SPOTLIGHT

Savills Research

UK Commercial - October 2021

UK Flex Office Perspectives

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• Operators • Landlords • Technology

Foreword

As we emerge from the aftermath of the coronavirus pandemic, the office is set to remain an important part of our daily lives and will help lead some of the recovery by offering more normality and reconnection. There is no doubt however that the pandemic has changed the working landscape with both individual and business expectations of the office shifting following the pandemic towards more agility, better services and amenity, a higher level of ESG accountability and of course flexibility. All of this has huge potential implications for owners, operators and occupiers of workspace.

Within this report, we assess a number of important questions facing the future of the flexible office market to advise landlords, operators and flex office customers. We analyse the current level of maturity of the flex sector and interview a series of office workers, flexible office operators and landlords on the future of work and the role that flexible offices will play.

A special thanks to our guests who participated in the report, including Chris Davies, CEO, Uncommon; Paul Rostas, Co-CEO, Plus X; Zach Douglas, CEO, Orega; Rupert Dean, Co-founder, X+Why; Enrico Sanna, CEO, Fora; Natasha Guerra, CEO, Runway East; Niki Fuchs, Managing Director, Office Space in Town; James Shannon, Chief Product and Technology Officer, essensys; Dan Zakai, CEO, Mindspace; Andrew Mercer, Office Sector Lead, LGIM; Tom Gaynor, Head of Investment, CEG; Raj Rajput, Managing Director, Hines; Stephen Walker, Head of UK Business Space, Aberdeen Standard Investments; Julian Cobourne, Director, Aviva Investors; James Lowery, Head of Storey, British Land and Oli Knight, Head of Offices & Myo, Landsec.

Cal Lee, Global Head of Workthere

Section 1: The flex market

Cal Lee, Global Head of Workthere and Daniel Jones, Workthere Research, examine the expanding range of occupier choices, what is 'flex' and the level of maturity.

Introduction
The term 'flexible workspace' now appears to be the all-encompassing term used to cover a wider variety and type of workplace, from co-working spaces to serviced offices, managed space and even fitted plug & play space. All of the above differ slightly in their offer and we cover these key differences in the table below. In the main though, they provide a much quicker speed to occupation for an occupier as well as a higher level of flexibility than typical conventional leased office space. In the case of the latter, we would typically expect this to be delivered to Cat A and available on the basis of a 5- or 10- year lease, where the tenant is required to fit it out.

Table 1: Types of flexible workspace

Flex workspace type	Typical contract length	Indicative company size	Description
Co-working	Typically monthly rolling	1-4 people	Co-working is an open plan area that offers hot desks and dedicated desks to customers usually on the basis of a monthly rolling contract. The space will provide a shared break-out space. Co-working will quite often form a small part of a larger serviced office, where there are private suites and break-out spaces.
Serviced offices	3-24 months	1-200 people	Serviced offices usually provide a range of private office suites, ranging in size from 1 desk through to 200 desks, which are let on licence contract to customers on terms ranging from 3 to 24 months, and sometimes longer. Average term is usually 12 months. The serviced office will provide those customers with a shared amenity space, e.g. kitchen, break-out, meeting rooms, lounge space etc. A serviced office space might also include a co-working area within the space, usually 5-10% of total desk space.
Managed offices	2-5 years	25-500 people	Managed office space provides a self-contained suite for a business, which is fitted out with all furniture and meeting rooms and all include services such as IT, cleaning, utilities in one monthly contract. The suite includes a dedicated kitchen and break-out, therefore none of the space is shared with other companies. The occupier can usually customise the space to their own brand.
Plug & play	3-5 years	25-500 people	Similar to managed space in that it provides a self-contained unit that is fitted with furniture to allow for a company to move in immediately. The key difference is that the services are not always included and it is typically on a lease rather than licence contract.
Conventional offices	5 years +	25 people +	Space delivered to CAT A, where the tenant is required to fit out to their own design. They usually take a 5- or 10- year lease.

The UK flex market: has it bounced back?

Workthere, (Savills flexible office advisory for occupiers) found in their 2021 Flexmark report that the provision of space in the UK market and globally is heavily weighted towards private office space, with 50% of flexible workspace made up of private offices. This is contrary to the preconception that flex space is made up of banks of co-working desks, which only accounts for an average of 34% of space in UK flexible offices with the remainder of space consisting of communal areas (13%) and outdoor space (4%).

The flexible office sector has rebounded strongly during H1 2021 from the significant downturn during the pandemic. The number of enquiries is up 30% on pre-pandemic levels, while the number of transactions is up 36%, according to Workthere data, highlighting the renewed appetite occupiers have in the sector and demonstrating that the sector is continuing to build momentum after a hiatus.

Interestingly, the sectors taking space have become more varied. Traditionally, the tech sector has been the most active, accounting for 30% of desks transacted in 2018. Insurance & financial, business & consumer and professional services industries have accounted for 23%, 13% and 13% of desks respectively so far this year, as transacted by Workthere.

With this increased interest from other industries, we have also seen a change in the average size of occupier requirements, increasing by 46% on pre-pandemic levels from an average of 11 desks per transaction to 17 desks per transaction in 2021. This is reinforced by the increased number of transactions that Workthere has completed for companies requiring over 15 desks, which is up 114% on pre-pandemic levels. There has also been a 44% increase in the number of companies taking licences of 12 months or longer compared to pre-pandemic.

UK flex office growth

Mike Barnes, Commercial Research, Savills, assesses the growth trajectory of flexible offices in relation to the wider office market.

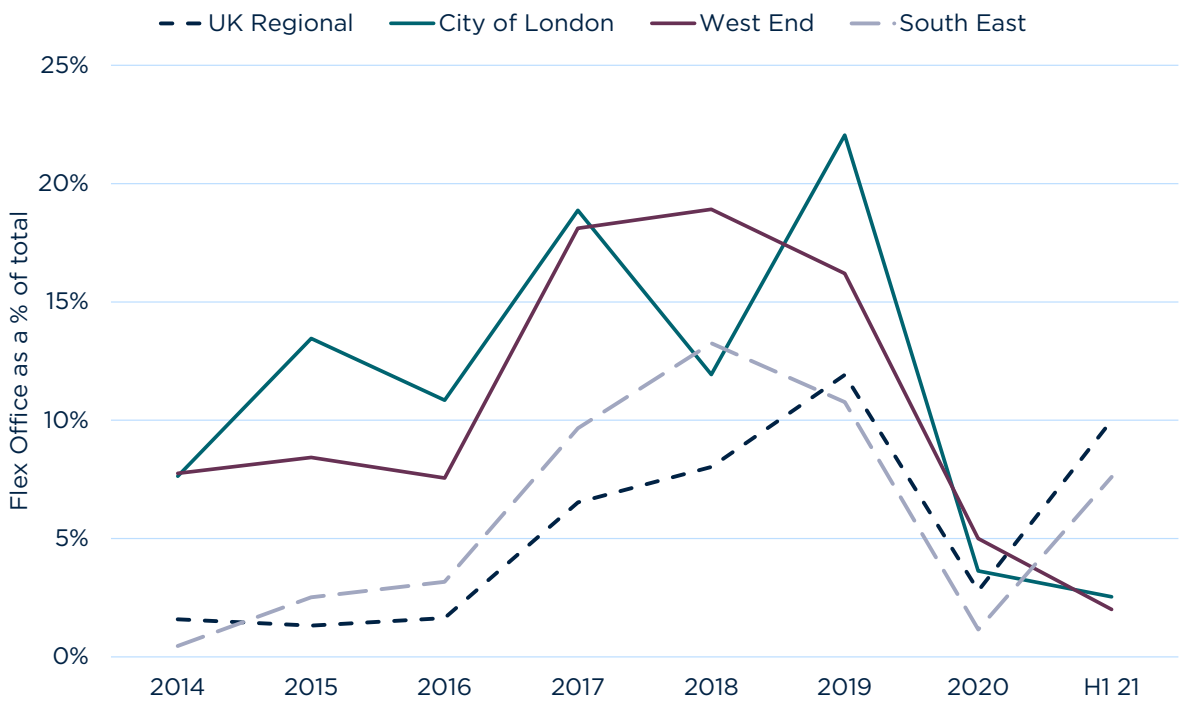
Chart 1
The UK's flexible office market share has evolved significantly over the last 10 years. In the West End market, flex office demand peaked at 19% of take-up in 2018, and in the City market, flex reached 22% of take-up the following year. In the regional office market, the flex sector was experiencing a growth phase prior to the pandemic and peaked at 12% of demand in 2019.

Operator demand for new space within London City and West End flex has so far been slower to recover and if anything, we have seen operators reduce their footprint so far in London in 2021. London's flex office demand peaked at 19% of take-up in 2019, significantly driven by WeWork's expansion, whereas the regional markets were at an earlier stage of the growth cycle and had a lower base supply of flex space.

