

# THE FUTURE OF FLEX

Flexible Workspace in the UK  
post Covid-19

A Report by Arney Fender Katsalidis (AFK)  
in partnership with WORKTECH Academy

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# The Future of Flex

The Future of Flex examines the prospects for the flexible office space market in the UK after the Covid-19 pandemic. It builds on pre-pandemic research into the flex sector, conducted by international architecture and interior design practice Arney Fender Katsalidis (AFK) alongside the BCO (British Council for Offices) and Professor Jeremy Myerson of the Royal College of Art and WORKTECH Academy. The findings of the original report have been updated in light of the coronavirus crisis by AFK in partnership with WORKTECH Academy, to take into account significant changes, especially in areas such as flexible occupancy, corporate real-estate strategy, legislation and technology. To ensure the predictions and scenarios in this report are as relevant possible, new data was analysed and fresh interviews were conducted with a range of industry experts and operators in the flexible office field, to understand the effects of Covid-19 and the future outlook for the sector. This new information was brought together to inform our report and predictions for change.

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# 1 Executive Summary

The Covid-19 pandemic has changed the way we work – perhaps permanently. With all but essential workers retreating to their homes during each lockdown, the mass remote working experiment has led to a new and more fluid approach to where, and how we work – leaving the fundamental purpose of the office unclear.

The flex office market has suffered accordingly during the crisis, with many operators contending with empty spaces and large overheads. But as we emerge from the pandemic the future of flex looks bright.

The pandemic has accelerated pre-existing trends towards flexibility, which in turn will fuel demand for flex offices and drive recovery. The market will overcome the short-term shock of the pandemic, and bounce back bigger and better than before.

The key findings of this report are as follows:

## **Flex offices may begin to match the hype.**

The proliferation of flex office operations in London and many major UK cities, was already a challenge to the property industry. Yet flex offices are also the focus of much hype, masking its modest market share of around 5% of the total UK office market in 2018-2019. This is now set to change. In the medium to longer term, demand for flex offices is expected to increase, from a flat level of growth in 2020 of 5%, to a high of 12.5% by 2023. Some experts suggest that this is a conservative estimate, predicting that growth could be about to reach as high as 20%, given the right conditions.

## **Business strategies will drive flex demand.**

Aided by rapid advances in communications technology, the pandemic has acutely accelerated pre-existing trends towards more flexibility in working practices, and the emergence of hybrid and ‘hub-and-spoke’ models of work. Combined with a potentially tough economic climate in the coming years, these shifts are expected to favour flex offices, as businesses seek resilience and more flexibility in their real estate.

## **The flex market will become more volatile.**

The UK flex market comprises an extremely diverse range of operators and spaces, jostling to differentiate their offers through design, branding, experience, sector, specialism and service – with major landlords now very much part of the fray. Post-pandemic, competition for tenants will sharpen. Operators will need to work even harder to stay ahead in challenging economic conditions, and tough competition. But as the flex sector in general is by nature resilient and most operators are nimble, the ability to adapt to change is why the market is expected to prevail post Covid-19.

## **Flex will play a big part in the future of work.**

Covid-19 has initiated a wide-ranging debate about the future of work, and leading to widespread adoption of different working models. Flex space will be seen as part of a convenient, low-risk solution for businesses exploring different ways of working, particularly hybrid or ‘hub-and-spoke’, both of which no longer require people to commute daily to a single office, instead using of a variety of spaces/locations for work.

## **Large corporates will dominate flex demand.**

Flex offices typically attract a broad church of tenants, from individual entrepreneurs, to start-ups, small-medium sized businesses, and anything in-between. In recent years, increasing take-up from large corporate occupiers has caused operators to pivot in order to take advantage of the more lucrative revenue streams they offer, shifting the dynamic of flex. Post-pandemic, a contraction in freelancers and small start-ups tenants is likely, with some retreating to their homes for convenience and cost-savings. This will be offset by acceleration in adoption by large corporate occupiers looking to shrink overheads, diversify their real estate strategies, and to offer staff more choice. Large corporates may also drive demand for more regionalised flex offices outside of major cities, such as in commuter belt towns, particularly if they are keen to adopt hybrid or ‘hub-and-spoke’ models, the latter where a larger headquarters is supplemented by smaller (potentially flex) dispersed satellite offices.

## **Flexible workspaces will change and adapt.**

Post-pandemic, flex operators will strive to attract tenants back to their spaces. Most operators have stepped up cleaning and hygiene regimes, and/or adjusted densities and the design of communal spaces – yet some have taken this a step further with ‘new’ types of spaces and amenities to woo tenants back. Flex operators will also need to consider upgrading, or in some cases ‘super sizing’ their spaces to accommodate more corporate occupiers, and to deliver the standards they are used to, such as better and bigger amenities, services and locations, and heightened demands for wellbeing, hygiene, air quality, densities and the space allocated for each desk.

‘A contraction in freelancers and small start-up tenants will be offset by an acceleration in adoption of flex by large corporate occupiers ...’

## **Traditional landlords will muscle in on flex.**

Large corporate occupiers are considered traditional landlord territory. And as these tenants are increasingly attracted to flex space, it is no surprise that landlords (and developers) are keen to engage in the market in order to gain a foothold and compete effectively.

Some have chosen to partner with a flex operator in some capacity, while others have launched their own brand of flex spaces, usually within their portfolios. It is likely that Covid-19 will provide further impetus for landlords to engage with the sector, not just to secure large corporate occupiers, but to increase diversity and decrease risk in their portfolios, using flex space to target their assets to the broadest spectrum of tenants. Eventually this is likely to lead to a scenario where landlords are moving towards becoming on equal terms with flex operators, as part of the established flex supply chain.



Cutaway illustrative sketch of an active lobby space, Arney Fender Katsalidis

### High densities will remain on hold.

Densities in most flex offices, pre Covid-19, were generally found to exceed industry recommendations – in instances 1:6 to 1:8 per square metre, as opposed to 1:10 British Council for Offices (BCO) guidance. Naturally densities in flex offices dramatically reduced during each lockdown, but the pandemic protocols (such as social distancing) and first-hand experience of a health crisis are likely to exert lingering behavioural changes in the workplace. Increases in densities in flex spaces will be cautious and heavily managed, alongside the emerging behaviours of the post-Covid-19 era, where tenant safety, health and cleanliness is prioritised.

### Use of flex space will be more sophisticated.

Typical flex office usage patterns are complex, both due to broader changes in working patterns (such as the decline of 9-5pm), and the peaks and troughs created by each operators' curated events programme, where high densities and utilisation occur at the times when these are held. Most flex operators already use sophisticated methods to manage their spaces, which post-pandemic, are likely to need to become more sophisticated in order to balance density, utilisation and profitability, alongside new concerns over tenant safety and health. Tenants are also likely to demand even more transparency of this data, to build their own picture of the workplace.

### Retrofit/reuse will play a bigger part.

A hardening of the economic climate post Covid-19 could potentially lead to fewer new-build office schemes in the short term, and an increase in distressed assets coming to market – particularly from the retail and hospitality sectors. Retrofitting distressed assets to include flex space could both reposition buildings, and help meet demand for flex space. Retrofit assets are desirable, as evidence of a building's former use, historic fabric and other quirks leftover from previous tenants, can be differentiators for those seeking 'authenticity' in a space. Alongside retrofits, an acceleration in temporary flex offices in assets awaiting redevelopment (or 'meanwhile' space) is likely, as building owners seek prudent, cost-effective strategies to generate revenue while they wait for conditions to improve.

