivers spur sector's growth

While the serviced office market in the United Kingdom is more mature than other markets globally, it is still young and underdeveloped, with large untapped potential for growth.

There are sound economic and business behavioural reasons to believe that growth in demand for serviced offices will not only continue but will accelerate over the coming decade.

This demand in part will come from growth in small firms and business start-ups, who comprise a disproportionately high share of current serviced office users. Meanwhile, as the performance of different sectors wax and wane, the future strong performers – such as information and communications and professional services – are likely to be those for whom serviced offices are more attractive.

In addition, we expect changes in the business environment and working practices brought about by, for example, new technologies and a more footloose globalised workforce to encourage businesses that currently make little or no use of serviced offices to make the shift away from conventional leased space.

There are three sound reasons to expect strong growth in demand for serviced offices.

Economic Drivers	1	Growth in small firms
	2	Growth in key sectors
Behavioural Driver	3	Changing business practice and behaviour

There are sound economic and business behavioural reasons to believe that growth in demand for serviced offices will not only continue but will accelerate over the coming decade.

Although the serviced office sector has experienced strong growth, especially in the recent decade, it is still relatively young and underdeveloped. While the market develops and matures, it has the potential to grow at rates much faster than the office market as a whole.

Three key factors will drive future demand for serviced offices:

1. Growth in small firms and business start-ups, who comprise a disproportionately high share of current serviced office users.
2. Growth in key sectors. The industry mix in the United Kingdom is changing, with a shift to particular industries in the services sector for whom serviced offices are more attractive.
3. Changing business practices and behaviour. Businesses currently occupying conventional leased space choosing to move to serviced offices as they recognise the value of more flexible space in a changing business environment.

1: Growth of small firms.

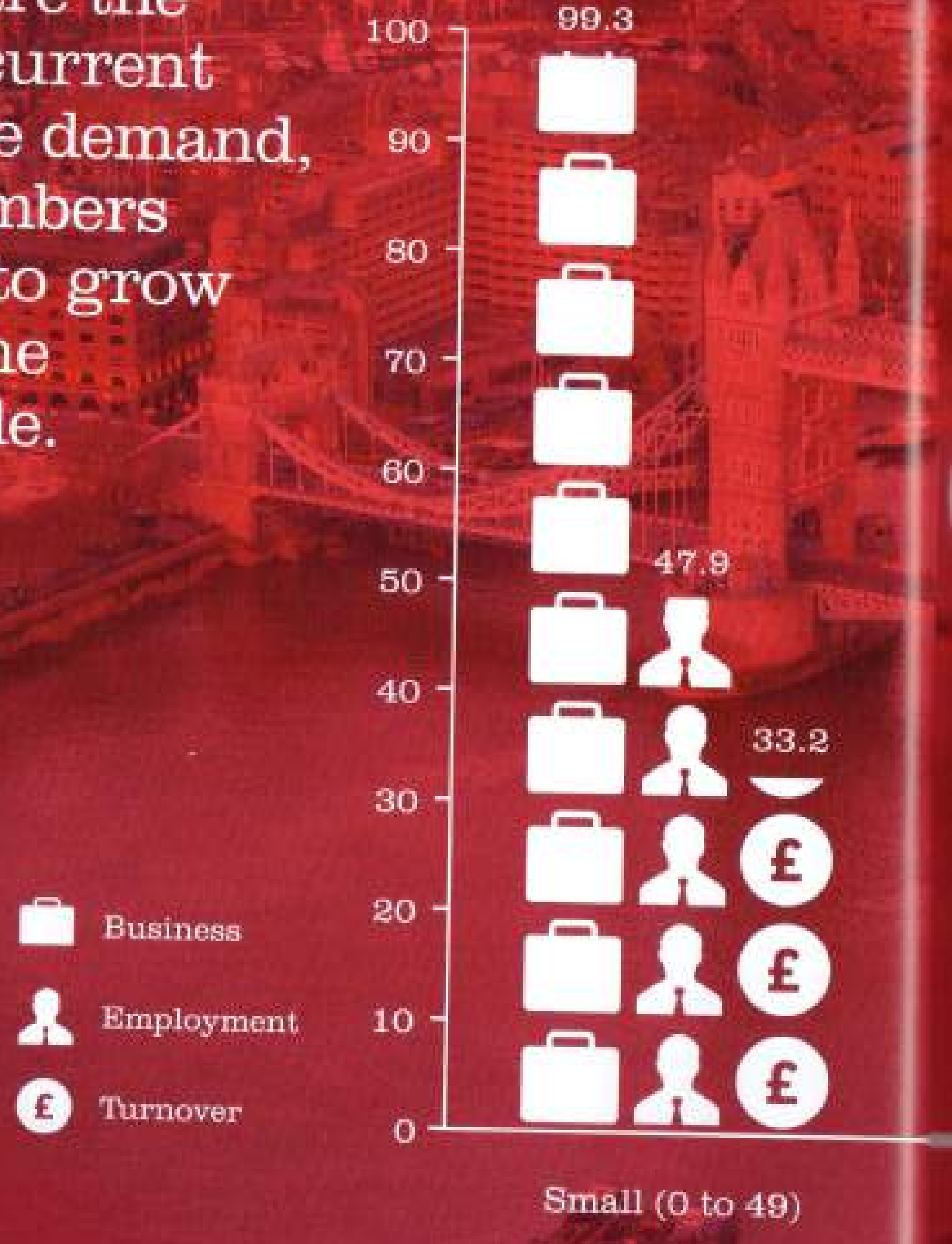
Over the coming decade, 4.5 million new businesses will start up (while 2.7 million established ones will fail) creating demand for flexible workspace which cannot be satisfied fully in the conventional leasing market.

Small firms are the largest single group among serviced office users. There is no nationwide data to illustrate the point, but around 70 per cent of serviced office space in London is currently occupied by businesses with fewer than 250 staff.

Serviced offices provide flexibility for small businesses, who rarely grow in a linear fashion and, in many cases, would not want to be tied into a long conventional lease. They offer businesses the flexibility to grow without the need to pay large sunk costs such as renovation, furniture and equipment that cannot be recovered. The 4.5 million self-employed are also an important market for serviced office growth. Serviced offices provide flexibility for the self-employed and can be used as a launch pad for a new company, while also being able to respond to changing work patterns and offer the option of room for expansion if and when their business grows.

Growth in serviced offices will be tied, in large part, to future trends in the numbers, size and performance of Britain's smaller businesses. We expect strong growth in the number of small firms, and in the number of people employed by them.

Small firms are the backbone of current serviced office demand, and their numbers are expected to grow strongly in the coming decade.



Share of businesses in the United Kingdom private sector and their associated employment and turnover, by size of business, start of 2014 (per cent)

Small and medium sized businesses make up **99.9%** of businesses and **60.1%** of employment in the UK.

Sources: Capital Economics and the Department for Business, Innovation and Skills
Note: Total turnover figures exclude SIC 2007 Section K (financial and insurance activities) where turnover is not available on a comparable basis.

In the modern economy, small really is beautiful.

Technology has torn down many of the 'barriers to entry' for small business in a wide range of markets and reduced the value of the economies of scale enjoyed by bigger enterprises. The internet, for example, has provided unprecedented market access to big and small alike. Meanwhile, competition authorities around the world have found their teeth, and are pressing anti-trust actions with new vigour. And, of course, governments and regulators have learned a salutary lesson from the banks that were 'too big to fail' during the financial crash. But, even more fundamental, there is an ongoing shift in where value lies in the United Kingdom economy – away from production and towards creativity, which is something in which small firms excel.

As such, the strong growth in the number of small to medium sized businesses seen over the last fifteen years is set to continue and accelerate.

The number of small and medium-sized businesses have grown at an annual rate of 3.1 per cent over the last fifteen years. We expect 3.5 per cent annual growth in the number of small and medium-sized businesses over the next decade, and 3.6 per cent in their employment.

Change in the number of United Kingdom private sector businesses by number of employees (index, 2000=100)

Source: Capital Economics and the Department for Business, Innovation and Skills

8: Growth in key sectors.

By 2025, 9.7 million jobs will be office-based compared to 8.7 million today. An extra 846,000 people will be employed in finance, business services and information and communications; sectors which are big users of serviced offices.

There is no systematic nationwide data on the users of serviced offices but we know that, in London, around 40 per cent of serviced office occupiers operate within the professional, scientific and technical services sector, twenty per cent are in the financial services sector, and another twenty per cent are in the information and communications sector. Although we wouldn't expect to see London patterns repeated precisely elsewhere in the country, anecdotal evidence suggests these key sectors are important elsewhere too.

