

TOPIC PAPER

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Serviced Offices in Singapore

FPDSavills Research

Introduction

Serviced offices, sometimes referred to as business centres, originated in the US in the 1960's and, having weathered periods of consolidation, the business model is now well established. In the UK, this type of office has become increasingly popular only over the last 10 years, while in Singapore, serviced offices are just starting to be widely recognized as representing innovative and cost-effective solutions to specific accommodation needs.

An immediate issue is to define this elusive entity which is almost as hard to pin down as its cousin, the serviced apartment. Conventional wisdom has it that a serviced office is:

Fully-furnished, staffed and equipped commercial accommodation, the cost of which includes occupancy of the space, all utilities, cleaning and maintenance as a minimum. Other services are provided which are either included in the lump sum rent or paid for independently. The space provided can be occupied for periods shorter than a conventional lease, in some cases for as little as 1 hour.

For the purposes of this paper we have excluded business centres located in hotels.

Background

No one factor gave impetus to the evolution of this sector, but rather a series of developments. Originally, the geographical diversity of the US probably encouraged the need for serviced offices, while today globalization requires equal mobility but on a far larger scale. Periods of office over-supply in the recent past have forced landlords to provide a more competitive product and in the UK this has meant offering tenants a means of escaping the constraints of long leases (traditionally 15 to 20 years). Over the past few years, technological improvements have also enhanced the services such offices can provide to tenants while at the same time increasing the set-up costs for businesses taking conventional space.

In Singapore, the market players in the serviced office sector can be grouped into three tiers. The first tier comprises global players such as Regus and Servcorp. These international operators face keen competition from both regional players and from smaller local operators. The regional players offer a standard of service comparable to those provided by global players while local operators have tended to concentrate on offering more affordable alternatives for users.



Both Regus and Servcorp are well represented in the city-state. Regus from the UK, which started their first serviced offices in 1989, now run over 80,000 workspaces in 380 offices worldwide. In Singapore, each of the three Regus Business Centres is located in premium-grade buildings situated in the CBD, namely Centennial Tower, UOB Plaza 1 and Raffles City Tower. The three office centres occupy two whole floors in each of these office towers. Occupying a total of 86,000 sq.ft. they offer more than 750 workstations locally.

Servcorp, an Australian-based international business space provider, has been active in the serviced office market for the past several years. Their two business centres in Singapore, one each in Hong Leong Building and 6 Battery Road, with a total area of 22,000 sq.ft., have helped the firm gain a respectable share of the market and a strong reputation.

Regional serviced office operators in Singapore include The Executive Centre, Wangz Business Centre, Asia Pacific Business Centre and a new entrant, CEO Suites.

The Executive Centre operates 14 centres in 10 regional cities in Asia Pacific. Its Singapore operation is located on 14/F and 15/F of Prudential Tower in the heart of the financial district with a total area of 22,110 sq.ft. It consists of 63 individual offices and 162 workstations. There are also four meeting rooms which can hold up to 20 persons.

Managed by Hong Kong-based Plaza Business Centre, Wangz Business Centre have serviced offices in five cities regionally. In Singapore, they occupy a total of about 20,000 sq.ft. in two centres, the first located in the Suntec City office complex and the other at Raffles Avenue situated below the Ritz-Carlton Hotel.

Asia Pacific Business Centre has its origins in Hong Kong and now has operations in both Singapore and Hong Kong, two of the most important cities in Asia. In Singapore, its two office centres are located in Caltex House and Suntec City with a total area of 16,000 sq.ft.

CEO Suites, a new entrant to the Singapore market, have taken over the former Servcorp space on 37/F of Singapore Land Tower representing approximately 12,500 sq.ft. They started operations in March 2002 and have introduced a number of innovative facilities for their clients. For instance, their serviced office centre is equipped with bathing facilities and bed berths, which are very convenient for business travellers on a short stay in town.

Interestingly, most of the serviced office operators in Singapore have tended to cluster in the Suntec City commercial complex located in the emerging Marina Square office district. There are several good reasons for this. In recent years, the Suntec City

complex itself has become a prominent landmark in Singapore. This integrated, self-contained development comprises five office towers, a retail shopping mall and the Singapore International Convention and Exhibition Centre. The entire development has an extensive underfloor trunking system for high-speed cabling and IT facilities and is often promoted as an "intelligent" building. With the IT boom in 1999, giving rise to a large number of new IT start-ups, serviced offices saw the opportunity to provide accommodation and support services to the sort of companies which tend to be concentrated in Suntec City.