Regional office markets have observed a faster recovery, with 10% of demand in H1 2021 accounted for by flexible offices. Since the pandemic outbreak, Fora signed for 65,000 sq ft in Cambridge, Orega signed for 30,000 sq ft in Manchester and X+Why signed for space in Birmingham and Cambridge. Momentum has been carried into 2021, with IWG signing for 50,000 sq ft at the Mailbox, Birmingham, Instant Offices signing for 36,000 sq ft and 34,000 sq ft in Glasgow and Manchester respectively, while Leeds recorded a trio of flex office deals during Q1 2021. The recovery has been well felt in the less mature regional markets, accounting for approximately 10% of UK office demand in 2021. Regional markets look set to be among the main driver of expansion for operators in 2021 and 2022.

Chart 2
With rising occupier demand for flexible leases, the average lease length to expiry for conventional offices in London West End has also fallen from 7.9 years in 2009 to 7.2 years in 2020. In the City, average lease length has fallen from 10.7 years to 7.9 years over the same period. This indicates a long-term shift to shorter leases, although there still remains a significant proportion of larger occupiers who are able to plan for a conventional ten-year lease with five-year break. This is backed up by Savills Flex Landlord Survey, which highlighted that 75% of landlords expected occupiers to seek more flexibility from their lease

Chart 1: UK flex office take-up as a % of total

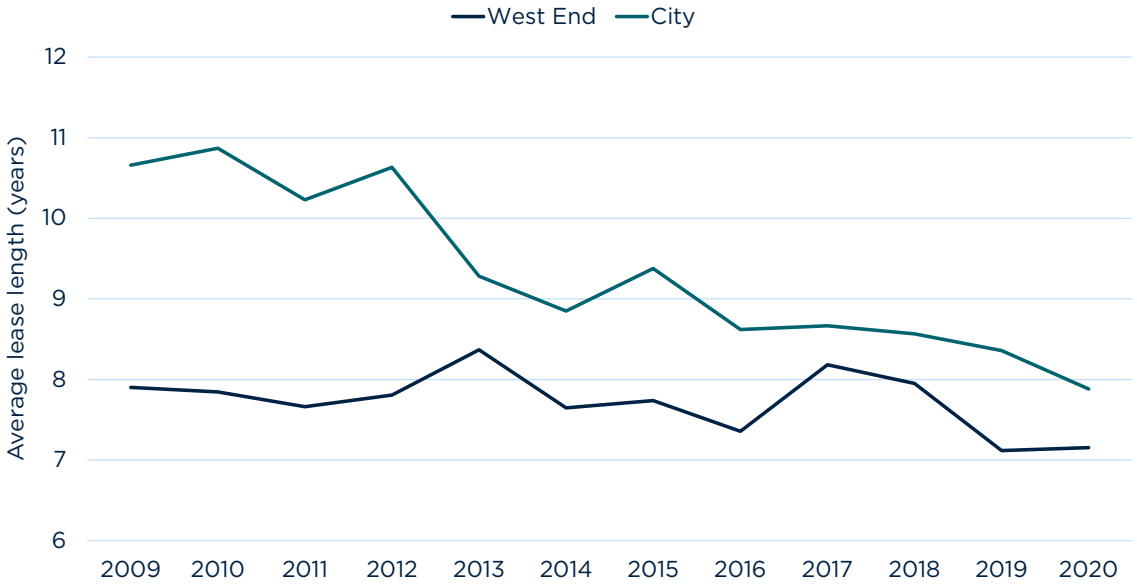


Source: Savills Research

agreements going forward.

Chart 3
WeWork is now the largest occupier of commercial space in Central London, behind the UK Government, whilst IWG is the most active operator across the UK regions. In the West End market alone, we have observed 42 different flex office providers sign for office space over the last five years as entry barriers fall and more niche operators take a foothold in the market. The chart below shows the significant weighting to London since 2016 but we anticipate this weighting to grow in the regions over the next two years as operators seek to diversify the geographic risk of their portfolio.

Chart 2: Average lease length, Central London



Source: Savills Research

Chart 3: Flex office operators by sq ft leased since 2016

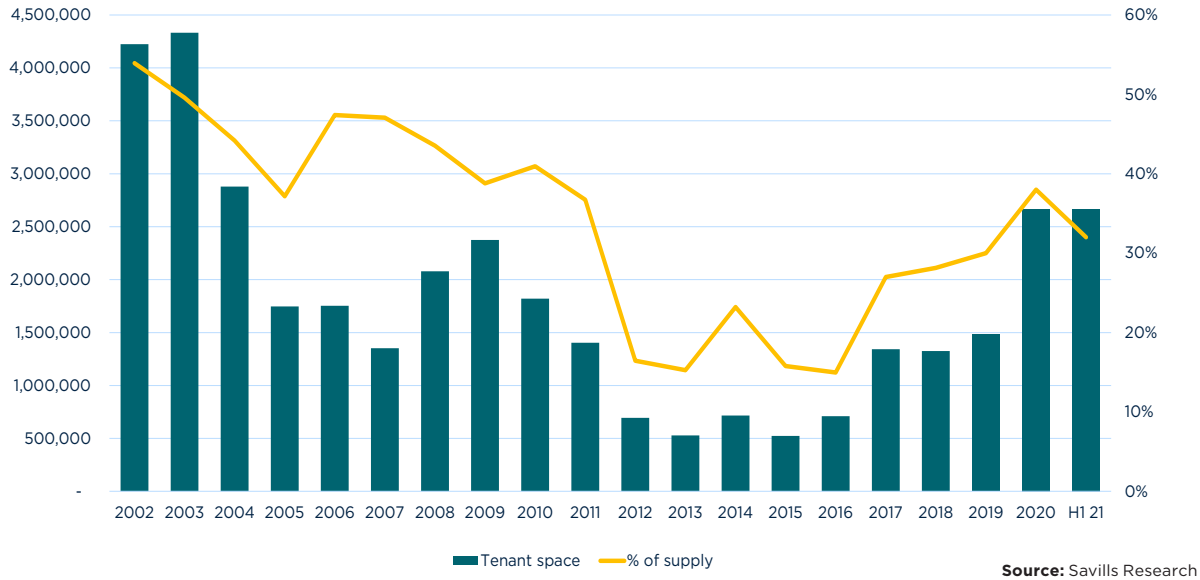
Source: Savills Research

Chart 4
In H1 2021, tenant controlled supply in London West End reached its highest level since 2004, currently at 2.7m sq ft, up from 1.5m sq ft at the end of 2019. However, tenant controlled supply is generally of a lower quality than flexible office supply, so do not generally compete for the same customers, particularly with the service element becoming increasingly important. London West End's Grade A vacancy rate remains below 5% during H1 2021, indicating an undersupply of high quality space.

Chart 5
On a pan-European basis, London was the most mature flex office market by some distance prior to the pandemic. In 2019, London City (22% of total office demand) and London West End (17%) exceeded the European average of 9% of total demand. The UK regional cities have increased significantly, accounting for an average of 12% of demand in 2019, whilst European markets are still at a growth stage, although Berlin, Paris and Amsterdam all exceed the 10% mark for flexible office demand.

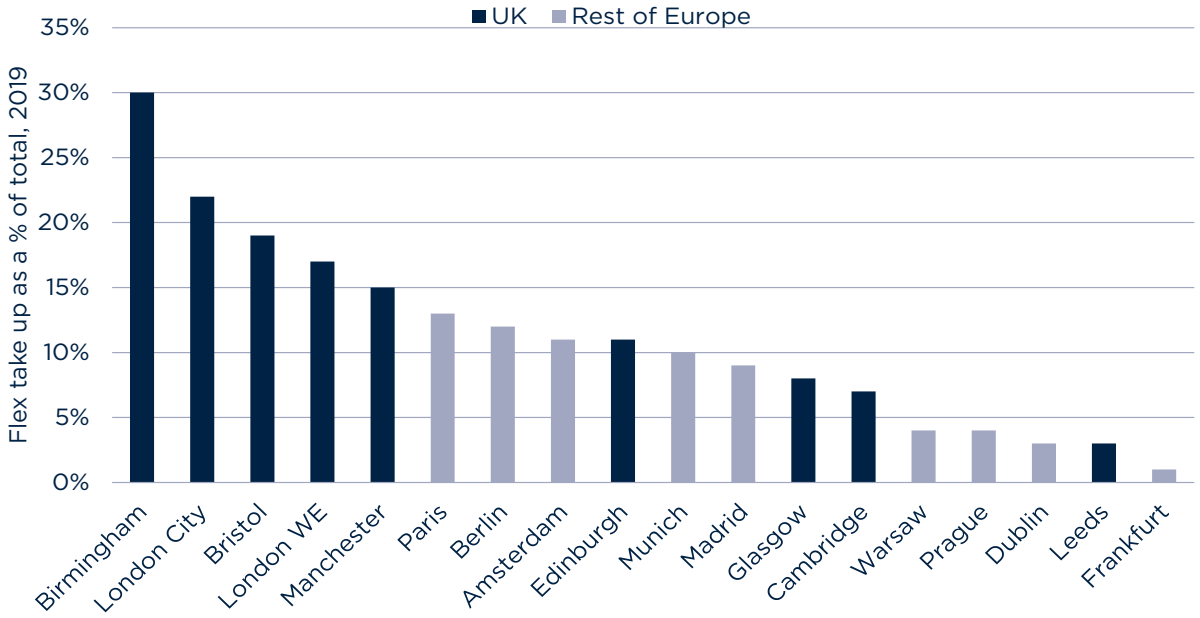
Of course, conventional office leases in mainland European cities are generally shorter than those in London. A five-year lease with a three-year break is more usual for a number of European cities including Amsterdam and Berlin, indicating that companies which are able to sign for a five-year horizon may still choose conventional, whereas they may be more inclined to go for flex terms in London.