These sectors will see significant growth in employment over the coming decade. We expect employment growth in the information and communications sector to grow at an average annual rate of 2.0 per cent to 2025, 1.7 per cent for the professional, scientific and technical activities sector, 1.5 per cent for administrative and support service activities sector, and 1.9 per cent for financial and insurance activities. These compare to overall growth in jobs across the whole economy of 0.9 per cent annually.

These four sectors also spend a small amount on property costs relative to their gross operating surplus, and are therefore less price sensitive than the average user.

The sectors that use serviced offices most will be among the fastest growing parts of the economy, bolstering demand for flexible workspace.

Key industries for future growth in serviced office demand and their share of serviced office centre businesses, 2014.

40%

Professional, scientific and technical services

20%

Finance and insurance

20%

Information and communication

20%

Other

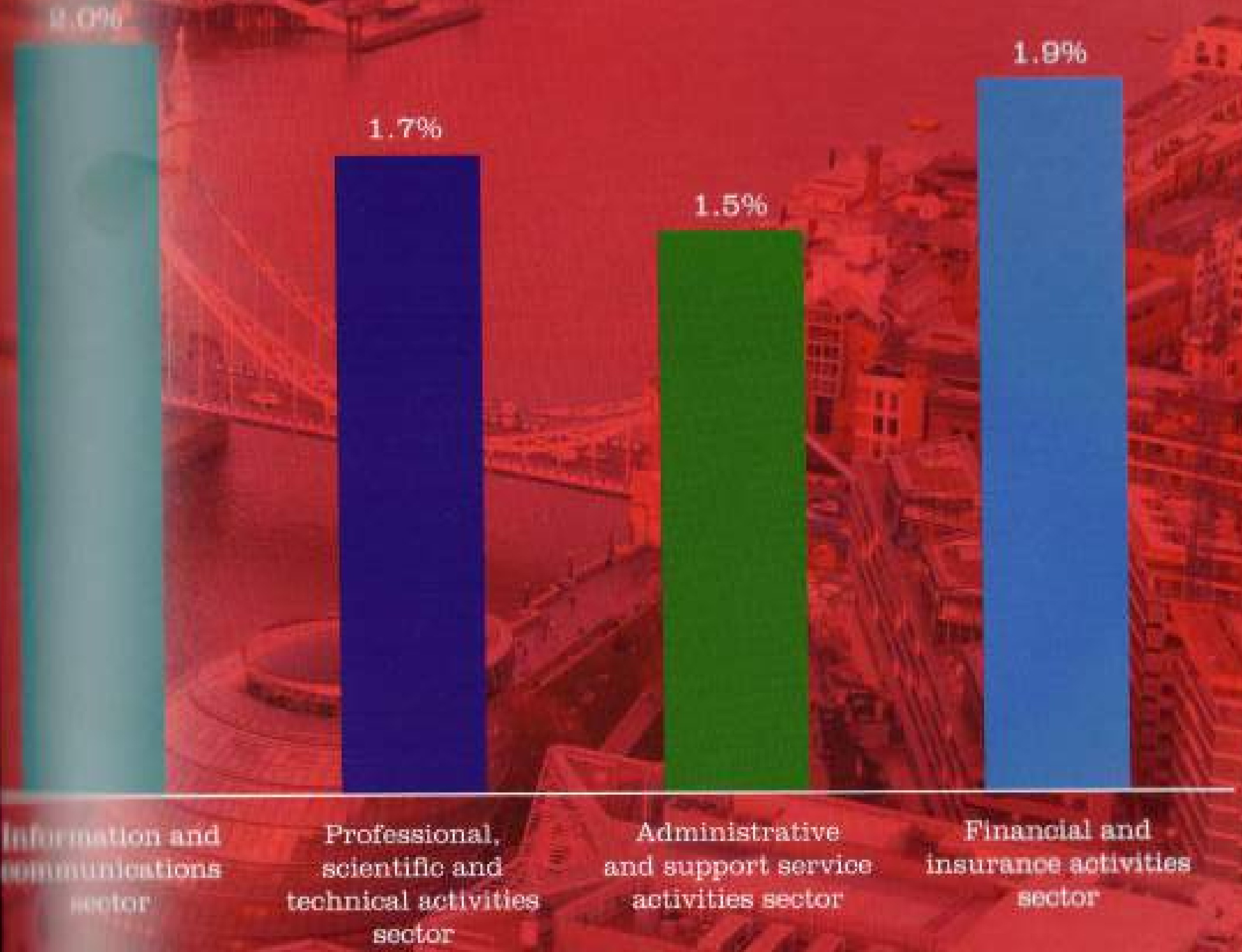
With a large share of business admin and support

Source: Capital Economics and The City of London

Employment rates in key sectors for serviced offices will be growing at double the rate for the economy as a whole.

- Overall growth in jobs across the whole economy annually
- Information and communications sector
- Professional, scientific and technical activities sector
- Administrative and support service activities sector
- Financial and insurance activities sector

The annual growth in employment in the different sectors versus the overall growth in jobs across the whole economy.



Source: Capital Economics and The City of London

Key sectors for serviced offices are also less price sensitive to office costs than the national average.

Average property costs per employee (£) and property costs as a per cent of gross operating surplus (per cent) for the United Kingdom and selected industries.

	Property costs per employee	Property costs as per cent of gross operating surplus
Average for the United Kingdom	£979	4.5%
Construction	£1,172	8.5%
Wholesale	£2,746	20.9%
Retail	£5,558	26.6%
Transport & Storage	£1,177	6.6%
Accommodation & Food Services	£299	3.4%
Information & Communication	£787	2.6%
Finance & Insurance	£3,906	7.1%
Property	£1,448	0.4%
Professional, Scientific & Technical	£384	1.3%
Business Admin and Support Services	£199	1.9%
Public Administration and other	£1,338	8.1%

Source: Capital Economics and the Office for National Statistics

8: Changing business practice and behaviour.

By 2025, the average large company will have had the opportunity to reorganise its accommodation 1.3 times.

As the business environment changes, firms will adapt their practices and behaviours. We expect these changes to boost the demand for serviced offices from companies in sectors that currently have limited or no use for such facilities.

Businesses face change both externally and internally, such as:

- Although modern communications technology increases a firm's geographical reach, customers are becoming more physically distant – but growing client relationships in services often demands a more personal approach.
- Employees are becoming more footloose, and more demanding of working arrangements that are flexible and accommodating of their varied lifestyles. Meanwhile, as businesses become more specialised, they need to look more widely to find the specific talent and expertise they need.
- The mainstay of the centralised corporate headquarters, bulk administration, is becoming automated and out-sourced. Just as typing pools are now history, many of the other functions and activities currently performed at the big office in the centre will be re-engineered – allowing for more footloose and agile senior executives.

Motivations for businesses to shift to serviced offices

Maximise flexibility to resp t

Manage costs in a less predbl

Access new and distant mats

Greater mobility of technol

Satellite offices in globalisim

More mobile workforce

Provide **greater work flexiby**

Overflow space for growing

Companies with **project-bas**

Source: Capital Economics

to change
ble world
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markets
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needs

Just as the typing pool is so 1960s, by 2025, the big and centralised corporate HQ could look as outdated.

Image: Office Space in Town, Liverpool Street, 40 New Broad Street, London, EC2M 1JH

03

Scenario analysis reveals untapped potential

The serviced office market has experienced rapid growth and sustained a high level of demand in recent years. With growth of 31 per cent over the last six years, the market has come far from its humble beginnings. But today's scale provides only a hint of the sector's future growth.

With so much as yet untapped potential, it is difficult to predict with precision the likely trajectory for this youthful sector. But, it is possible to make reasonable broad estimates of the likely scale and trajectory of future growth.

As businesses look for 'a more flexible future', we cautiously estimate annual growth in the number of serviced office workstations of eight per cent over the coming decade – whereas growth in conventional office use will be one per cent annually.

If momentum grows, as it could easily do, and large corporates start to re-evaluate their large centralised headquarter operations, we could see the serviced office market grow to five times its current size by 2025.

We have developed four scenarios for growth to 2025.

Scenarios for the serviced office market to 2025

Benchmark 'organic' growth scenarios	1	**Stuck in the past** Conventional office performance
	2	**Organic change** Economic drivers grow market
Behaviour change scenarios	3	**A more flexible future** Modest shift in firms' behaviour
	4	**Towards a new office paradigm** More wholesale change

Source: Capital Economics

Having identified the key long-term drivers for the sector, we have developed four scenarios based on different assumptions about these drivers. They are:

1. **Stuck in the past** – which is a benchmark scenario based on the implausible assumption that the serviced office market performs no better than conventional offices.
2. **Organic change** – where future growth is limited to that created by macroeconomic trends.
3. **A more flexible future** – is a cautious but realistic scenario that assumes continuing change in the workplace, some of which results in new demand for serviced offices.
4. **Towards a new office paradigm** – which outlooks more significant change to business practice and behaviour.

