



Profitability of Business Services in Company X

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Date: 25 August 2015

Acknowledgements

I would like to express my gratitude for being able to complete this master thesis research work that leads me to the graduation of Msc in Business Administration with University of Twente. I have to thank my committee members especially my lead supervisor Mr. Ir. H. Kroon from the university and my external supervisor Mr. F. Faber, MA for their dedicated support, involvement and guidance in each and every phase of this master thesis writing. I would also like to thank Dr. P.C. Schuur for his supportive role as my second supervisor.

This external project of master thesis required more than just academic and knowledge support, I have to thank my colleagues from Company X and its subsidiary for their extraordinary friendly support during my data collection process that made my master thesis much easier process. They have provided me professional support and also friendship that I would remember for long.

Most importantly, none of this would be accomplished without the unceasingly love from God and also my family members. My husband, who is always supportive, motivating and loving by all means, my parents and sibling for their unconditional love and encouragement and also to my in-laws who are always supportive in every decision I made. I am always feeling grateful for having all of you. Thank you and love you all very much.

Executive Summary

This master thesis research work is an external project with Company X located in Hengelo, The Netherlands that offers four main types of services in supporting international business trades in the Twente region. These main services are (i) providing meeting point for international businesses via Business Club; (ii) matching worldwide trade's supply and demand with EU regional supply and demand, organizing practical workshops/seminars for international business, handling incoming and outgoing trade missions via Trade Missions & Services; (iii) assisting expats in settling-in in this region via Expat Center and (iv) providing rentable flexible desks & office space, and virtual office services ("products") via Business Services. The main research question explores the profitability of Business Services with sub-questions studying the cost-benefit breakeven point for each type of the Business Services' products and also on the possibility of improving these services and its business model. Literature review process involves examination of different key words and approaches in evaluating market value and profitability as well as the associated problems with the selected approach in order to decide on which approach is the best approach for this master thesis research work. Profits Method was selected as the valuation approach in finding out the profitability of Business Services however this approach also involves capitalising profitability cash flow with the relevant yield that was not taken into account for this master thesis due to the focus of profitability and not market value of the property. Data collection was taken place at Company X itself during the first two months of the master thesis research work where information about Company X on its operation, floor size, products of Business Services including the respective monthly running expenses, past and current rental contracts (internal analysis), market trend of Business Services in other global network members and also other similar products from real estate agents in the similar town (external analysis) were examined. Subsequently, the knowledge and data collected were incorporated in to the Profit Method equation and a financial model was built for each product in Chapter 4. Findings in Chapter 5 show that it is profitable with the current prices of €40 for full-day contract and €25 for half-day contract of flex-desk and Company X must rent out at least 2 flex-desks and 5 flex-desks per each type of contract i.e. 2 days, 4 days, 10 days or 20 days per month in order to break-even respectively. Flex-office does not generate sufficient income for Company X but virtual office does. A business proposal has been suggested by a company named Company A to Company X on granting Company X €15/m²/year for renting out its space-measured 306.5m² under the professional branding of Company X. Finding shows that it is only profitable to Company X if it is collecting

€33/m²/year of commission with Company A's 306.5m² due to the high license fee that Company X need to break-even. Alternatively, it is essential for Company X to have at least 667m² floor size rent out per year if it were to maintain at €15/m²/year. Therefore, it is recommended for Company X to either raise to €33/m²/year with 306.5m² or to have at least 667m² if the Company X were to maintain the commission charge of €15/m²/year. Lastly, the business model of Business Services was also studied and a recommendation on Business Club Member Fees yearly increment starting from year 2016 to 2020 is made with a new package in order for Company X to reach financial sustainability starting in the year 2017.

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Chapter 1: Introduction

This chapter is devoted to the introduction of the supply and demand of office spaces and commercial properties in the region of Twente followed by the introduction of Company X or case study of my master thesis. The content moved on to the future plan of Company X and research questions in relation to the real property management that needed to be studied during this master research. Research scope and its goals will be defined explicitly and the outline of the following chapters will also be highlighted in this chapter.

1.1 Supply and Demand of Office Space in Twente

The Appraisal Institute (2001) studied the supply and demand situation and explained that with *opportunity cost* and *budget constraint*, a property or a legal interest in a property can have economic value when it has *utility* and is *scarce*. Utility refers to durability and the specific physical and legal attributes of a property; scarcity refers to the allocation of finite resources in accordance to the infinite human's demands and opportunity costs refers to allocation of resources where one can't use simultaneously elsewhere. These four factors interact and create value that is reflected in the basic economic principle of supply and demand. In general, property is required to produce goods and services and enters the economy in many ways (Wyatt, 2013).

The supply of office spaces and commercial buildings in the region of Twente, which is located in the Overijssel Province of East Netherlands have been reported more than the demand of the market in the report by the Property Foundation Twente or "*Stichting Vastgoedrapportage Twente*" (Dutch) for the year 2013. Three main cities namely Enschede, Hengelo and Almelo are together forming an approximately about 85% (2012) and 50% (2013) of the total land in the Twente region respectively. An overview of the space available for the mentioned cities with its respective corresponding occupancy rate is described in the Table 1 and Table 2 below that were extracted from the same report. In brief, it is observed that the space available has increased while the occupancy rate has dropped for the year 2013 as compared to year 2012 for both Office Property Market or "*Kantorenmarkt*" (Dutch) and Industrial Property Market or "*Bedrijfsruimtemarkt*" (Dutch). This statistics provides an overview on the supply-demand issue that is affecting the commercial organizations in the region and also my subject of study, "Organization" or "Case" for this research of master thesis. More information on Company X is available in the following Section 1.2.

Space Available in 2012 (m2)	Space Available in 2013 (m2)	% +/-	Occupancy Rate in 2012	Occupancy Rate in 2013	% +/-	
Enschede	105.700	107.400	2%	29.600	19.300	-35%
Hengelo	76.700	83.800	9%	16.600	4.600	-72%
Almelo	32.200	39.000	21%	9.700	4.000	-59%
Total	214.600	230.200	7%	55.900	27.900	-50%
Total Twente	253.000	287.700	14%	60.100	36.600	-39%

Table 1 Space available vs. Occupancy Rate in 2012 and 2013 for Office Property Market

Space Available in 2012 (m2)	Space Available in 2013 (m2)	% +/-	Occupancy Rate in 2012	Occupancy Rate 2013	% +/-	
Enschede	164.600	189.300	15%	87.600	78.500	-10%
Hengelo	91.200	115.600	27%	24.000	21.800	-9%
Almelo	78.100	111.500	43%	25.700	9.800	-62%
Total	333.900	416.400	25%	137.300	110.100	-20%
Total Twente	694.300	813.500	17%	217.500	235.400	8%

Table 2 Space Available vs. Occupancy Rate in 2012 and 2013 for Industrial Property Market

1.2 Organization

The “Organization” or “Case” for this master thesis research is “Company X” and it is currently located at 7551HT Hengelo. It is one of the members of global business network (GBN) with over 300 establishments in almost 100 countries. The objective of GBN is to promote international trade and there are now about 7,500 (inter) national companies connected with the GBN network. The target regions of Company X are namely Twente, Achterhoek (Dutch-German border) and also two German cities of Münster and Osnabrück with the focus of knowledge and technology exchange in boosting economic activity. The current team in Company X consists of 12 individuals working full time, part-time or volunteering under the leadership of current Director of Company X in supporting Company X’s four main services and these main services are:

- (i) Business Club as meeting point for international businesses;

- (ii) Trade Missions & Services in matching worldwide trade's supply and demand with EU regional supply and demand, organizing practical workshops/seminars for international business, handling incoming and outgoing trade missions;
- (iii) Expat Center in assisting expats in settling-in in this region; and
- (iv) Business Services that provides rentable flexible desks & office space, conference & training facilities and virtual office services

These main services are similar to the rest of the establishments in other countries and as well as other GBNs located in The Netherlands for example GBN Beurs Rotterdam, GBN The Hague, GBN Schiphol, GBN Amsterdam, GBN Almere Association, GBN Eindhoven, GBN Leeuwarden, GBN Venlo and with GBN Arnhem-Nijmegen being the nearest GBN to Company X geographically

1.3 Future Plan

In this coming October 2015, Company X has planned for a relocation to a new office location under the project “Hart van Zuid” (“Project”). This Project is a prestigious multi-functional work and lifestyle complex near the Central Station of Hengelo. Along with the Project's aim to provide a good mix of living, working and recreation impression, Company X will be the international icon that focuses on international economic trade. In relation to the relocation, Company X has the opportunity to look into further expansion or not of one of its main services, Business Services, which provides flexible desk, flexible office and virtual office services for rent.



Figure 1 Future location of Company X

1.4 The Problem

During the first discussion with the current Director of Company X, I was made to understand that the current major sources of income are coming from the GBN Business Club and Trade Services while Business Services is contributing to the income of Company

X passively. Therefore it is in the interest of Company X to know the forecasted profitability of Business Services in providing rentable flexible desks & office space and virtual office services in the new office location. Besides, the director would also like to know the cost-benefit break-even point for Company X on Business Services. With this information on hand, it leads to the following research question.

1.5 Research Question

What is the profitability of Business Services for Company X? (Chapter 5)

Sub questions:

- (i) What is the cost-benefit breakeven point of Business Services? (Chapter 5)
- (ii) What are the other possibilities of product earning ways for Business Services based on current market trend and also relate to other function of Company X i.e. Business Club members (Chapter 6)
- (iii) What are the possible improvements of Business Services' business model in Company X? (Conclusion & Recommendation)

1.6 Research Goal

In relation to the main research questions and its following three sub-questions in Section 1.5 above. The following research goals have been set:

- To find out the profitability of the Business Services as an income stream in supporting Company X's overall business strategy
- To know the cost-benefit breakeven point of Business Services
- To improve the current business model of Business Services
- To be able to apply knowledge learned to practical business context

1.7 Research Scope

The design of the floor plan and any other related discussions are under the administration of a professional architecture firm and also Company X itself. In the context of my study, I am assigned to conduct a cash flow analysis on the forecasted profitability of Business Services. The current market trend and market value of comparable real estate facilities in the region will be also be looked as guidance before the development process of the financial model in order to have a good picture of the current position of Organization's Business Services. It is logical to develop a forecast for a medium timeframe due to the fluctuation of prices and

also changes in economy condition and therefore the tentative timeframe will be 5 years ranging from 2016 to 2020.

1.8 Practical and Theoretical Contribution

The main practical contribution of this master thesis research will be the forecasted profitability of Business Services of the case study which will form part of Company X's formal planning of its services at the new office environment in the coming years. The forecast will come in the form of Microsoft Excel spread sheet that contains forecasted cash flow projection with profits/loss. Besides, it is also aimed to form a user-friendly excel spread for user with basic knowledge of finance and accounting or with limited researcher's guidance. This research scope is suggested by Company X and I am confident that it will contribute vastly to Company X. In terms of academic contribution, there are a number of current models covering investment evaluation in various industries (Kelliherand & Mahoney, 2000) however, there is no study conducted among GBNs in The Netherlands for real estate management in particular serviced desks or office rooms and virtual offices. In view of that, it will contribute to the growth of academic knowledge especially in the context of Twente region.

1.9 Outline of the Thesis

Chapter 2 highlights the relevant theoretical background for this research ranging from definition of useful words, real estate approaches to selecting the best approach in finding out the answer for the research question, the associated problems and its solutions with the selected method of analysis and more. Chapter 3 describes the research methodology and data collection process of units of analysis while Chapter 4 and Chapter 5 are planned for financial model construction based on the selected method of analysis and data analysis that will provide us the result to the research question and its sub-questions respectively. These chapters are important to provide an understanding on Company X and also Business Service in-depth (Internal Analysis). From these chapters, Company X is able to see every business opportunity that it possess besides exploring other possibilities of earning methods that are adoptable by Company X in Chapter 6 (External Analysis) finally the Conclusion and Recommendation recommends the beneficial action can be taken by Company X.

1.10 Key Words

Profitability, Cash Flow (CF), Spread sheet, Financial Modelling, Twente, Business Services, Rental, Flexible Offices, Profits Method, Excel

Chapter 2: Theoretical Framework

This chapter explains the basic definitions of the key words that are important for the writing of this master thesis for instance real property, real estate, investment property, landlord, tenant, rental and market value of properties. This gives a clear and mutual understanding to all readers of this master thesis. Few of the basic real estate appraisals methods will be explored in order to determine the appropriate appraisal method that fits the case study. They are namely market data approach, income approach, cost approach, development approach, profit method and discounted cash flow method. Subsequently the associated problems and its solutions of the selected method of analysis will also be highlighted to give a more comprehensive understanding on the method of analysis as a preparation for the next following chapters.

2.1 Definitions

Real property is defined as “all the interests, benefits, rights and encumbrances inherent in the ownership of physical real estate, where **real estate** is the land together with all improvements that are permanently affixed to it and all appurtenances associated thereto” (Pagourtzi, Assimakopoulos, Hatzichristos, & French, 2003). Further, International Accounting Standard (IAS) 40.5 defines **investment property** as property (land or a building or part of a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. An occupier utilising the property for business purposes or for investment purposes is referred as **landlord** or lessor. Landlord or lessor could also derive rental income from a property lease that is granted to an occupier (tenant or lessee) who holds a property for a term of duration of which is usually specified in or implied by the terms of the lease granted by the landlord. **Rent** is defined as “the estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms, in an arm’s-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion (RICS, 2012: 31)” (Wyatt, 2013).

Valuation of real estate provides a quantitative measure of the benefit and liabilities accruing from the ownership of the real estate. Therefore, valuations and required and often performed by a number of different parties include real estate agents, appraisers, assessors, mortgage lenders, brokers, property developers, investors and fund managers, lenders,

market researchers and analysts, shopping centre owners and operators as well as other specialist and consultants (Pagourtzi et al., 2003).