Chart 4: Tenant controlled supply: London West End (sq ft)



Source: Savills Research

Chart 5: Flexible office take-up as a % of total, Europe, 2019



Source: Savills Research

Office cost analysis

Mike Barnes, Associate, Commercial Research, analyses the cost-benefits for occupiers between opting for flex or conventional space.

Cost analysis
Occupiers are faced with the question of whether to sign for conventional office space or flexible space. Savills Research has developed a model to compare office costs for a company of 50 employees in conventional (using a hypothetical 4,500 sq ft office for 50 employees) and flexible office space (50 licences in a private office).

Savills Research calculates that for a hypothetical office requirement of 50 desks or 4,500 sq ft, it becomes more cost-effective for companies to opt for flex office space over conventional office space for lease agreements shorter than five years. After the five-year mark, it becomes more cost-effective for an occupier to choose conventional space. Once all operational costs including rent, service charge, business rates and tenant contribution to fit outs have been amortised over the duration of the lease, a company's total operational expenditure is fairly even between the two types of agreement.

It should be noted that 50 licences generally means less private office space in sq ft terms, but with access to shared amenity spaces and facilities making office-based working more cost-effective.

During economic downturns, we often see the highest levels of innovation, indicated by higher levels of patents approvals. We anticipate more demand for flex offices from growth companies who are unable to plan for a longer time period and seek both the convenience of a serviced offering and knowledge and expertise from an incubator-style environment.

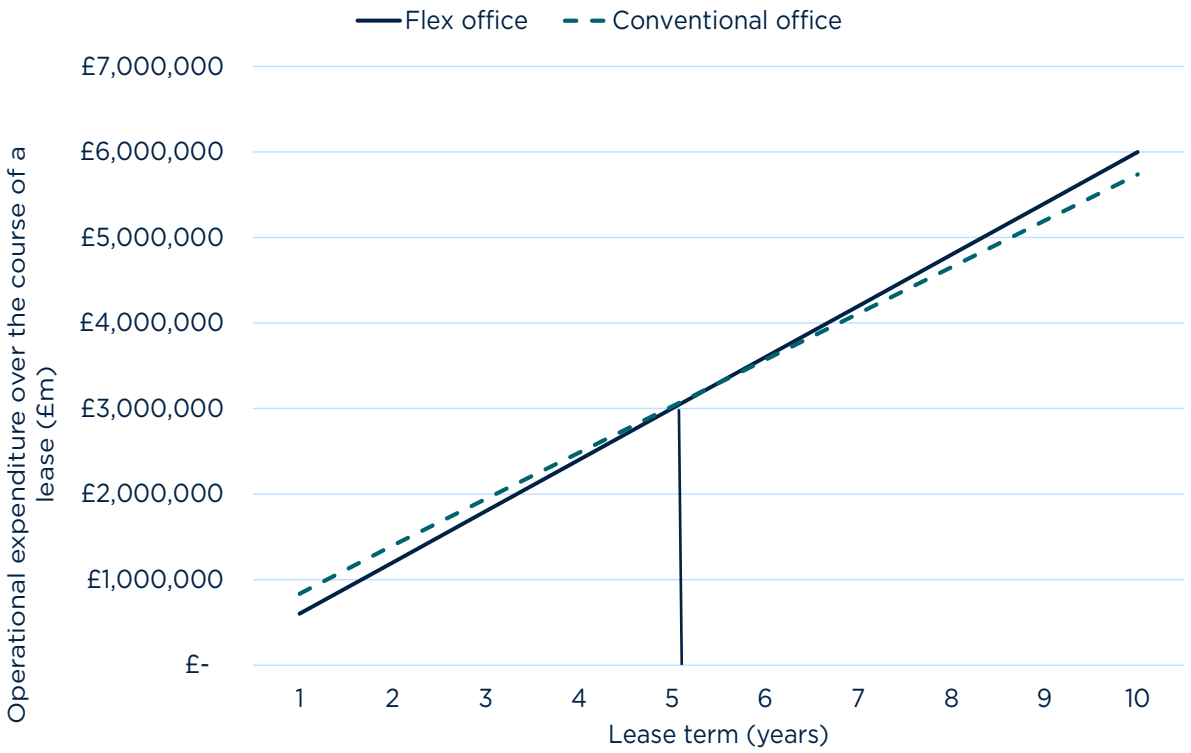
Part 1 conclusions

1) The flexible office sector is becoming a growth sector across the UK, with the regional markets experiencing a fast growth phase.

2) Companies are now willing to pay a premium for a fully serviced offering on more flexible lease terms. However, companies who are able to sign for longer terms will find conventional leases more cost effective.

3) The rising level of tenant controlled supply is unlikely to pose a threat to the expansion of the flex sector due to the service element and the quality of space on offer.

Chart 6: Average occupational expenditure by lease agreement by duration (£)



Source: Savills Research, Workthere

Section 2: Flex Perspectives

Savills has interviewed office workers, flex office operators and landlords to determine how attitudes to flex offices have changed as a result of the pandemic and how these changes are likely to affect the flex sector.

Savills Office FiT survey of over 3,500 office workers across EMEA during Q2 2021 indicates that 12% of UK office workers expect to be using flexible offices at least some of the time after the pandemic subsides, up from 3% of workers at the start of the pandemic.

Flex offices remain most popular among younger workers aged 18-24, with 25% opting to work in flex workspace, however only 7% of workers aged 55+ would choose to work in a flex office post-pandemic. Providing a full service offering will be essential to encourage workers back to the workplace.

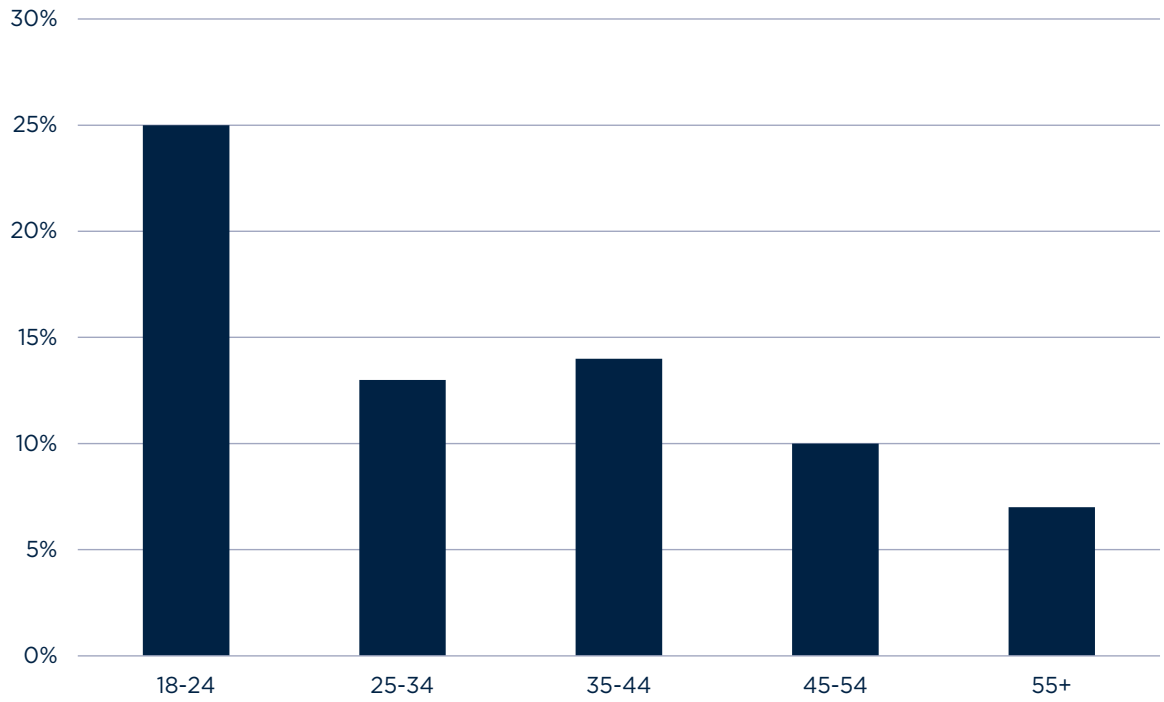
Interesting, there was little change in preference for flex working between business sectors, with 15% of tech workers opting for flex space, whereas only 7% of legal workers would choose to work in a flex environment. We anticipate rising flex demand from digital and creative functions of larger financial services industries seeking to attract workers back.