1: Stuck in the past.

'Stuck in the past' is our benchmark scenario – where serviced office demand grows only as fast as the economy at large, along the same growth trajectory as conventional offices.

This scenario is developed in order to benchmark the others. We do not believe this is a plausible outcome for the sector.

'Stuck in the past' sees compound annual growth of 1.0 per cent to 2025 in the number of serviced office workstations, pushing them up from around 342,000 in 2014 to 382,000 in 2025.

Without more robust growth, it is unlikely that there will be any step change in the structure of the serviced office sector and we presume the average size of centres will remain broadly the same as today. As such, the number of centres rises at 1.0 per cent per annum from just under 2,300 in 2014 to just over 2,500 in 2025.

As the serviced office market is still underdeveloped in this scenario, we assume that workstation rates grow in line with our forecasts for conventional office rents. The average monthly rate rises from £340 to £468 per workstation.

Scale and growth of the serviced office sector under the 'stuck in the past' scenario, 2014 and 2025.

	2014	2025	Growth 2014 - 2025	CAGR 2014 - 2025
Number of serviced offices	2,281	2,551	12%	1.0%
Number of workstations	341,803	382,331	12%	1.0%
Monthly rates per workstation	£340	£468	38%	2.9%

Source: Capital Economics

(Note: Detailed forecasts by region and industry for this and other scenarios can be found in the annex [illegible]

2: Organic change.

'Organic change' reflects future growth in serviced office demand that derives only from the macroeconomic trends and, in particular, the likely higher growth in smaller businesses and the shift in industry mix. It does not include any increase in demand from businesses changing their practices or behaviours. Future rates of serviced office usage remain the same as today's in each industry.

This scenario is developed for largely illustrative and comparative purposes. We do not believe it is a realistic outcome for the sector.

Although employment as a whole is forecast by us to grow at an average of 0.9 per cent each year, the sectors accounting for most demand for serviced offices have a rosier outlook. Small businesses will also grow at a faster pace than the general economy.

As such, we project compound annual growth of 4.7 per cent to 2025 in the number of serviced office workstations, pushing them up to 575,000 in 2025.

Like our 'stuck in the past' scenario where future growth is muted, we assume the average size of centres will remain broadly the same as today, so the number of centres rises at 4.7 per cent per annum as well, to just over 3,800 in 2025 – and workstation rents increase in line with conventional office rents.

Scale and growth of the serviced office sector under the 'organic growth' scenario, 2014 and 2025.

	2014	2025	Growth 2014 - 2025	CAGR 2014 - 2025
Number of serviced offices	2,281	3,797	67%	4.7%
Number of workstations	341,803	568,964	67%	4.7%
Monthly rates per workstation	£340	£468	38%	2.9%

Source: Capital Economics

A more flexible future.

'A more flexible future' assumes a shift in current market behaviour reflecting the likely future business environment. This is a realistic scenario, although we have quantified it using what we believe to be cautious assumptions. We would expect that, on the balance of probabilities, the actual outcome will be higher.

We conservatively assume that the number of employees in serviced offices doubles from 1.6 per cent to 3.2 per cent of total employment over the coming decade. This would result in compound annual growth of 7.7 per cent in the number of office workstations.

As the market develops, serviced office operators will be able to offer a wider range of options to users. We expect increases in the capacity of the average centre, with more workstations per development. Taking this adjustment into account, the number of centres rises at 5.5 per cent per annum to just over 4,100 in 2025. As the serviced office market is developed in this scenario, we assume that workstation rates grow with a gradual increase in premium from 60 per cent to 80 per cent in 2025 on top of our conventional office rent forecasts. The monthly workstation rate will rise from £340 to £527 per workstation.

On cautious assumptions of behaviour change, we anticipate eight per cent annual growth in demand for serviced offices.

Scale and growth of the serviced office sector under the 'a more flexible future' scenario, 2014 and 2025.

	2014	2025	Growth 2014 - 2025	CAGR 2014 - 2025
Number of serviced offices	2,281	4,112	80%	5.5%
Number of workstations	341,803	770,172	125%	7.7%
Monthly rates per workstation	£340	£527	55%	4.1%

4: Towards a new office paradigm.

'Towards a new office paradigm' articulates a stronger swing towards more flexible offices.

Changes in corporate behaviour and working practices do not occur linearly. Often, gradual change will be replaced by a rapid and wholesale shift once a critical mass or momentum has been established.

Of course, it is almost impossible to predict such as a swing – but the serviced office market looks ripe to experience such a tipping point in the coming decade.

To illustrate this, our scenario assumes that, in key sectors, one-fifth of staff are accommodated in serviced offices and, in other sectors, there is a (still conservative) shift of two percentage points from conventional to serviced offices

Overall, serviced offices will account for 6.5 per cent of jobs by 2025, while the number of office workstations would grow at an annual rate of 14.8 per cent.

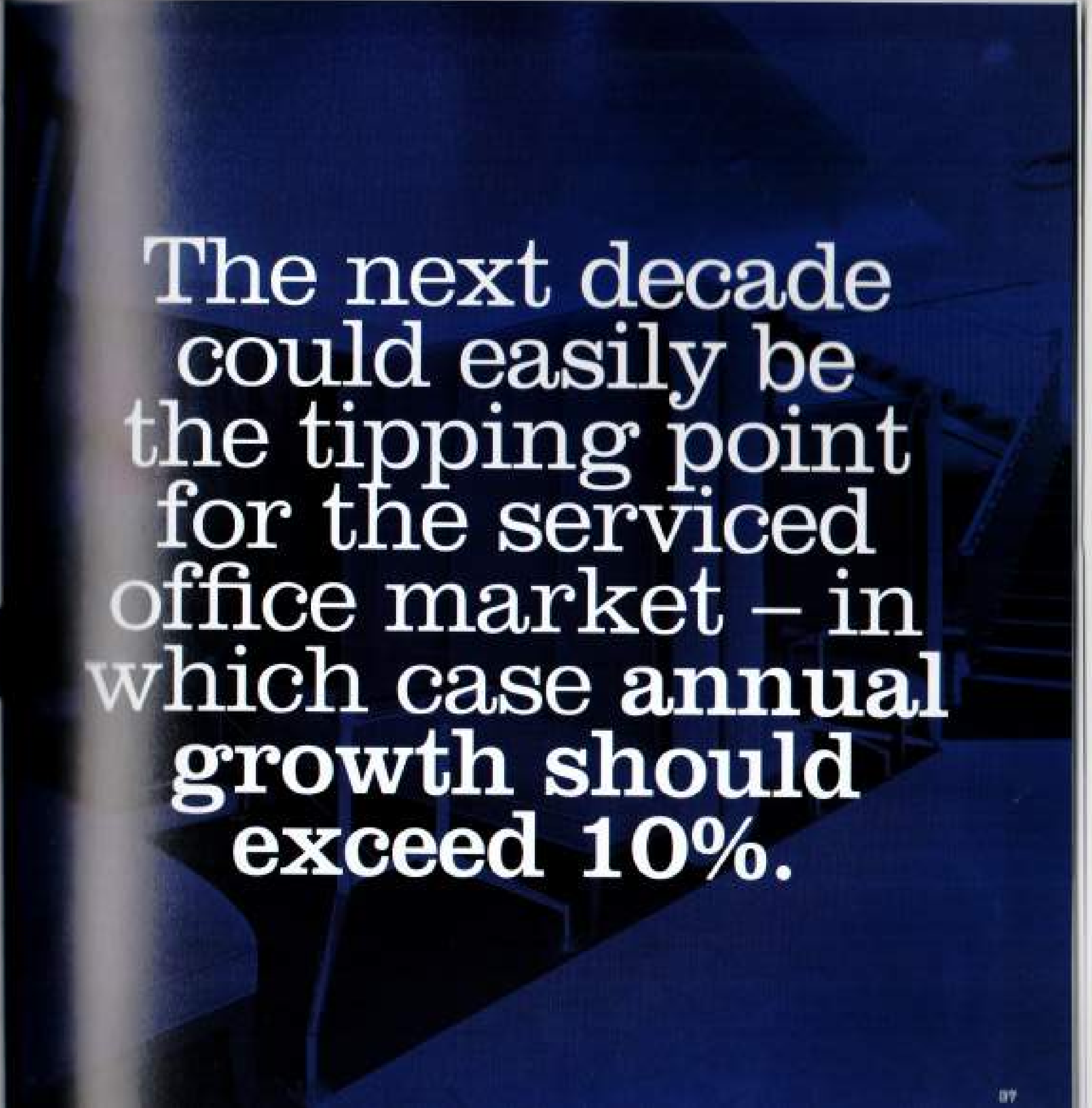
Like our 'a more flexible future' scenario, we assume that this level of growth will lead to the development of larger serviced office centres. The number of centres grows at 10.7 per cent per annum from just under 2,30 in 2014 to almost 7,000 in 2025.