### Secondary offices will host more flex space.

Secondary space (sub-prime space not classed as Grade A) could accommodate a generous proportion of flex space requirements, especially if the market grows as predicted. Some challenges inherent in secondary office space, such as buildings with lower specifications, sub-prime locations, or degraded building fabric, can potentially be overcome by the quality of a flex operator's fit-out, service, ambience, brand and community. While this makes flex space a reliable asset re-purposing/re-use strategy, it is also no silver bullet, with some assets more challenging than others. Similarly, while retrofit and re-use strategies are likely to play a bigger part in the future of flex, room for manoeuvre in this area will be constrained by the more stringent demands of bigger corporate occupiers.

### New accounting rules will aid the flex market.

The arrival of IFRS 16, a new International Financial Reporting Standard for lease accounting, which came into force on 1 January 2019, is likely to favour the UK's flex market. IFRS 16 effectively allows businesses to 'write off' short-term leases (which most flex offices are acquired on) without declaring them, something which will not be possible with leases longer than five years. Changes in planning regulations to encourage mixed-use developments and a shift towards a blurring between live/work/leisure, are also likely to have a similar positive effect on the flex sector, with flex being included in new developments to bolster community amenities.

### Expectations have changed – no going back.

The moment the first flex offices arrived in the UK, and advances in communications technology began to bite, the discussion around the way we work and what is possible in office real estate began to shift. The pandemic has added fuel to this fire – accelerating existing trends towards greater flexibility in working practices and forcing organisations of all types to embrace it. Expectations have also changed, people are now demanding more choice around how and where they work, and businesses are also keen to adapt and to ensure they are resilient and nimble. Together, this surge of change will have long term implications for how we will work in the future and a knock-on effect on demand for office space. The brave new 'post-pandemic' world will galvanise the interrogation of how much space a business really needs, and how they can use it better, which flex space can capitalise on. The genie is out of the bottle – there is no going back.



# 2 Understanding the sector

Diversity and dynamism are key characteristics of a UK flexible office market that is set to prosper in the longer term

The UK's flex office market is a dynamic, diverse and expanding sector – densely populated by specialist operators, locked in fierce competition, with numerous differentiated and design-conscious space offerings. Initially concentrated in London, more flex offices and coworking and hybrid sub-sector operations have opened in major regional cities across the UK, with some intrepid providers even popping up in commuter belt suburbs and beyond. Flex offices, especially coworking spaces, have enjoyed a growing profile in a world of work, moving slowly and cautiously towards more flexible models.

Freelancers, entrepreneurs and small start-ups drove the initial growth of flex, especially the high-density coworking spaces, with tenants seeking to become 'members' of dynamic working communities. Corporate occupiers also began using flex for 'swing space' in between premises moves, or as overflow space for business units or teams, but recently their uptake has become more purposeful and strategic.

The arrival of Covid-19 to the UK was a massive shock to the system. National lockdowns, economic unrest, and an enforced and extended experiment in remote home working combined to plunge the UK's office real-estate into turmoil. It left flex space operators struggling to manage their overheads against a steep downturn in demand, as their high-density buildings and venues emptied almost overnight.

**'Covid-19 was a massive shock to the system and left the UK's flexible space operators struggling as their high-density buildings emptied almost overnight...'**

Covid-19 drove many freelance and smaller flex customers to home working. While some may be itching to return, most predictions forecast a retraction of this market over the short term.

Corporate occupiers look set to fill the void left behind by the smaller flex customers, with an increase in corporate adoption likely to be more strategic than tactical, and part of concerted long-term efforts to re-imagine corporate office portfolios with a higher proportion of flex space – reflecting a higher state of business agility and resilience to future changes.

Beyond the temporary and more immediate changes, it is clear that Covid-19 has opened up a much more serious debate about the future purpose of the office, and of how companies should manage their workplace strategies and real estate in the years ahead. But by far the biggest legacy of the pandemic is an acute acceleration of pre-existing trends towards more flexibility.

## Flex in the post-Covid-19 era

Generally, flex workspace is regarded as a good fit for the post Covid-19 world of work. It is a model that can be more responsive to turbulent economic conditions, and one that comes with relatively little risk for the occupier. Experts in the field predict that if the UK's flex sector can overcome current trading difficulties, in the medium to longer term the future prospects for this type of space are bright.

The data also supports this. Prior to the pandemic, the flex market was expected to grow from a modest 5% of the overall UK office market (2018-19) to at least 7% the following year. Current predictions are that this share will rise to 12.5% by 2023 (Instant Group 2021). Yet some industry experts believe that this is still too conservative, suggesting that a much bolder prediction of around 20% of the total UK market is equally plausible, given the right conditions.

Corporate use of flex space will undoubtedly drive a large part of the growth, but is not likely to manifest until later in 2021. Most corporate occupiers will be driven to flex space through revision of their real estate strategies, pivoting away from standard office space and long, inflexible leases.

## From 5% to 20%

Expert predictions of a dramatic increase in flex space share of total UK office market

To meet this new and important source of demand, flex space providers will need to rethink some core aspects of their offer, principally quality, health and wellbeing, location, size and scale, service and density, to meet the more stringent demands of larger corporate occupiers.



Flexible lobby space in the Turing Building, International Quarter London for Lendlease.



## Understanding typical flex operator models

While there is huge variety in the types of flex spaces and different operators in the market, there are four typical operator models:

### Operator with overarching lease

This is the most common model which involves a flex operator taking out a longer lease on a building (or part of) from a landlord, and paying a standard market rent on this. The flex operator then leases the space to multiple tenants, usually on short leases, and seeks profit from the difference between the achieved rent and paid rent. In general, most leases signed by flex operators are standard real estate leases, on a term of 10–15 years.

### Management agreement

In this model, a flex office provider enters into a management agreement with a landlord, and will run the flexible office business on their behalf, typically in return for receiving a management fee. Another variation of this model involves a landlord and flex operator entering into a profit-sharing arrangement, sharing the operational risk and cost in return for a potential rise in rental income if the business model succeeds.

### Operator as freeholder

Under this model, an operator purchases a freehold building and ‘re-brands’ the property by fitting it out. It then multi-lets the building on short leases to a range of different tenants. This model is less common but becoming more popular. A similar, but not entirely separate model is where the operator effectively becomes the developer by funding and fitting out specific properties for its own occupation.

### Landlord as operator

In this model, a landlord creates their own brand of flex space within a portfolio, often to help widen a tenant base or to ensure a portfolio is more resilient. This ‘blended’ approach yields a number of benefits in terms of spreading risk and increasing returns. An example is that a landlord could potentially use a flex space to receive higher rental incomes (as short terms leases which attract a premium), while at the same time maintaining the bulk of their rental income from more stable long-term leases. In addition, by operating its own flexible model, the landlord removes any potential credit risks associated with partnering with a flexible operator.

### Post-pandemic operator trends

In the post-Covid-19 era, it is likely all operator models will still be in play, but there will be a pronounced shift towards hospitality approaches, where more reliance is placed on volatile operational income derived from bolt-on services, rather than on fixed rental income, as in the past. Experts believe that this development will affect building valuation, lending and financing, based on assessment of different yields and risks, and so could drive also more landlords to outsource their buildings to a flex operator (especially under management agreements).

## The flex space value proposition

To understand how the flex sector might fare in the future, it is important to understand why it has become so prominent – and why landlords, building owners and occupiers are keen to engage with it despite its small market share.

Flex offices are attractive to tenants because they offer a fully functional ‘plug-in-and-play’ solution, acquired on demand if necessary, so there is no lag in time from signing a lease to getting a workplace up and running. Most flex spaces come fitted out with desks, meeting rooms, social spaces, kitchens, copy areas, and receptions.