9% of respondents reported that they would use an alternative company workplace either all of the time or most of the time, instead of their primary workplace (likely to be the HQ). The commute plays a key role in the overall workplace experience and demand will therefore remain most resilient for offices based in close proximity to major transport hubs. However, face to face interaction will remain of paramount importance in the office, so this style of workspace may be more suitable for workers who will want the option to reduce their commute and work in a less collaborative environment.

Important factors

Among the most important workplace factors were personal safety (79% considered high importance), low levels of background noise (74%) and workplace experience (62%). Providing a workplace with the right balance of collaborative space and independent workstations will be essential in encouraging workers to return to the workplace and facilitating various working styles.

Chart 6: Proportion of office workers who would like to work in flex offices post-pandemic (%) by age group



Source: Savills Research

Operators' attitudes to flex

What are the latest operator trends and how are they reacting to new customer requirements?

Although we observed a number of office trends prior to 2020, the pandemic has brought the role of the workplace to the agenda and operators are reacting to the new requirements from workers.

Reducing the possibility of virus outbreaks in offices was the top priority for businesses. Increased haptic technology has become one of the more widely implemented changes in the initial aftermath of the pandemic, with touch-free technology enabling workers to feel safer within the workplace. Some operators have introduced UV light into workplaces to disinfect the workplace. Rzero, for example, has developed a UV disinfection to destroy over 99% of pathogens and reduce the possibility of workplace infections. Similarly, Zoono fogging leaves a mono-molecular layer that bonds to the surface, creating a barrier of positive charged microscopic pins, which pierces pathogens and lasts for up to 30 days.

Investing in new workplace technology including curved monitors and workplace sensors will help improve workplace experience and inclusion and provide occupiers with more visibility over how their workspace is being used.

Landlords are shifting to more collaborative space and implementing more event space for half-day use as a result. Some companies are now looking for more bespoke fit outs to optimise the experience, for which they are ultimately willing to pay more for.

Operators have reported that companies are not seeking flex offices for monthly flexibility in their licences- private offices tend to opt for flex as they can sign for around two years and renew. Likewise, companies are seeking shorter lead in periods and a service which is ready to go within 4-6 weeks of signing, rather than the 12-24 month lead in time on conventional space. Speed and ease to occupation for the occupier are arguably the critical factors.

Mike Barnes, Savills Research discusses the flexible office market outlook with operators including; Chris Davies, CEO, Uncommon; Paul Rostas, Co-CEO, Plus X; Zach Douglas, CEO, Orega; Rupert Dean, Co-founder, X+Why; Enrico Sanna, CEO, Fora; Natasha Guerra, CEO, Runway East; Niki Fuchs, Managing Director, Office Space in Town and Dan Zakai, CEO, Mindspace.

1) **How are occupier requirements changing as a result of the pandemic?**

Chris Davies, Uncommon: "Companies are realising that they will need to sign for more experiential space to create a more inspirational workplace environment and enhance workplace productivity to encourage workers back."
Niki Fuchs, Office Space In Town: "We initially observed a drop off in demand from the tech sector although this seems to have recovered now. The larger corporates continue to renew their licences."
Zach Douglas, Orega: "Companies value both having their own front door and the ability to interact with other companies. Since the pandemic, we are seeing rising demand for high-quality meeting space and alternative work points within our flex spaces throughout different parts of the day."
Dan Zakai, CEO, Mindspace: "We will continue to see occupiers become increasingly sophisticated in their demands and occupancy needs – notably for flex space. This, in turn, will drive more and more landlords to innovate and embrace emerging business models. Tenant needs haven't changed as dramatically as their expectations and demands have changed. In the past, no one expected the building experience to play such a key role in day to day employee life. Now we understand that the building experience is the customer experience."
Natasha Guerra, Runway East: "We are seeing more interest in services and features that help them to distinguish themselves and enhance their offering for employees. Roof terraces, on-site social events, bike storage, desk reservations and so on are becoming more popular."

2) **What sorts of occupiers are looking to increase exposure to flexible offices?**

Rupert Dean, XandWhy: "We have seen a range of occupiers using our spaces to trial new ways of working from pay as you use meeting rooms to two days a week in our private offices. Typically though, those coming in full time and looking to increase exposure have been small-to-medium sized going through significant growth or bounce back (from initial Covid impact). Everyone is wanting short term flexibility as well as spaces to get together/convene but also quieter individual spaces to escape and focus."
Natasha Guerra, Runway East: "Traditionally, our key audience is made up of tech companies with under 20 employees who are looking for a flexible space to grow. However, we're

> "The need to create different settings for different use cases and behaviours has forced, in a positive manner, Fora to create a series of new and complementary products from our tailored office to team passes," Enrico Sanna, Fora.

increasingly seeing larger companies looking either to downsize their space or get a more flexible solution for a subset of their team."
Dan Zakai, CEO, Mindspace: "Where flex was once more for large technology companies, our member base has diversified significantly and we have occupiers from the media, financial, aviation, cyber-security, health and wellness industries."
Chris Davies, Uncommon: "We are seeing larger, listed companies adopting flex space. Private suites will help to shape company culture, and there is rising demand for larger listed companies with the benefits of creative private workspace and amenity-rich shared facilities."
Paul Rostas, Plus X: "Curated collaboration is a key part of what we do and introducing companies to the right contacts is how we help businesses to unlock growth potential through our innovation hubs. Start-ups, scale-ups and larger corporates complement each other and help nurture our business ecosystems."

3) **What are the service-led features you are looking to incorporate to your flexible offices? What are customers demanding?**

Rupert Dean, XandWhy: "We are seeing a higher number of typically "conventional" office tenants seek a more managed or bespoke serviced space for more flexibility. In addition, I think larger companies are unwilling to pay for significant capex in their own leased offices, love our designed spaces but still want to put some of their own finishing touches in. Finally, companies really just want total flexibility and adaptability in length of term and type of contract but also a single point of contact for all their office requirements."
Paul Rostas, Plus X: "Our Innovation hubs are designed to maximise local strengths and skills with state of the art facilities and experts on hand to help ambitious businesses. In some cases, that might be recording your podcast in our state of the art media suites, and in others, it might be collaborating with our dedicated workshop team to prototype your latest product in our heavy-duty workshop."
Natasha Guerra, Runway East: "We have seen a slight shift to more meeting rooms (particularly smaller meeting rooms with improved technology), more phone booths and breakout areas. Customers want the full-service offering with full custom fit-outs."
Niki Fuchs, Office Space In Town: "We have introduced new technology into our meeting rooms to improve the experience and engagement for hybrid and implemented podcast facilities for our customers. All of our members are now able to make use of our free desk booking app which enables clients to book desks within their private offices to assist with managing new hybrid working practices, planning collaboration of teams and manage social distancing where required."
Dan Zakai, CEO, Mindspace: "Companies are reluctant to make long term decisions and renew their leases or sign new ones. This puts pressure on landlords to allow for more flexibility and shorter leases and we do see some landlords reacting to that.
"We believe the main focus should be on offering a better experience, enabled through technology. There are various ways to implement these technologies, and it starts with the basics such as IT services, communication channels, dedicated apps, etc. As far as the pandemic goes, it certainly wasn't what drove the implementation of the latter, as we've been offering this for years."

4) **How are flex licence structures changing as a result of the pandemic?**

Zach Douglas, Orega: "We have observed a growth in larger flex requirements, with some conventional tenants looking to get out of their existing leases as businesses move to adapt towards new working patterns and styles to encourage staff back to a more collaborative environment. Many companies are unable to plan for a longer period and see the five-year lease as an eternity - instead, they are opting for more flexible terms."
Enrico Sanna, Fora: "What the pandemic has demonstrated is something we have always believed – the workplace is a business-critical destination that should be fit for purpose. Our existing and potential Residents are looking for more flexible and tailored solutions and we can cater to their evolving needs. This has translated into some compelling trends for our sector. Flex structures and terms are becoming more tailored and longer and seen as a true competition to a traditional lease. The number of organizations considering flex is also growing as they begin to consider it as a meaningful part of their overall real estate strategy. Finally, the need to create different settings for different use cases and behaviours has forced, in a positive manner, Fora to create a series of new and complementary products from our tailored office to team passes."
Rupert Dean, XandWhy: "Companies want to be able to take office space with a shorter lead in period, and want the transition period from their previous space to be short and straight-forward."
Niki Fuchs, Office Space in Town: "Our

> "We have introduced new technology into our meeting rooms to improve the experience and engagement for hybrid and implemented podcast facilities for our customers," Niki Fuchs, Office Space In Town.