The International Valuation Standards Committee (IVSC) defines **market value** as a representation of value in exchange, or the amount a property would bring if offered for sale in the open market at the date of valuation under circumstances that meet the requirements of the market value definition. Three most basic approaches in appraising market value of real property are explained in the highly cited book published by American Institute Of Real Estate Appraisers, 1987. They are namely market data approach, income approach, and also cost approach. These approaches have its contribution respectively, and the decision on the approach selection varies with type and purpose of appraisal (*italic* below) where information on the approaches is explained as follow. There are also other methods for example residual and profits method which is under income approach where the principle of valuation is linked to comparable vacant land sales and the income-generating characteristic of the real property respectively (Pagourtzi et al., 2003).

2.1.1 Market Data Approach

Appraiser considers sales and other market data of comparable or nearly comparable properties as the focus of market data approach. For nearly comparable properties, appraiser attempts to make adjustments for the difference between the subject property and comparable properties for the purpose of *estimating the selling-buying price* where a willing seller could sell the subject property to a willing buyer as of the date of appraisal. This approach is accepted widely as an indication of the value of real estate (American Institute of Real Estate Appraisers, 1987). However, it's not easy to find two similar properties that have been recently sold therefore, this approach is highly dependent on the availability, accuracy, completeness and timeliness of sale transaction data (Pagourtzi et al., 2003).

2.1.2 Income Approach

Direct capital comparison for investment market is rarely appropriate due to high level of heterogeneity in the market. For instance, rental income is more useful in the occupational market, where the landlord chooses to permit the right of occupation to a third party (tenant) by letting the property. Tenant will pay the owner (the landlord) a rent to represent the annual value of the property to the tenant and therefore the rental income is therefore a cash flow that shows the *values of the rented property* by the present value of the predicted cash flow or the income approach (Pagourtzi et al., 2003). Income approach involves the present

value of future benefits of the property. For an income property, it is measured by the net income, which a fully informed person would be justified in assuming the property would produce during its remaining useful life. After comparison with investments of similar character, this net income (NI) or net operating income (NOI) is capitalized into an estimate of value (NI or NOI/ capitalization rate) (American Institute of Real Estate Appraisers, 1987). Under this **approach**, there are a **few methods** of analysis namely residual method, discounted cash flow method and profits method (Trojanek, 2010; The Board of Valuers, Appraisers and Estate Agents Malaysia, 2015) and it will be discussed in Section 2.1.4 - 2.1.6 below.

2.1.3 Cost Approach

In the event that there is no comparable property transaction or rental or yield-producing characteristic in a real estate, the market data approach and income approach will not be appropriate in the appraisal process. Under these circumstances, cost approach will evaluate the market value of the real estate by making reference to its replacement cost (Pagourtzi et al., 2003). Cost approach is defined as one of the ways where the appraiser obtains a *preliminary estimated value* of a real property by adding the estimated value of the land to the estimated value of the depreciated reproduction or replacement cost of the building and equipment. In brief, the cost approach consists of three steps: (i) determine acquisition cost of a similar and equally desirable parcel of land, (ii) estimate reproduction or replacement cost of the existing improvements under appraisal and (iii) estimate and deduct accrued depreciation due to all causes from the estimated cost of the building new. The result of the calculation will arrive to the estimated market value of the real estate (American Institute of Real Estate Appraisers, 1987).

2.1.4 Development/ Residual Method

Under this method, the land or site should be estimated at the state that the site were vacant and available for the highest and best use. Real estate appraisers view that *market value* of this site in a redeveloped form and deduct all costs that will be incurred in putting the property into the form that will command a price. The residue after all necessary cost deductions will represent the maximum capital expenditure for buying the land. The higher the demand for the finished and redeveloped property, the higher the gross development value and the higher the market value of the land in its original state while the costs remain relatively static (Pagourtzi et al., 2003).

2.1.5 Profits Method

There are properties in the market that are linked to Company X's operations for example hotel lodging business where the market value of the property is highly dependent on the potential cash flow. The number of bedrooms in the hotel, the room rate and the average occupancy rate for the year will determine the operating cash flow of the business. Thus, hotel will be considered, as a unit of production and it is the valuer's role to assess the economic rent for the property from first principles (Wyatt, 2013).

Valuation will be performed based on the potential revenue to be expected each year from the hotel and deducting all other cost (laundry, catering and services) of a practical hotelier in realising that cash flow. Other costs include salaries; cost of borrowing in operating the hotel will also be deducted from the revenue to arrive to an estimation of the economic rent for the property. This same principles will apply to any other types of property i.e. restaurants, cinema and more (Pagourtzi et al., 2003).

2.1.6 Discounted Cash Flow (DCF) Method

Recent journals showed that Discounted Cash Flow (DCF) Method is widely accepted & used model in theory and practice for *company valuation* (Ali, El-Haddadeh, Eldabi, & Mansour, 2010). Since cost approach does not provide realistic market values and the sales comparison approach is impractical for use due to matching comparable transactions on commercial property are hard to find, DCF Method is the far most widely used method (Vimpari & Junnila, 2014). As explained in the book by Palepu and Healy (2007), DCF analysis uses multiple-year forecasted cash flow and discounts them with cost of capital formula (Weighted Average Cost of Capital (WACC) formula) to estimate the present value of the investment.

$$\text{Property Value} = \sum_{t=1}^T \frac{\text{FCF}(t)}{(1 + \text{WACC})^t} + \frac{\text{TV}}{(1 + \text{WACC})^T}$$

Equation 1: DCF Valuation Model Equation

Where t=time

This model reflects the basic principles of finance; time value of money, and value of an investment is the present value of the net cash payoffs that investment generates. In brief, the steps involved in this method are:

1. Estimating free cash flow (FCF) for an explicit forecast period includes forecasting revenue, cost and reinvestments needs.
2. Estimating the FCF beyond the terminal year for a terminal value (TV) based on simplifying assumptions.
3. Estimating Discount Rate WACC via Capital Asset Pricing Model.
4. Discounting the FCF with the estimated WACC where estimating free cash flow (FCF).

Estimating potential growth of income is difficult but vital. There are different ways in estimating it i.e. historical growth rates by acknowledging that the future is subjected to the condition of the past, using analyst's estimates and also finding the correlation with the quality and quantity of organization's investment in order to generate more income. Determining the probability distributions for this uncertainty is the first major step to minimize this uncertainty where the distribution could reflect the randomness i.e. ranges of feasible outcomes for the incoming of rentals. Main boundaries will be limited zero rental to the maximum rental in accordance to the total floor size. By looking at the historical rental income, this step should allow further information on the suitable distribution (uniform, triangular, normal, or others) to get a brief idea on the pattern. Future plans to increase the chargeable rent and cost & reinvestment needs, in the coming years need to be determined in order to produce an accurate forecast (Ali et al., 2010).

2.2 Similarities in Profits Method and DCF Method

The profits method and discounted cash-flow method require analysis of several years' trading performance plus projections until trading has stabilised. Changes in supply and demand, as well as changes in the legislative and regulatory environment may affect trading performance and these factors should be reflected in the capitalised rate and adjusted net profit in the case of the profits method and in the target rate of return and cash flow in the case of a discounted cash flow (RICS, 2012).

Under the Profits Method, trade-related properties are valued by capitalising the estimated stabilised annual maintainable profit, where profit is estimated with reference to the historical performance and key source of information is the financial accounts. The

capitalisation rate (or yield) should reflect the risk, growth and income security associated with the business's operations and its estimation is conditional upon comparable evidence. Such evidence is also important in determining whether gross profit margins, wages levels and other costs and revenues are in line with market expectations (Wyatt, 2013).

There are three basic types of profits valuations namely total earnings method, dual capitalisation and super profits, and capitalised earnings method. These three methods share a similarity of analysing and estimating the annual maintainable profit derived from the occupying business and later discounting to reach the present capital value (Colborne and Hall, 1993). Therefore, it has shown that Profits Method and the DCF Method share similarities in principal calculation however the presentation of accounts is different for instance the net profit and free cash flow for profits method and DCF Method respectively.

2.3 Selecting the Research Analysis Method

It is clear that the above-described market data approach, income approach and cost approach are different approaches in appraising the market value of a real property or real estate from the investment or occupational perspective respectively. In the context of this master thesis, the main interest of study is the profitability of the rental income from Business Services instead of the market value of the real property. As mentioned in the book by American Institute of Real Estate Appraisers, 1987 that different appraisal approaches vary with type and purpose of appraisal. Therefore, for the purpose of this research, the steps in Profits Method under the Income Approach will be selected in exploring the profitability of Business Services. Since the property and its operation are closely linked and tend to influence the market value of the premises, they are therefore valued by capitalising the estimated future trading potential (Wyatt, 2013). However, discounting and capitalization rate may not be applied because this will arrive to the market value estimation of Business Services instead of profitability, nonetheless, this could be an extension of the analysis if the result is needed by Company X. Detailed information on this method will be in Chapter 4.

2.4 Associated Problems with Profits Method and its Solutions

The valuation via Profits Method aimed for specialised trading properties that require specialist skill whereby it is recommended that the appraisal should have a good understanding of the business operation by asking questions to achieve good knowledge. Besides, this method is highly dependent on financial accounts and other financial information about the business and also reliance on capability to assess the goodwill element

of the business. Since that, it is difficult for new property because the relationship between business and underlying property assets is unknown. A copy of the mentioned documents should always be available to the appraiser. Finally, attention should be focused on two things namely the adjustment of the costs to bring net profit back to a point where there is no regard to the individual operator where the business is assumed to be run by an averagely competent operator and second, the selection of an appropriate capitalisation rate (yield) (Wyatt, 2013).

Chapter 3: Research Methodology & Data Collection

This chapter describes the research methodology and data collection process that includes gaining in-depth understanding of the selected method of analysis, Profits Method, and also unit of analysis or key variables that is involved in the Profits Method i.e. floor size, current product and services of Company X's Business Services, incoming rental & vacancy rate and operating expenses. Information available from the market on the market price of comparable rent and extra services at other GBNs and channels will be also collected. These examinations help data analysis to be as up-to-date to the current trend as possible and the relevant data of these variables will lead to the process of construction of financial model in Chapter 4.

3.1 Calculation steps for Profits Method

This section 3.1 aims to gain in-depth understanding of the selected Profits Method that will be the main research design of this master thesis. The key variables involved in the calculation or equation of Profits Method will be the key unit of analysis.

Profits Method was explained briefly in Chapter 2 and further elaboration is described in this section. To recap, the three basic types of profits valuations are namely total earnings method, dual capitalisation & super profits, and capitalised earnings method. These three variations of Profits Method share a similarity of arriving the annual maintainable profit derived from occupying business and then discounting it to obtain the present capital value. Total earning method is aimed for investor who would purchase a business if a fixed return of invested before tax is gained; dual capitalisation is aimed for establishing the value of goodwill (intangibles assets) as well as tangible assets and super profit is a variation of dual capitalisation where super profit is gradually decreased due to competition. A capitalised earnings method is based on discounted cash flow has its useful application when property is the major asset. The initial step of capitalised earnings method is to gain an understanding of the past performance from the financial statements in order to do a forecast of the expected cash flow that is linked between the linked proposed business operations and property (Colborne and Hall, 1993). In the context of Company X, it will be Business Services of Company X.

In the book by Wyatt (2013) also shares the same understanding that the first step of Profits Method (capitalised earnings method) is to estimate “the **fair maintainable turnover**

(FMT) that could be produced at the property by a **reasonable efficient operator (REO)** where FMT refers to the level of trade that an REO can achieve assuming that the property is equipped, repaired, maintained and decorated (RICS, 2012:90)” The assessment of potential annual gross profit resulting from Fair Maintainable Turnover (FMT) forms the beginning part of the Profits Method gives an useful insight in getting the numbers of **incoming rental**.

The second step is to assess the potential annual gross profit resulting from the FMT and **Cost of Sales**, and from this an estimate is made of fair maintainable operating profit (FMOP). Then this amount will be deducted against **running expenses** (including staff costs) to arrive to Net Profit and further deduction on Net Profit against remuneration, interest on capital invested, stock and consumables. The formula for conducting the Profits Method is summarised as Equation 2 below. Adjusted Net Profit is then capitalised at appropriate yield or alternatively, divided into two portion where one for the rent for the premises and the other portion is residual profit for the operator of the business; the rent portion may also be capitalised at an appropriate investment yield to arrive at capital value from an investor’s perspectives (Wyatt, 2013).

<p>Gross Profit = <i>FMT - cost of sales</i></p> <p>Net Profit = <i>Gross Profit - running expenses (including staff costs)</i></p> <p>Adjusted Net Profit</p> <p style="text-align: center;"><i>= Net Profit - Remuneration- interest on capital invested, stock and consumables</i></p> <p style="text-align: center;"><i>Equation 2: Profits Method Equation</i></p>
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3.2 Internal Analysis: Data Collection of Key Variables of Profits Method

Having Equation 2 in mind, this master thesis proceeds to the discovery of the current Business Services’ products where the data for each key variables i.e. incoming rental, cost of sales, running expenses, investor’s capital of Equation 2 can be determined and collected.

3.2.1 Current Business Services’ Products

Company X is currently providing three types of rentable office spaces facilities ranging from half day to months during operating hours from 08:30-17:00. There are flex-office room, flex-desk and virtual office, (“Rentable Office Spaces) and will be explained in the

following sections 3.2.1 (a) to (d) below. A copy of the brochure containing this information is in Appendix I (Confidential).

3.2.1(a) Flex-Desk

Flex-desk is rentable office desk that is equipped with Internet access and coffee/tea. This is available during office hour from 08:30 to 17:00 for as short as half day and as long as month(s). There are also other optional services available and more information as described in Table 3 below. Other times and frequencies in consultation can also be provided.

3.2.1(b) Flex-Office

Flex-office is rentable office room that is equipped with Internet access and coffee/tea. This is available during office hour from 08:30 to 17:00 for as short as half day and as long as month(s). There are also other optional services available and more information as described in Table 3 below. Other times and frequencies in consultation can also be provided.

3.2.1(c) Virtual Office

Virtual office is rentable registered business and mailing address that is equipped with remote receptionist, open envelope scanning and also reception services for packages and other services is also feasible. This is available during office hour from 08:30 to 17:00 for as long as month(s). There are also other optional services available and more information as described in Table 3 below. Other times and frequencies in consultation can also be provided. Customers may also enjoy 4 days flex-desk facilities in a month for free.