The operator will also offer numerous ‘bolt-on’ services as part of the lease – so tenants can outsource back of house and other operational functions. Flex tenants enjoy cost certainty, as the rent they pay on a regular weekly or monthly basis is for their entire package (inclusive of any bolt-on services they have chosen).

Flex spaces tend to be offered on short term lease agreements of months rather than a number of years, but rolling month-to-month contracts are also not uncommon. The short term leases offered by flex operators typically attract a premium of around 20–30%, so in some cases the cost to a tenant can be quite high, particularly if the arrangement ends up being over the long term and also includes numerous bolt-on services.

Despite the higher lease costs, flex tenants benefit from no contractual obligations, large upfront financial outlay on a long lease, or fit-out costs. Businesses also gain flexibility in their real estate, which is especially useful for firms who don’t know how much they will grow or contract over the coming years, and how much space they will need.

Although short terms leases are the norm for flex, some operators are beginning to offer longer leases to larger corporate occupiers. Typically these longer leases are two to three years, which is still considered short term in the grander scale, but is unusually long for flex space. This may become a growing practice if larger tenants are increasingly targeted by the sector, or if there is demand for longer leases more generally. This will also then potentially bring the costs of flex space more in line with traditional leasing agreements.



Storey's Appold Studios Haggerston, London

# 3 Trends in size and growth

## Trends towards a hybrid model of work and a more customer-centric approach will focus attention on the sector

Prior to the pandemic, the UK's flex space market was somewhat fragmented. Regus was the largest provider by number of flex workspaces UK-wide – and in London. Other large operators include WeWork (which accounted for the largest volume of space commitments in Central London, ahead of Google and Amazon, and behind only the Government in 2018), alongside Workspace, Leo, and The Office Group. Together these larger operators account for over 20% of the flex space market (by number of locations), with a raft of smaller providers making up the remainder.

Even though the pandemic has hit larger operators hardest due to their bigger lease commitments and higher risks, this report believes we are still unlikely to see wholesale rationalisation in the sector.

In London (by borough) Westminster, City of London, Islington, Camden, Hackney, Tower Hamlets and Southwark currently have the highest number of flex spaces. The South East is the region with the largest concentration of flex locations outside of London, but regional cities are also witnessing an influx of flex, coworking, and hybrid office operators to the market. Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester have all seen strong activity from flex operators in recent years, with market penetration rates similar to London, ranging between 2% and 5%.

### Future growth predictions

Current projected growth rates for the UK flex market are that it will rise from a modest base of 5%, to 12.5% by 2023. Some experts suggest, given the right conditions, flex space could outstrip these predictions to achieve a yearly growth rate of 21.3% in the medium to long term, according to the Global Coworking Growth Study 2020, compiled by Coworking Resources. The same report predicts that coworking spaces worldwide are projected to double in number to 40,000 by 2024.

## Doubling to 40,000

The predicted number of co-working spaces worldwide by 2024

These buoyant predictions show the bounce-back capabilities of the flex sector, but also reflect wider shifts towards embracing more flexible ways of working, and what impact this will have on office space and real estate take up.

Although the outlook is largely positive for flex space, in the immediate period, growth is likely to be slow. This report predicts that is only from 2021 onwards that we can expect growth to rebound and develop even more rapidly.

### Hybrid and 'Hub-and-spoke' models

The impact of Covid-19 on people's willingness to make regular, lengthy commuter journeys to central London offices is still being assessed, but early signs are that daily attendance in the company headquarters or campus could become a thing of the past – which provides an opportunity for flex providers.

A 'hybrid' model of work seems likely to emerge – with people splitting their time between working at home (or a local space) on some days, and a company headquarters/campus on others. A recent surge in house-buying activity in market towns and rural areas away from the large urban conurbations, (often amongst key demographics of the workforce) seems also to support this.

Flex operators typically select city centre locations with good transport connections and proximity to busy urban centres. Although in recent years, flex presence has increased in regional cities, these are often not new service providers entering the market, but flex operators originally based in London expanding out into the regions.

Despite city centre locations being far more lucrative and desirable for flex operators, this recent urban exodus of sorts could be an opportunity. If hybrid models do become widely adopted, it may provide the business rationale for flex operators to open spaces further afield, perhaps in suburbs and smaller towns within commuter belts, where they know there will be demand. These could be smaller 'satellite' outposts offering the same service, amenity, community and facilities – and critically, something people cannot get at home.

## 'A hybrid model of work could trigger a large-scale urban exodus and see experiments with 'hub-and-spoke' real estate models ...'

Corporate occupiers may also drive demand for local flex spaces, particularly those adopting 'hub-and-spoke' models of real estate. Under this, an organisation's headquarters becomes the 'hub', while a number of smaller locations, closer to home for staff are the 'spokes'. This approach may increase costs, but will have benefits to an organisation, such as aiding talent retention and facilitating desires for greater flexibility, while also providing a sense of connection to an employer's workplace community, and the convenience of a high-standard office, closer to home.

Older workers in particular might welcome these 'spokes' or 'silver fox satellites', as termed by Earle Arney, CEO and Founder of Arney Fender Katsalidis (AFK), but could be equally beneficial to a broad range of workers, including those with young families and other commitments closer to home. For corporate occupiers looking at 'hub and spoke' models, acquiring a fully kitted out flexible space on a short lease, could be a low-risk cost-effective way to test if it will work for them.



If 'hub-and-spoke' models are the future, it seems unlikely they will materialise immediately. Flex operators will take time to recover from the tough trading conditions of 2020, so expansion and testing of new locations will not be on the cards for some time. Equally, large companies will need time to study where their teams are based geographically, and who will benefit most from this model before making any real estate decisions. For example, employees living around one area may not necessarily be the ones who need to collaborate, making it difficult to select the right 'spokes'.

### Differentiating the flex offer

All large employers will face major challenges in re-imagining their workplace strategies for the post-pandemic era, but the task ahead for flex operators is to control costs, cautiously rebuild, and to differentiate themselves in a crowded, and increasingly volatile marketplace.

Operators will do this by pivoting their service offers and/or amenities to match the hospitality industry, and/or by targeting particular sectors to carve out a niche. Recent flex ventures include the Ministry in London, operated by the Ministry of Sound and aimed specifically at music businesses, while WeWork has a number of FinTech specific spaces, and has begun targeting universities, illustrating that this is a trend that will continue to gather pace.

With more corporate occupiers looking at flex space, operators look likely to shift away from branded spaces (WeWork being a prime example, with highly branded recognisable spaces), to more discreet tenant-branded spaces – a sign of growing maturity in the market.

## 'Flex space provides landlords with an opportunity to stay close to their customers, keep in step with the market and to better respond to changing requirements...'

Similarly, flex space providers may also firmly latch onto trends towards health and wellness to differentiate their spaces (whether through design or brand association), in a bid to both attract and reassure tenants it is safe to come back to their offices after the pandemic.

### Fierce competition

What won't change post-Covid-19 is the level of fierce competition in the sector. Landlords and developers are now very much part of the fray – and look set to become on an equal footing with operators in time. Large established landlords such as British Land (Storey), Land Sec (MYO) and the Crown Estate (One Heddton Street) already have their own distinctive flex space offers.

Storey, for example, is targeting what it calls the 'forgotten middle' of 20-70 people firms. Leading developer Lendlease has also launched flex offices at the International Quarter, London, many with 'active lobbies' and cafés in anticipation of growing corporate interest in the sector.