With robust demand serviced office rents rise faster than those for conventional tenure from a monthly £340 to £527 per workstation.

Scale and growth of the serviced office sector under the 'towards a new office paradigm' scenario, 2014 and 2025.

	2014	2025	Growth 2014 - 2025	CAGR 2014 - 2025
Number of serviced offices	2,281	6,952	205%	10.7%
Number of workstations	341,803	1,562,615	357%	14.8%
Monthly rates per workstation	£340	£527	55%	4.1%

Source: Capital Economics



The next decade could easily be the tipping point for the serviced office market – in which case **annual growth should exceed 10%.**

Image: Office Space in Town, 10-18 Dunstans Hill, London, EC3R 8HL

04

Serviced offices emerge as an asset class

There are marked and lucrative differences between the serviced office model and conventional office leasing – even though the underlying property asset may be identical.

Considering the 2,300 serviced office centres in the United Kingdom today, we estimate that they would be worth £16 billion if they were deployed using the conventional office leasing business model for the coming decade.

Under the serviced office model these assets have a higher value – £17 billion based on the workplace rental income alone and £19 billion when the additional service charges are included.

Under the cautious assumptions of 'a more flexible future' scenario, our modelling suggests that the serviced office industry in the United Kingdom could be worth £62 billion in a decade.

If future growth is more like our 'towards a new office paradigm', the value will be much higher – at over £120 billion.

Our valuations capture a top-down estimate of the industry as a whole. It is also crucial that valuers have a framework from which to value specific serviced office properties which fully reflects both the capital value and the income from additional services. This is discussed in further detail in chapter five.

There are marked and lucrative differences between the serviced office model and conventional office leasing.

Given the strong prospects for the serviced office market, it is time that the sector is treated like the serious investment opportunity that it is.

Conventional offices are traditionally viewed as delivering a stable income stream with the benefit of lengthy contractual terms: a 'steady banker' asset. But the economic and environmental trends we discuss in this report are making this less of a reality – with the average lease period falling from 11.5 years in 2008 to 9.8 years in 2014, and the average actual length of tenancy lasting 8.0 years because of early terminations.

Only some serviced office tenants sign up to such lengthy contracts, however some sources indicate that tenures are lengthening significantly in London and some operators are experiencing tenures of up to five years.

And, given their more frequent turnover, one might expect higher vacancy rates in serviced than conventional offices (although conventional offices can lie empty for prolonged periods too).

Conventional versus serviced offices business models

But, unlike the conventional model, serviced office providers also have access to fees for services. Many of these are 'sticky': stable contracted income like rents, for furniture, IT support, telephone and internet, and reception facilities. In addition, there are more variable income streams from 'pay-as-you-go' services include meeting and conference rooms, reception staff and secretarial functions and concierge. These additional incomes are already typically worth 50-70 per cent of the basic workstation rent.

Serviced office business model is currently worth £19 billion, which is sixteen per cent higher than comparable conventional offices.

We have developed a stylised discounted cash flow model to illustrate the differences between conventional and serviced offices, and make broad estimates of the value of the two business models over the coming decade.

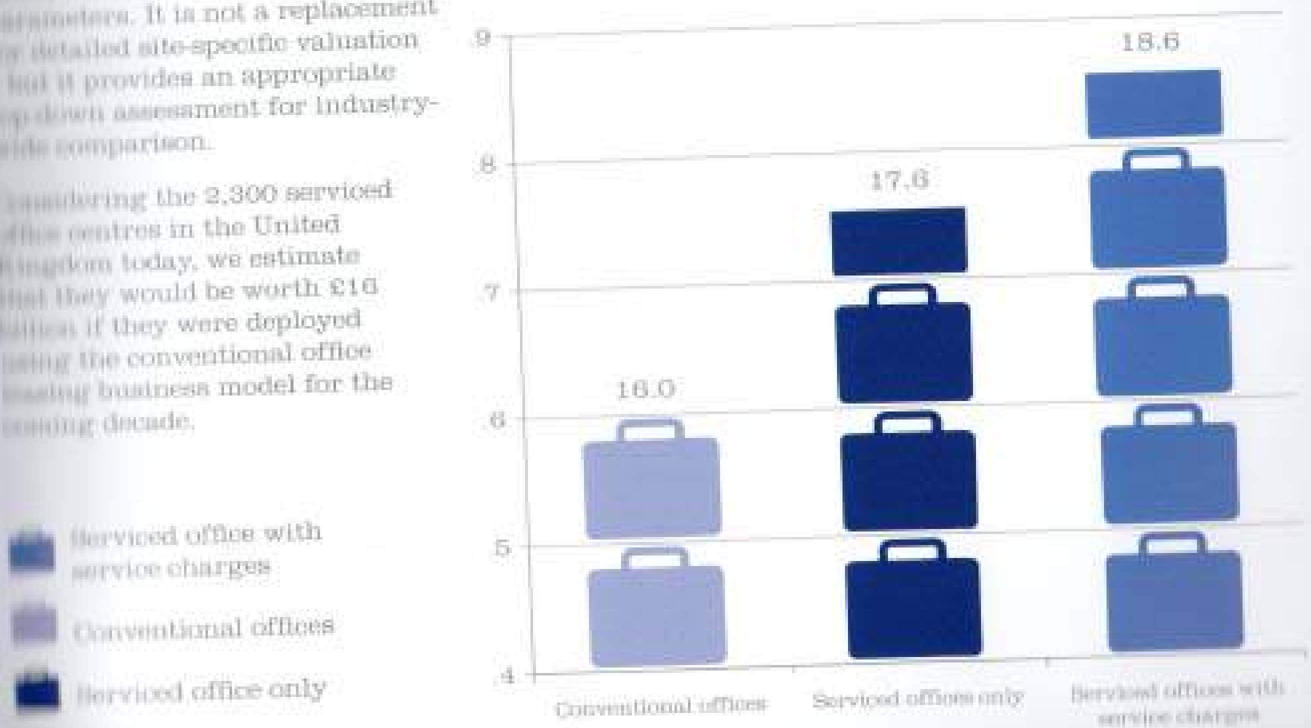
Our model incorporates reasonable assumptions about the costs incurred by landlords and serviced office providers, and differences between them in terms of vacancy rates, discount rates and other key parameters. It is not a replacement for detailed site-specific valuation – but it provides an appropriate top-down assessment for industry-wide comparison.

Considering the 2,300 serviced office centres in the United Kingdom today, we estimate that they would be worth £16 billion if they were deployed using the conventional office leasing business model for the coming decade.

With access to higher rents and additional charges for services (and taking account of the different costs, terms and vacancy rates), these assets have a higher value under the serviced office model – £17 billion based on the workplace rental income alone and £19 billion when the additional service charges are included.

These estimates include the open market value of underlying property asset – but we have (cautiously) assumed this to be the same for each, so the differentials remain valid regardless of whether the property is owned or leased by the provider.

Discounted cash flow valuation of serviced office sector including underlying property assets, 2015 (£ billion)



Source: Capital Economics

If there is a shift in the way businesses operate, the serviced office sector has a potential market value of £126 billion in 2025.

Looking to the future, serviced offices will be a substantial asset class in its own right.