3.2.1(d) Others: Trade Information Services, Group Trade Mission and Trade Show and Exhibition and Expat Center

As part of the trade information services, a unique partnership between the Company X, the Chamber of Commerce East Netherlands, International Business Information Center (IBIC) and the Enterprise Europe Network (a European project of Syntens and Agency) provides a matching service between global demand and supply and Dutch-German Euregional demand and supply. This cooperation helps companies to internationalise their operations and assist foreign companies set up locations in the Dutch-German border region. Other services i.e. trade mission with the focus of trade education helps cross-border training among students and also businessmen while there is also possibility of organizing trade show and exhibition. This optional service is available to interested tenant to be part of the trade mission in conjunction to the nature of Company X businesses. Company X also provides extra support to highly skilled knowledge migrant and their families in settling in to the country and also

region in terms of formalities, social needs and wealth fare under the services provided by Expat Center.

From the same brochure (Appendix I: Confidential), the current standard policy of the Rentable Office Space facilities also includes optional amenities of reception, mailbox and faxes, answering telephone calls, printing and photocopying, food catering, cleaning and security services, translation services (Dutch, English, German and French) and others as described in Section 3.2.1(d) above, together known as (“Optional Services”) where it is subjected to extra cost. Due to Company X’s structure and other functions, member of Company X’s Business Club (first main service of Company X as mentioned in Chapter 1) has the privilege to enjoy the benefit of special rates on the Business Services. Information of the discussed current products and services so far are summarised in Table 3 and will be the included in Chapter 4.

No.	Products	Rates	Business Club Members Rate
1.	Flex Desk (excl. taxes/month)	€25 (half day) or €40 (full day)	10% discount
2.	Flex Office (excl. taxes/month)	To be determined	-
3.	Virtual Office with registered address	€175 for 4 days per month	10% discount
4.	<u>Optional Services</u>		
(i)	Printing(Black &White, Colour)	Additional service fee	-
(ii)	Faxing (more than 20 pages)	€0.30 excl. tax/page	
(iii)	Translation	Possible for arrangement	
(iv)	Trade Education	Possible for arrangement	
(v)	Group Trade Mission	Possible for arrangement	
(vi)	Trade Show and Exhibit	Possible for arrangement	
(vii)	Expat Center	Possible for arrangement	

Table 3 Current (2015) Products of Business Services of Company X

Sometimes businesses may not opt to own property because of the fixed amount of capital while the same amount of money could be used in core business activities and real estate agents may not be familiar with tenant’s objectives and strategies and this can lead to under-occupied and other impracticality of the tenant (Wyatt, 2013). Thus, facilities provided by Company X are extremely attractive for businesses in start-up phase, short term international trading as well as businesses which prefer flexible contract and less obligation as compared

to the standard leasing options in the market. In other words, it is a wise option to minimize the financial risk in the tenancy contract both for both parties.

3.2.2 Floor Size

Products that were discussed in Section 3.2.1 are planned for in the layout plan of the new office; therefore it is the interest in this master thesis to find out the allocated space that will contain these products that helps Company X in generating profit (loss).

The estimated total floor size in new office is approximately 189m² occupying one unit on the First Floor of the new location and the floor size is approximately **99m²** that comprises of Conference Room 1 or “*vergruimte 1*” (Dutch) of 41.5m², Meeting Room 1 or “*vergaderruimte 1*” (Dutch) of 33m³ plus a 7.5m² small storage room, and half of Office space or “*kantoor*” (Dutch) of 16.75m² as described in the scanned floor plan in Figure 2 and Figure 3 (in m²) (confidential). The remaining 90m² comprises of 65m² Company X Office or “*kantoor X*” (Dutch), a 7.5m² small storage room and a 16.75m² Office or “*kantoor*” (Dutch) in Figure 2 and Figure 3 (in m²) (confidential) will be occupied by Company X itself.

3.2.2.1 Proposal by Company A

In addition to that, Company X is considering a business proposal where it will be earning commission from the floor size in the Ground Floor of the new office building, which is estimated to be **305.6m²**. The proposal is made by Company A, who is the main tenant of Ground Floor and they mentioned that serviced offices, conference rooms flex-desk or office are available for rent under the professional branding of Company X and Company X will earn commission from the rental as income. The details of the new location are in Table 4 below. This proposal will also be taken into account for data analysis in Chapter 4.

Item	Rentable Office Space	Size
1.0	First Floor of 99m ² (Company X)	
1.1	Flex-office + small storage room	2 person or more, ~33m ² +7.5m ² = 40.5m ²
1.2	Flex-desk/ flex-office at current price of €25 (half day) or €40 (full day)	16 person, ~41.5m ² +16.72m ² =58.25m ²
1.3	Virtual Office with registered office at current price €175 per month	N/A

2.0	Ground Floor of 305.6m2 (Company A)	
2.1	Meeting Room 1 (Oval-shaped)	16 person, ~64m2
2.2	Meeting Room 2 (Presentation Room)	50 person, ~61m2
2.3	Meeting/Training Room 3 (Elongate Room)	12 person, ~37m2
2.4	Meeting/Training Room 4 (Elongate Room)	16 person, ~43m2
2.5	Small Meeting Room 1/ Flex-Office	6 person ~14.5m2
2.6	Small Meeting Room 2/ Flex-Office	6 person, ~14.5m2
2.7	Flex-Desk(s) - 8 units	1 person, Total ~30m2
2.8	Silence Room(s) - 4 single room -1 double room	1-2 person, ~4.0-8.50m2
2.9	Virtual Office Post-box	10 post boxes

Table 4 Layout Summary of New Company X Business Services with Company A Proposal

3.2.3 Incoming Rental (in Euro-€) and Vacancy Rate

So far, the details of the current products and services together with its floor size were discussed. The content now is focus on the incoming rental that these products are able to generate.

The incoming rental is a total randomness to Company X; it is first good to know if there is any current or upcoming lease agreement. The secretary told that the current on-going tenant of Company X are only **three clients of virtual office** and **one new flex-office tenant since 2015, Tenant A**, and assuming that they are planning to hire the services from Company X during the period of analysis, 2016 - 2020.

Second, the historical trend of the past transactions was studied to identify if there was any seasonal trend of transactions i.e. consistent Business Club utilizing the Rentable Office Spaces in a certain period of the year in order to arrive to a foreseeable vacancy rate. It is

observed that during the past years from 2013 to 2014, the rental income from Business Services was €5887 and €9360 (Appendix II-Income Statement: Confidential) respectively only contributed by the three above-described virtual office clients and these incomes are making 2.73% and 4.5% of total income for both years services. The income from new tenant, TENANT A is not known at the moment and it will be known when it is accounted for the accounting period 2015 as such, there were no significant trends from the past transactions however, and this information gives a good guideline for the following Chapter 4 and 5.

3.2.4 Running Expenses (in Euro-€)

From Equation 2 (Profits Method), running expenses as well as investor's remuneration of Business Services' products plays a major role in arriving to Adjusted Net Profit. The income statement (Appendix II - Confidential) provided by Organization does not have a detailed breakdown of the monthly expenses due to the small percentage of income in comparison to the total income from other service lines and on other hand Company X has only past virtual office customers which are not physically in the office. Thus, monthly expenses such as water, electricity, gas, telephone, internet, electricity costs, trash cost, security cost, repair costs, insurance costs were discussed with Company X for estimation and it is decided to estimate them based on the current price that we are paying for the current location in accordance to the appropriate new floor size. During the discussion with Company X on 12 June 2015, it was found out that there were more monthly expenses item for instance lift maintenance, technical installation and entry system, fire protection, administration costs and petty cash to keep Business Services' operations. These items were found in the invoice issued by the landlord. A copy of the invoice is attached as Appendix III (Confidential) for reference. Besides, the remuneration of a secretary is indicated to be €2500 per month, advertising cost is estimated to be €50 per month and coffee and tea costs at €20 per month from the petty cash of €50 per month. The estimated monthly value of each of these variables are summarised in the Table 9 in Chapter 4.

The past trend of inflation was also looked at in order to incorporate the increase of operating expenses every year. Inflation is a major factor affecting security of capital and income where high inflation quickly deteriorates capital and will also affect income if it is not regularly revised to ensure parity with real income levels (Wyatt, 2013). From Netherlands Inflation Rate (2015), it is observed that for the past 10 years from 2005 to

2015, the inflation rates were highest at 3.3% and 3.0% during year 2009 and 2013 respectively. The most recent yearly inflation rate is at **average of 1.0%** as of the month April 2015. Accordingly, the operating expenses will reflect this amount of inflation in the financial model in Chapter 4.

3.3 Comparable Products from other GBNs and non-GBNs

The paper by Vimpari and Junnila (2014) mentioned that parameters for valuation are drawn from three main sources namely current lease agreements, available information on the property, and market information. In this section market information on comparable Business Services provided by other GBNs (in The Netherlands and Belgium) and also real estate agents in the same region were examined with the objective to see the extent of price competitiveness and also facilities attractiveness.

GBN The Hague, GBN Beurs Rotterdam and GBN Antwerp were selected as sample comparison mainly because Company X has the connection with these two GBNs with information available in Company X's file as reference. For the same reason, BTC Twente, Hanzestede and Hazemeijer Hengelo were selected as well. This information on the types of comparable product and services and its respective prices are summarised in Table 5 below.

Business Rooms	Accommodation	Per Hour(€)	Per Half Day(€)	Per Day(€)	Per Month(€)
GBN The Hague	1 person	15	35	60	-
GBN Antwerp	1 person	-	-	-	330 - 420
GBN The Hague	2 person	-	-	-	-
GBN Antwerp	2 person	-	-	-	660-775
GBN The Hague	3 person	-	-	-	-
GBN Antwerp	3 person	-	-	-	885
GBN The Hague	4 person	-	-	-	-
GBN Antwerp	4 person	-	-	-	1000
GBN The Hague	6 person	50	185	350	
GBN Antwerp	6 person	-	-	-	
GBN The Hague	8 person	60	195	360	
GBN Antwerp	8 person	20	75	125	
GBN The Hague	12 person	70	240	400	
GBN Antwerp	12 person	25	100	175	
GBN The Hague	16 person	75	270	450	

GBN Antwerp	16 person	50	200	275
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Conference Room	Accommodation	Per Hour(€)	Per Half Day(€)	Per Day(€)
GBN The Hague	6-8 person	60	195	360
GBN Antwerp	6-8 person	20	75	125
GBN The Hague	12 person	70	240	400
GBN Antwerp	12 person	25	100	175
GBN The Hague	16 person	75	270	450
GBN Antwerp	16 person	50	200	275

GBN Beurs Rotterdam	Accommodation	Per Hour(€)	Per Half Day(€)	Per Day(€)	Per Day Plus(€)	
Business & Conference Rooms with internet	16-50	55	220	330	425	
Virtual Office Package	Small	Medium	Large	Extra Large	Bonus	Sub-tenancy
GBN Beurs Rotterdam (€/month)	305	320	327	342	500	300

Table 5 Comparable Products and Services from other GBNs

From Table 5 above, it is observed that GBN Antwerp charges a lower rental for Business Rooms that accommodate 1 to 4 person from €300 to €1000 per month. Meanwhile, GBN The Hague offers a slightly higher price of alternative for Business Room for 1 person at €60 per day but not available for 2 to 4 person. For Business Rooms and Conference Rooms equipped with audio-visual facilities that accommodate above 8 to 16 persons, GBN Antwerp also offers a much cheaper chargeable rental in general to its potential customers and GBN Beurs Rotterdam charges a price in between they both. This should be note that these GBNs are located in different country and regions of The Netherlands and samples are

taken for the purpose of getting an idea of the status in the market as wide as possible. Virtual Office Package is only available at GBN Beurs Rotterdam and not the rest of the selected sample and it will be taken as a benchmark for the comparable product and services in Company X.

In conclusion, prices of the comparable Business and Conference Rooms is most expensive at GBN The Hague followed by GBN Beurs Rotterdam of The Netherlands and then GBN Antwerp in Belgium while Company X is the lowest among the three selected GBNs at €40 for full day per month for a Flex-Office/ Business Room.

For non-GBNs, BTC Twente imposes approximately €24 per m² per month for office space and €10 per m² per month for commercial spaces. These rates are aimed for fixed or less flexible contract. For a more flexible tenancy contract, Hanzestede Hengelo charges rental price rate with €458 per month or €38 per m² per month for office units from 12m² onwards and Hazemeijer Hengelo has the cheapest alternative for flex-office from €115 onwards. In view of these rates, Company X is charging almost the same price with Hanzestede Hengelo at €40 for full day per month of an approximately 25m² flex-office as the comparable product and services.

The rates for comparable products and services from non-GBNs are as Table 6 below:

BTC Twente Office spaces (Kantoruimte)				
<i>4.5 deep</i>	12m ²	15.8m ²	19.7m ²	31.6m ²
<i>per month in €</i>	292,35	384.93	479.94	756.69
<i>per year in €</i>	3508,2	4619.13	5759.3	9080.26
<i>6.5 deep</i>	16.9m ²	22.3m ²	27.7m ²	44.6m ²
<i>per month in €</i>	411.73	543.28	674.84	1067.98
<i>per year in €</i>	4940.72	6519.41	8098.1	12815.81
BTC Twente Commercial spaces (Bedrijfsruimte)	90.7m ²	181.4m ²	113.4m ²	226.8m ²
<i>per month in €</i>	941.39	1882.78	1177	2354
<i>per year in €</i>	11296.69	22593.37	14124	28248

Hanzestede Flex-Office Hengelo	€ per month
Office Unit from 12m ²	458
Meeting Room	17.5

Secretarial Services	40
Virtual Office	50
Virtual Office Plus	90

Hazemeijer Hengelo	€ per month
Good Place 2 Work	150
A la Mer	115
Day Space	272

Table 6 Comparable Products and Services from non-GBNs in Hengelo

Extra services provided by the selected GBNs and non-GBNs were also looked at. GBN Antwerp again offers the most competitive price as compared to GBN The Hague (most expensive) and GBN Beurs Rotterdam with in-between price and wider range of extra services i.e. binding and laminating services, hosting – mailing and secretarial support. As for comparison, Company X (Table 3) is charging a low rate in the market. A summary on the information collected is as Table 7 below.