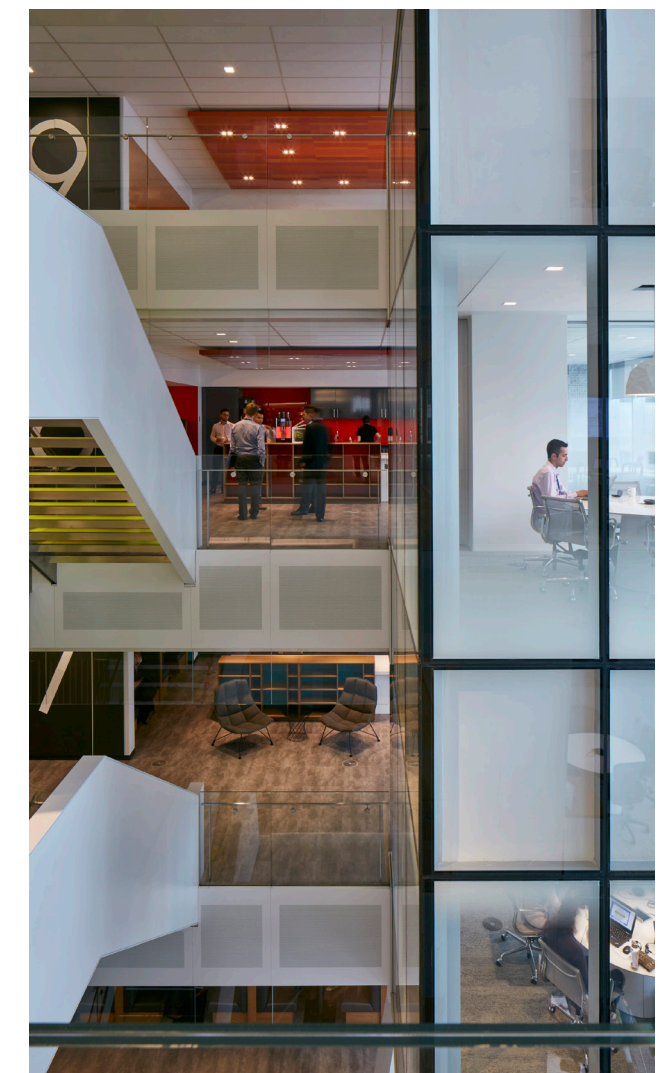
That major landlords are involved in flex space will be no surprise to industry watchers. For some time, landlords have reported struggling to maintain close relationships with their long lease customers, as under most traditional leasing arrangements, opportunities to interact with their tenants can be minimal, other than on the signing of the lease, and for maintenance issues.

This is not the case with flex operators. Due to the curated nature of their spaces and their hospitality-style service model, the operator has a daily presence in its customer spaces, and therefore has many more opportunities to build a relationship with tenants. By providing their own flex space, landlords can curate their own service offer to stay close to their customers, as well as to keep in step with the market and be better able to respond to changing tenant requirements.

Another reason landlords and developers include flex space in their portfolios is because it can be a useful strategy to create value out of hard-to-lease, or underused spaces (such as an empty floor or part of a building).

In this way, flex effectively becomes a tool to reinvigorate and reposition an asset, raising its brand appeal in the market. Repositioning of an asset with flex space can take many forms, ranging from a full retrofit to a (non-structural) redesign to create attractive interior spaces and a new social buzz and sense of community.

Flex space has a broad appeal, and this is what is most attractive about this model for landlords. Most are keenly aware of the need to reduce financial risk in their portfolios, and one way flex space can help is by attracting tenants beyond an existing core market – such as start-ups, or specific sectors, boosting rental income and lowering the risk of vacancies.



Interconnected floors and adjoining meetings rooms with maximised daylight and expansive views - Deloitte Montreal by Arney Fender Katsalidis (AFK) photography James Brittain.



# 4 Density and utilisation

**Flexible offices will be at the forefront of experimenting with new models of working and how buildings are occupied**

While flexible operators differ in their offers, location and the communities they serve, there are common characteristics of how they use space, spatial arrangement, volume, levels of fit-out, and density and utilisation.

**‘Numerous studies indicate that density plays an important role in aiding more collaborative ways of working...’**

Typically pre-pandemic, flex densities were found to exceed industry recommendations of 1:10, with densities in the sub-sectors, particularly coworking spaces, in some cases closer to 1:6 to 1:8.

Density is a burning issue for flex offices, as it is uncertain how our behaviours, social norms and expectations will be shaped by our experience. Currently, most industry experts believe we will not return to the familiar sight of high-density coworking lounges, and super-busy communal spaces for a considerable time. As one said, ‘who wants to share with strangers in this climate?’

## Using density differently

A ray of light on densities is that although those on the higher end seem a common trait of flex offices, the issue is far more complex than it appears. Prior to the pandemic, flex densities (and utilisation) were often considered closely guarded trade secrets, making building up an accurate picture problematic. Another misconception is that high densities are thought necessary for flex operators to maximise profitability, and to make best use of their spaces. Our research aims to separate fact from fiction, finding that high densities, while they do exist, are not a prerequisite of all flex spaces, and that density has a far more nuanced and sophisticated role to play.

Numerous studies indicate that density plays an important role in aiding more collaborative ways of working – which flex operators understand is increasingly important to all types of business occupiers. In response, evidence suggests operators use density as a spatial tool, planning to different densities on different floors of a building and/or areas within floorplates to suit particular styles of working. Areas set aside for hot-desking or team collaboration in a flex space for example, may see extremely high densities, approaching as much as 1:2 (although, naturally they will not always operate at these densities – and certainly not during the crisis). While other areas for less intensive activities, will have much lower densities.

Density is also important in terms of helping to build ‘community’ in flex spaces – which is a distinctive part of the coworking offer. A denser space encourages tenants to use the communal spaces, either as overspill space, or to conduct various functions of their business, such as taking calls, or to get away from their desks.

Denser spaces also increase opportunities for members to interact with co-located workers in the communal spaces - playing into the operator’s community-building aims, while also generating additional revenue. Using density like this demonstrates that flex operators regard density as more than a tool to gauge the limitations of a space (although this is part of it) but that it plays a much broader role in dictating the function, spatial layout and community of their spaces.

Density is also a difficult characteristic to understand because it is not just flex operators who will play with densities to get the right balance in their spaces, tenants too can use floors of a tenancy differently. It is not unusual for densities to vary across a building, or between floors of the same tenancy in use, depending on the needs of the tenant’s business.

There are further difficulties when we look to blended ratios, which take into account the area allocated to shared community space, back of house, and support space, together with typical fluctuations in utilisation, alongside density. Often in this case, even when there is great diversity across a building or between floors (such as densities as high as 1:6, and as low as 1:12 floor to floor) by ‘blending’ the density ratio we still arrive at a figure around 1:8 to 1:10 – a figure much closer to industry recommendations.

Although general assumptions around high densities will remain attached to common perceptions, the bottom line is the sheer diversity across flex spaces makes it almost impossible to conclude whether densities really are in excess of industry guidelines, which may prove reassuring in the post Covid-19 era, when density remains under the spotlight.

## Density’s role in flex business plans

For flex operators, density naturally forms a fundamental part of their business case and marketing strategy.

When a flex operator acquires a space, they will often initially plan for a density as high as 1:4 to 1:5. But, rather than being an indication of intended density, it is essentially the ‘max pack’ or upper limit of a space, measuring how many desks could conceivably be housed in a physical location (taking personal comfort and other factors out of the equation). This information is then fed back to the operator’s sales and marketing divisions who will then use it to ‘oversell’ the desk spaces.

