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BUSINESS ENVIRONMENT

Managed business space: a shelter in the economic storm

■ Demand is up as firms that would normally buy premises are renting instead, says **David Lawson**

THIS IS WHAT EVERYONE HAS BEEN WAITING FOR: a full-blooded economic crisis. This is when managed space is meant to prove itself by providing refuge for those too scared or broke to take conventional tenancies.

The message has bounced off sceptics in the decade since Regus and MWB Business Exchange were touted as the future of property. The dot.com crash and short-term occupancy rates crash did not help.

This time the signs look more promising (see box). Regus's profits rose 40% in the first half of 2008, while MWB says revenue per workstation jumped 12%. Similar buoyancy percolates through unlisted operators as occupancy rates soar. Enquiries were 25% higher in September than a year ago, says agent Instant Offices.

'Everyone is doing well because business centres have evolved into an acceptable strategy for occupiers,' says David Saul, chief executive of BE Group.

Investors seem less convinced. John Spencer, managing director of MWB, despairs that his shares continue to be battered. Financial analysts have also raised warnings over Regus.

This perverse response stems from the threat hanging over all property – shortage of capital. Yet MWB has repaid all loans and has a £13m bank facility, while Avanta, Evans Easyspace, BE, Bizspace and UBC all have resources from private backers.

FINANCIAL FLEXING

Now is a good time to flex those financial muscles, says Avanta chief executive David Alberto. Freehold prices have crashed, tempting him back into considering purchases in London after two years of leasing and management deals. He could buy at a level that supported letting at less than £300 a desk.

Saul is hamstrung by the credit crunch even though BE is only 50% geared. Instead, he is spending £12m refurbishing three London centres totalling more than 100,000 sq ft.

Some have never stopped buying. Bizspace has acquired 15 sites, reflecting demand from small tenants. 'Centres with financial service clients may be suffering but we serve mainly industrial and professional services, which are still OK,' says managing director Gareth Evans.

UBC opened 17 centres, which are filling fast, says managing director Philip Grace. Ironically, this is partly because of capital shortages. Small firms that normally buy premises are reluctant to commit money as recession bites.

Others are more concerned with consolidation. Spencer is building cashflow by pushing up yields on existing centres and closing those that do not perform. Even MLS, for years the acquisition king, has slowed expansion as it squeezes the pips on assets.

London is remarkably strong, although Officebroker managing director Jim Venables says tenants are 'watching their pennies', aiming for Mayfair fringes rather than its heart and paying £800 rather than £1,000 a desk.

Provincial centres are less buoyant but the picture is blurred. Some are submerged in new space, spurring price-cutting and heavy letting incentives, yet Grace has been overwhelmed by demand for new centres in Telford and Oldham.

Operators are competing hard everywhere, says Rob Hamilton, managing director of Instant Offices. 'But there is no shortage of tenants wishing to take up space.'

Operators are boosting services to keep existing tenants. Saul says extra management costs are dwarfed by the expense of reletting, which can soak up a quarter of income.

The future may hang on whether a flood of economically driven redundancies will translate into lettings as people set up their own businesses and larger firms outsource, says Tom Stokes, chairman of the Business Centres Association and head of Evans Easyspace.

'It would be a brave person who predicts how long the small and medium-sized enterprises sector continues to be resilient in the current turmoil.'

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Short-term fix: Hamilton (far left) says there is strong demand for space, which Saul attributes to new view of business centres as acceptable strategy

MELTDOWN'S RICH PICKINGS

IT MIGHT BE EXAGGERATING TO SAY RICHARD Douglas is revelling in the economic meltdown, but the Managed Office Solutions managing director is unlikely to be shedding too many tears. Profits soared 20% last year from surplus corporate offices transformed into money-spinning managed space for 'reluctant landlords'.

Douglas expects a repeat performance in 2009, helped by an influx of new clients. He is offering to 'eke out several more years of life' from property scheduled for demolition but frozen by the credit crunch.

Other problems, such as planning delays and empty rates, should provide rich pickings among landlords. That will also give Mark Dixon something to smile about, as the Regus chief forked out a mere £1.85m for Managed Office Solutions two years ago when it already had an annual £1.65m turnover.

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