Extra Services	GBN The Hague	GBN Antwerp	GBN Beurs Rotterdam
1. Glass fiber internet	Free	Free	Free
2. Scanner	Free	Free	€ 1.55
3a. Printing (Black&White)	€ 0.07	€0.0075	€ 0.15
3b. Print (Colour)	€ 0.10	€0.0075	€ 0.50
4a. Coffee or Tea	€0.75 per person per round	Free	Kitchenette
4b. Soft Drinks & Water	€0.75 per person per round	Free	Kitchenette
5a. Basic lunch (2sandwiches, milk and orange juice)	€10 per person	Possible for arrangement	Possible for arrangement
5b. Deluxe lunch	on request	-	-
6. A5 notepad	€1 per piece	-	-
7. A4 notepad	€1.5 per piece	-	-
8. Video Conference	€50/hour/ location	Included in the conference room rate	Included in the conference room rate
9. Faxing (Incoming)	-	€ 0.30	€ 0.25
10a. Faxing	-	€0.70-€2.00	€ 1.80

(Outgoing)			
10b. Binding Services	-	-	€ 1.75
11. Laminating Services	-	-	€ 0.50
<u>12. Telephone Services</u>			
12a. Standard (VoIP)	Possible for arrangement	+10%	€ 96
12b. Permanent	Possible for arrangement	-	€ 145
12c. When necessary	Possible for arrangement	-	€ 45
13. Secretarial Services	Possible for arrangement	Possible for arrangement	€ 41.50
14. Mailing per address exclude management	Possible for arrangement	Possible for arrangement	€ 0.25
15. Host Services per hour	Possible for arrangement	Possible for arrangement	€ 35.80
16. Parking	Reduced Rate	Free	Free

Table 7 Comparable extra services from other selected GBNs

However, it must be noted that the Appraisal Institute (2001) has highlighted that the property market has never been considered as strongly efficient due to decentralised trading, degree of heterogeneity and also high cost of production as well as high cost and lengthy transaction process (illiquidity). Therefore, it is relatively fewer buyers and sellers at a point of time in one price range and location, rarity of market information at the individual property level, and the opportunity to exercise monopoly power (Wyatt, 2013).

With the findings in this section, a clearer picture of Company X's positioning in the current market is gained where Company X offers low prices on its basic products and distinctive but less extensive extra services.

Chapter 4: Construction of the Financial Model

Data collected and information gained in the previous Chapter 2 and 3 form the basic foundation of the construction of financial model and data analysis in this chapter. Assumptions will be outlined to provide a clear scope of analysis. After the knowledge gained and outlined in previous Chapter 3 on Profits Method, basic cash flow for Business Services will be constructed in the form of Microsoft Office Excel Spread Sheet (“financial model”) in order to find out the answer for the main research question of the profitability of the Business Services as an income stream in supporting Company X’s business strategy in overall and also the sub-question on the tentative cost-benefit breakeven point.

4.1 Conditions for Applying Profits Method Model

Before constructing the financial model, it is best to know if there are any conditions or assumptions that should be met for applying this method. The basic assumption is the going-concern assumption where Company X in particular Business Services is assumed will continue its full function without any planning to cease its operation in the foreseeable timeframe. Profits Method is aimed for specialised trading property that has a license as a legitimate provider for certain businesses that are valued as an operational business entity where the property itself has the ability that is linked to the business that can generate profit. Company X has fulfilled these requirements by having the license as one of the members of GBN and operating under the international image of GBNs. It is important that the case study has surplus of profit in order to execute the appraisal via Profits Method (Wyatt, 2013) and the ability of the tenants to pay the rent to Company X (Colborne and Hall, (1993). From the financial statements (available in Appendix II - Confidential), Business Services has surplus in the account balance.

4.2 The Financial Model

In this financial model, the involved key variables are the variables of Profit Method mentioned in Equation 2 in Chapter 3.2 for instance the floor size, running expenses, investor’s capital and etc. that have flexible values and subsequently will increase the robustness of the model under the changing external environment. By adjusting these variables, it will give direct effect to the Adjusted Net Profit of Business Services. To recap, Company X will charge the relevant rental to its clients as its income in the cash flow. The data collected in Chapter 3 on the variables involved in the model will be discussed in the following sub-sections 4.2.1 to 4.2.3 as below and the Adjusted Net Profit depicts the Business Services’ profitability for Company X.

4.2.1 Floor Size as Variable

Besides getting to know the exact size that will contain the products of Business Services that are available for rent for incoming rental estimation purposes, floor size is important for the estimation of running expenses which usually based on the occupancy measurement in m². For instance, the running expenses of flex-office will be x% of the total bill depending on the size of it. Part of the Table 4 in Chapter 3 on the Layout Summary of New Company X Business Services was extracted and formed Table 8 below. Item 1.1 that comprises 40.5m² or 21.42% of total space in new Company X available for rent as flex-office and Item 1.2 has a total of 58.25m² that is about 30.82% of total space in the new Company X available as flex-desk and flex-office. The remaining 90.25m² or 47.75% will operate as the Company X office itself. Following the drawing plans (Figure 2 and Figure 3 - Confidential), and also discussion with Company X, Item 1.2 is able to accommodate a maximum of 16 flex-desks that can be offered to the business society and the current tenant, Tenant A occupies item 1.1 as serviced office as informed by Company X. Therefore, separate models are to be set up for each product in the financial model to reflect the nature of running of earnings and running expenses of them individually. More information will be available on the model in Section 4.3.

Item	Rentable Office Space	Size
1.0	First Floor of 99m ² (Company X)	
1.1	Flex-office + small storage room (TENANT A)	2 person or more, ~33m ² +7.5m ² = 40.5m ²
1.2	Flex-desk/ flex-office at current price of €25 (half day) or €40 (full day)	16 person, ~41.5m ² +16.72m ² =58.25m ²
1.3	Virtual Office with registered office at current price €175 per month	N/A

Table 8 Floor Size of Rentable Office Space (Partial Information of Table 4)

4.2.2 Price, Number of Days for Rent and Inflation Rate as Variables

From the data collected from Chapter 3.2, the current price per one flex-desk is as low as €40 per full day and €25 per half-day, and flex-office with postal address at €175 per month respectively. Potential tenants have the options to rent for 0.5 day per week for a sum of 2 days in a month, or 1 day per week for a sum of 4 days in a month, or 2.5 days per week for a total of 10 days per month, or every day per week for a sum of 20 days a month. These 2, 4, 10 and 20 days can also be consecutive days for international or short-term clients. In the financial model, the adjusted net profits will be modelled in accordance to these numbers of days to reflect each type of rental possibilities in the account of days. By making reference of the current price and market price of comparable products (Section 3.2 and 3.3), the main task in this chapter is to find out the profitability of the current price and make adjustments to these prices in order to get the break-even prices (sub-research question). The current products are for a minimum half-day for rent to maximum to months while the average yearly national inflation rate in The Netherlands is at 1.0%. Note that the past transactions do not show significant or seasonal trend of the occupancy rate due to the lack of contracts, but the existing contracts of 3 virtual office clients and one flex-office tenant are assumed to continue its agreement with Company X.

4.2.3 Monthly Running Expenses and Optional Services Costs as Variables

As mentioned in Chapter 3 that the income statement (Appendix II-Confidential) provided by Organization does not have a detailed breakdown of the monthly expenses due to the small percentage of income in comparison to the total income from other service lines and has only past virtual office customers which are not physically in the office. Monthly expenses such as water, electricity, gas, telephone, internet, electricity costs, trash cost, security cost, repair costs, insurance costs, lift maintenance, technical installation and entry system, fire protection, administration costs were estimated based on the current price that we are paying for the current location (Appendix III: current invoice - Confidential) Besides, the remuneration of a secretary is indicated to be €2500 per month, advertising cost is estimated to be €50 per month and coffee and tea costs at €20 per month from the petty cash of €50 per month.

Besides, potential tenants have the options to subscribe optional serviced offered by Company X at the new location therefore these services and their costs will also be taken into account. For instance, the cost printing or faxing paper & ink cartridge is estimated to

be €30 and we are charging €0.30 per page for maximum 200 pages, the telephone services cost is 10% more than the actual usage, translation cost is at €0.90 per word and we are charging also 10% more than the actual invoice from official translator; for this financial model we assume that the client will engage in a 100-words translation services. Stationaries cost is at €2 and charging for €5 for 2 notepad and 3 pens, and coffee and tea costs zero. Post box or mailing address will cost the client €175 per month.

The estimated numerical values of these monthly running expenses and optional services costs as variables are summarised as Item 2.0 and Item 3.0 in the Table 9 below.

No.	Variables	Cost (€) to Company X	Charge (€) to Tenant
1.0	<u>Service Specifications</u>		
1.1	Total Floor Coverage (%) as per Table 8	-	-
1.2	Price per one desk per day	1800/x-m ²	40.00 (per desk per full -day) or 25.00 per desk per half-day
1.3	Min number of rental day (0.5 or 1.0 day)	-	-
1.4	Inflation per month	1.00%	1.00
1.5	Occupancy Rate (100% = 16 desks; 50% = 8 desks and etc. for flex-desks)	0-100%	0-100%
2.0	<u>Expenses per month</u>		
2.1	Water (Vitens)	50	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.2	Electricity	2865	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.3	Gas	1550	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.4	Trash Cost	398	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.5	Internet	100	Included in the rental price. For internal calculation will be as per use

			(divide against % of total floor coverage)
2.6	Security	110	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.7	Repair	100	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.8	Remuneration (Secretary)	2500	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.9	Advertising	50	-
2.10	Telephone Line	102	As per use (refer to Optional Services: Telephone Line)
2.11	Insurance	61.42	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.12	Lift maintenance	530	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.13	Technical Installation	2500	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.14	Fire systems	133	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.15	Administration Costs	100	Included in the rental price. For internal calculation will be as per use (divide against % of total floor coverage)
2.16	Petty Cash	50	Included in the rental price. For internal calculation will be as per use (divide against % of total floor

			coverage)
3.0	<u>Optional Services</u>	Per contract	
3.1	Printing & Ink	30	0.30 per page, max 200 pages
3.2	Post Box	0	175
3.3	Telephone Line	102	10% more than the actual bill i.e. 112.2
3.4	Translation (estimated 100 words)	0.90 per words or 90 for 100 words	10% more than the actual bill i.e. 0.99 per word or 99 for 100 words
3.5	Stationaries per desk or per client	5	2
3.6	Coffee & Tea	0	Included in the rental price. For internal calculation will be €20 per month or €1 per day (divide against % of total floor coverage)

Table 9 Variables of Financial Model

The cost of the office furniture as investor's capital was also discussed whether to move over the old furniture or to purchase new ones. It was decided that the existing furniture are not sufficient. Company X is planning to rent from one of the business partner, Moving-In Furniture. However, during the search of price comparison from IKEA website (Kantoormeubels, 2015), it is not too expensive to purchase new ones as we could amortise the purchase cost of €5000 for 16 sets of table and chairs and a side drawer in 5 years with monthly instalment of €80. So it is a good investment to purchase the furniture.

4.3 Features of Financial Model: Adjustable Variables

Having the estimated numerical value for each of the variables was clearly discussed in Section 4.2.1 to Section 4.2.3. These same variables are the first few items the financial model's that the user will encounter and basically they are adjustable in the event that there is any major changes to the value. Of course, these are the basic features of the model and they are also separate tabs are being created in the financial model for different products namely flex-desk, flex-office for client TENANT A and virtual office. If Company X would like to change the value due to changing environment, it is also possible by putting in the new values in the **yellow column** (see Figure 6, 7 and 8) below for the respective products where the subsequent cash flow will follow the calculation steps in accordance to the Profits Method Equation mentioned in section 4.2 after the adjustment.

Total floor coverage of the total floor at new location	30.82%
Current Price per one desk (€) per day	40
% of Rental Increment per day	0.00%
Price per one desk per day at new location (€)	40
Number of maximum desk at new location	16
Number of days of rental (0.5-1.0)	1
Number of rental hours (4.0 or 8.0)	8
Inflation	1.00%
Occupancy Rate (0%-100%)	100.00%
Cost of Rental at New Location (assume EUR1800)/month	554.76

Figure 2 Adjustable Variables for Product Specifications (Print screen from Financial Model)

	K	L
Water		50
Electricity		2865
Gas		1550
Trash Cost		398
Internet		100
Security		110
Repair & Contingencies		100
Remuneration		2500
Advertising		50
Telephone Line		102
Insurance		61.4166667
Lift		530
Technical Installation & Entry System		2500
Fire Systems		133
Administration Cost		100
Petty Cash		50

Figure 3 Adjustable Variables for Monthly Running Expenses (Print screen from Financial Model)

	E	F	G	H
Optional Services		Expected subscription	Charge (€)	Cost
Printing & Ink or Faxing		200	0.3	30
Post Box		1	175	0
Telephone Line		1	112.2	Running expense
Translation of 100 words		1	99	90
Stationaries		1	5	2
Coffee and Tea		1	0	20

Figure 4 Adjustable Variables for Optional Services on cost and charge (Print screen from Financial Model)

4.4 Features of Financial Model: Profitability Calculation after Variables Adjustments

The calculation on the profitability of the products (flex-desk, flex-office, and virtual office) will run as formulated in accordance to the Profits Method way of calculation which varies with the input from these variables. A printscreen of the model for flex-desk is captured and attached as Figure 9, flex-office occupied by TENANT A in Figure 10 and virtual office in Figure 11. These printscreens is only captured up to year 2017 (purple column), the real model should show results up to year 2020. On the left side of the model, we have all the adjustable key variables while on the top we have the number of days of rental. The subsequent year after 2016 (green column) is subject to the appropriate inflation rate as adjusted by the user. You may note that there also also different colours in the model where it indicates each different year with 1% of inflation rate.