This ‘over-selling’ strategy parallels the approach of gyms and fitness clubs, which aim to sell more gym memberships than there is space or equipment, on the assumption that not all members will use the gym at the same time. Flex operators’ strategies work by assuming not all of an operator’s space will ever be in use by 100% of members, 100% of the time, so it will never reach its upper limit. To make this work effectively and profitably, it requires sophisticated means of measuring and anticipating densities, utilisation patterns, the popularity of spaces, and the types and sizes of tenant businesses it wishes to attract.

The 'max pack' information is linked to how an operator gauges profitability. It remains to be seen if this information and strategy will have the same relevance that it once had, given Covid-19 and its potential impact on densities. Anecdotal evidence from flex operators suggests that it is likely that strategies around density will need to be reassessed and updated incrementally as people return to the office, and flex spaces build back to profitability.

### Ratios of space in flex offices

Even though there is a great deal of variation between service models across the flex market and its sub-sectors, prior to the pandemic, leading real estate brokers reported more generous flex providers often target a ratio of 60% net sellable office space, with the remaining 40% being break-out, kitchen and meeting room areas, or for communal uses. Similarly, for the flex operators who place less of an emphasis on the creation of a 'community' might divide their space into 80% office and 20% community space.

Another emerging trend prior to Covid-19, was for operators to reduce the size of their office spaces, in favour of adding more social and communal space to each facility. Post Covid-19, it is anticipated there will be a brake on provision of community space and some retrenchment towards private offices, which can be rented out. Flex operators could be moving towards seeking to sell at least 80% of their space, particularly to corporate occupiers, which will present problems when such occupiers wish to hold big events and meetings, as there will also need to be the right communal amenities to meet demand.

### Fluctuations in utilisation

Utilisation (and of course, density) – especially the peaks and troughs found in flex offices, significantly impacts a building's MEP (mechanical, electrical and plumbing) and other systems.

Density and utilisation are intrinsically linked, and with higher densities generally found in flex offices, the data and insights gathered from leading flex operators prior to the pandemic, naturally point towards a tendency to exhibit higher overall utilisation rates in comparison to traditional offices.

## 80% of space

The predicted ratio of space flex operators will look to sell to corporate tenants

The arrival of Covid-19 has profoundly (albeit temporarily) impacted utilisation of flex space, but the wider picture in terms of how space is used and changing working practices will also influence utilisation in the future.

Agile working is common amongst flex space tenants. Accelerated by the pandemic, it will be joined by hybrid models of working. Both Hybrid, Agile and all new models of work are disruptive to established building usage patterns and utilisation. For instance, it was once the norm for people to arrive for work at 9am, go out for lunch, and home at 5pm, five days a week – this has changed completely, and thus has building usage.



Interconnected spaces and oversized stair landings create opportunities for impromptu meetings. Deloitte Montreal by Arney Fender Katsalidis (AFK) photography James Brittain.

Flex offices were already subject to differing usage patterns to traditional offices, with most operators observing trends towards much shorter but more intensive working weeks. The nature of flex offices also has a bearing on utilisation, with most operators hosting programmes of curated day and evening events, creating an even more variable usage pattern during the working week, which building systems must cater for. When, and at what scale or frequency these events return to flex spaces will depend on each operator.

Post Covid-19, this report predicts further sophistication will be needed in measuring utilisation, beyond simply counting desk usage. While most flex operators already have these tools – or the knowledge to expand their capabilities, landlords with an interest in the sector will need to consider how they keep pace.

**‘New models of work impact utilisation because people now do not necessarily arrive and leave buildings in the same way as in the past...’**



# 5 Impact on obsolescence

Flex operator The Office Group employs a number of quantitative and qualitative methods to understand usage patterns, combining technology tools to gather data, and a more ‘human’ approach, aided by on-site management. This builds a wider, more holistic picture of utilisation in an operator’s spaces. WeWork has also recently acquired the spatial analytics platform Euclid, whose software is able to track in intricate detail how people move around physical spaces.

As we return to ‘normal’, it is probable that tenants will also seek increased scrutiny of their workplaces, desiring transparency of an operator’s utilisation data to gauge exactly how busy their spaces are at particular times, or how well their spaces are being used by particular teams.

This operational data and knowledge could then will move beyond a tool to manage an operator’s spaces, to an addition to their service model. It is equally possible that the better the utilisation data available from the operator, the more of a selling point this might become for tenants.

‘Tenants will seek increased scrutiny of operators’ utilisation data to gauge exactly how busy spaces are...’



New tech-enabled, acoustics enhanced meeting room suite at Liberty House, The Office Group

## Flexible office space can provide adaptation strategy for landlords and building owners to counter obsolescence

Obsolescence is an ongoing concern for many landlords and building owners, and flex space has always been a useful tool in this regard. Flex space can provide a strategy to help mitigate building obsolescence, both physically and locally obsolete buildings (which can also deem a building ‘secondary’ office space).

### Physically obsolete buildings

To extend the life of a physically obsolete building with flex space, a landlord or building owner may re-purpose the asset under a ‘loose fit, long life’ approach. This often involves minimal structural intervention to the building, creating a pared back space, with simple, readable materiality, often exposing bare brickwork, services and other functional elements. This ‘no frills’ approach can lend design authenticity and character to create a desirable flex space, depending on the aesthetic sought. This is often paired with a light-touch refurbishment, and modest specification and services provision (or upgrade).

Flex tenants tend to place more of a priority on innovative interior design and a flex operator’s customer service over the physical building. Thus, in some circumstances, lower specifications may not be a hindrance (it may even be a selling point), as these spaces can be seen as easier to reconfigure by tenants.

Using flex space and a ‘loose fit, long life’ intervention can be a cost effective way to reposition a building to appeal to particular occupiers, particularly in the creative sector.

A landlord or building owner may also choose to rent a property in danger of physical obsolescence (or a tired, outmoded or secondary asset which they struggle to lease) to a flex operator, usually on a reduced premium. This approach has a number of benefits, such as allowing the landlord to keep control of the building while the operator handles the fit-out costs and effectively re-brands the asset for the landlord. This is an arrangement that is very common, and a core part of the business model of larger serviced office providers such as Workspace and Regus.

‘Flex office models can both extend the life of a physically obsolete building and hasten its demise through more wear and tear ...’

For landlords considering such approaches, it is important to recognise that flex offices can contribute to, and in some cases potentially hasten, a building's physical obsolescence. As multi-let transient tenancies are part and parcel of flex offices, buildings operating in these conditions are subjected to repeated temporary uses over their lifetime. Naturally this equates to more wear and tear on a building's fabric, structure and services.

Similarly, flex offices are no silver bullet. Overcoming physical obsolescence is more challenging in some cases than others. The flex office sector also needs to cater for a changing customer base – principally large corporate occupiers who operators are increasingly targeting, who will have more stringent demands and higher expectations.

### Mitigating obsolescence by location

While a decent proportion of physically obsolete buildings are possible to regenerate with flex space, successfully mitigating a less desirable location of a building is often more difficult.

Evidence from operators interviewed for this research suggests that even the most expertly crafted 'destination' flexible spaces cannot compensate for severe location difficulties. A number of corporate occupiers have also cited that they do not intend to compromise on location in the post-pandemic era. As result, some leading flexible providers such as Hana, backed by CBRE, are still focusing on prime assets in central business districts – quirky, offbeat locations are just not on their agenda.

Similarly, if the 'hub-and-spoke' model discussed previously is widely adopted by corporate occupiers, causing flex operators to look at locations where they would not ordinarily venture, suitable buildings would still need to easily accessible and well located to be successful.