Image Above and Front Cover: Plus X, Brighton

Adjust service provides companies with a guaranteed term for office space but only for the days they choose, from a minimum of two days per week. Customers now have more flexibility over the days they want to be in the office on a more cost-effective basis. However, at the other end of the scale, we are finding that clients are looking for longer terms on their licences with their rents and increases guaranteed for the term"

5) What are your target areas for expansion?

Natasha Guerra, Runway East: "We see opportunity for expansion outside of London. Oxford, for example, is an attractive potential destination with a large, skilled talent pool and high-growth ecosystem."
Zach Douglas, Orega: "We remain true to our strategy, we believe geography to be a key decision making factor in any office decision complemented by ease of access. Each centre has to be accessible either by good public transport, or have adequate parking/bike rack facilities to make it convenient for people to come back to the workplace."
Chris Davies, Uncommon: "London will remain the UK's employment hub and we expect to see above-average economic growth as that is where international talent wants to be based."
Paul Rostas, Plus X: "We believe talent is everywhere but opportunity is not and so we are partnering with local leaders and property partners in regions throughout the UK to create an innovation ecosystem designed to encourage collaboration. This approach means we enable local talent, increase skills, and create more job opportunities so that people can stay in their local community."

6) How are you incorporating ESG criteria into your schemes?

Enrico Sanna, Fora: "Earlier this year, we announced our commitment to operate on a net zero carbon emissions basis by 2030. To bring this plan to life, we are making climate-conscious decisions for our buildings, and are educating ourselves and our Residents through our series of sustainable events. Terra {Fora}, for example, offers a platform for Residents and experts to discuss ideas, tools, and resources that enable climate action. We are also collaborating to scale our impact by partnering with initiatives such as Bee1, a beehive conservation project. Introducing 12 managed hives at our very own Folgate Site where we are caring for over half a million bees, which will, in turn, pollinate 2.4 billion plants annually. We will also welcome local schools into our spaces for biodiversity and beekeeping workshops, aiming to engage and encourage the next generation to protect natural habitats and species long term."
Zach Douglas, Orega: "We have a number of initiatives in progress, one we are currently rolling out is removing single-use plastics from our operations. We have appointed an ESG consultant on ways we are able to further incorporate renewable energy supplies to our schemes."
Natasha Guerra, Runway East: "Green credentials have become more important for tenants, and more customers are asking to split their energy meters in our buildings. We're actively looking at becoming a BCorp over the next few months."

Landlords' attitudes to flex

Has the pandemic influenced landlord sentiment to the flexible office sector? Where are the future challenges and opportunities?

Savills completed a survey of landlords during the latter part of 2020 to gauge their views and attitudes towards the flexible workspace sector. In total, 24 landlords, including fund/asset managers, REITs and private owners responded. In total, the numbers of properties held by the respondents amounted to over 4,000 by number, but over 438m sq ft in terms of total size. The questions were posed about the impact of the flexible office sector and the attitudes towards the sector in general.

The first part of the survey reviewed the future attitude of the landlords to flexible workspace. 29% of the respondents already operate a flexible offer, but the key result is the fact that 29% would 'like to' or 'are planning to' operate their own brand.

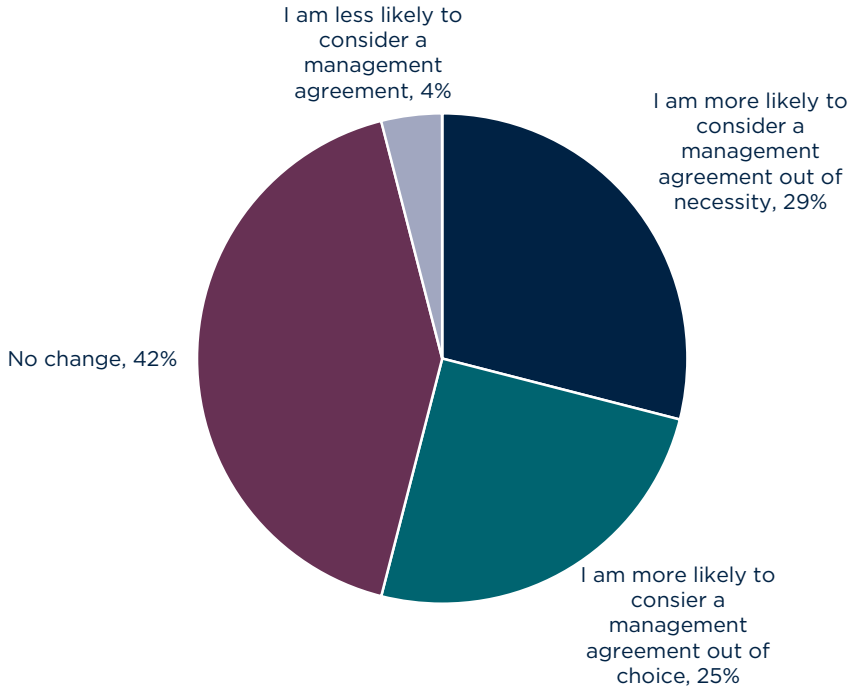
The current portfolio size, by square footage, of those respondents that 'are planning to' amounts to nearly 304m sq ft. This is more than the office stock of the City of London and West End of London office market. An additional 1% of this 304m sq ft would be a sizeable addition to the stock of flexible workspace, and this is just based upon the responses that Savills received.

Savills asked, "how open are you to considering a management agreement (receiving rent based on the revenue or profit of your tenant) with a flexible office operator?"

There is a fairly even split between those respondents that are open or closed to the idea of management agreements – 41% are open to the idea, 39% are not, although we are hearing more positive sentiment towards management agreements moving forward as both understanding and transparency around them grows.

Since the onset of the pandemic, 54% are more likely to consider a management agreement, roughly half of which feel as though it is 'out of necessity'. This, again, reflects the view that flexibility for tenants will become increasingly important in the short term.

Chart 7: Has Covid-19 changed your opinion on management agreements?



Source: Savills Research

In summer 2021, Mike Barnes, Associate, Savills Research discusses with landlords; Andrew Mercer, Office Sector Lead, LGIM; Tom Gaynor, Head of Investment, CEG; Raj Rajput, Managing Director, Hines; Stephen Walker, Head of UK Business Space, Aberdeen Standard Investments; Julian Cobourne, Director, Aviva Investors; James Lowery, Head of Storey, British Land and Oli Knight, Head of Offices & Myo, Landsec on the future prospects for the flex sector.

1) **Do you operate your own brand of flex workspace?**

Tom Gaynor, CEG: "Yes, we want to make CEG buildings accessible for all business types and sizes. Our flex workspace brand Let Ready has seen great success with 140 studios across the UK, with further fitted spaces opening in 2022."

Andrew Mercer, LGIM: "LGIM launched Capsule in 2018, which has grown to almost 1,000 desks across the UK. Terms are driven by market demand and range from two to five years on a mix of all-inclusive and traditional lease agreements"

Oli Knight, Landsec, Myo: "Myo is Landsec's flexible office brand. Offices are designed to promote productivity, foster creativity and enable businesses and people to thrive. Established in 2019, Myo offers a turnkey offering on self-contained office space on terms between one and five years, aimed at companies with between 10 and 150+ employees. Companies have their own front door but with access to shared meeting rooms and amenity spaces, supported by a dedicated members concierge team. Although we do not provide a co-working offering, Myo members are able to work in the flexible workspace in multiple locations."

Julian Cobourne, Aviva Investors: "Aviva Investors have made the strategic decision not to operate specifically branded flex workspace but we do have a growing offer of high quality fitted, plug and play office suites in various locations around our portfolio. In several locations, we have also partnered with flex space operators through management agreements and direct leases."

James Lowery, British Land, Storey: "Storey is British Land's solution to providing flexible private workspace. It appeals to scale up businesses with 20+ people looking to expand from traditional serviced offices to an environment where they have their own front door and can personalise the office the way they want, as well as large multinationals looking for satellite offices. Lease terms generally last for an average of two years, rather than

Image: Myo, Liverpool Street

monthly licence agreements. Spaces can be adapted to meet customers needs, thanks to its unique modular design."

2) **What are the operational challenges you find with flex space in your schemes?**

James Lowery, British Land, Storey: "When designing campus-style environments, landlords have more control over the direction of growth through their own flex office service. Four years ago, British Land launched Storey, which has expanded to provide over 350,000 sq ft of office space in London."

Raj Rajput, Hines: "Running a hotel-style service can be operationally intensive from a landlord's perspective. Operational costs can vary and the benefit with management agreements is the visibility the landlord has if this is run in a true partnership arrangement. With traditional leases to serviced office companies, you are detached from the process and sometimes there is limited control of the overall scheme. What if, for example, the fit out or service offering from the operator is not up to standard?"