Please note that since virtual office clients are not physically in the location, there are a number of running costs will be zero for them. Company X will not provide a P.O. Box address services without know the nature of the business. Therefore, only pre-selected or pre-checked companies will be the potential clients for example the three current virtual office clients. The result of the simulation will be discussed in the following Chapter 5.

	A	B	C	D	E	F	G	H	I
18	Year	2016				2017			
19	number of working days rented	2	4	10	20	2	4	10	20
20	Fair Maintainable Turnover (FMT)								
21	Flex Desk	1,280.00	2,560.00	6,400.00	12,800.00	1,292.80	2,585.60	6,464.00	12,928.00
22									
23	Cost of sales: Basic Package:								
24	Cost of Rent include Service Cost (daily)	55.48	110.95	277.38	554.76	56.03	112.06	280.15	560.31
25	Coffee and Tea (€1 per day)	32.00	64.00	160.00	320.00	32.32	64.64	161.60	323.20
26	Total Cost of Sales	87.48	174.95	437.38	874.76	88.35	176.70	441.75	883.51
27	Gross Profit	1,192.52	2,385.05	5,962.62	11,925.24	1,204.45	2,408.90	6,022.25	12,044.49
28	Less running expenses (including staff costs), apportion with 30.8%								
29	Water	1.10	2.20	5.50	11.01	1.11	2.22	5.56	11.12
30	Electricity	63.07	126.14	315.36	630.71	63.70	127.40	318.51	637.02
31	Gas	34.12	68.24	170.61	341.22	34.46	68.93	172.32	344.63
32	Trash Cost	8.76	17.52	43.81	87.62	8.85	17.70	44.25	88.49
33	Internet	2.20	4.40	11.01	22.01	2.22	4.45	11.12	22.23
34	Security	2.42	4.84	12.11	24.22	2.45	4.89	12.23	24.46
35	Lift	11.67	23.34	58.34	116.68	11.78	23.57	58.92	117.84
36	Technical Installations & Entry Systems	55.04	110.07	275.18	550.36	55.59	111.17	277.93	555.86
37	Repairs and renewals contingencies	2.20	4.40	11.01	22.01	2.22	4.45	11.12	22.23
38	Remuneration (Project Manager, Host, Secretary)	55.04	110.07	275.18	550.36	55.59	111.17	277.93	555.86
39	Advertising	1.10	2.20	5.50	11.01	1.11	2.22	5.56	11.12
40	Telephone, postage	2.25	4.49	11.23	22.45	2.27	4.54	11.34	22.68
41	Fire Extinguisher & Protection systems	2.93	5.86	14.64	29.28	2.96	5.91	14.79	29.57
42	Insurance	1.35	2.70	6.76	13.52	1.37	2.73	6.83	13.66
43	Total Basic Package	243.25	486.49	1,216.23	2,432.46	245.68	491.36	1,228.39	2,456.78
44	Net Profit	949.28	1,898.56	4,746.39	9,492.78	958.77	1,917.54	4,793.85	9,587.71
45	Less interest on operator's capital:								
46	Furnitures, fixtures, fitting & equipment (FFFE) : Rent from M	8.00	16.00	40.00	80.00	8.08	16.16	40.40	80.80
47	Petty Cash	5.00	10.00	25.00	50.00	5.05	10.10	25.25	50.50
48	Adjusted Net Profit	936.28	1,872.56	4,681.39	9,362.78	945.64	1,891.28	4,728.20	9,456.41
49									
50	Optional:								
51	Printing & Scanning (€0.30 per page,200 pages max)	96.00	192.00	480.00	960.00	96.96	193.92	484.80	969.60
52	Post Box (€175 per month)	280.00	560.00	1,400.00	2,800.00	282.80	565.60	1,414.00	2,828.00
53	Telephone Line (10% more on actual bill)	55.33	110.66	276.64	553.28	55.88	111.76	279.41	558.82
54	Translation Services (€0.99 per word, assume 100 words)	1,584.00	1,584.00	1,584.00	1,584.00	1,599.84	1,599.84	1,599.84	1,599.84
55	2 Notepad and 3 Pens (€5 per desk,one time)	80.00	80.00	80.00	80.00	80.80	80.80	80.80	80.80
56	Total Optional Services	2,095.33	2,526.66	3,820.64	5,977.28	2,116.28	2,551.92	3,858.85	6,037.06
57	Gross Profit with Optional Services	3,031.61	4,399.21	8,502.03	15,340.06	3,061.92	4,443.20	8,587.05	15,493.46
58									
59	Cost of Optional Service								
60	Paper and Ink for Printing	48.00	96.00	240.00	480.00	48.48	96.96	242.40	484.80
61	Stationaries (Notepad & Pen)	48.00	48.00	48.00	48.00	48.48	48.48	48.48	48.48
62	Translation Cost (Translator)	1,440.00	1,440.00	1,440.00	1,440.00	1,454.40	1,454.40	1,454.40	1,454.40
63	Total Cost of Optional Services	1,536.00	1,584.00	1,728.00	1,968.00	1,551.36	1,599.84	1,745.28	1,987.68
64	Net Profit with Optional Services	1,495.61	2,815.21	6,774.03	13,372.06	1,510.56	2,843.36	6,841.77	13,505.78
65									
66	Vacancy Loss without Optional Services	-0.00	-0.00	-0.00	-0.00	0.00	0.00	0.00	0.00
67	Vacancy Loss with Optional Services	-0.00	0.00	0.00	0.00	-0.00	0.00	0.00	0.00

Figure 5 Financial Model for Flex-Desk (Print screen from Financial Model)

	Year				2017			
	number of working days rented							
	2	4	10	20	2	4	10	20
20 Fair Maintainable Turnover (FMT)								
21 Flex Office	218.70	437.40	1,093.50	2,187.00	220.89	441.77	1,104.44	2,208.87
22								
23 Cost of sales: Basic Package:								
24 Cost of Rent include Service Cost (daily)	38.57	77.14	192.86	385.71	38.96	77.91	194.79	389.57
25 Coffee and Tea (€1 per day per person)	4.00	8.00	20.00	40.00	4.04	8.08	20.20	40.40
26 Total Cost of Sales	42.57	85.14	212.86	425.71	43.00	85.99	214.99	429.97
27 Gross Profit	176.13	352.26	880.64	1,761.29	177.89	355.78	889.45	1,778.90
28 Less running expenses (including staff costs), apportion with 30.8%								
29 Water	0.77	1.53	3.83	7.65	0.77	1.55	3.86	7.73
30 Electricity	43.85	87.70	219.26	438.52	44.29	88.58	221.45	442.91
31 Gas	23.72	47.45	118.62	237.24	23.96	47.92	119.81	239.62
32 Trash Cost	6.09	12.18	30.46	60.92	6.15	12.31	30.76	61.53
33 Internet	1.53	3.06	7.65	15.31	1.55	3.09	7.73	15.46
34 Security	1.68	3.37	8.42	16.84	1.70	3.40	8.50	17.01
35 Lift	8.11	16.22	40.56	81.12	8.19	16.39	40.97	81.93
36 Technical Installations & Entry Systems	38.27	76.53	191.33	382.65	38.65	77.30	193.24	386.48
37 Repairs and renewals contingencies	1.53	3.06	7.65	15.31	1.55	3.09	7.73	15.46
38 Remuneration (Project Manager, Host, Secretary)	38.27	76.53	191.33	382.65	38.65	77.30	193.24	386.48
39 Advertising	0.77	1.53	3.83	7.65	0.77	1.55	3.86	7.73
40 Telephone, postage	1.56	3.12	7.81	15.61	1.58	3.15	7.88	15.77
41 Fire Extinguisher & Protection systems	2.04	4.07	10.18	20.36	2.06	4.11	10.28	20.56
42 Insurance	0.94	1.88	4.70	9.40	0.95	1.90	4.75	9.49
43 Total Basic Package	169.12	338.25	845.62	1,691.24	170.81	341.63	854.07	1,708.15
44 Net Profit	7.00	14.01	35.02	70.05	7.07	14.15	35.37	70.75
45 Less interest on operator's capital:								
46 Furnitures, fixtures, fitting & equipment (FFFE) : Rent from M	2.00	4.00	10.00	20.00	2.02	4.04	10.10	20.20
47 Petty Cash	5.00	10.00	25.00	50.00	5.05	10.10	25.25	50.50
48 Adjusted Net Profit	0.00	0.01	0.02	0.05	0.00	0.01	0.02	0.05
49								
50 Optional:								
51 Printing & Scanning (€0.30 per page,200 pages max)	12.00	24.00	60.00	120.00	12.12	24.24	60.60	121.20
52 Post Box (€175 per month)	35.00	70.00	175.00	350.00	35.35	70.70	176.75	353.50
53 Telephone Line (10% more on actual bill)	4.81	9.62	24.04	48.09	4.86	9.71	24.28	48.57
54 Translation Services (€0.99 per word, assume 100 words)	198.00	198.00	198.00	198.00	199.98	199.98	199.98	199.98
55 2 Notepad and 3 Pens (€5 per desk,one time)	10.00	10.00	10.00	10.00	10.10	10.10	10.10	10.10
56 Total Optional Services	259.81	311.62	467.04	726.09	262.41	314.73	471.71	733.35
57 Gross Profit with Optional Services	259.81	311.63	467.07	726.13	262.41	314.74	471.74	733.40
58								
59 Cost of Optional Service								
60 Paper and Ink for Printing	6.00	12.00	30.00	60.00	6.06	12.12	30.30	60.60
61 Stationaries (Notepad & Pen)	6.00	6.00	6.00	6.00	6.06	6.06	6.06	6.06
62 Translation Cost (Translator)	180.00	180.00	180.00	180.00	181.80	181.80	181.80	181.80
63 Total Cost of Optional Services	192.00	198.00	216.00	246.00	193.92	199.98	218.16	248.46
64 Net Profit with Optional Services	67.81	113.63	251.07	480.13	68.49	114.76	253.58	484.94
65								

Figure 6 Financial Model for Flex-Office by TENANT A (Print screen from Financial Model)

	Year						
	number of working days rented						
	2	4	10	20	2	4	10
Fair Maintainable Turnover (FMT)							
Virtual Office	52.50	105.00	262.50	525.00	53.03	106.05	265.13
Cost of sales: Basic Package:							
Cost of Rent include Service Cost (daily)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Coffee and Tea (€1 per day)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cost of Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Profit	52.50	105.00	262.50	525.00	53.03	106.05	265.13
Less running expenses (including staff costs), apportion with 30.8%							
Water	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electricity	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gas	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trash Cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Internet	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Security	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lift	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Technical Installations & Entry Systems	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs and renewals contingencies	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Remuneration (Project Manager, Host, Secretary)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Telephone, postage	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fire Extinguisher & Protection systems	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Total Basic Package</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Profit	52.50	105.00	262.50	525.00	53.03	106.05	265.13
Less interest on operator's capital:							
Petty Cash	5.00	10.00	25.00	50.00	5.05	10.10	25.25
Adjusted Net Profit	47.50	95.00	237.50	475.00	47.98	95.95	239.88
Optional:							
Printing & Scanning (€0.30 per page,200 pages max)	18.00	36.00	90.00	180.00	18.18	36.36	90.90
Telephone Line (10% more on actual bill)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation Services (€0.99 per word, assume 100 words)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2 Notepad and 3 Pens (€5 per desk,one time)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Optional Services	18.00	36.00	90.00	180.00	18.18	36.36	90.90
Gross Profit with Optional Services	65.50	131.00	327.50	655.00	66.16	132.31	330.78
Cost of Optional Service							
Paper and Ink for Printing	9.00	18.00	45.00	90.00	9.09	18.18	45.45
Stationaries (Notepad & Pen)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Translation Cost (Translator)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cost of Optional Services	9.00	18.00	45.00	90.00	9.09	18.18	45.45
Net Profit with Optional Services	56.50	113.00	282.50	565.00	57.07	114.13	285.33

Figure 7 Financial Model for Virtual Office (Print screen from Financial Model)

Chapter 5: Analysis & Findings

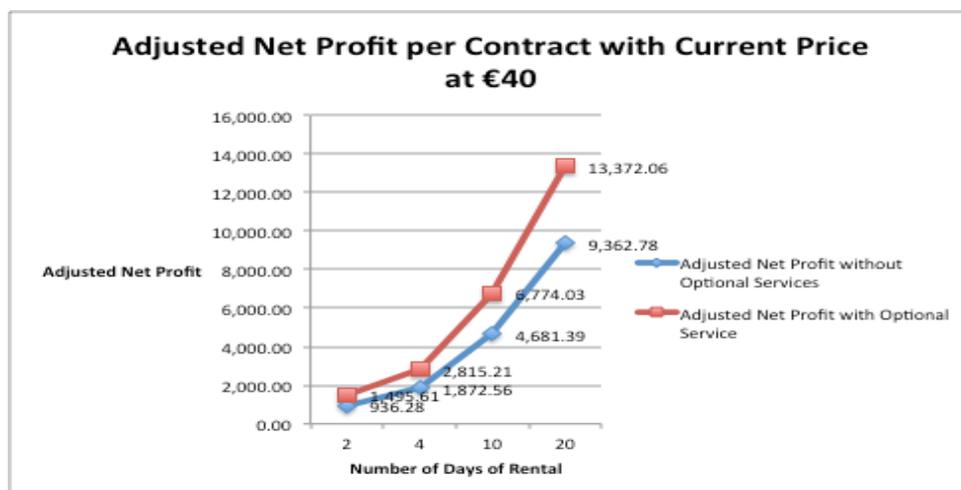
In this chapter, the results generated by the constructed financial model from Chapter 4 will be analysed. Research question and its sub-questions will be answered in this chapter of the master thesis research work. This chapter begins with the discussion on the profitability of the current price charged by Company X on flex-desk then followed by the profitability and break-even point for each Business Services' product namely flex-desk, flex-office and virtual office.

5.1 Profitability of Flex Desk with Current Price (2015)

With the current costs and charges of the adjustable key variables, simulation of different assumptions can be executed to find out the answers of the main research questions and its sub-questions.