### Adapting to avoid obsolescence

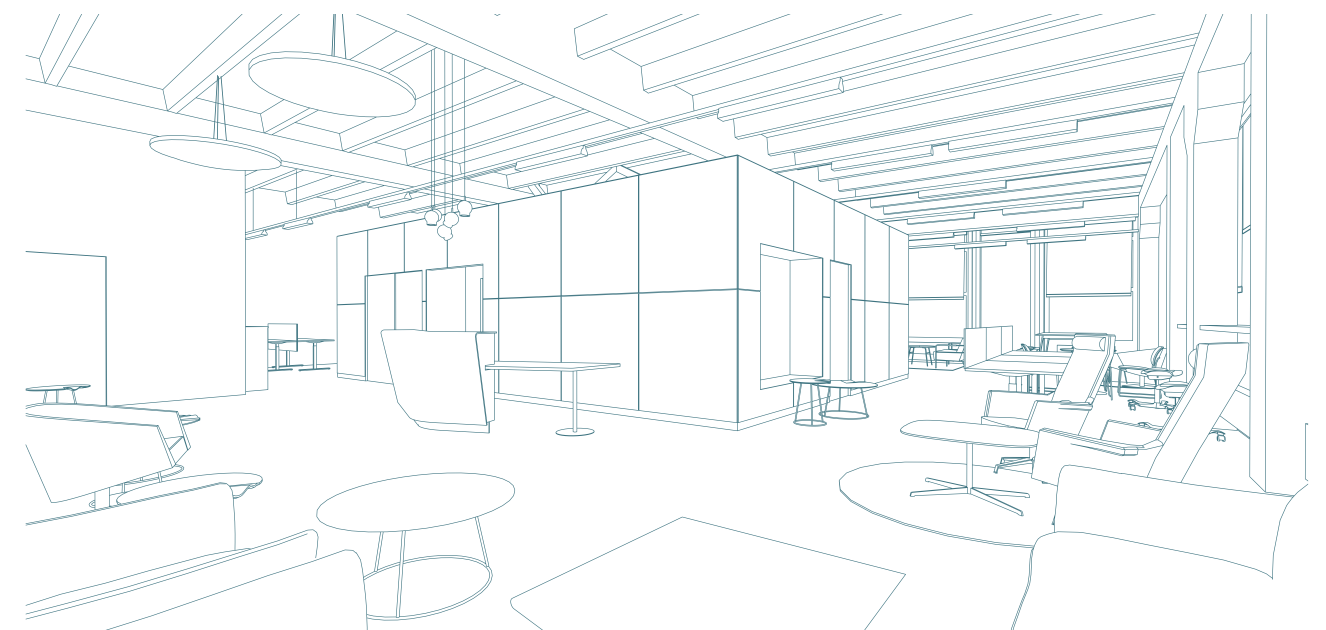
A building's ability to adapt will play a more fundamental role in avoiding obsolescence – and appealing to the flex market In the post Covid-19 climate. Insights provided by a number of occupiers suggest that increasingly tenants expect to be able to personalise and customise the existing buildings they inherit, to varying degrees.

Naturally this is a concern for flex offices – particularly how operators choose (and in some case build) their buildings, given their high tenant churn. But for landlords, buildings with an inherent ability to adapt seem more likely to be more resilient to obsolescence (both literally, or in the eyes of potential occupiers) if they remain attractive to the market.

In the post-Covid-19 era, it seems likely assets will be judged not only on their location, design qualities, floorplates and specification, but also on their ability to be altered to meet a tenant's needs

### Secondary office space opportunities

As the flex market grows, building owners could unlock opportunities to reuse good-quality secondary (Grade B and C) and second-hand properties with flex space. For landlords, leasing secondary properties to flex operators can help reduce vacancies within a portfolio.



The reuse of secondary office space for flex could help to accommodate demand for suitable properties from operators. Yet, there is currently a dearth of high-quality space, both in London and across the UK, with supply levels falling year on year. While we wait to see whether Covid-19 will change this situation, in 2019 in Central London, availability levels were below the 10-year average for available secondary office space.

One factor thought to be driving the decline in the supply of good quality secondary stock in London, is the desire to capitalise on a buoyant housing market, and the extension of permitted development rights (PDR), allowing the conversion of office stock to residential uses. While there are no indications of any cooling of this activity, the blow to retail and hospitality during the pandemic, and an extremely challenging climate, perhaps may open other options and building stock to accommodate flex office space.

**80%**

of existing UK building stock will still be in use by 2050 according to the British Council of Offices (BCO)

### Adaptive reuse

According to the BCO report Adaptive Reuse and the Contemporary Office (Ryder Architecture for the BCO, May 2018), approximately 80% of existing UK building stock will still be in use by 2050. It seems imperative that adaptive reuse or retrofit will be necessary and encouraged under long-term adaptive reuse strategies. Demand for refurbished or retrofitted office space is strong in the flex market – and this looks set to continue post Covid-19.



Many flex operators appreciate the character and qualities of existing buildings and actively seek them out for flex space. Former warehouses or factory typologies for example, tend to lend themselves to conversion to flex due to their high ceilings and good volumes, large spaces to congregate, well-located or easily relocatable cores, and large rational floorplates. These buildings often have other 'softer' characteristics that make them attractive, such as authenticity in materiality and texture and low premiums. The built stock of flex office providers such as The Office Group, WeWork, Workspace and Second Home includes many re-purposed buildings.

**'It seems imperative that adaptive reuse or retrofit will be necessary, and encouraged under long-term adaptive reuse strategies ...'**

Yet, not every building will be suitable for flex space. More challenging buildings include those with large, deep floorplates and central cores, which cannot easily be subdivided into separate tenancies, or where the cost of replacing the building's infrastructure far outweighs the potential rentable value from flex space (or other leasing options).