Oli Knight, Landsec (**Myo**): "Myo provides existing Landsec customers access to grow on space and bookable amenities / meeting rooms as well as attracting a new customer base of smaller businesses. Myo is more operationally intensive but now Landsec can offer a range of products and solutions for customers from a single landlord as workplace requirements shift to greater 'core and flex' or on-demand space provision. We plan to quadruple the footprint of Myo from the current 70,000 sq ft in Victoria and the City to 300,000 sq ft+ by opening as many as eight more workspaces over the next three to five years."

3) **How has your view of providing a flex offering changed as a result of the pandemic? What changes have you observed?**

Andrew Mercer, LGIM: "The flex market can no longer be defined by just short lease terms as we are finding occupiers wanting greater choice and flexibility over how they lease space from short-term serviced to longer term fitted, managed, turnkey and traditional Cat A."

James Lowery, British Land, Storey: "Flex remains here to stay, with the decision making of our conventional occupiers being increasingly influenced by the presence of Storey. One of our growing service lines is Storey Club, designed to provide customers with the ability to book meeting rooms, event space or drop-in workspace."

Tom Gaynor, CEG: "Companies want the lease break option as a fallback, although very often, they don't choose to activate it."

Stephen Walker, Abrdn: "We've seen that many tenants are now less willing to invest in capex to take conventional space and we've responded with more fully fitted, occupation-ready space. Flexibility is key and some tenants will only sign for office space if there is swing space available in the building that allows options to grow."

4) **Since the pandemic, have you become more willing to offer short term lease agreements on conventional space?**

Stephen Walker, Abrdn: "Absolutely. There's probably an over-estimation of how many tenants want to take space on a super-flexible basis, (less than 12 months term certain) but we're certainly open to shorter-term leases. In the managed space, longer-term leases to flex operators have traditionally been the preference, but we anticipate more management agreements emerging."

Raj Rajput, Hines: "Landlords are realising the rising need for flexible terms and are becoming more positive towards this if this ultimately means this space is leased. There is likely to be more of a partnership with our occupier clients which intrinsically may mean more lease flexibility, but in the long run, I believe occupiers will start to show brand loyalty to those that are listening and working to their needs."

Julian Cobourne, Aviva Investors: "We have seen some tenants seek more flexible lease lengths and early break options since the pandemic, predominantly at the smaller end of the market. However, for larger tenant requirements, we are still finding that longer-term leases work well for them."

5) **What sort of workplace technology is being implemented in your flexible office schemes?**

James Lowery, Storey, British Land: "At 100 Liverpool Street, Storey has implemented smart sensors within the building to provide companies with analytics on utilisation rates. Our new customer engagement app, which has been rolled out across our campuses is designed to help people get the most from their time there, from providing contactless access to buildings to enabling mobile booking of meeting rooms – you can even order coffees from shops on campus."

Oli Knight, Landsec, Myo: "Landsec has adopted the WELL building standard across the portfolio including the Myo portfolio with workplace sensors to measure the indoor environmental qualities including CO2, humidity and noise levels. This ensures occupiers have the most productive workspace through a focus on health and wellbeing. Myo Liverpool Street, (pictured on page 13), is the first flex workspace in the City to receive the WELL building accreditation. Since the pandemic, Myo has incorporated new cleaning regimes including pioneering Zoono fogging technology to keep critical surfaces and touchpoints hygienic for up to 30 days."

6) **How are you incorporating ESG into your flex offer?**

Tom Gaynor, CEG: "Customers big and small are driving the shift to net zero carbon and CEG are incorporating carbon neutrality into new developments. From net zero fit outs to net zero in operation, we've got to give our customers the avenue to make a positive impact."

Stephen Walker, Abrdn: "ESG provision is critical for us. Companies are more focused on wellness and attracting staff back to the office than ever before. We have various initiatives focussing on a range of aims from net zero carbon to improving air quality and increasing wellbeing provisions. For instance, at a current refurbishment project in Edinburgh, we're planning to remove all car parking spaces and replace them entirely with cycle spaces and high-quality changing amenities."

Andrew Mercer, LGIM: "LGIM is committed to achieving net zero carbon in all our assets by 2050 or before. We are working towards this in Capsule offices by only procuring renewable energy, replacing gas-fuelled central plant with more sustainable alternatives, working with occupiers to measure and manage energy use against science-based targets and reducing embodied carbon through initiatives such as sourcing sustainable furniture."

7) **Where do you see the growth opportunities for flexible offices?**

Julian Cobourne, Aviva Investors: "Our fitted space product has been very well received by our customers and we expect to see further growth in demand going forward, particularly in the sub 5,000 sq ft size requirements. Aviva Investors will continue to evolve our offer in this market based on our client feedback and we expect to see it becoming a more sizeable part of our leasing activity. We have also seen growth opportunities in fitted lab space at our life science park in Cambridge, an occupational market that is currently strong. We recently brought forward 80,000, sq ft of fitted laboratory space in two separate buildings, all of which pre-let before completion, and we intend to develop more of this type of product.

Stephen Walker, Abrdn: "Fitted workspaces available on flexible leases are definitely a growth area, especially when finished to a high quality, attractive specification with enhanced service provision. We see more demand for flex offices in the 5-10k sq ft range across regional cities and feel that Central London, Birmingham, Manchester and Cambridge will remain key areas of growth for flex services moving forward."

The value of flex

Mixing business and real estate principles: Andrew Skinner, UK Valuations, Savills, investigates whether there is a fair value risk for flex space.

Prior to the pandemic, some of the direct investment being undertaken in the flex sector by landlords was perceived as a response to the threats posed by the serviced providers who had recognised the opportunity to become aggregators of demand through the concept of space as a service. This could be argued to be a necessary reaction of landlords having to disrupt the disruptors.

We are now seeing a rising number of landlords seeking to launch and expand their own flex models directly and our landlord flex survey identified that over half of landlords are likely to consider using management agreements. Evidence suggests that the relationship between landlords and tenants is maturing, as landlords acknowledge the importance of flex space in providing choice to existing tenants and adding a layer of amenity and vibrancy to their schemes. It is clear that the accelerated leasing benefits, both within a building and across their estate, are also being recognised by landlords. Our landlord flex survey supports the case that in the wake of the pandemic, landlords are increasingly accepting that a flexible component is essential for creating a successful office ecosystem, from large occupiers who require grow-on space for specific project work, to fast-growth start-ups who plan to expand their office footprint over a short time period.

The value of the flex component is ultimately influenced by investor sentiment towards this type of offering. Over the last decade or so a number of approaches have evolved for the valuation of serviced offices, including the split yield approach and the discounted cash flow approach. The former specifically enables us to identify the quality and value of the underlying office asset, whilst also recognising and reflecting the operational platform performance metrics of the business and trading potential. The valuation approach assesses tranches of income and reflects the different risk profiles of each tranche, including a 'top slice' created by the adaption of the property as a flexible office. The DCF method is increasingly being used and the attraction is the commonality of the approach with other operational asset classes. It is also a useful approach when assessing the value of non stabilised investments.

These valuation models emerged largely to assess the value of serviced office centres for operators. The majority of the debate with investors however has been around the covenant strength of serviced office providers and parent guarantees. With operators going through well-publicised portfolio rationalisation programmes and entering into lease regearing and surrender discussions with landlords this nervousness will not go away any

time in the near future.

With increased direct landlord investment and co-investment today in flex across their estates, the question of value is becoming more important. The increasing use of management agreements is a good starting point for a fair value discussion as we are seeing a visible shift by operators away from traditional leases towards management agreements. A management agreement in the flexible workspace sector is a revenue and profit share model between an owner of an asset and an operator of the asset. Typically the owner will provide the capital for the operator to fit out the asset, the operator then sells and manages the office space to deliver an income stream for the asset, which following costs, is then split between the owner and operator. There are however many different variations of a management agreement, although they can be broadly bucketed into one of three structures – traditional base rent and profit, hybrid operational models that use priority returns and finally full operational partnerships.

As with management agreements in the hotel sector, the best agreements are those that strike a sustainable balance between the risk profile of the landlord and rewards the operator for strong performance over the longer term, both in terms of turnover and profit.

For landlords, a well-structured management agreement, in the right building and location, would be expected to deliver a higher income than what they might receive as a headline rent for the asset. It also allows them to benefit from the premium that a flexible space operator can charge and presents an opportunity to leverage the brand and expertise of an operator. This can be reflected in the underlying investment value.

The hotel sector has proven over time that the management agreement model can work for both the owner and operator and we expect this to also become the case for the flexible office market with Covid-19 facilitating a shift in perception. From a valuation perspective, it is therefore critical to understand the dynamics of the varying types of management agreement structures and the impact each has on landlord returns. Termination rights, capex repayment, future capital costs, typical management fees and the nature of the waterfall calculation on the landlord's longer-term returns are also important to consider.