Simulation 1: Flex Desk with €40 per desk for full day rental with maximum 16 desks and 100% occupied

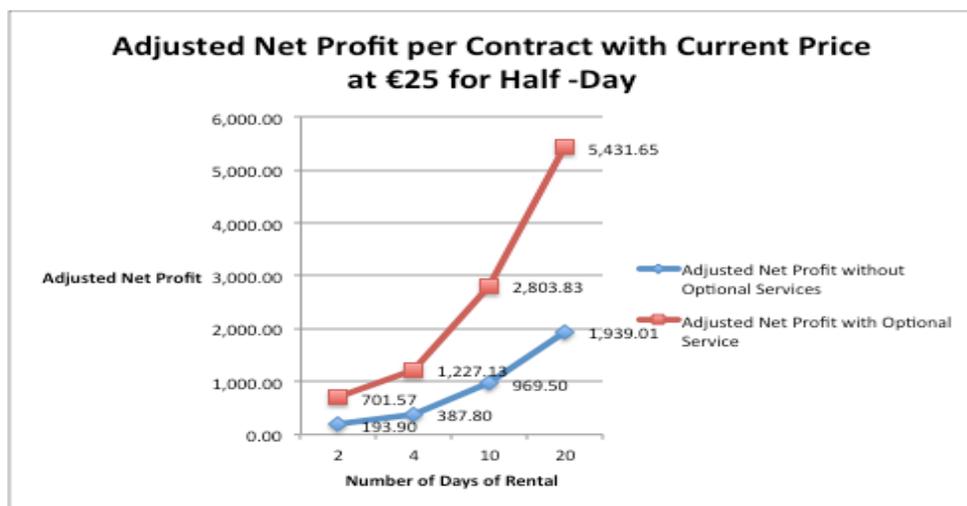
From the financial model, the extracted data shows that at the current price of €40, Company X will earn positive income where Company X could have a minimum of €936.28 income for 2 days contract or maximum €13,372.06 for 20 days contract with Optional Services in a month for year 2016. The tenant could opt to engage into a 0.5day contract (which sums to 2 days contract in a month) or once a week in a month and etc. for a maximum of 20 days. The subsequent years from 2017-2020 has the same trend with the incorporation of 1% of inflation rate.



Graph 1 Adjusted Net Profit for Full-Day Flex Desk at Current Price €40 in a month

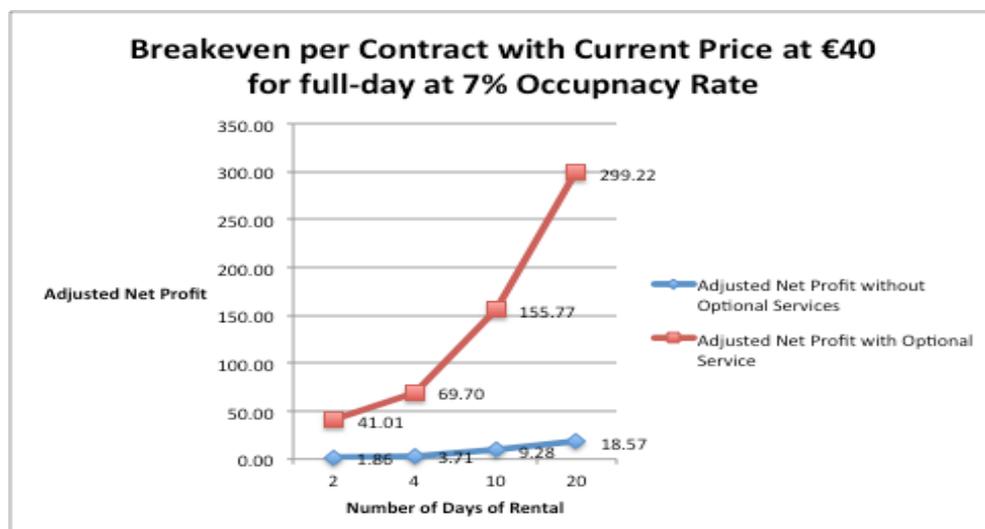
Simulation 2: Flex Desk with €25 per desk for half day rental with maximum 16 desks and 100% occupied.

When the number of rental hours per day is shortened to half-day the current rental price is at €25 per day. The profitability under this assumption for each type of contract per month is as Graph 2 below. The tenant could opt to engage into a 0.5day contract for once a week (2 days contract in a month) or once a week in a month and etc. for a maximum of 20 days. Within these assumptions, Company X experiences income as low as €193.90 and as high as €5431.65 for each different contracts. The subsequent years from 2017-2020 has the same trend with the incorporation of 1% of inflation rate.



Graph 2 Adjusted Net Profit for Half-Day Flex-Desk at Current Price €25 in a month

The analysis furthers with the breakeven point, where at 7% of Occupancy Rate that is equivalent to 2 desks, the full-day contract will break-even the cost and at 27% (5 desks) for half-day contract.



Graph 3 Break-even Adjusted Net Profit for Full-Day Flex-Desk at 7% Occupancy Rate in a month

5.2 Profitability and Break Even Prices for Business Services in 2016-2020

From a conservative perspective of rationing, the following section described the results extracted from the financial model for the **expected monthly-adjusted net income without optional services in the coming year 2016 per each type of contract. From 2017 to 2020, simulations were also performed with 1% inflation.**

5.2.1 Flex-Desk with Other Rental Prices

Other prices were also studied in order to gain a more comprehensive view of the price effects on the earnings for instance €50, €45, €35 and €30 for renting for full day or €30, €27.50, €22.50 and €20 half working day. Table 10 below summarises the break-even occupancy rates with its respective price for both full-day and also half-day contracts of 2,4,10 and 20 days for flex-desk services. More detailed descriptions on these simulations are available in the Appendix IV (Confidential).

	Flex-Desk Price (Full Day) in €	Break-even Occupancy Rate	Number of Desks
1.	30	10%	1.6 == 2 desks
2.	35	8.15%	1.3 == 2 desks
3.	40 (Current)	7%	1.12 == 2 desks
4.	45	5.9%	0.944 == 1 desk
5.	50	5.2%	0.832 == 1 desk

	Flex-Desk Price (Half-Day) in €	Break-even Occupancy Rate	Number of Desks
1.	20	38%	6.08 == 7 desks
2.	22.50	31%	4.96 == 5 desks
3.	25 (Current)	27%	4.32 == 5 desks
4.	27.50	23%	3.68 == 4 desks
5.	30	20%	3.2 == 4 desks

Table 10 Summary of Break-even Price with its corresponding Occupancy Rates

5.2.2 Flex-Office by TENANT A

As mentioned in Table 7, the space available for TENANT A as Flex-Office is 40.5m². Therefore, with this size, a simulation has also been performed to find out the break-even price of rent in accordance to 100% of occupancy rate for the assumption of 1 full rental day. The break-even price is at €2.70 per m² per day. A snapshot of the result is extracted from the excel model with the following assumptions:

Total floor coverage of the total floor at new location	21.43%
Minimum Price per one m2 (€) per day	2.7
% of Rental Increment per day	0.00%
Price per one m2 per day at new location (€)	2.7
Number of maximum m2 at new location	40.5
Minimum number of days of rental (0.5-1.0)	1
Number of rental hours (4.0 or 8.0)	8
Inflation	1.00%
Occupancy Rate (0%-100%)	100.00%
Cost of Rental at New Location (assume EUR1800)/month	385.71
Maximum number of persons	2

	Year			
	2	4	10	20
number of working days rented	2	4	10	20
Fair Maintainable Turnover (FMT)				
Flex Office	218.70	437.40	1,093.50	2,187.00
Cost of sales: Basic Package:				
Cost of Rent include Service Cost (daily)	38.57	77.14	192.86	385.71
Coffee and Tea (€1 per day per person)	4.00	8.00	20.00	40.00
Total Cost of Sales	42.57	85.14	212.86	425.71
Gross Profit	176.13	352.26	880.64	1,761.29
Less running expenses (including staff costs), apportion with 30.8%				
Water	0.77	1.53	3.83	7.65
Electricity	43.85	87.70	219.26	438.52
Gas	23.72	47.45	118.62	237.24
Trash Cost	6.09	12.18	30.46	60.92
Internet	1.53	3.06	7.65	15.31
Security	1.68	3.37	8.42	16.84
Lift	8.11	16.22	40.56	81.12
Technical Installations & Entry Systems	38.27	76.53	191.33	382.65
Repairs and renewals contingencies	1.53	3.06	7.65	15.31
Remuneration (Project Manager, Host, Secretary)	38.27	76.53	191.33	382.65
Advertising	0.77	1.53	3.83	7.65
Telephone, postage	1.56	3.12	7.81	15.61
Fire Extinguisher & Protection systems	2.04	4.07	10.18	20.36
Insurance	0.94	1.88	4.70	9.40
<i>Total Basic Package</i>	169.12	338.25	845.62	1,691.24
Net Profit	7.00	14.01	35.02	70.05
Less interest on operator's capital:				
Furnitures, fixtures, fitting & equipment (FFFE) : Rent from N	2.00	4.00	10.00	20.00
Petty Cash	5.00	10.00	25.00	50.00
Adjusted Net Profit	0.00	0.01	0.02	0.05
Optional:				
Printing & Scanning (€0.30 per page,200 pages max)	12.00	24.00	60.00	120.00
Post Box (€175 per month)	35.00	70.00	175.00	350.00
Telephone Line (10% more on actual bill)	4.81	9.62	24.04	48.09
Translation Services (€0.99 per word, assume 100 words)	198.00	198.00	198.00	198.00
2 Notepad and 3 Pens (€5 per desk,one time)	10.00	10.00	10.00	10.00
Total Optional Services	259.81	311.62	467.04	726.09
Gross Profit with Optional Services	259.81	311.63	467.07	726.13
Cost of Optional Service				
Paper and Ink for Printing	6.00	12.00	30.00	60.00
Stationaries (Notepad & Pen)	6.00	6.00	6.00	6.00
Translation Cost (Translator)	180.00	180.00	180.00	180.00
Total Cost of Optional Services	192.00	198.00	216.00	246.00
Net Profit with Optional Services	67.81	113.63	251.07	480.13

Figure 8 Profitability Result for Flex-Office occupied by TENANT A (Print screen from Financial Model)

As we can see from the result that it is only profitable for Company X to sub-let its space in the form of Flex-Office with the price above €2.70 per m2 per day and due to this price, potential clients may not willing to pay such a high price. Therefore a discussion have been

made to further discuss on this result with Company X and it is decided that no to offer this in the new location. Please note that the rental price of this product occupied by TENANT A has yet to be fixed.

5.2.3 Virtual Office

The profitability of virtual office shows optimistic result as it has minimal outgoing expenses for this type of product and services. It covers zero percentage of the total floor as such it shares zero percentage of the physical utilities expenses as tabulated in Figure 13 below.

Total floor coverage of the total floor at new location	0.00%
Current Price per contract (€) per day	8.75
% of Rental Increment per day	0.00%
Price per one desk per day at new location (€)	8.75
Number of maximum desk at new location	3
Minimum number of days of rental (0.5-1.0)	1
Number of rental hours (4.0 or 8.0)	8
Inflation	1.00%
Occupancy Rate (0%-100%)	100.00%
Cost of Rental at New Location (assume EUR1800)/month	0.00

	Year			
	2	4	10	20
Fair Maintainable Turnover (FMT)				
Virtual Office	52.50	105.00	262.50	525.00
Cost of sales: Basic Package:				
Cost of Rent include Service Cost (daily)	0.00	0.00	0.00	0.00
Coffee and Tea (€1 per day)	0.00	0.00	0.00	0.00
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	52.50	105.00	262.50	525.00
Less running expenses (including staff costs), apportion with 30.8%				
Water	0.00	0.00	0.00	0.00
Electricity	0.00	0.00	0.00	0.00
Gas	0.00	0.00	0.00	0.00
Trash Cost	0.00	0.00	0.00	0.00
Internet	0.00	0.00	0.00	0.00
Security	0.00	0.00	0.00	0.00
Lift	0.00	0.00	0.00	0.00
Technical Installations & Entry Systems	0.00	0.00	0.00	0.00
Repairs and renewals contingencies	0.00	0.00	0.00	0.00
Remuneration (Project Manager, Host, Secretary)	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00
Telephone, postage	0.00	0.00	0.00	0.00
Fire Extinguisher & Protection systems	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00
<i>Total Basic Package</i>	0.00	0.00	0.00	0.00
Net Profit	52.50	105.00	262.50	525.00
Less interest on operator's capital:				
Petty Cash	5.00	10.00	25.00	50.00
Adjusted Net Profit	47.50	95.00	237.50	475.00

Figure 9 Profitability Result for Virtual Office (Print screen from Financial Model)

5.2.4 Commission Income from Company A

This section discusses the profitability of the business proposal by Company A on the possibility of renting out its products and services under the professional branding of Company X (Chapter 3.2.2.1). Following assumptions are of the consideration for this simulation. Assumptions:

- (1) Yearly GBN License Fee of €10K
- (2) Earning a commission of €15 per m2 per year
- (3) Occupancy Rate= 100% =305.6m2

From the financial model, it is observed that with the number of m2 occupied by Company A which is approximately 305.6m2 does generates some income to Company X when Company X is not paying the license fee for utilizing the GBN branding. However, if it does, the number of m2 by Company A is not sufficient to cover the cost of the yearly license fees at €10K. In the Figure 14 below, it shows that the simulated profitability for Company X is at -€45.13 for year 2016 for 2 days contract per month and so forth. If Company X were to raise the commission to €20 per m2 per year, Company X will not break-even the license fee as well. Therefore, in order to have a break-even on the license fee with 305.6m2, the financial model shows that Company X will need to charge at least €33 per m2 per year.