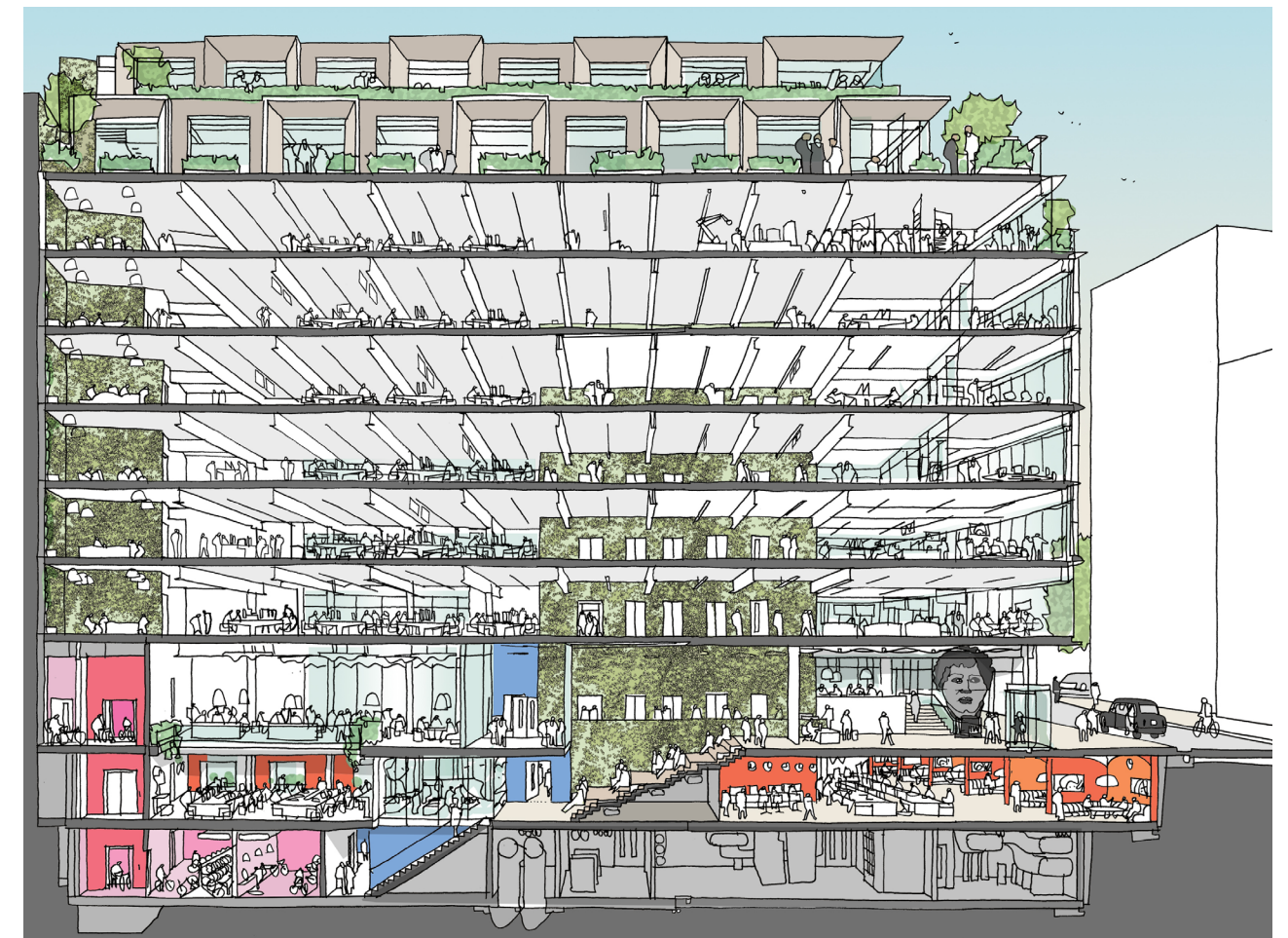
In the post Covid-19 world, it is likely that the decline of some retailing and hospitality ventures will open opportunities for flex providers on the high street, even 'big box' shopping centres may look to re-purpose some of their assets for the new generation of hybrid workers.

The key to successful adaptation and retrofit of buildings for flex echoes the 'loose fit, long life' mantra – whereby the goal is to create easily 'hackable' or reconfigurable space for use by tenants. The pace of change in the flex market is blistering, meaning adapted buildings must be able to be redesigned to respond to changing work environments and new types of occupiers without major and costly structural alterations over their lifetimes.

### **Flex impact on building lifespans**

While it is possible for buildings to enjoy longer lifespans with flex space, this type of space also has the potential to shorten it, or accelerate physical obsolescence. Flex spaces by nature, feature higher densities, erratic usage patterns and occupier churn, which results in greater pressure on building systems and more extensive wear and tear.

Of these characteristics, the higher densities and variable utilisation patterns that most flex operators' spaces have in common, have wide-ranging impacts, not just on the physical building through wear and tear but also its systems and the way they operate. They both profoundly impact mechanical, electrical and plumbing (MEP) systems, WC provision, lift strategies/vertical transport (VT), fire stairs and other critical building systems and functions.



Sectional cutaway of adaptive reuse retrofit of existing office building- Copyright Arney Fender Katsalidis (AFK)

**'Hybrid working could generate spikes in density and utilisation of buildings on certain days of the week ...'**

Spikes in densities occur in flex spaces because most operators hold programmes of talks and events in their spaces in which they invite their members but also outside guest. These events drive large influxes of people and quick changes in densities, putting the building systems under intense pressure during those periods of time.

While events in flex spaces will return, these will be combined with wider shifts in working practices such as hybrid working, which will also impact densities, utilisation, and building lifespans. One likely shift that was already underway in flex offices prior to the pandemic is the move towards condensed working weeks, with density and utilisation peaking on certain days, and dropping off steeply on others.

The bottom line in terms of specifying a building's MEP (mechanical, electrical and plumbing) for flex space, as well as to adapting or upgrading systems in retrofitted buildings, is to ensure systems can cater for diversity. MEP in flex spaces need to be smart and sophisticated enough to 'shift' loads around the building to where it is most needed, rather than being designed to cater for blanket high densities at all times, as the latter may result in over-specification or over-provision.

# 6 Changing Occupier Demands

## Study of what occupiers want from office space post Covid-19 reveals an emphasis on design values, amenities and embedded tech

Our research examined what a wide range of occupiers looked for when selecting a flex space – and what is likely to change post pandemic. Pre-pandemic, key spatial, functional, and material characteristics that consistently factored into occupiers’ real estate decisions included:

- Contiguous, uninterrupted floor plates with minimum intrusion from structural elements
- A preference for side core buildings
- Regular ‘rational’ floorplates that are simpler to space plan
- Modular, repeating floorplates and modular net internal areas
- Buildings with a ‘rational’ design of structure, core location, and circulation
- Buildings with a variety of floorplates (some rational, some spatially interesting)
- Authentic ‘branded’ buildings with recognisable silhouettes and form
- Easily sub-divisible floorplates
- Good daylighting, ceiling heights and volumes

### Post-pandemic patterns

In the post Covid-19 world of work, many of the drivers identified in the occupier insight will remain core to real estate decisions, but there are some that will come more to the fore in the immediate term following the pandemic.

#### Scalability

The need for ‘scalable’ space grew out of the financial crash of 2008, which ended a multi-decade period of growth. The recession that followed forced all businesses to scrutinise their fixed costs of operation and to put in place flexible downsizing and real estate exit strategies. Readily sub-divisible floorplates became desirable, as excess space could be sublet, reducing risk. The need for scalability laid the foundations for flex offices whose model is built on real estate agility. Post Covid-19, conditions could well echo those of 2008 and ‘scalable’ space, whether flex, or sub-divisible floorplates will become equally critical.

#### Light

Buildings which maximise daylight penetration into the office spaces, whether from the external perimeter, or through internal atria, are highly coveted by occupiers. Post-pandemic, the desire for buildings with great natural light will intensify, due to our heightened sense of wellbeing and mental health, and the recognition of the role natural light plays in keeping this in balance.

#### Volume

Occupiers assess buildings on area, but also the volume of space on offer – with the most ‘spatially generous’ floorplates more in demand. Volume is intrinsically linked to ceiling heights, which also allows natural light deep into the space – and so will be extremely important post-Covid-19. Most tenants already expect generous volumes, and benchmarks on acceptable ceiling or soffit heights have been swiftly changing in response across most office markets over the past decade.

#### Brand

Spatially interesting ‘branded’ buildings are likely to be increasingly in demand in the post-pandemic world, as many organisations seek to create ‘destination’ workplaces, to tempt people back to the office. These buildings, particularly those with iconic or landmark status, will already attract bigger premiums. But their distinctiveness and/or brand appeal is seen to outweigh any detriment to cost, efficiency or functionality.

#### Authenticity

There is likely to be an uplift in interest in buildings with ‘authenticity’, particularly adaptive reuse or retrofit buildings, where their materiality, traces of their construction or previous use, exposed services all become design quirks and differentiators in the market. Although more ‘authentic’ spaces are already desirable, especially in the creative sectors, the quest for authenticity will increasingly permeate city core markets post-pandemic, as a reaction against bland or vanilla office products, as occupiers again seek to create workplace ‘destinations’ and create reasons to come back to the office.