What Sort of Companies Occupy Serviced Offices and Why?

For start-ups such offices are an obvious choice, particularly given the high capital costs of establishing an office and the need to remain tightly focused on the core business rather than dealing with, for example, office administration issues. New IT companies have been an important source of clients over the last few years. Regus currently estimate that approximately 65 per cent of their tenants are multinationals, 25 per cent start-ups and IT, and 10 per cent 'others' including local and Asia-Pacific based companies.

New Market Entrants

Staff engaged on project work can be efficiently housed in a serviced office and consultants value a high level of support, particularly IT and meeting or conference space. For example, Wangz's newly opened Business Centre II in Singapore has a specially designed conference room fitted with a special project bench for the above purpose.

Some companies, by their nature, do not tend to expand beyond a certain size, which makes operating out of serviced offices cost efficient. In this respect, management and recruitment consulting firms are no strangers to business centres, running small teams in a discreet environment with the need for meeting rooms and good secretarial support. Local sales or regional offices housing a small number of executives also fall under this category. A good recent local example was when Lee Hecht Harrison, a human resource consultancy firm, took up 85 workstations in the Regus Business Centre in Centennial Tower for four months. The firm used the serviced office as a career centre, providing consultancy and counseling services to staff affected by re-structuring activities.

New market entrants will often find the familiarity of serviced offices conducive as they look to establish themselves on a more permanent basis and come to terms with the peculiarities of the local market. Such offices provide a good vantage point

from which to assess market potential or size up an uncertain political, economic or cultural environment. Virgin Mobile is a prime example of a multi-national tenant which has utilised the facilities of a serviced office at The Regus Business Centre before establishing permanent offices in Singapore. They operated in serviced offices for about a year before securing a permanent office at Clarke Quay.

A new and unfortunate area of demand may soon come from groups which focus on corporate restructuring as companies downsize and outsource in the context of a more challenging economic environment. A term in a business centre can help focus a business and provide much needed flexibility in a volatile market place. When that term ends, there are no contingent liabilities on the occupier, for example, the need to reinstate premises to their original condition.

In the course of ordinary office expansion, firms may require overspill space to accommodate a sudden influx of work or a temporary refuge between leases or during fit-out. During such moves, disruption to a business must be kept to an absolute minimum.

Virtual Office

International standard serviced offices can be used in a variety of ways. Virtual offices are now available, offering access to common areas and shared facilities. This type of office is a natural development of recent trends in hot desking and working from home and consequently puts less emphasis on traditional fitted units and more on the use of common areas and a 'plug and play' solution.

Most of the serviced office operators see this as the future of the serviced office industry providing businesses with effective communications in a well-managed environment. Almost all of the operators offered virtual office packages to clients targeted at the SOHO (Single Office, Home Office) market.

Some of the benefits of such a package include the use of the prestigious address of the business centre as the client's own registered office and correspondence address, the exclusive use of a private telephone line with calls handled and answered in the client's name, receipt of incoming mail for collection, as well as a certain number of hours of complimentary usage of the meeting or conference space (usually non-accumulative on a per month basis).

The ability to rent centrally located conference and meeting rooms has also proved to be attractive to companies which are located in suburban locations. It is possible for businesses not resident in a centre to make use of the state-of-the-art facilities

which are typically available in business centres. Such centres can host corporate events with conference, meeting and training rooms and some boast the latest in presentation and videoconferencing technology saving clients time and money. Regus, for example, is offering a new package for videoconference services to help businesses maintain communications during times of reduced international business travel. Bringing together people when they are not able to meet due to expense, time and geography, videoconferencing is a practical use of television that joins people in "virtual live interaction." Customers around the globe are applying videoconferencing to a wide range of situations from conducting sales meetings with people in different cities, to conducting interviews or meeting face-to-face with overseas customers.