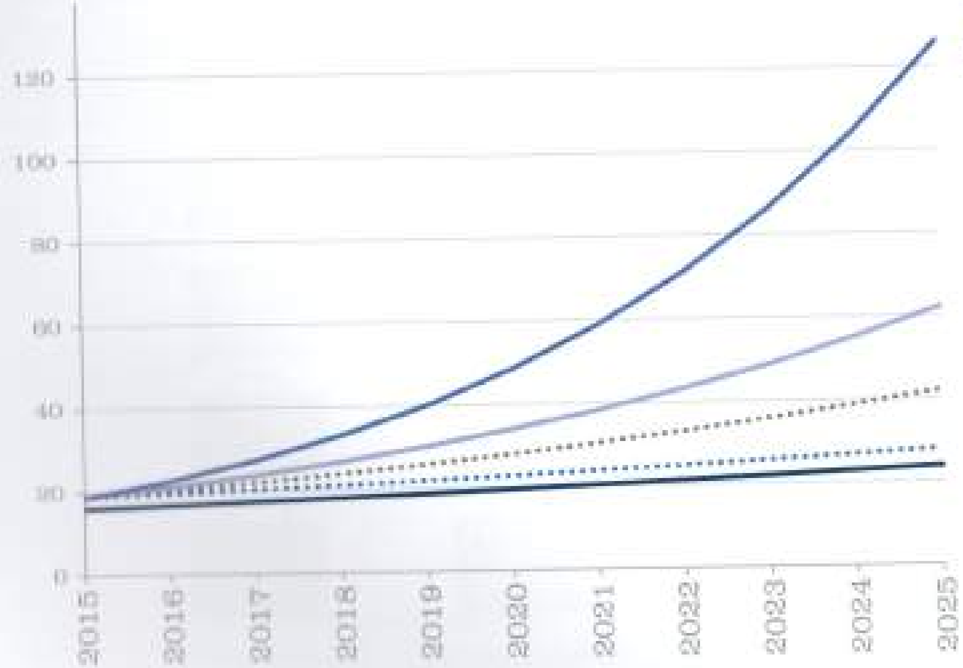
Under the cautious assumptions of 'a more flexible future' scenario, our modelling suggests that the serviced office industry in the United Kingdom could be worth £62 billion in a decade.

If future growth is more like our 'towards a new office paradigm', the value will be much higher at over £120 billion.

To provide context, the value of the entire United Kingdom office market is £195 billion today and global petroleum giant, BP, is listed on the London Stock Exchange for under £90 billion.

With greater demand and higher rental growth, the sector will substantially outstrip the performance of the conventional office market. If today's serviced office market simply matched the growth of its traditional counterparts, it would be worth just under £25 billion by 2025.

Discounted cash flow valuation of serviced office sector including underlying property assets (£ billion)



Source: Capital Economics

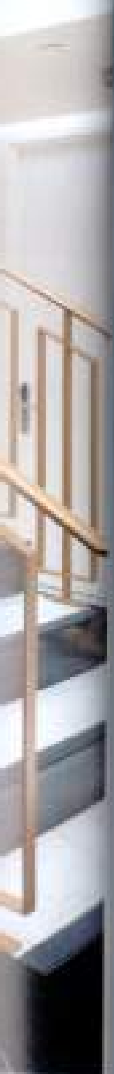
The potential value of the serviced office industry would put it high up in today's FTSE100.

Stock market values of selected companies at 31 March 2016 (£ million)

Company	Sector	Market value (£ million)
Royal Dutch Shell Oil	Oil and gas producers	182,310
Serviced office industry high potential 2025		**[illegible]**
HSBC Banks	Banks	88,40
British American Tobacco	Tobacco	79,800
BP	Oil and gas producers	66,827
Serviced office industry potential 2025		**62,133**
Vodafone	Mobile telecommunications	60,650
Barclays	Banks	29,563
Royal Bank of Scotland	Banks	27,700
Serviced office industry 2014		**18,814**
Shire Pharmaceuticals	Pharmaceuticals and biotech	25,340
Standard Life	Life insurance	6,710
Royal Mail	Industrial transportation	4,890

Source: Financial Times and Bloomberg Markets


Image: Office Space in Town, 10 Brick Street, W1J 7HQ



05

Sales and prospects demand an accepted valuation

The serviced office sector has the scale and prospects to be considered as a property asset class in its own right.

The RICS's "Red Book", which is the definitive guide for valuers, does not provide specific advice for serviced offices. Although some agents are being more long-sighted, many wrongly consider serviced offices no differently to conventional space, while others may heavily discount future serviced office income based on inaccurate perceptions of the business model.

Professor Michael White of Nottingham Trent University and Professor Neil Dunse of Heriot-Watt University have demonstrated potential valuation approaches that should help the industry and institutional investors take full account of serviced office assets.

What is the case for a RICS Guidance Note?

The serviced office sector has the scale and prospects to be considered as a property asset class in its own right. It has the characteristics of property types that are commonly valued by reference to their trading, similar to student accommodation and hotels. The RICS Guidance Note dealing with "Trade-related valuations and goodwill" provides guidance on the valuation of property fully equipped as an operational entity. However the use of this method is restricted to property types where there is a limited use (i.e., the space has limited flexibility and has been designed for specific uses). This is not the case with serviced offices as they are located within standard office buildings.

Serviced offices fall between two standard valuation approaches; trade related valuations and goodwill, and the investment method, and therefore there is a strong case for the RICS to produce a Guidance Note for this rapidly developing sector of the market.

What approach to valuation should be adopted?

What we should consider when valuing a serviced office, as fully equipped operational entities, having regard to trading potential:

The serviced offices operator has two main assets: the tangible property asset and the intangible business component. Both are symbiotically linked but are separable from a valuation perspective. Thus, the serviced office is unlike a hotel, public house or nursing home, for example where the buildings are designed for these specific functions. A serviced office can easily become a standard office and an office building easily divided between serviced and non-serviced office providers. Serviced office operators are bidding for standard office space in the open market with other potential occupiers and therefore the value of a serviced office as an operational entity should be split between the property (the office building) and business (additional support services to the serviced office user). However, the valuer must carefully consider the risk associated with each tranche of income.

The valuation is challenging for the valuer by having to decide what proportion of the intangible business component attaches to the property and which components attach to the business. The license fee is a "quasi-lease" contract and attaches to the property. Income associated with other business services – such as IT, administrative support, communications, meeting rooms and catering – do not attach although they may create significant profit and are variable. However, it has to be borne in mind that the level of these contracted and variable fees will be dependent upon the availability and quality of additional services available to the licensee. Given the close inter-relationship with this component of the income, they should perhaps be treated together when considering the trading potential of the serviced office operation. Also remember that a large percentage of this income is in fact contracted.

What are the key valuation stages?

1. Prepare an estimate of the fair maintainable trading potential (EBITDA) of the serviced office operation – license fees, business services, property costs and operational costs.

2. Allocate income between effective Market Rent and the variable and contracted income.

3. Apply an appropriate valuation method to determine the value of the serviced office, as fully equipped operational entities, having regard to its trading potential.

How are the inputs determined?

The valuer should use standard market based techniques. Market rent, property yields and trading potential can be determined by analysis of comparisons and historic trading data. Rates of return for the business component should be determined by appropriate business appraisal techniques reflecting the risk, transferability, depreciation, growth and sustainability of this income stream. The challenge is to understand the risk-return characteristics of this income stream and should be undertaken by an appropriately qualified professional with in-depth knowledge of the sector. There is likely to be a tendency for the valuer to view this income stream conservatively and increase the yield.

Although only some serviced office tenants sign up to lengthy contracts, some sources indicate that tenures are lengthening significantly in London and some operators are experiencing tenures of up to five years and the impact of one tenant vacating is therefore considerably less damaging to this income stream. So yield choice is crucial.

What is the appropriate valuation technique?

For valuation of income producing assets, the most appropriate method of valuation is the investment method; either using a conventional or contemporary DCF based approach. An example of each is illustrated on the next pages, using the assumptions on the left.

Assumptions/Inputs:

Property

Property:	Freehold 35,000 sq. ft grade A office located in central London
Effective Market Rent:	45 per sq. ft (£1,575,000)
Equivalent Yield:	4.7%
Equated Yield:	6.6%
Implied Growth Rate:	2.5%

Business

Occupancy Rate:	90%
Number of Workstations	400
Average income per work station:	£500 per
Target Rate of Return (Conventional)	6%
Target Rate of Return (Contemporary)	8.1%
Income Growth Rate	2.5%

To allow for the relatively high turn-over in occupation due to the relatively short-term nature of the license, a 90% occupancy rate has been assumed.

