

# Crisis helps Servcorp expand globally as office rents crash

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Offices

ALF Moufarrige does a quick calculation and says: "We've signed up 12,500 square metres of prime office space," as he rattles off the names of cities in which his business is expanding.

Moufarrige's Sydney-based company, the listed Servcorp, which operates serviced offices, has signed 13,000sq m in quick succession in recent weeks, but he is superstitious about the number 13, so he keeps it down to 12,500sq m.

The global downturn, which has heralded the collapse of office rents around the world, has provided the catalyst for the aggressive expansion of his Sydney-based company.

Moufarrige, who runs possibly the world's oldest serviced office business, intends to double the size of his global operation in the next two years.

"For once, we have all the ducks in a line," he says. "Rents are down and landlords are desperate. There isn't a more favourable time to do leases than today.

"In Japan rents are down 40 per cent, and in London rents are half of what they were. Similarly, rents in Hong Kong have halved."

In a presentation to analysts last month, Moufarrige said the company was paying "\$250,000 too much in rent per month", and it aimed to reduce that by February.

Servcorp has signed up space at a bargain rent at Marunouchi, on top of the Tokyo train station, hailed as the "best address in Tokyo".

In Hong Kong, Servcorp recently struck a lease at the premium office complex IFC Two, taking up space vacated by a failed Wall Street firm.

Rents are falling in other cities such as Beijing and Shanghai, where there is a massive oversupply of office space.

The company operates out of four cities in China.

This week, Servcorp took up space in landmark office buildings in the financial districts of London and Chicago.

Barely two weeks ago, Moufarrige signed a seven-year lease

agreement for a floor at the Marina Bay Financial Centre, now under construction in Singapore's new central business district. Servcorp becomes the third Australian company to lease space at MBFC after BHP Billiton and Macquarie Group.

MBFC is the third location for Servcorp, which first arrived in the city state 15 years ago, and now runs serviced offices out of two premium buildings.

But Singapore is just one cog in Moufarrige's global operation, which will increase the space it offers in Tokyo, Hong Kong, Jeddah and Abu Dhabi in the Middle East.

Moufarrige says the company will open in new locations: Britain, the US, Taiwan and Saudi Arabia.

"We currently have a presence in Paris and Brussels. This is the first time in London and we will open for business later this year," says Moufarrige, who established the business in 1978.

Servcorp has signed up for 1114sq m in Dashwood House, in Old Broad Street a short distance from London's Liverpool Street underground station.

Similarly, it will enter the US market through the gateway cities of Chicago and New York.

"We are negotiating with three parties for space in New York, but so far have not signed an agreement," he says.

One of its largest new operations will be in Jeddah, capital of Saudi Arabia.

It already operates in Dubai in the United Arab Emirates and will soon open a serviced office centre in the UAE capital, Abu Dhabi.

Servcorp, which was listed in 1999 and has a market value of almost \$267 million, has a presence in 13 countries, occupying 67 floors, in 22 cities.

The Moufarrige family still owns 60 per cent of the company.

At \$6 million a month, the company's annual rental bill totals about \$72m, making it one of the largest serviced office operators in the world.

The company's revenue had risen year on year from \$107.5m in 2004 and throughout the global financial meltdown to \$228.7m in the year to June 30.



Global move: Alf Moufarrige says this is a favourable time for leases

Picture: James Croucher

It is not as though Servcorp has sailed through the economic downturn untouched. Moufarrige says business was tough and will remain so for the next six months.

In this environment, he plans to drive the growth of Servcorp's virtual office business.

Virtual office packages contribute about one fifth of its Australian operation, which generates 25 per cent of its revenues.

Over the years, the company had spent at least \$50m to develop software and technology and another \$40m for an IT platform to beef up its virtual office services to its client base of 25,000.

He says the product has only been promoted actively in Australia and Japan, and Servcorp is now in the process of rolling it out in other markets.

Its proprietary technology allows clients to set up a virtual office with the swipe of a credit card. The IT platform issues clients with a single bill for services such as phone calls and faxes.

He says the technology will help the company to grow its client base tenfold.

Physical offices will always provide the backbone to the

virtual office business, he says.

Servcorp will have small offices in key markets such as Singapore, Hong Kong, China and Japan, Moufarrige says.

"We will have 80 offices in the IFC Two, but we will have smaller centres of 15 offices each in Kowloon and another location on Hong Kong island."

Its key serviced office operations are located in the Bank of

China Tower and at One Exchange Square, both in central Hong Kong.

In Singapore, he plans a small serviced office centre in Orchard Road, a secondary business location.

The same strategy will apply to key cities in other countries to increase its coverage and to realise his hopes of doubling the operation over the next two years.