Managing change

John Gotley examines how new research could develop the role and benefits of 'Managed Office Solutions'

THE LAST THREE years have seen a dramatic shift in the way finance and property professionals view commercial real estate. Investing in buildings is no longer the safe bet it used to be, values have plummeted, bank financing is tight and the introduction of new legislation such as Empty Property Tax mean that portfolios containing a number of moth-balled buildings are becoming more visible on corporate balance sheets and P&L forecasts. Many occupiers are looking for alternative methods to acquire appropriate accommodation that have a much reduced commitment and risk.

In today's dynamic market, many occupiers are looking to move away from the traditional methods of acquiring property such as buying and long-term leasing. Instead they are adopting accommodation strategies that are flexible and more risk averse. One such option that promises to deliver on these benefits is Managed Office Solutions (MOS). However, there is a scarcity of information on this subject and occupiers and suppliers alike are confused about the concept of MOS, how it is defined and what it really offers. What is clear however is that MOS, in one form or another, has gained considerable attention in the last ten years, with a number of high-profile companies adopting the model including BSkyB, E.ON, and Vanquis Bank. This popularity has partly been due to a need for businesses to respond more quickly to changes in the market environment, such as demographic shifts, and partly due to the financial insecurities associated with buying and long term leasing, and how these can divert attention and resources away from core business activities.

What is MOS?

The industry is already familiar with the concept of serviced offices, that are ideally suited to smaller businesses or larger companies that need a small city centre office on a short term basis. MOS is a similar concept that offers typically larger businesses fully functional office space for a fixed monthly cost. However with MOS the equipment needs, office design and most importantly choice of location can be bespoke to the business's needs and requirements. The key characteristics of MOS are twofold; firstly, there is more choice in terms of influencing the location and design of the office space, to ensure that it fulfils all of the business needs and secondly there is more flexibility within the contract to increase or decrease workstation requirements as business demands change. Other key characteristics of MOS include:

Shorter time to occupancy

There is a perception from some property professionals who have yet to embrace MOS that depending on the complexity of their business needs, acquiring office space through the MOS maybe time-consuming, as the service provider may have to build or redesign current offices to meet the business needs. However, occupiers such as Vanquis Bank were able to move into a new headquarters two years earlier with MOS compared with using a traditional lease approach.

Managing the supply chain

Unlike other models MOS includes a bespoke service with one partner/provider who not only delivers the required buildings, but who also simplifies the operational supply chain involved in property and office management. This means that the occupier only deals with the service provider, who in turn manages contractors, water supply, electricity, security, parking, internet connection etc. This allows the occupier to focus on just its core business activities.

Risk mitigation

MOS offers a more bespoke and turn-key option, as it is the occupier that decides location and layout, and the capital investment and risk