Conventional Valuation

Work Station Available	400	
Occupancy	90%	
Occupied Work Stations	4320	
Average Rate	£560.00	% of Gross

Revenue		
Licence	£2,419,200	80%
Room hire	£151,200	5%
IT	£211,680	7%
Telephone	£120,960	4%
Catering	£90,720	3%
Other	£30,240	1%
Total	3,024,000	100%

Departmental Costs and Expenses		
IT	£10,584	5%
Telephone	£12,096	10%
Catering	£36,288	40%
Other	£18,144	60%
Total	£77,112	

Undistributed Operating Expenses		
Sales Related Costs	£241,920	8.0%
Running Costs	£166,320	5.5%
Staff Costs	151,200	5.0%
Energy	75,600	2.5%
Total	635,040	21.0%
Income Before Fixed Charges	£2,311,848	

Conventional Valuation (Continued)

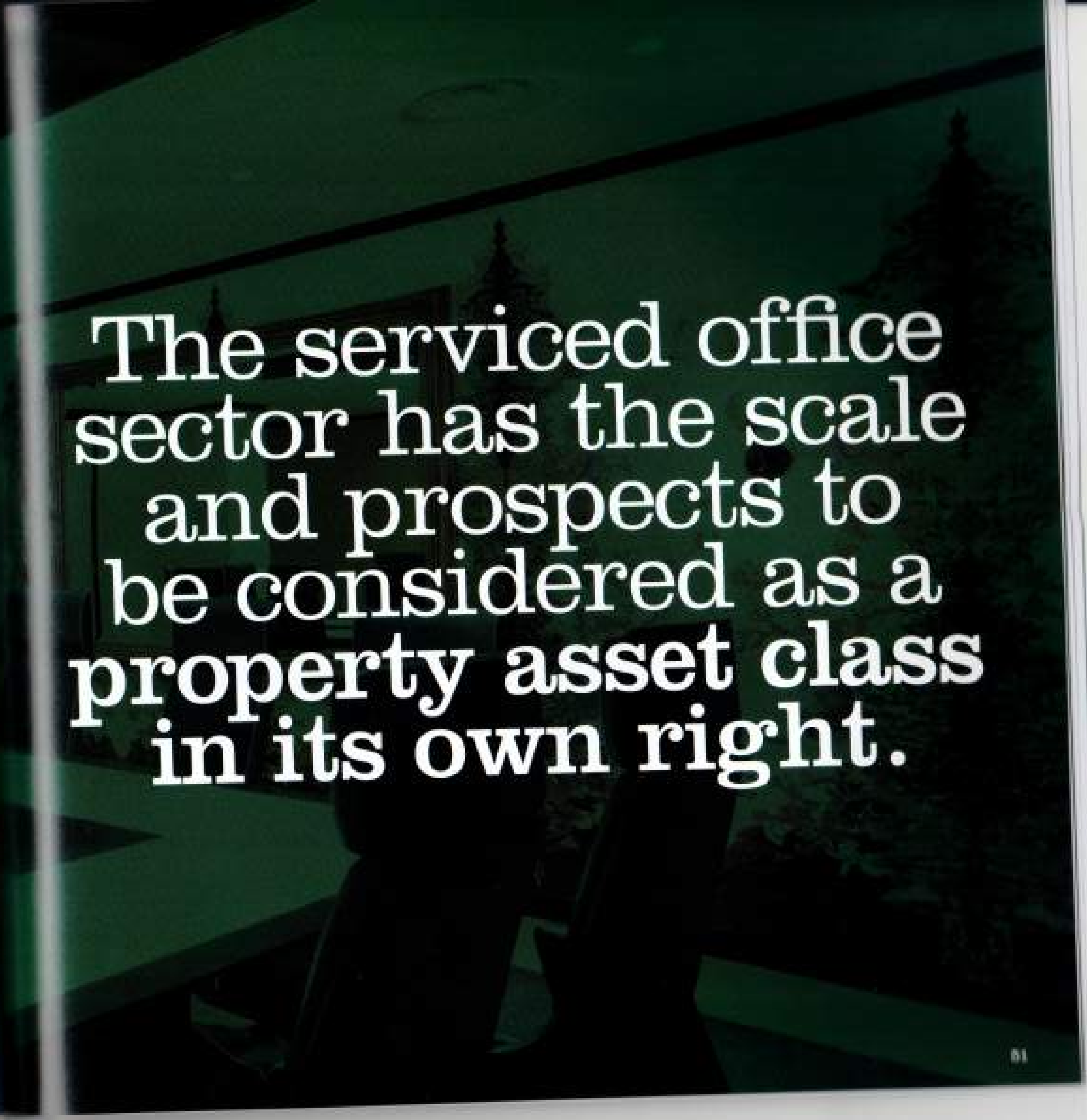
Fixed Property Expenses		
Rent	£1,575,000	30%
Property, Agent & Mgt Fees	£90,720	3%
Rates	£332,640	11%
Insurance	£30,240	1%
Total	£2,028,600	45%
Adjusted Net Profit	**£283,248**	

Valuation of Office Building		
Market Rent	£1,575,000	
YP perp @ 4.3%	23	
Capital Value		£36,627,907

Contracted and Variable Services		
EBITDA - Market Rent	£283,248	
YP perp @ 8%	16.667	
Value		**£4,720,800**

Property Value	£36,627,907
Contracted and Variable Services	£4,720,800
Overall Value	**£41,348,707**

Analysis of trading potential to determine a stabilized income stream: Note that as with hotel valuations, the valuer has accounted for risk in the income stream by incorporating a vacancy rate. Yield choice should reflect this explicit assumption.



The serviced office sector has the scale and prospects to be considered as a **property asset class in its own right.**

Contemporary Valuation

A standard cash flow forecast explicitly taking of growth in the income stream.

	1		2		3		4		5
Work Station Available	400		400		400		400		400
Occupancy	80%		80%		80%		80%		80%
Occupied Work Stations	£320		£320		£320		£320		£320
Average Rate	£560.00	% of Gross	£ 574.00	% of Gross	£ 588.35	% of Gross	£603.06	% of Gross	£618.14
Revenue									
Licence	£2,419,200	80%	£2,479,680	80%	£2,541,672	80%	£2,605,214	80%	£2,670,344
Room Hire	£151,200	5%	£154,980	5%	£158,855	5%	£162,826	5%	£166,897
IT	£211,680	7%	£216,972	7%	£222,396	7%	£227,956	7%	£233,655
Telephone	£120,960	4%	£123,984	4%	£127,084	4%	£130,261	4%	£133,517
Catering	£90,720	3%	£92,988	3%	£95,313	3%	£97,696	3%	£100,138
Other	£30,240	1%	£30,996	1%	£31,771	1%	£32,565	1%	£33,379
Total	£3,024,000	100%	£3,099,600	100%	£3,177,090	100%	£3,256,517	100%	£3,337,930
Departmental Costs and Expenses									
IT	£10,584	5%	£10,849	5%	£11,120	5%	£11,398	5%	£11,683
Telephone	£12,096	10%	£12,398	10%	£12,708	10%	£13,026	10%	£13,352
Catering	£36,288	40%	£37,195	40%	£38,125	40%	£39,078	40%	£40,055
Other	£18,144	60%	£18,598	60%	£19,063	60%	£19,540	60%	£20,028
Total	£77,112		£79,040		£81,016		£83,041	5%	£85,117
Undistributed Operating Expenses									
Sales Related Costs	£241,920	8.0%	£247,968	8.0%	£254,167	8.0%	£260,521	8.0%	£267,034
Running Costs	£166,320	5.5%	£170,478	5.5%	£174,740	5.5%	£179,108	5.5%	£183,586
Staff Costs	£151,200	5.0%	£154,980	5.0%	£158,855	5.0%	£162,826	5.0%	£166,897
Energy	£75,600	2.5%	£77,490	2.5%	£79,427	2.5%	£81,413	2.5%	£83,448
Total	£635,040	21.0%	£650,916	21.0%	£667,189	21.0%	£683,869	21.0%	£700,965
Income Before Fixed Charges	**£2,311,848**		**£2,369,644**		**£2,428,885**		**£2,489,607**		**£2,551,848**
Fixed Property Expenses									
Rent	£1,575,000	30%	£ 1,575,000	30%	£1,575,000	30%	£1,575,000	30%	£1,575,000
Property, Agent & Mgt Fees	£90,720	3%	£ 92,988	3%	£95,313	3%	£97,696	3%	£100,138
Rates	£332,640	11%	£ 340,956	11%	£349,480	11%	£358,217	11%	£367,172
Insurance	£30,240	1%	£ 30,996	1%	£31,771	1%	£32,565	1%	£33,379
Total	£2,028,600	45%	£ 2,039,940	40%	£2,051,564	45%	£2,063,478	45%	£2,075,690
Adjusted Net Profit	**£283,248**		**£329,704**		**£377,322**		**£426,130**		**£476,158**

Contemporary Valuation (Continued)

The valuation undertaken by discounting the cash flow using the equated yield and target rate of return on the business services income.