Considering the world's current political and economic situation, the benefits of video conferencing over face-to-face meetings make sense from both a cost savings point of view and a logistical standpoint. It is ideal for the businessperson who prefers personal contact without the hassle and expense of business travel. Additionally, it allows people to bridge the distance without leaving the comfort and convenience of their local business centre.

The benefits include: Flexible application that provides access to a network of studios world-wide; a high degree of interactivity; economical; cost effective; pay per use basis; usually available 24 hours a day; full time technical support; no equipment costs and associated hassles.

With over 300 studios worldwide, Regus provides easy-to-use videoconference facilities available to customers through a single phone call. In South East Asia, Regus videoconferencing facilities are available in Singapore, Kuala Lumpur, Bangkok and Manila.

Finally, for off-site events, business centres can be ideal. In Singapore, Wangz operates a conference room in the penthouse of Suntec Tower One for up to 50 people which is usually used by multinational clients for regular meetings and corporate planning sessions. This is especially appealing to consultancy firms who like the facility's proximity to their offices as well as its lack of in-house distractions.

What Issues are Important to the Potential User?

A direct cost comparison between centres is difficult as all have their own ways of charging clients. The Executive Centre, Wangz and Regus Business Centres are as all-inclusive as possible, providing occupiers with as much cost certainty as possible while others prefer a pay-as-you-use approach

ensuring that no individual resource hungry occupier is subsidized by the others. Among tenants, cost certainty has been identified as a very important aspect of business centres. The most important question for most prospective tenants though, is how the cost of a serviced office compares with renting a conventional office. Some of the most thorough research in this respect was undertaken in the UK in 1998 by the Chartered Institute of Purchasing and Supply taking Regus offices as an example.

The broad conclusions of the paper were that business center offices can provide substantial short and medium term savings over conventional space. Savings did vary, however, from high to lower cost city centers, and are dependent on both length of stay and headcount - the smaller the headcount the longer the period over which savings can be realized. The two tables below show percentage savings for both high and lower cost centers (City of London and Central Birmingham).

Table 1: Percentage Saving in High Cost City Centre

	No. Of People To Be Accommodated			No. Of Months For Which Facility Is Needed			
	1	3	6	12	18	24	36
1	69%	52%	46%	39%	36%	34%	32%
5	56%	33%	21%	11%	6%	1%	-1%
10	57%	33%	33%	9%	4%	-3%	-6%
15	51%	23%	9%	-7%	-13%	-21%	-25%
20	51%	25%	12%	-4%	-9%	-17%	-21%
40	42%	10%	-6%	-26%	-32%	-43%	-47%
60	43%	11%	-5%	-24%	-30%	-40%	-45%

Source: Chartered Institute of Purchasing and Supply, Regus

Table 2: Percentage Saving in a Lower Cost City Centre

	No. Of People To Be Accommodated			No. Of Months For Which Facility Is Needed			
	1	3	6	12	18	24	36
1	89%	79%	73%	68%	67%	67%	67%
5	83%	66%	54%	42%	39%	36%	36%
10	82%	66%	55%	44%	41%	38%	38%
15	80%	61%	49%	35%	32%	28%	28%
20	80%	62%	50%	37%	33%	30%	30%
40	78%	58%	44%	28%	25%	21%	20%
60	78%	57%	43%	28%	24%	20%	19%

Source: Chartered Institute of Purchasing and Supply, Regus

In an Asian context, these figures should be taken as broadly indicative rather than specific as commercial leasing practices vary enormously around the region. As an example, a returnable deposit is asked by landlords in Japan and this can amount to a substantial sum, as much as 12 to 16 months of gross rent, reinforcing the business centre case. As a rule of thumb, deeper consideration of relative cost should be given if you intend to accommodate more than 10 staff. In Singapore, savings of between 30 and 40 per cent on office rental costs are achievable in the current competitive market compared with costs for space under a normal 3-year lease.

IT Infrastructure

Today, IT facilitates almost all aspects of doing business and many serviced office operators have made special efforts to harness this resource from telephone systems offering customized answering to broadband internet access, local and wide area networks and voicemail facilities. The best centers also provide IT support on demand. Both Regus and Servcorp Business Centers offer clients the flexibility of teleconferencing as well as videoconferencing facilities. Regus owns the world's largest network of public-access videoconferencing studios. Servcorp's communication system is able to re-direct all incoming calls from Singapore to the clients' desired location anywhere in the world. Its unified messaging system merges all incoming faxes, e-mails and voice messages into electronic messages which clients can read or listen to or alternatively they can broadcast voice messages or data from their own computers.