For more information

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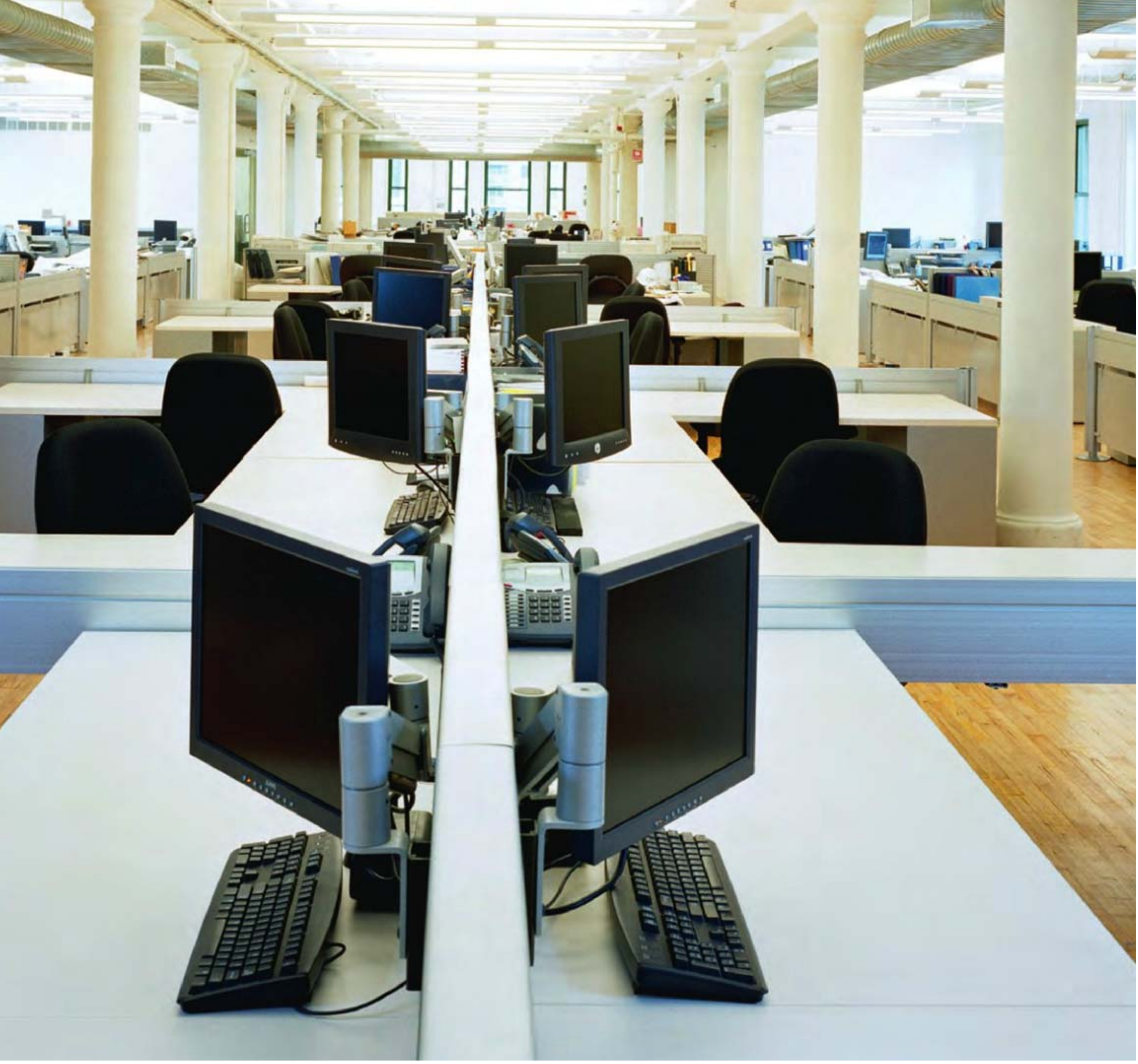

is taken by the service provider, who procures the property and manages the fit-out; this may include communication rooms, cabling, IT, power provision, workstations, kitchen, and break-out facilities.

Alignment of property portfolios

According to the British Federation (property review 2010), the average lease has now dropped significantly over the last two decades from 21 years in 1991 to 5.9 years in 2010. However, for many organisations even this period is beyond any sensible business planning horizon, even if a break period is included in the deal these often cannot be exercised due to high exit costs. The contract lengths for MOS, however, differ and typically range from three to five years and therefore enable companies that typically require 100+ workstations, to more closely align their accommodation requirements with their actual business needs. Furthermore, at the end of the term, as MOS is based on an operational contract, they have options to extend, or exit without any costs, such as dilapidations or legal fees.

The future of MOS

It is clear that the market for MOS is still relatively small when compared to both leasing and serviced offices. However, it is also apparent that a number of property and office providers are increasingly considering implementing the MOS model.

The question however is how can MOS providers develop their market if their offerings are predominantly suited for businesses that experience fluctuations in their need for property to a degree that makes typical lease commitments incongruous. Indeed, one view is that MOS are not particularly suited for mature businesses with mature estate departments, which can easily write off the capital cost and can themselves mitigate asset risk through contracting, break-clauses and depreciation. To overcome this, solution providers need to highlight and disentangle the cost/risk issues and seek to provide companies with a decision-based framework that allows potential occupiers to estimate financial and asset risk benefits.

Future thoughts

The market for property office acquisition has evolved significantly over the last decade. The traditional leasing approach is becoming an outdated option for businesses that need their property portfolio to fluctuate in accordance with their foreseeable business horizons and ever-changing economic conditions.

As a result, a new type of property acquisition has emerged – MOS. While it may not suit every business, it is now being seriously considered by organisations that require more flexibility in terms of contract, location, term and occupancy and also offers a more bespoke, complete service compared to its leasing and serviced offices counterparts. ■