	Year		2016				2017			
	number of working days rented		2	4	10	20	2	4	10	20
Fair Maintainable Turnover (FMT)										
Commission Income	38.20	76.40	191.00	382.00	38.58	77.16	192.91	385.82		
Cost of sales: Basic Package:										
Cost of Rent include Service Cost (daily)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Coffee and Tea (one time cost per contract)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cost of Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Profit	38.20	76.40	191.00	382.00	38.58	77.16	192.91	385.82		
Less running expenses (including staff costs)										
Water	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electricity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trash Cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Internet	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Security	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs and renewals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Remuneration (Project Manager, Host, Secretary)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Telephone, postage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Basic Package	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Profit	38.20	76.40	191.00	382.00	38.58	77.16	192.91	385.82		
Less interest on operator's capital:										
License Fee	83.33	166.67	416.67	833.33	83.33	166.67	416.67	833.33		
Adjusted Net Profit	-45.13	-90.27	-225.67	-451.33	-44.75	-89.50	-223.76	-447.51		

Figure 10 Profitability of Commission Proposal from Company A 305.6m2 (Print screen from Financial Model)

	Year							
	number of working days rented							
	2	4	2016		2	4	2017	
	10	20	10	20	10	20	10	20
Fair Maintainable Turnover (FMT)								
Commission Income	84.04	168.08	420.20	840.40	84.88	169.76	424.40	848.80
Cost of sales: Basic Package:								
Cost of Rent include Service Cost (daily)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Coffee and Tea (one time cost per contract)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cost of Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Profit	84.04	168.08	420.20	840.40	84.88	169.76	424.40	848.80
Less running expenses (including staff costs)								
Water	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electricity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trash Cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Internet	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Security	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs and renewals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Remuneration (Project Manager, Host, Secretary)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Telephone, postage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Basic Package	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Profit	84.04	168.08	420.20	840.40	84.88	169.76	424.40	848.80
Less interest on operator's capital:								
License Fee	83.33	166.67	416.67	833.33	83.33	166.67	416.67	833.33
Adjusted Net Profit	0.71	1.41	3.53	7.07	1.55	3.09	7.74	15.47

Figure 11 Break even Commission at €33 with 305.6m2 (Print screen from Financial Model)

Therefore, with this result, the simulation proceeds to find out the least number of m2 that Company X must engage in order to break-even the license fees that Company X has to pay to the GBN. To break-even on the cost of license fee of €10K per year, Company X requires to have at least 667m2 available for rent under the professional branding of GBN at price €15 per m2 per year. Alternatively, Company A need to rent out at least 500m2 if they were to charge €20 per m2 per year. The following Figure 16 shows that with 667m2 Company X will break-even while Figure 17 shows with 500m2 at €20 per m2 per year of commission earning to Company X, the license fee of €10K per year will break-even. The result increases with 1% inflation rate for the following years.

	Year							
	number of working days rented							
	2	4	2016		2	4	2017	
	10	20	10	20	10	20	10	20
Fair Maintainable Turnover (FMT)								
Commission Income	83.38	166.75	416.88	833.75	84.21	168.42	421.04	842.09
Cost of sales: Basic Package:								
Cost of Rent include Service Cost (daily)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Coffee and Tea (one time cost per contract)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cost of Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Profit	83.38	166.75	416.88	833.75	84.21	168.42	421.04	842.09
Less running expenses (including staff costs)								
Water	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electricity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trash Cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Internet	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Security	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs and renewals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Remuneration (Project Manager, Host, Secretary)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Telephone, postage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Basic Package	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Profit	83.38	166.75	416.88	833.75	84.21	168.42	421.04	842.09
Less interest on operator's capital:								
License Fee	83.33	166.67	416.67	833.33	83.33	166.67	416.67	833.33
Adjusted Net Profit	0.04	0.08	0.21	0.42	0.88	1.75	4.38	8.75

Figure 12 €15 Commission per m2 will breakeven at 667m2 (Print screen from Financial Model)

	Year		2016		2017			
	2	4	10	20	2	4	10	20
number of working days rented	2	4	10	20	2	4	10	20
Fair Maintainable Turnover (FMT)								
Commission Income	83.33	166.67	416.67	833.33	84.17	168.33	420.83	841.67
Cost of sales: Basic Package:								
Cost of Rent include Service Cost (daily)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Coffee and Tea (one time cost per contract)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cost of Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Profit	83.33	166.67	416.67	833.33	84.17	168.33	420.83	841.67
Less running expenses (including staff costs)								
Water	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electricity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trash Cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Internet	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Security	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs and renewals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Remuneration (Project Manager, Host, Secretary)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Telephone, postage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Basic Package	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Profit	83.33	166.67	416.67	833.33	84.17	168.33	420.83	841.67
Less interest on operator's capital:								
License Fee	83.33	166.67	416.67	833.33	83.33	166.67	416.67	833.33
Adjusted Net Profit	0.00	0.00	0.00	0.00	0.83	1.67	4.17	8.33

Figure 13 €20 per m2 per year of Commission to breakeven at 500m2 (Print screen from Financial Model)

With these numbers in mind, Company X may receive extra income if they were to provide the same service as proposed by Company A but with more m2 for instance the whole floor of 2500m2 extra in the new building. From the financial model, with a total 2805.6m2 (305.6m2 from Company A and 2500m2 from the whole floor) Company X receives at least €267.37 for 2 days contract and €2673.67 for one month contract at €15 per m2 per year commission.

	Year		2016		2017			
	2	4	10	20	2	4	10	20
number of working days rented	2	4	10	20	2	4	10	20
Fair Maintainable Turnover (FMT)								
Commission Income	350.70	701.40	1,753.50	3,507.00	354.21	708.41	1,771.04	3,542.07
Cost of sales: Basic Package:								
Cost of Rent include Service Cost (daily)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Coffee and Tea (one time cost per contract)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cost of Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Profit	350.70	701.40	1,753.50	3,507.00	354.21	708.41	1,771.04	3,542.07
Less running expenses (including staff costs)								
Water	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Electricity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trash Cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Internet	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Security	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs and renewals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Remuneration (Project Manager, Host, Secretary)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Telephone, postage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Basic Package	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Profit	350.70	701.40	1,753.50	3,507.00	354.21	708.41	1,771.04	3,542.07
Less interest on operator's capital:								
License Fee	83.33	166.67	416.67	833.33	83.33	166.67	416.67	833.33
Adjusted Net Profit	267.37	534.73	1,336.83	2,673.67	270.87	541.75	1,354.37	2,708.74

Figure 14 Profitability of Commission Earning with extra m2 (Print screen from Financial Model)

To summarise, Table 11 below is made to highlight the important findings of this source of income to Company X.

No.	Price	Break-Even m2	Company A (306.5m2)	Extra m2 from whole floor (2800m2)
1	€15/m2/year	< 667m2	Negative income, or break-even at €33/m2/year	Positive Income
2	€20/m2/year	< 500m2	Negative Income. or break-even at €33/m2/year	Positive Income

Table 11 Summary of Commission Income

Chapter 6: Cost & External Analysis

This chapter highlights the monthly running cost analysis and also other possibilities of product earning ways for Business Services based on current market trend and also relate to other function of Company X i.e. Business Club members and also to improve the current business model of Business Services. In this chapter, it is found that by offering additional Business Services with 5% yearly increment of Business Club Member Fees will lead to a financial sustainability model to Company X after year 2016.

6.1 Cost Analysis

This section depicts a brief analysis on the monthly running expenses and investor's capital that have been mentioned in the financial model in order to have a better understanding on these items and also to further interpret this information. From the Figure 19 below, running expenses i.e. electricity, gas, technical installation and remuneration of a personnel running for providing these Rentable Office Spaces in Company X share the highest percentage of expenses.

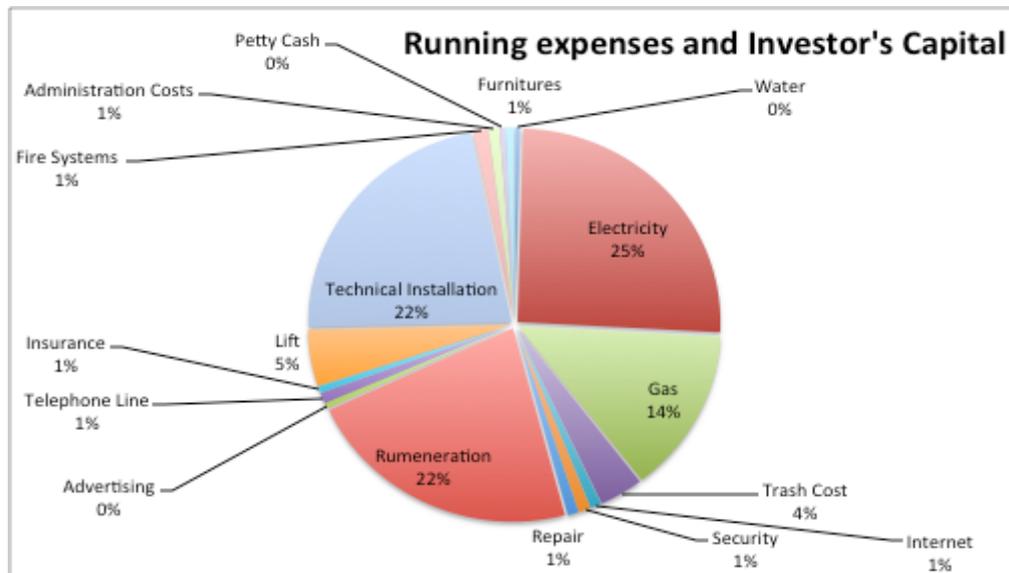


Figure 15 Analysis on Running Expenses and Investor's Capital

Since these are basics needs for providing such services to the tenant, it is difficult for Company X to increase its earnings by minimizing these costs. However, it is not impossible for Company X to have subsidy from the municipality hall or alternatively to engage in a cheaper electricity and gas providers. In this analysis also shows that Investor's Capital of purchasing 16 sets of new office furniture doesn't give a high burden to the cash flow. The total monthly cost is approximately €4200 (on full function) for 58.25m² and in order to

break-even from the financial model we know that we need to have at least two contracts of flex-office for 20 working days or 24 virtual office (24x€175) contracts in total every month.

6.1.1 Earning Possibility after Cost Analysis

One suggestion that I would like to explore as the possibility for attracting long-term contract that will lead to a financial-sustainability to the current business model is repackage the current Business Services (New Business Services) with more benefits but with a slight increase of price to the existing Business Club Members. Now that we have the break-even point in our hand which is to have at least 2 desks rented out per full-month and our income that we are looking at is €40x20 working days = €800+per month or to be precise the targeted minimum monthly income will be €896, €904.96, €914.01, €923.15 and €932.38 for year 2016-2020 (from financial model). Given that engaging new contract is not an easy task, one way would be to offer extra optional services to the current Business Club members. On positive point is that the number of Business Club Members have been growing since 4 years ago with 149 members (2012), 157 members (2013), 157 members (2014) and now 163 members (2015). This extra optional service to the current Business Club members is about new Business Services that is absolutely optional in order to keep the same level of satisfaction of the current members. New Business Services may offer an additional member card where Business Club Members could enjoy a 2-day free access to flex-desk and 10% discount on extra days of products of Business Services.

In order to have a clear estimation, few assumptions must be made. Below are the assumptions on the new business model for Company X:

Assumptions:

- (i) Virtual Office's Monthly Income: €175x 3 current contract = €525 less expenses = €475, that will continue to re-new their respective contracts with Company X for the coming years 2016-2020
- (ii) Estimated number of Business Club Members: 163 members
- (iii) Increment of Member Fee: Between 1%-5% per year from 2016-2020
- (iv) Current Business Club Member Fees with its estimated percentage number of participants for each types of Business Club Members that will want to have New Business Services with new price
- (v) Type A (1-10 members) €290 per year : 12% of total 163 members
Type B (11-100 members) €515 per year : 87% of total 163 members

Type C (101-500 members) €755 per year : 1% of total 163 members

Type D (501 and above members) €970 per year : 0% of total 163 members

Type E (student membership) €145 per year : 0% of total 163 members

With these assumptions, additional income from the Business Club Members increment each year will be allocated to cover the running expenses each month which is approximately €877.43 monthly expenses at 7% break-even occupancy rate in other words 2 flex-desks are rented out. As the simulation for different percentage of Business Club Member Fees were implemented into the financial model, different results were generated which portrayed various impact with 1%, 2%, 3%, 4% or 5% of Business Club Member Fees Increment each year.

In the financial model, the same principle applies where the yellow columns are free for adjustments. With these assumptions of 1%-5% increments are the main focuses and the following simulations were performed.

Business Club Member Fee (Increment)	5.00%	Estimated of # of Member by %	163	Per Year	Per Month
Type A (1-10) €290 per year now	290.00	12%	19.56	5672.4	472.7
Type B (11-100) €515 per year now	515.00	87%	141.81	73032.15	6086.0125
Type C (101-500) €755 per year now	755.00	1%	1.63	1230.65	102.5541667
Type D (501 and above) €970 per year now	970.00	0%	0	0	0
Type E (student) €145 per year now	145.00	0%	0	0	0

Table 12 Variables for Business Club Member Fees Simulations (Print screen from Financial Model)

With 1% of increment of member fees, Company X will not be able to reach the break-even point in 5 years. The following Table 13 is the forecasted income generated from the extension of the financial model for easy illustration.

1%

Business Club Member Income Increment	2016	2017	2018	2019	2020
Type A (1-10) €290 per year	4.727	9.50127	14.3232827	19.1935155	24.1124507
Type B (11-100) €515 per year	60.860125	122.328851	184.412265	247.116512	310.447803
Type C (101-500) €755 per year	1.02554167	2.06133875	3.1074938	4.16411041	5.23129318
Type D (501 and above) €970 per year	0	0	0	0	0
Type E (student) €145 per year	0	0	0	0	0
Virtual Office					
3 contracts	475	479.75	484.5475	489.392975	494.286905
Total Income	541.612667	613.64146	686.390541	759.867113	834.078451
Estimated Profit/Loss per month	-354.38733	-291.31854	-227.61946	-163.28289	-98.301549
Estimated Profit/Loss per year	-4252.648	-3495.8225	-2731.4335	-1959.3946	-1179.6186

Table 13 Profitability Result after 1% Business Club Member Fees Increment from 2016-2020

However, with 2% of member fees increment, Company X will reach the break-even point in year 2019, where it has incoming cash that is sufficient to prevent Company X from bearing losses (Table 14).