	6		7		8		9		10	
	400		400		400		400		400	
	90%		90%		90%		90%		90%	
	4080		4320		4300		4300		[illegible]	
% of Gross	£633.59	% of Gross	£649.43	% of Gross	£665.66	% of Gross	£682.31	% of Gross	[illegible]	% of Gross
80%	£2,737,500	80%	£2,805,938	80%	£2,876,089	80%	£2,947,940	80%	£3,021,249	80%
5%	£171,069	5%	£175,346	5%	£179,729	5%	£184,223	5%	£188,828	5%
7%	£239,496	7%	£245,484	7%	£251,621	7%	£257,912	7%	£264,360	7%
4%	£136,855	4%	£140,277	4%	£143,782	4%	£147,379	4%	£151,062	4%
3%	£102,641	3%	£105,207	3%	£107,838	3%	£110,534	3%	£113,297	3%
1%	£34,214	1%	£35,069	1%	£35,946	1%	£36,845	1%	£37,766	1%
100%	£3,421,379	100%	£3,506,913	100%	£3,594,586	100%	£3,684,450	100%	£3,776,562	100%
5%	£11,975	5%	£12,274	5%	£12,581	5%	£12,896	5%	£13,218	5%
10%	£13,686	10%	£14,028	10%	£14,378	10%	£14,738	10%	£15,106	10%
40%	£41,057	40%	£42,083	40%	£43,135	40%	£44,213	40%	£45,319	40%
60%	£20,528	60%	£21,041	60%	£21,568	60%	£22,107	60%	£22,659	60%
3%	£87,245	3%	£89,426	3%	£91,662	3%	£93,953	3%	£96,302	3%
8.0%	£273,710	8.0%	£280,553	8.0%	£287,567	8.0%	£294,756	8.0%	£302,125	8.0%
5.5%	£188,176	5.5%	£192,880	5.5%	£197,702	5.5%	£202,645	5.5%	£207,711	5.5%
5.0%	£171,069	5.0%	£175,346	5.0%	£179,729	5.0%	£184,223	5.0%	£188,828	5.0%
2.5%	£85,534	2.5%	£87,673	2.5%	£89,865	2.5%	£92,111	2.5%	£94,414	2.5%
21.0%	£718,489	21.0%	£736,452	21.0%	£754,863	21.0%	£773,735	21.0%	£793,078	21.0%
	£2,615,644		£2,681,035		£2,748,061		£2,816,763		£2,887,181	
30%	£1,781,968	30%	£1,781,968	30%	£1,781,968	30%	£1,781,968	30%	£1,781,968	30%
3%	£102,641	3%	£105,207	3%	£107,838	3%	£110,534	3%	£113,297	3%
11%	£370,352	11%	£385,760	11%	£395,404	11%	£405,290	11%	£415,422	11%
1%	£34,214	1%	£35,069	1%	£35,946	1%	£36,845	1%	£37,766	1%
45%	£2,288,175	45%	£2,309,003	45%	£2,321,156	45%	£2,334,635	45%	£2,348,452	45%
	£320,468		£373,030		£426,905		£480,127		£538,729	

Summary

As noted in this report, the serviced office sector is developing as a property asset class in its own right. As with many new property initiatives the valuation profession can struggle to keep pace with change and tends to be risk averse when faced with unusual cash flows.

The fact that the variable components to the income stream for the serviced office operator are largely predictable means that in essence their variability is small as a proportion of the revenue they generate. This creates more certainty in calculating this income stream and hence this element of the operator's income would attract a lower yield in valuation.

The nature of a 'macro' estimate, which assesses the value of the entire value of the industry using aggregated data, means it will naturally be less detailed than a site-site specific 'micro' approach. However, the two methods we have tested come up with very similar valuations.

The conservative conventional valuation suggests a close to 15% increase if all the incremental services are accounted for, while the contemporary DCF method produces a valuation that suggests a close to 20% uplift.

The value of the serviced office as an operational entity with trading potential is £43 million pounds.

	Market Rent	Sale Value	Net Property Income	Contracted and Variable services	Exit Value	Net Business Income
0						
1	£1,575,000		£	[illegible]		£283,248
2	£1,575,000		£	£329,704		£329,704
3	£1,575,000		£	£377,322		£377,322
4	£1,575,000		£	£406,130		£426,130
5	£1,575,000		£	£476,158		£376,158
6	£1,781,988		£	£500,469		£120,469
7	£1,781,988		£	£372,030		£379,030
8	£1,781,988		£	£436,000		£426,000
9	£1,781,988		£	£461,127		£426,000
10	£1,781,988	£41,886,818	£	£558,729	£8,978,880	£9,517,340

Property Value	[illegible]
Contracted and Variable Services	£8,865,016.79
Overall Value	43,288,893.79

Towards A Guidance Note for the Valuation of Serviced Offices

A guidance note provides recommendations for specific tasks to be conducted by the valuer reflecting the highest standard of professional competence, i.e., best practice.

The recommended good practice in the guidance note is normally followed by 'competent and conscientious practitioners'. Initially the scope of work and terms of engagement would be considered. For example, the scope of work to be undertaken would be agreed between valuer and client. The asset to be valued should be recorded (e.g., Boundary Row Op Co). In the case of serviced offices, as outlined above, a valuation must be provided for the building and the business giving consideration to the risks associated with each. These are reflected in the example valuations provided above in which we set out the key stages of the valuation process and consider how the values of inputs have been determined. As with business valuations in general, the valuation for the serviced office company presented here depends upon information received by the serviced office operator. Valuers must take the reliability and appropriateness of such information into consideration.

In addition while the valuation is based upon the information received, standard practice and guidance reflects the fact that values change with economic circumstances and as such should be reflected as accurately as possible. In the case of the serviced office example, new information from the operator indicated that rental values had increased which has been included in the valuation and impacted on the calculated capital value. The valuation has taken all known income and cost streams into consideration at the valuation date (based upon the date of the information from the operator).

The information used above corresponds to the type of information normally used in valuing as property and a business. This information has detailed the activities of the business, previous valuation reports, and products and services. Valuers should also give consideration to strengths, weaknesses, opportunities and threats (SWOT) for the business.

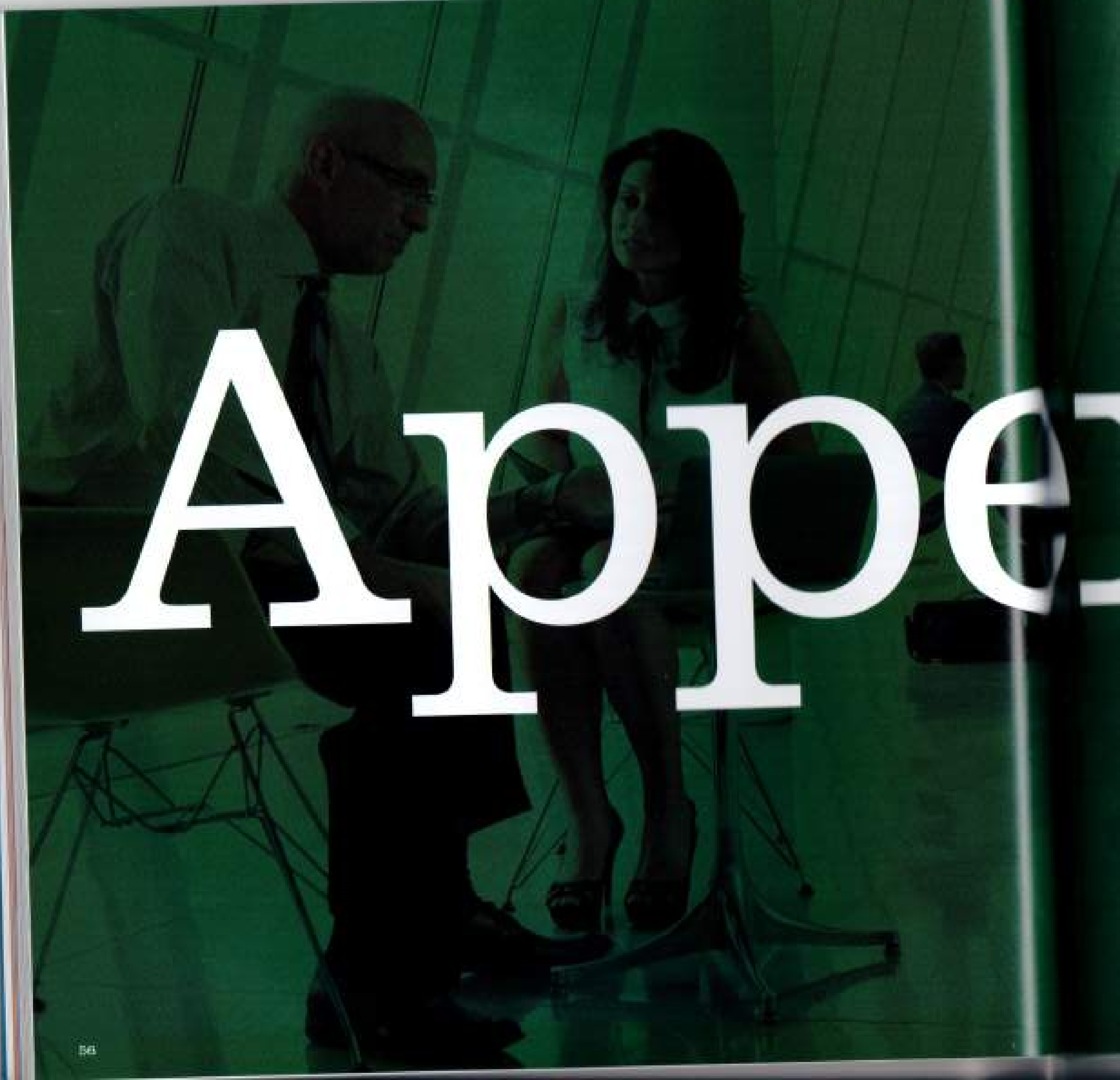
This is in part reflected in assumptions on occupation rates, numbers of workstations and average workstation rates. Valuers also consider trends and cycles in the market place, and changes to the business compared with the previous accounting date.