Data analytics is essential to allow suitable benchmarking of income, costs and profit margins. This is in turn gives greater confidence when assessing the underlying investment value of a management agreement. Conversely, a lack of an understanding of this operational partnership model does present fair value risk. The DCF model and tiered approach are all suitable valuation techniques for management agreements but need to be applied correctly depending upon the circumstances. Where the level of flex is a minor percentage of the overall investment income, a traditional category yield approach can also be used if the overall investment dynamic is understood.

The suitable approach to the valuation of CAT A+ and plug and play transactions is now also commonly raised. This is a more simple investment metric as the occupational terms are similar to a traditional lease. The divergence is around the rent with a premium or additional charge for the fit-out and services provided. The level of premium is not only driven by the services and fit-out provided but is also market-driven. Whilst the approach to value needs to be investor driven it is clear that the income can be capitalised during the term with the cap rate determined by the covenant quality. A well-structured agreement should therefore result in a positive return on capital.

The uncertainty at present in relation to the valuation of plug and play transactions relates to whether such deals will become so common practice that we are able to build in an element of permanent income for services and fit out in our valuation cash flows, with a reciprocal allowance for depreciation or future cap-ex investment. This is the approach now being adopted for BTR investments with furnished apartments and also follows the approach seen in the hotels market. We are not at this stage yet and until the market evolves there will however remain some uncertainty over which approach will become the norm. However, in the short term, the main attraction for landlords considering plug and play transactions will continue to be the accelerated tenant demand and marketability picture.

Without data and transactional activity, there is always a risk that the value of flex will be mispriced. This has previously led to a lender reluctance to lend beyond the underlying vacant possession value. However, operational driven properties are increasingly prevalent within well-diversified investment portfolios (BTR, hotels, student, factory outlets etc.) and we expect landlords to increasingly recognise the benefits of a more direct relationship with tenants. Will the topical question in the office sector then become — does flex result in a premium, or is there a discount if no flex is provided, similar to the discussions around 'green premiums' and 'brown discounts'?

Section 3: The Future of Flex

Landlord and occupier sentiment remains positive towards the flex office sector, with workplace experience and engagement as the key to encouraging workers back to the workplace. But what are the longer term trends we anticipate will impact flexible offices?

Reimagining Retail: What place do flexible offices have next to retail? By Tom Whittington, Director, Savills Research

Historically, flexible offices have tended to be found in large corporate buildings in CBDs, but is that still the case? New working patterns and increased localism might be changing that, with increasing demand from flex-space providers taking retail spaces and with 150 million sq ft of retail space vacant nationally, the opportunities are growing too. Why is there such an opportunity for co-working to help reinvigorate our high street?

Long-term structural change in retail has resulted in many retail units nationwide becoming redundant or marginalised due to a general declining need for retail space or a pitch shift. The vast amount of empty space on our high streets presents an opportunity for repurposing to new uses, with co-working considered as one of the prime contenders for reinvigorating this space.

Covid-19 has been a catalyst for accelerating and aligning several consumer trends in both retail and work places that make bringing these once disparate uses together an attractive proposition; blended home, working and social lives, demand for access to convenient goods and services, a desire for a greater sense of place and community and the need for social integration, but with less travel. This means we need a greater mix of uses in local town centres and high streets at every level, with employment space a key economic driver.

Local authorities love it because it re-energises the high street, landlords love it because they can lease challenged areas and adjacent tenants love it because they can benefit from cross-pollination of daytime activity.

An increasing number of shopping centres and ex-department stores have already brought flexible workspaces under their roofs, from Southampton to Stockport to Sunderland, demonstrating this isn't solely a prime or top regional market proposition. Retailers with larger stores are turning to flexible offices as a complementary use within their buildings, including John Lewis domestically, while overseas Staples has created its Workbar brand in the US, and Carrefour's Urban Life supermarkets are offering shared workspaces in Milan.

However, smaller units may be fit for co-working spaces too and we regularly speak with operators looking at units as small as 5,000 sq ft, that seek to capitalise on the increasingly available space retail. In the UK, 22.7 million sq ft of retail space is currently vacant in units larger than 5,000 sq ft and over 150 towns across the UK have at least 50,000 sq ft of such space, which provides some indication of the opportunity nationwide. However, this doesn't mean the route to conversion is always straightforward and any repurposing proposition can be cost-prohibitive if units are a challenge to retrofit or redevelop.

We expect flexible offices to provide an increasingly important solution for supporting retail spaces. It looks evident that when different property uses merge they can increase footfall, engagement and vitality, while enhancing the resilience of those locations.

Tech: on-demand workspace

Cal Lee, Global Head of Workthere, examines how technology is being applied to optimise workplace experience.

The flexible workspace market is democratising thanks to the emergence of a new generation of apps that give users access to extensive networks of spaces, locations and flexible workspace brands.

These apps are unlike the traditional methods of using flex space, which typically require an occupier to sign one contract with one operator, potentially leading to multiple contracts with many operators.

But apps, such as Desana, UpFlex, NearU, Deskpass and Coworker - among others, allow companies to buy credits for employees. These credits enable staff to work in one of the thousands of spaces an app has available, with one contract and one payment platform.

This market remains in its infancy, with disparity across platforms in terms of geographical reach and technical capability, but it is a market that is likely to mature quickly, with demand increasing from large enterprises on these platforms.

As businesses and people review the way in which they work, and what their requirements for office space will be, the development of models that give users the ability to pay-as-they-go is another shift towards further flexibility - in a portfolio of options that include both conventional and newer types of space. The apps that provide this technology are therefore in a race to deliver the best platform and most expansive location offer.

As a result, platforms are investing increasing amounts of money as they scale up their technology. Edinburgh-based Desana, which just raised US$4m in seed funding, offers members the ability to block-book hot desks, but will soon offer meeting rooms and the ability to book a private office for a day, while also gathering data on usage to help inform businesses about how their staff use the different spaces.

Apps offer many upsides for brands

Several apps also now offer the ability to add your own HQ to the app, so your employees can choose to access this space or another local (or not so local) space depending on their working need that day. These apps will therefore become one of the perks for employees for as and when they need to spend time away from the main corporate office.

The other advantage is that a company does not have to provide an office for its tens of employees. Instead, it can lease a smaller office and then give employees remote access to a variety of alternative spaces in addition to their main headquarters.

However, for those brands that want a standardised experience for their employees, these apps might not appeal, but as already noted, we are increasingly seeing operators offering their own versions. Pay-as-you-go apps from companies such as WeWork and IWG can offer global scale.

New tech could be a friend or foe to operators

For smaller co-working businesses, the apps create a level playing field with larger operators, potentially enabling them to attract customers from major brands that might not have been as easy historically.

For WeWork and IWG, however, apps are a potential threat to their offer. It might take WeWork several months to secure and build new spaces, whereas the apps can scale to new locations or territories almost overnight.

Among the downsides for operators is that they don't make as much money because they are selling passes from a platform and the app provider then takes a cut. The other risk for operators is that users of space are more transient, with members less likely to settle in one space. Therefore those brands that have a strong focus on community may shy away from working with apps, and we have seen this in a few cases.

Throughout Covid-19 operators were open to different kinds of cash flow and therefore these apps gave them crucial revenue stream. As centres return to full occupancy, it remains to be seen whether operators will need the apps quite as much, co-working is often only a very small portion of their overall desk space.

But they may have little choice, if the corporate demand for such apps continues to grow at the pace it is now. In that case, both the apps and operators will need more co-working space in the market. Previously the likes of WeWork and The Office Group were reducing the co-working element within their space because it was a lower margin business, typically 5% of total space, but demand might mean they have to begin thinking about increasing this.

It is still early days, and these apps currently remain a small part of the flexible market. While there has been a surge in demand, many corporates are at the stage where they are piloting the technology and testing how their employees are using it. But as organisations across the globe seek to reshape their working culture for the future, there is no better time for a burgeoning market to be in a place to accommodate this kind of conversation.

> "A company does not have to provide an office for its tens of employees. Instead, it can lease a smaller office and then give employees remote access to a variety of alternative spaces in addition to their main headquarters," Cal Lee, Global Head of Workthere.

Adopting tech in flex space

James Shannon, Chief Product and Technology Officer, essensys, explores how operators are encompassing tech to their flex space.

How is technology transforming how we let space and use space?
A key challenge shared by landlords and occupiers traditionally has been time-to-value; technology is allowing landlords and operators to minimise time-to-value by rapidly activating flex space for any purpose, through automation of all the digital infrastructure required in the building. Once a landlord or operator has a tech enabled flexible offering, they minimise the traditional obstacles of getting a tenant into a space. From a tenant perspective, in a recent report (May 2021) compiled by independent research firm Verdantix, 67% of occupiers ranked 'Ease of moving into and beginning use of space' as either their first or second reason for wanting to utilise flex space.