2%

Business Club Member Income Increment	2016	2017	2018	2019	2020
Type A (1-10) €290 per year	9.454	19.09708	28.9330216	38.965682	49.1989957
Type B (11-100) €515 per year	121.72025	245.874905	372.512653	501.683156	633.437069
Type C (101-500) €755 per year	2.05108333	4.14318833	6.27713543	8.45376148	10.67392
Type D (501 and above) €970 per year	0	0	0	0	0
Type E (student) €145 per year	0	0	0	0	0
Virtual Office					
3 contracts	475	479.75	484.5475	489.392975	494.286905
Total Income	608.225333	748.865173	892.27031	1038.49557	1187.59689
Estimated Profit/Loss per month	-287.77467	-156.09483	-21.73969	115.345575	255.21689
Estimated Profit/Loss per year	-3453.296	-1873.1379	-260.87628	1384.1469	3062.60268

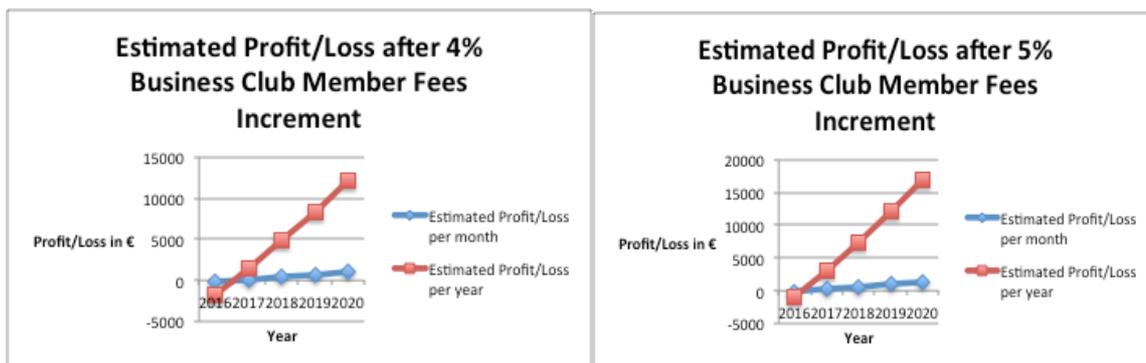
Table 14 Profitability Result after 2% Business Club Member Fees Increment from 2016-2020

For increment of 4% and 5%, both do not lead much difference because both are incurring losses during 2016 and will only generate positive break-even income during year 2017.

5%

Business Club Member Income Increment	2016	2017	2018	2019	2020
Type A (1-10) €290 per year	23.635	48.45175	74.5093375	101.869804	130.598295
Type B (11-100) €515 per year	304.300625	623.816281	959.30772	1311.57373	1681.45304
Type C (101-500) €755 per year	5.12770833	10.5118021	16.1651005	22.1010639	28.3338254
Type D (501 and above) €970 per year	0	0	0	0	0
Type E (student) €145 per year	0	0	0	0	0
Virtual Office					
3 contracts	475	479.75	484.5475	489.392975	494.286905
Total Income	808.063333	1162.52983	1534.52966	1924.93757	2334.67207
Estimated Profit/Loss per month	-87.936667	257.569833	620.519658	1001.78757	1402.29207
Estimated Profit/Loss per year	-1055.24	3090.838	7446.2359	12021.4509	16827.5048

Table 15 Profitability Result after 5% Business Club Member Fees Increment from 2016-2020



Graph 4 Estimated Profit/Loss with 4% Business Club Member Fees Increase from 2016-2020

Graph 5 Estimated Profit/Loss with 5% Business Club Member Fees Increase from 2016-2020

In brief, from these graphs the recommendation will be to **have 5% increment of the Business Club Member Fees for each year from 2016 to 2020** in order to achieve break-even income in year 2017 without engaging new contracts with new parties. Additional incoming contracts on flex-desks rental will be an additional income on top of the break-even income that has been collected from the increment. For a short comparison, a company named HNK also offers Business membership where members get to enjoy workstations in all HNK locations and get attractive discounts. Memberships packages are €99 per month for 12 months, or €125 per month for 6-months contract, or €150 per month for 3-months contract or €175 for one month contract. This membership also allows members for access to networking events, support from the team HNK, HNK APP, Unlimited WiFi network and discounts on meeting rooms and other service HNK (Business membership - Het Nieuwe Kantoor, 2015). The implication of this comparison is that, we may also offer similar facilities i.e. €50 per 4x, €90 for 8x, €130 for 12x, €180 for 16x and €225 for 20x usage respectively after we have taken the break-even point into account.

6.2 Other possibilities to improve Business Services Attractiveness in New Package

Organizations should also provide more ranges of facilities while utilizing the desired prestigious image and the strategic location, which is accessible via public transport (Wyatt, 2013). The implication of this information is Project van Zuid has its plan of providing Park and Ride (P+R) at the location (Parkeergarage - P R Station Hengelo, 2015) therefore this could also be an extra point to increase the attractiveness of Business Services. Besides providing basic services, landlords should also exploring the potential to market new products to tenants and act as a “portal” for other business service providers for instance landlord’s competitive advantage lies in their proximity, existing relationships and economies of scale in procurement rather than on exclusivity (McAllister, 2001). Below is

the suggestion of extensions of products and services that has the possibility for the market in the region of Twente by Company X.

6.2.1 Extension of current services

The Optional Services as described in Table 3 of Chapter 3 are now being offered at the most basic level. Some extensions would provide more varieties to the tenant for instance support from experienced Host or Project Manager in managing the ad-hoc requirements, secretarial support in answering to calls, delivery of letter and packages, florist and catering as well as parking arrangement for tenants and its visitors. Conference or meeting room that is equipped with Internet access along with audio-visual equipment and coffee/tea is considered as an extension as it is not offered by Company X by utilizing the space available for flex-desk. These extra services are similar as the extra services being offered in other selected GBNs. As mentioned in the journal by Jylhä et al. (2015) that employees are now working in a new way in multiple locations therefore it is important to identify the business potential in filling this demand or gap in the market. Entrepreneurs should treat workspace as a service and then re-think and re-design the service so that new business opportunity or model could be harnessed. The application of these findings could apply to the case study by providing a more extensive support of Virtual Office Package that support multiple location concept of co-working. As we can see that Virtual Office Package still possess a leading edge in the market especially provided under the international icon of GBN, besides the basic mailing services for Virtual Office Package Company X could also provide an experienced secretarial support for instance answering the calls which is usually essential in providing the first professional image to the caller.

6.2.2 News and Views

Under News and Views program, one morning of the working week will be set as an official networking coffee morning in order for the tenants to make contacts ideally with other tenants who are from the field of interest to discuss and share their knowledge and experience, also to learn from one another. This is to enhance interactions between the tenants and respective interested parties where conversation is the essential feature in flex-working environment. In the event that the tenants are not in the area of interest of the rest of tenants, special arrangement is possible to have invited guests among the GBN Business Club members or other companies within the networks of Company X for networking session. Tenants could boost more transactions of Company X's Business Club activities as the meeting point of international trade that may result a win-win situation for both parties.

In addition to that, Company X also receives a number of research student from both the applied science and technical universities in the neighborhood and also throughout the country for example international business students, international communication studies students, European studies students and more for internship and graduation assignments. Through this same ground, both business entrepreneurs and student could exchange new knowledge in the market and enhance the learning opportunity that is missioned by Company X. As mentioned in Schopfel, Roche and Hubert (2015) that it is possible for the academic library to meet its social responsibility on the campus and in society by drawing on the model of the co-working spaces and communities and by the supporting of innovation and the transfer of knowledge to the world of work subsequently to include these new functions into the concept of learning center, i.e. to develop the work-related aspects of the learning centre.

6.2.3 Entrance Pass for the Tenants to GBN's events

The main findings in the journal by De Paoli, Arge and Hunnes Blakstad (2013) found that that landlord should link real estate management to its business strategy in order to create business value and also competitive advantage. Therefore, since Company X also provides other services such as Trade Services, Missions and Workshops, it is suggested that tenants could enjoy the privilege of reduced rate or free entrance to these events, which are also targeted for international business partners. By having this advantage, it is believed to be able to promote collaboration and collective knowledge culture in the working environment forming a smarter working place.

6.2.4 International Business Events Partners' Privilege

In relation to previous Section 6.2.3 participant of Trade Services, Missions and Workshops could also enjoy a reduced rate of Rentable Office Spaces with Company X where it provides a good platform for immediate discussion following the trade-related events for further business developments.

6.2.5 Work and Recreation

From the plan, there a number of lounges available in the Ground Floor of New Company X. Board and Card games, dart or office golf could make available for tenants to promote a healthier and more creative working environment.

Conclusion & Recommendation

Following Chapter 5 and Chapter 6, the answers for the main research questions on the profitability of Business Services in Company X and also its sub-questions on cost-benefit breakeven point, other possibilities and improvements of Business Services (flex-desks, flex-office, virtual office and commission on Company X branding) were answered. This chapter summarizes the findings and recommendations to the Company X will be made accordingly for each product of Business Services.

Flex-Desks

The profitability of flex-desk with its cost-benefit breakeven point for Business Services reaches at renting out at least 2 flex-desks per full-day rental contract or at least 5 desks for half-day contract for 2 days, 4 days, 10 days or 20 days per month respectively. From the findings in Chapter 5, the recommendation here is to **increase the rental price from €40 to €45 for full-day flex-desk** in the beginning of the year 2016 because this will drop the monthly break-even point to only rent out at least 1 flex-desks per each type of contract 2 days, 4 days, 10 days or 20 days, instead of 2 flex-desks for the same. For half-day flex-desks contracts, it also gives a significant impact on the break-even number of rented out table when the price is at **€27.50 or €30** because at these prices, they require at least 4 flex-desks per each type contract at 2 days, 4 days, 10 days or 20 days monthly rental instead of 5 desks when the price is at €25.

Flex-Office

It is obvious that flex-office is only profitable with at least €2.70/m² rental per month however potential tenant may not willing to pay such a high price to rent the same. Therefore it is recommended not to offer this service anymore as soon as Company X relocates to the new location.

Virtual Office

Virtual office that does not need any additional capital or running expenses generates the most income to Company X. However due to transparency and tax issues, Company X may continue to engage new contracts for Virtual Office provided that a background check has been done one each new company.

Company A Commission

The business proposal by Company A on renting out spaces with Company X branding will generate positive income if it manages to secure at least 667m² contract at €15/m²/year or at least 500m² contract at €20/m²/year. However, the current space proposed by Company A is at 306.5m² therefore in order to have positive income on this type of service, Company X may need to charge at least €33/m²/year to break-even due to high price of GBN license fee of €10K per year.

Business Model

Further recommendation on current business model of Business Services via Business Club Members was studied and the possibility to earn extra income from the Business Club Members Fees is positive by increasing the current member fees by 5% each year from beginning of year 2016-2020 with a more enriched set of offerings, which was mentioned in Chapter 6.2.1 to 6.2.5. With this percentage of member fee increment, Company X will experience a total loss of -€1,055.24 in year 2016 with an average monthly loss of -€87.94, however the profitability will grow gradually into positive numbers during year 2017 onwards, because during year 2017 the total income reaches €1162.53 which has exceeded our full-month rental income target of €800+ per month. Of course this recommendations are subject to the assumptions that have been set in section 6.1.1 and they are adjustable via yellow-column in the financial model as mentioned previously. This re-packaging of Business Services should be offered optional to its members in order to retain high level of satisfaction of the members. As we can see from the different types of membership, Type A & B members will be the primary targets where the needs of flex-desks are justifiable. However for larger companies (Type C& D) they may have sufficient facilities and also students (Type E) may opt for free options i.e. public libraries or university libraries.

Limitations and Future Research

One of the limitations of this master research is that Profits Method is highly dependent on historical performance and the key source of information is the financial accounts. In the context of this study where there limited past transactions available left the research work with more estimations and assumptions that were highlighted in Chapter 4 during the construction of the model. The implication of this will results in the subjectivity in selecting values for input parameters and accordingly Profits Method results can be inconsistent. For instance in selecting the key input parameters: rent (€/m²/month), operating expenses (€/m²/month) and vacancy (%) affects the adjusted net income of the financial model. It was also highlighted in book by Wyatt (2013) that the valuation via Profits Method is aimed for specialised trading properties that require specialist skill, therefore it is recommended that the appraisal should have a good understanding of the business operation by asking questions to achieve good knowledge. For this reason, even though thorough investigations have been done however professional view from a qualified estate agent would make this research more sharp and complete. Profits Method also assumes future cash flow streams are highly predictable however unforeseen scenarios could also happen where scenario analysis/simulations in Chapter 5 did not manage to remedy the shortcomings. For instance allowing the simultaneous change of values for a number of key value drivers. This research could be more complete and extensive if time and resources are allowed. Besides, we have to remind ourselves that even though a standardized model can be a useful tool for a business analysis in a Company because it is designed to be reuse numerous times while the developer and the end-users can continue to improve it by adding enhancements features and also combing out errors in the model. However, cash flow projection acts as an indicator and not a predictor (Tjia, 2009). Future research is recommended on Business Services especially in other GBNs in order to have a more academically result which can be shared among the GBN members across the country or internationally.

Confidential Appendices

Appendix 1 Brochure of Current (2015) Products and Service

Appendix 2 Part of Income Statement of Company X for 2014

Appendix 3 Invoice of Current Monthly Expenses (2015)

Appendix 4 Assumptions 3-10 on different simulation of Price Sensitivity Analysis vs. Occupancy Rates on Monthly Adjusted Net Profit without Optional Services

Confidential Figures

Figure 16 Floor Plan of Company X at New Location and Blue Circled is Available for Rent (Confidential)

Figure 17 Floor Plan of Company X at New Location in m2 (Confidential)

Figure 18 Layout of Ground Floor leased by Company A (Confidential)

Figure 19 Ground Floor leased by Company A of total 305.6m2 (Confidential)

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