Conference and Meeting Facilities

Fully equipped and serviced conference and meeting facilities are an important aspect of the business centres environment and most provide a range of audio-visual equipment, electronic copyboards, videoconferencing and projectors all fully supported by local staff. For example, Asia Pacific Business Centre have a proprietary IBID electronic board, an interactive whiteboard which allows real time presentations, diagrams and words to be captured by computers or laptops. Such equipment is provided on a pay-as-you-use basis. Similar facilities include a café, pantry or bar area for refreshments and informal meetings and in many cases outside catering can be arranged.

Office Administration

Back to basics, good old fashioned human resources. In all the centres which were visited, staff were highly trained and English speaking. All centres emphasized the personal aspects of their business as being amongst the most important, developing a

rapport with tenants and anticipating their needs. Considerable time is committed to staff training to ensure a consistent high level of service being provided to tenants.

Professional Services

The provision of professional services was common to all centres and these included such add-ons as management consultancy, recruitment, executive training, accounting, website design, translation, interpretation and research. Included within the service package offered exclusively by Servcorp and Regus Business Centres is travel booking support for regional and global itineraries. In addition, they also have messenger and secretarial services as value added services.

Design, Layout and Location

The importance of a prestigious address and a well designed and laid out office was not lost on the centres, all of whom put particular emphasis on a stylish functionality. The small business user can benefit from multinational standard offices while pleasant work surroundings are proven to attract tenants and improve productivity and performance. Space flexibility and efficiency attracts many businesses to serviced offices and the ability to expand and contract easily is important.

Regus emphasizes service, design, location and equipment which are the same throughout its global network to enable ease of transfer and single customer experience, whereas Servcorp employs different themes for its two centres in Singapore. The interior design of Wangz Business Centre II, the firm's newest office centre, is based on the popular 'Zen' concept which combines wood with natural lighting and high ceilings to create a more relaxed, resort-like atmosphere in which clients can conduct their business.

Licenses

Agreements to rent serviced offices take the form of licenses and these are not required to be registered. Deposits are required and these will vary between 2 and 3 months depending on location. The Agreement leaves the tenant with no obligations over the property itself (legal or financial).

The Future

Fortunately for Singapore, many of the hardest lessons have been learned overseas where the sector now enjoys a well-established reputation among both tenants and landlords. In these markets occupiers benefit from being provided with the widest possible choice of accommodation.

Among landlords, despite initial concerns that, with their short occupancies, business centres were over exposed to down-cycles in the leasing market, such fears have subsequently been allayed and many now actively seek profit sharing arrangements with operators.

Among serviced office operators the trend has been towards an ever wider range of services to larger occupiers who also want to enjoy the benefits of this type of accommodation. In this respect, both Regus and Servcorp are good examples. Besides the usual serviced office facilities, they also offer building procurement, fit-out and management which effectively reduces the operational and financial risks of holding property. Another direction is towards the virtual office, a solution which is becoming more practicable as IT infrastructure continues to make rapid advances and work practices change accordingly. The rate of expansion of serviced office operators over recent years bears eloquent testimony to the success of the format and this alone should encourage Singapore landlords and tenants to pay more heed to a sector which stands to benefit both.

More recently, the terrorist attacks on the US in September 2001 and the subsequent global economic slowdown has effectively brought out the value of the serviced office sector in Singapore. In the weeks after the terrorist attacks, serviced office operators experienced a rise in enquiries as well as a stream of new businesses, as some firms choose to delay signing new office leases given the uncertain economic environment. Instead, several opted to rent serviced offices which offered more flexibility. In addition, serviced office operators in Singapore also reported an increase in shorter-term renewals of between 6 and 8 months as well as renewals on a month-by-month basis. This compares with the normal 10 to 12 month lease which used to be the average lease period a tenant occupies space in a serviced centre. This is a trend which is worth monitoring for the future development of the serviced office sector in the country.

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