The contemporary valuation shown above provides details of the key cost and revenue stream elements that are essential for calculating capital value.

Examining the guidance note on commercial investment property valuation methods, the RICS indicates that DCF techniques are particularly suited for the analysis and valuation of income and leasehold interests in complex cash flows. Whilst not all serviced offices are leased but buildings may be owned by operators, in probably the majority of cases they will be leasehold interests. In addition as the serviced office operating company must pay rent to the building owner which, from an accounting perspective, will be an on-going cost from a valuation perspective and must be considered as such in DCF models.

The DCF permits the internal rate of return (IRR) of a leasehold investment to be calculated by reference to the gilt market with a risk adjustment for the additional risk of real estate investments. Therefore it is possible to value such property investments when there is little of no evidence of recent sale. The DCF explicitly makes use of fundamentals to the income stream to calculate capital value and does not therefore need to rely on benchmark comparisons, which my be more limited currently in the case of serviced offices.

In the above examples the DCF made use of the information provided by the serviced office operator. The type of information provided would be what will normally be expected and a guidance note may broadly outline such information.


Appe

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Serviced office workstations and the number of serviced office centres by industry group of user, 2014 and 2025.

Industry group	Employment 2014 (thousands)	CAGR employment 2014 to 2025	Current share of employment in serviced offices 2014	Number of serviced office workstations 2014	Employment 2025 (thousands)	Potential share of employment in serviced offices 20…
Agriculture, Forestry & Fishing	192	0.8%	0.2%	430	209	0.2%
Mining, Quarrying & Utilities	217	0.9%	0.2%	000	249	0.2%
Manufacturing	2,272	-0.7%	0.2%	4,557	2,106	0.2%
Construction	1,152	1.0%	0.2%	2,502	1,285	0.2%
Motor Trades	471	0.7%	0.2%	1,031	509	0.2%
Wholesale	1,069	1.0%	0.2%	2,265	1,215	0.2%
Retail	2,710	0.4%	0.2%	5,846	2,828	0.2%
Transport & Storage	906	0.4%	0.2%	2,180	1,041	0.2%
Accommodation & Food Services	1,885	0.3%	0.2%	4,122	1,946	0.2%
Information & Communication	1,006	2.0%	12.8%	130,721	1,225	16.5%
Finance & Insurance	944	1.5%	9.1%	86,051	1,099	9.1%
Property	470	1.3%	0.2%	948	491	0.2%
Professional, Scientific & Technical	2,093	1.7%	3.2%	68,261	2,509	3.2%
Business Admin and Support	2,203	1.5%	1.5%	34,190	2,595	1.5%
Education	1,004	1.4%	0.2%	2,230	1,240	0.2%
Health	1,907	1.2%	0.2%	4,174	2,174	0.2%
Public Administration and other	1,116	1.0%	0.2%	2,442	1,245	0.2%
# Of serviced office workstations	21,808	0.9%	1.6%	341,803	24,124	1.6%
Total number of serviced offices				9,231		

Source: Capital Economics

Potential share of employment in serviced offices 2025	Number of serviced office workstations 2025	Potential share of employment in serviced offices 2025	Number of serviced office workstations 2025	Potential share of employment in serviced offices 2025	Number of serviced office workstations 2025	Potential share of employment in serviced offices 2025	Number of serviced office workstations 2025
Stuck in the past		Organic change		A more flexible future		New office paradigm	
0.2%	458	0.3%	877	0.5%	1,208	[illegible]	4,604
0.2%	765	0.4%	1,464	0.0%	3,160	[illegible]	7,087
0.2%	4,616	0.3%	4,816	0.8%	13,050	[illegible]	45,385
0.2%	2,813	0.4%	5,383	0.6%	7,303	[illegible]	28,266
0.2%	1,114	0.4%	2,131	0.6%	3,148	[illegible]	11,191
0.2%	3,061	0.4%	5,091	0.8%	7,522	[illegible]	26,737
0.2%	6,223	0.4%	11,888	0.6%	17,569	[illegible]	62,420
0.2%	2,278	0.4%	4,359	0.6%	6,440	[illegible]	22,891
0.2%	4,262	0.4%	8,151	0.6%	12,048	[illegible]	43,808
10.5%	139,693	14.3%	188,808	18.0%	212,090	20.0%	265,113
8.1%	84,096	10.4%	107,560	12.0%	124,607	19.0%	197,283
0.2%	1,090	0.4%	2,091	0.6%	3,099	[illegible]	10,880
3.3%	82,098	5.2%	129,149	8.0%	200,619	16.0%	401,338
1.6%	40,203	3.0%	77,637	5.0%	129,758	13.3%	335,496
0.2%	3,718	0.4%	6,186	0.6%	9,676	[illegible]	37,979
0.2%	4,760	0.4%	9,108	0.6%	13,455	[illegible]	47,920
0.2%	2,725	0.4%	5,214	0.6%	7,706	[illegible]	27,362
1.4%	382,331	2.4%	574,873	3.3%	773,172	6.5%	1,582,815
	2,561		3,808		4,112		6,062

Number of serviced office centres and workstations, and average workstation rates by region in UK, 2014 and 2025.

Region	Number of serviced office centres 2014	Number of workstation 2014	Monthly rent per workstation 2014 (£ per month)	Number of serviced office centres 2025	Number of workstation 2025	Monthly rent per workstation 2025 (£ per month)	Number of serviced office centres 2025
				Stuck in the past			
United Kingdom	2,381	341,800	340	2,551	368,331	468	3,800
England	2,078	311,000	344	2,309	347,888	477	3,491
Scotland	153	22,852	316	171	25,561	406	250
Wales	22	4,795	260	36	5,364	331	54
Northern Ireland	21	3,147	246	23	3,500	213	35
East Midlands	131	18,132	188	135	20,284	240	204
East of England	143	21,438	267	160	23,969	340	243
Central London	275	41,208	673	309	40,094	970	452
Greater London	500	74,842	459	569	85,724	667	840
North East	87	9,965	227	74	11,146	299	112
North West	226	33,988	310	252	37,881	398	380
South East	364	38,485	346	355	44,137	358	443
South West	140	25,904	240	156	23,392	313	332
West Midlands	173	25,664	257	194	28,997	327	291
Yorkshire & Humberside	169	25,240	138	189	20,243	252	280

Source: Capital Economics

Number of serviced office centres 2025	Number of workstation 2025	Monthly rent per workstation 2025 (£ per month)	Number of serviced office centres 2025	Number of workstation 2025	Monthly rent per workstation 2025 (£ per month)	Number of serviced office workstations 2025	Number of workstation 2025	Monthly rent per workstation 2025 (£ per month)
Organic change			A more flexible future			Towards a new office paradigm		
3,836	574,873	508	4,112	779,173	527	8,800	1,505,615	527
3,491	523,083	477	3,741	730,795	508	8,330	1,421,630	536
256	38,434	402	275	51,493	433	483	104,471	452
54	8,065	331	58	10,809	372	88	21,929	372
35	5,091	313	38	7,093	355	64	14,086	353
204	30,495	240	218	40,855	280	369	62,809	269
241	36,040	340	258	48,293	382	436	97,903	388
463	68,307	970	496	99,883	1,091	838	188,291	1,091
840	125,887	657	900	168,654	739	1,522	346,180	739
112	16,700	289	120	22,453	325	203	45,556	325
390	58,058	268	407	76,008	301	689	154,850	301
443	66,409	356	475	89,070	402	803	180,513	402
335	55,158	313	361	67,102	353	425	90,585	353
291	43,601	327	310	58,413	369	527	118,513	369
283	42,807	252	304	56,803	284	514	115,480	284

Notes

"The United Kingdom serviced office sector could see its value rise from under **£20bn** to **£62bn** by 2025; on more optimistic projections it could **increase in size over fivefold** and be **worth over £120bn.**"