How is the tenant experience changing, and where are the future shifts in flex space likely to emerge? What are the new tenant requirements?
Occupiers are seeking spaces that facilitate employee productivity, are enriched with next-generation technology and that come with lease flexibility. In more practical terms, occupiers are increasingly seeking the ability to offer a hybrid collection of space to their staff for flexible use, but with the necessary company-specific guardrails and policies that have been deployed for the evolving work-from-anywhere world. This means offering frictionless access to spaces and amenities in-building regardless of whether the end-user is at the company HQ or a distributed flexible workspace.

What sort of premium are occupiers willing to pay to have tech enabled amenities in their flex space?
As recently documented by Verdantix, proactive landlords are presented with double-digit rent premiums and monetisation opportunities - occupiers want flex space combined with technology that addresses any concerns they have around digital security, staff engagement & productivity and space efficiency. There's a reward on offer for meeting these demands; when asked directly as part of the research, 67% of occupiers said they'd be happy to pay a premium of between 15-25% on a square foot basis for flex space with tech-driven amenities.

The importance of protecting data security in flex offices and the challenges landlords are facing.
One of the findings in the previously mentioned Verdantix research was that almost 70% of occupiers were not completely satisfied with the quality of data security in the flex spaces they had seen, yet more than 90% of landlords surveyed acknowledged that this was a 'high impact' benefit sought by occupiers. This points to a real challenge being faced by landlords today who are offering or want to offer flex, suggesting the traditional approach to building or digital security is no longer fit for purpose. That's because flex introduces a level of dynamic change that traditional security systems were simply not designed for. A holistic approach must be taken where a platform manages security seamlessly all the way from remote booking and availability in a mobile app to in-building physical access and enterprise-grade network security, whether using wired or wireless connectivity.

The shift to more flexible and distributed working has led to occupiers demanding that flex offices meet enterprise-grade security requirements; this is because organisations must now offer a broader choice to their staff than simply commuting to the company HQ, whilst still meeting the corporate security demands.

Affordable workspace

Clare Bailey, Director, UK Office Research, Savills, examines why affordable workspace is becoming a vital part of the flexible offering.

The availability of affordable and flexible office space is crucial for innovation and growth. With small and medium-sized enterprises (SMEs) leading much of London's future innovation and enterprise, the availability of affordable workspaces is key.

The past five years have seen a growing number of local authorities introduce affordable workspace policies in some form, these mostly being aimed at securing subsidised premises from major office schemes, although repurposing older buildings that are already in the right places is a sustainable and cost-effective way to develop.

The Mayor of London's new London Plan is giving greater significance to the importance of affordable workspaces and the need to provide for it in the planning process. The plan defines an affordable workspace as one where rents are maintained below the market rate for a specific social, cultural or economic development purpose.

Although coming from different price points, what affordable and flexible workspaces have in common is that tenants value co-location with their peers, for the benefits from wellbeing to productivity that this brings. Furthermore, they are physical places where businesses and professionals share space, facilities and/ or specialist equipment. Both affordable and flexible workspaces are run by distinct 'workspace providers', which vary in size, lease structure, social or commercial purpose, and sector specialism. Both affordable and flexible space removes many of the barriers to collaboration and community presented by a traditional office workspace.

The past five years have seen a growing number of local authorities introduce affordable workspace policies in some form in London, with areas such as Kings Cross, Soho, Victoria and even the Southbank all crying out for more affordable workspace. All these areas have seen the price of a desk within a flexible space grow considerably over the past three years, and even hold firm through Covid-19. However, areas such as the City, Old Street, Aldgate and Hammersmith, where prices have continually struggled over the past 18 months, will likely see the more conventional flex market compete against the growing affordable market, where operators continually seek to offer heavily incentivised pricing in markets with an oversupply of flex space.

Image: Principal Place, Shoreditch; Copyright GrindtXX (Wikimedia Commons (Creative Commons Attribution- Share Alike 4.0 International Licence)

Peppercorn rents pave the way for change

Often, affordable workspace operators cannot afford to take on space in new buildings, even with reduced rents. The rent reduction is not enough to offset the increased costs associated with occupying a new building, in particular business rates, service charges and upfront Category B fit-out costs. What's left is a sizeable 'affordability gap' between the rent a developer needs to achieve to maintain overall viability and what an affordable workspace operator can afford.

Islington Council has a unique approach through the planning process to help prevent an 'affordability gap'. Through its policy, the council negotiates with developers to provide affordable workspace at a 'peppercorn' rent for a minimum of 10 years, and sometimes in perpetuity. The provision of these spaces is secured through a Section 106 agreement with the developer. The council then appoints an affordable workspace operator to deliver a series of well-defined social value outputs instead of paying rent.

Plough Yard, part of the wider Principal Place development in Shoreditch and home to Amazon's UK headquarters, will be leased to Hackney Council at a peppercorn rent until 2045, with an additional £100,000 developer contribution towards fitting it out. The agreement is part of the council's mission to make Hackney's economy open, accessible and inclusive. To achieve this, the council intervenes to ensure that new developments benefit the borough's existing residents and businesses and that Hackney remains the creative heart of London, enabling businesses to start up and set up alongside larger enterprises.

Sustainability in flex

Maria Garcia, Principal Sustainability Consultant, Savills, explains how landlords are adjusting their flex offices to meet sustainability criteria.

Indoor air quality has become one of the key ESG factors for companies since the reopening of society and return to offices. Ventilation systems and air conditioning are playing an important role, while landlords are implementing monitor sensors, encouraging workers to feel safe on their return to the office.

RESET is the industry standard for indoor air quality that integrates performance-based data with cloud technology to make real-time health data available to occupants of indoor space, differentiating itself from the competition.

An additional factor is the UK government's requirement to bring all greenhouse gas emissions to net zero by 2050. One of the difficulties of tracking carbon emissions in shared space is that occupiers are unable to track how much of the carbon emissions are due to their own business operations to meet their sustainability objectives. More tech is now being implemented to track granular data, including smart meters within shared space to create smarter buildings. This is also giving rise to the circular economy within the workplace, such as repurposing existing office carpets and lighting to reduce carbon emissions.

Sustainability services are a major opportunity for flex providers to advise customers who do not have the resources to track emission levels. More flex providers are now appointing sustainability contacts to meet this growing demand.

Social criteria will also become increasingly important to enhance workplace experience and productivity in the post-pandemic workplace. More flex providers are offering mental health and wellbeing services, indoor greenery and workspaces are designed with clear access to natural light.

Some landlords have now taken the stance not to acquire buildings with EPC ratings below F and G to meet growing shareholder demands. On the other hand, some impact investors are retrofitting their existing space and extracting embodied carbon to asset manage to a Grade A spec. Banks are also seeking KPIs in order to provide more favourable loan terms to investors. If carbon emission reduction targets are met during a five-year period, then banks will renew more favourable lending terms in the future.

Key takeaways

What are the top takeaways from this report?

Flex offices in regional locations are at a growth stage and we will see a wider range of flexible office operators expand in the regions. Demand in central London markets is likely to recover at a slower rate, although the capital will continue to attract international talent in the medium-long term.

Although it is still early days in the aftermath of the pandemic, we do not expect occupiers to adopt hub-and-spoke strategies on a significant scale. Some companies will look to offer workers the option to work in a flex environment closer to their homes, but we expect conventional headquarters to remain the most popular occupier model.

The recent growth in tenant controlled supply is unlikely to unsettle the growth of flex offices as companies seek a full service offering, with the latest evidence in H2 2021 suggesting that tenant supply is beginning to be withdrawn from the market.

Landlords are seeking to increase their exposure to flex through management agreements as a service element becomes more essential in attracting workers back to the workplace. Some landlords will seek to introduce their own serviced offerings in fitted space for customers looking to sign for longer terms.

Convenience is fast becoming a priority for occupiers who are willing to pay for additional services, giving rise to the 'hotel' model. Companies with 20-100 employees who have outgrown serviced office environments will be a key growth market, as well as a broader range of business sectors including the professional services and finance sectors.

Mixed-use environments will become more important in providing a holistic workplace experience. Landlords willing to take more development risk may seek to repurpose some of their existing retail schemes into flexible workspace.

Retrofitting will become more popular with landlords to reduce carbon emissions, whilst occupiers will seek more visibility on their carbon emissions in flex space.

Conventional office leases are more cost-effective for companies that are able to sign for lease terms in excess of five years.

Conventional lease lengths in London will continue to shorten as landlords will need to become more willing to offer shorter leases. However, larger businesses will still require longer leases for business continuity.

We anticipate flex offices will reach 10-15% of office demand over the next couple of years in response to the pandemic, and flex offices will reach 20% of total demand in the long term.

Providing affordable workspace will become more important in the planning process to prevent an 'affordability gap'.

Speed and ease to occupation for occupiers will continue to drive the market, in particular the rise of the landlord flex provider.

It will become increasingly hard to draw the line between flexible workspace and conventional office space – instead, we just have a variety of different options that are able to meet the needs of the end-user, whatever they might be.

Savills Commercial Research
We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

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