

Office business centres leasing alternative

Shared space gives business centre clients added flexibility

By Mike McLeod - Business Edge

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Whether you're a freelancer working out of a home office, a sales rep road warrior who is constantly on the move or a large corporation thinking about venturing into a new international location, having a prestigious downtown address, complete with high-tech boardrooms and administrative staff, has its advantages.

But Class A office space in the heart of a financial district doesn't come cheap. According to a 2005 CB Richard Ellis survey of worldwide occupancy costs (as opposed to net lease rates), Toronto and Ottawa rank 31st and 41st, respectively, on a list of the top 50 international commercial real estate markets.

Add in the fact that most landlords require multi-year lease terms and most startups are left with few viable options.

To overcome cost and other challenges, companies are increasingly turning to office business centres for their commercial real estate needs. Also known as executive suites or shared office space, business centres provide clients with the benefits of conventional office space without the common entry barriers.



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The Rostie Group's Karen Carruthers says her company's expertise can help cut down on clients' capital costs.

furnished and serviced office in a prime location.

"In the Toronto financial district, there is a high demand for shared office space," says Wendy Hopper, centre manager for Global Prime Office Network. "We service companies that span the whole spectrum, from those that are just starting out to large U.S. companies that are starting up in Canada, like Internet search company Google."

In essence, business centres such as Global provide turn-key commercial office space where clients can quickly start doing business in a fully

Guillermo Rotman, president of Florida-based The Regus Group, says speed of entry is crucial to his clients, many of whom are high-tech companies that need quick access to the market.

"When you come to us, you sign up today and move in tomorrow," he says. "Your desk is waiting for you and your phones and Internet connection are working. If, the next day, you change your mind and need more people, they can move in and start working right away."

On the surface, business centres look like upscale office space, complete with lush

reception areas, conference rooms and support staff. On closer inspection, they are actually clusters of solo or small operations.

While each client rents their own individual or group of offices, they share secretarial and administrative staff and common areas such as boardrooms and copy/print/fax facilities, which typically are billed on a per-use basis.

Karen Carruthers, director of marketing for The Rostie Group in Toronto, says clients only need worry about growing their business - the business centre provides everything else.

"There are very few businesses we can't do something for," Carruthers says. "For small companies that are often one-man shows or a two-person partnership, we act like an incubator in some ways. They don't have to think about whether they have the right phone system or whether they have a good receptionist. With a service like ours, companies don't have to incur a lot of capital costs that don't further their business aims."

The cost for shared office space varies depending on location and the level of services requested. For example, a private executive office in The Rostie Group's 20 Bay St. location starts at \$600 per month for an interior office and \$1,100 for a window office, while a 160-sq.-ft. office in Global's The Exchange Tower location runs \$1,300 for interior space and \$2,000 for a premium corner office.

While office business centres provide a low cost of initial entry, space does come at a premium. Breaking the prices above down, office business centre space in a downtown location can range from approximately \$45 to \$150 per sq. ft. per year for a private office.

By contrast, net lease rates for upper end Class A/AA office space in Toronto's financial core district run approximately \$23 per sq. ft. per year, according to CB Richard Ellis. Add occupancy costs - which include taxes, maintenance, insurance and utilities costs - and that figure jumps to \$45 per square foot.

While seemingly expensive, office business centres are cost competitive, Hopper says, adding that traditional leasing entails much more upfront expense than simply dollars per square foot.

"When clients look at how much it would cost to go on their own, they have to look at hiring a receptionist, purchasing office furniture and decor, and paying for improvements to the space," she says. "They also have to decide on what kind of telephone system and how large."

Hopper adds that for clients to replicate the amenities and services found in a office business centre, they would also need to factor in other costs such as boardroom space, video conferencing/ business presentation equipment, and office management and IT staff as well.

"We manage all that," she says. "If the secretary is out sick or the copier breaks down, as the centre manager, that's my problem."

Of course, not every client needs full-time office space, Carruthers says. One of the fastest-growing products in the office business centre sector, she says, is what the industry calls virtual offices. Clients continue to use their present location, but get

the use of a prestigious mailing address and a professional receptionist, who can transfer incoming calls seamlessly to any location.

"With a virtual office, you get the benefits of a downtown business address without the commute," Carruthers says, adding that virtual offices start at \$75 per month. "If you need to meet with clients, you can also come in and get a day rental office or use a meeting room for the day."

Another advantage shared office space has over conventional leasing is the flexibility it affords, Rotman says. Unlike conventional leases, which typically require clients to lock in for three, five or even 10 years, he says business centres can rent space on a monthly basis. Clients also have the opportunity to start small and grow their business as fast or slow as necessary.

"In the old days, startup companies would lease enough space to accommodate future growth," he says. "Maybe they had two people but they need to plan for the future, so they'd start paying for 10 workstations, from Day 1. In our system, you start with space for two and, if your business goes well and you need to grow, you can get additional space right away. This way, you pay only for what you use."

With 750 locations in 350 cities across 60 countries, Regus is one of the world's largest office business centre companies. An international presence, Rotman says, makes an office centre particularly attractive to large companies venturing into foreign markets.

"It's very common for a large company to have branches in the U.S., Canada or overseas with only four or five people," he says. "What they don't want is to spend a lot of time and effort reviewing what is the right location or for how long they want to keep it. With us, they have a simple way to manage these small to medium-sized branches."

For all the benefits of office business centres, they can carry certain negative connotations for some, Hopper says, even though the average length of stay for her clients is 30 months or more. She adds that clients are understandably anxious to always make the best impression.

"In Toronto, people are still kind of secretive and almost embarrassed that they are in a business centre," Hopper says. "In the U.S. and Europe, business centres are seen as a very clever way to run your business."

"Still, we are very sensitive to the fact that clients may not want others to know. We are very careful not to put our company name anywhere. There is really no way for someone outside to know that it is not all your space when they come in."

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