#### Operator flexibility

As companies across the board examine their real estate options, flex operators will need to work hard to attract occupiers back to their spaces. Post-Covid-19, occupiers will not just be looking for space that is flexible – but also at the operators themselves to provide greater flexibility.

‘Post Covid-19, occupiers will not just look for space that is flexible, but at operators themselves

WeWork is one operator that has been quick to react, offering all UK tenants more flexible options such as an ‘all access’ monthly membership pass, so businesses can work in any of its locations. While targeting companies looking to define longer-term real estate strategies, such as hybrid options and ‘hub-and-spoke’ models, the greater flexibility and convenience also aims to entice smaller businesses and individuals away from their homes, and back to its spaces. The operator has also earmarked £15 million to subsidise rents for struggling SME tenants, and will branch out to target universities, allowing students to work from its spaces to tap into predictions that post-pandemic, learning will move more online.





High quality amenity spaces, daylight and views will become critical in all buildings, render © Arney Fender Katsalidis (AFK)

### Healthy densities

Covid-19 has forced all organisations to consider densities in their offices. And as flex operations are mostly multi-tenanted by nature, for occupiers already in, or looking at flex, the 'risk' of densities must be considered, not just in terms of their own workspace, but that of a whole building or facility.

The number of people (especially those outside an occupier's teams) who will be sharing communal amenities, such as meeting or conference rooms, kitchens, terraces and essential facilities (i.e. toilets or lifts), is suddenly much more relevant.

To provide reassurance to tenants, most flex operators have bolstered health and wellness initiatives, and introduced 'touch-less' tech, 'behavioural' signage, new cleaning standards and capacity limits – but it will not be enough to prevent change. We predict flex operators will need to work to a minimum density of 1:8 for the medium term, to allow the corporate occupiers they increasingly target to create suitable working environments in line with Covid-19 behavioural and health protocols.

As 1:8 is lower than typical densities in flex spaces, it could challenge operators' profitability. Equally, it could work in their favour if occupiers require more space to accommodate their workforces at lower densities.

Busier or very popular multi-tenanted flex spaces may become less attractive in the short term, so some canny operators may make a virtue of selling 'quieter' spaces with fewer tenancies. While this challenges the 'community' notion of flex, it will play well to corporates, who are less likely to want to share space, especially in this climate.

**'Flex operators will need to work to densities of 1:8 as a minimum ...'**

### Wellness

Parameters for health and wellbeing are already well-established in the flex sector, but operators will need to work harder to demonstrate the 'healthy' credentials of their spaces. This might include access to lots of fresh air (via terraces or gardens), great natural light, amenities, biophilia and generous volumes – windowless glass boxes stacked deep inside interiors are unlikely to appeal to this market.

Most operators will already be responding to members' immediate concerns. The Office Group (TOG) has introduced stringent cleaning regimes, one-way systems to facilitate social distancing, and screening and partitioning between desks – and has also designed new spaces to improve mental health, such as 'mindfulness lounges', 'recharge' and 'oxygen' rooms.

Indoor Environmental Quality (IEQ) is a rapidly growing concern for employees and employers alike, more so post Covid-19. Most operators will need to invest in air filtration and natural ventilation for their buildings, with operators such as WeWork, partnering with global engineering firm Arup to improve indoor air quality and enhance HVAC strategies in its buildings.



### Technology and connectivity

Tech and good connectivity will factor more into the attractiveness of a flex space post-Covid-19 – not just in terms of wellness and health. Occupiers will seek the very best in connectivity for the tools needed to connect dispersed workforces, given predicted moves to more hybrid arrangements. People also now need a reason to come to an office, so offering access to technology staff don't have at home could become a key draw. Flex offices with super-fast infrastructure and good connections to data centres could become extremely desirable for all organisations, not just internet-focused tech businesses, as in the past.

Occupiers will also be more interested in gaining a transparent picture of their daily working environment, through embedded technology. Many will expect advanced tech in a flex office, such as smart phone enabled 'touch-less' access control and entry, and spatial awareness data that identifies occupational densities and available amenity (or perhaps cleanliness) in real-time.

This tech may already, or could be, included in operators' service apps and operational data, and buildings may need to be, or could be retrofitted with tech. But it will be important for flex operators to strike the right balance between tech and their service offers. Most operators distinguish themselves with a hospitality-style service interaction, and tenants are 'members' or 'guests'. Ratifying impersonal contact-free tech, and the distancing behavioural protocols of the pandemic, with the warmth and personality of an operator's service will be important, as this is often a prime reason why flex spaces are chosen over others, and more traditional arrangements.

### Elevated amenity

The pandemic will prompt a profound re-calibration of amenity in the workplace, driven by growing recognition amongst occupiers that amenities are no longer just 'nice to have', but a reason why people will now come to an office.

Existing high quality amenities will become much more attractive to occupiers, which is good news for flex operators, as their hospitality-style amenities have always been a key selling points – and what set the flex movement apart from more traditional offers. But great amenities could also become a standard prerequisite requirement for all buildings (with concurrent interest in buildings which could be retrofitted to include amenities), effectively with great amenity becoming mainstream. If all buildings come with extensive amenities, it will make it more difficult for flex operators to differentiate themselves in a crowded market.

**'Great amenities have always been a key selling point of flex offices and will play a more fundamental role in defining their desirability post Covid-19...'**

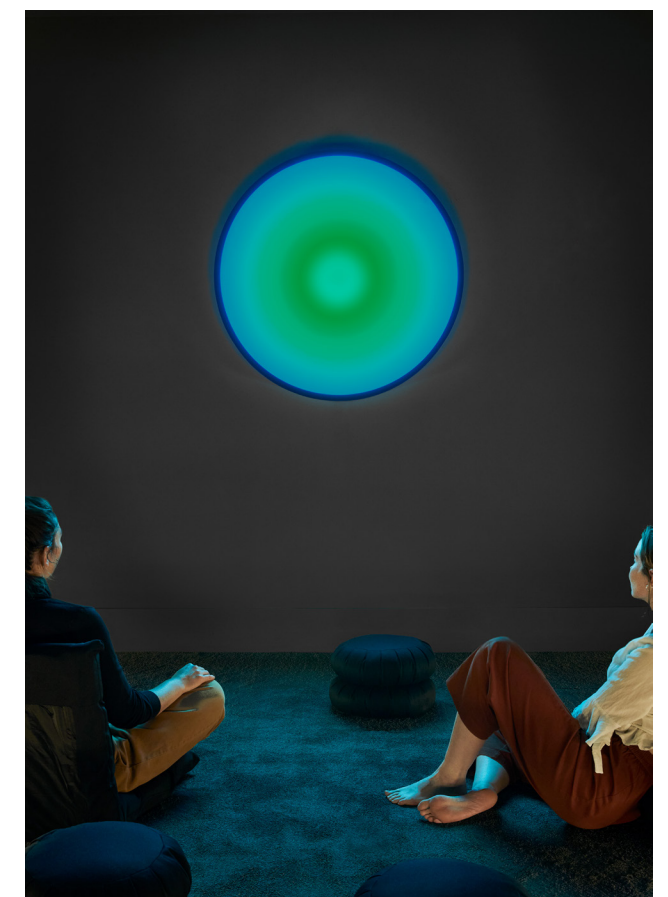
The 'value' of amenities will also change. Extensive cycle and end-of-trip facilities (to cater for an uplift in cycling during the pandemic) may be highly prized, as could wellness spaces for mental health, gyms and terraces. The focus of the amenities could also alter, in line with a reappraisal of role of the office. Amenities could move away from engendering purely productivity, to regenerative spaces and even facilities for dry cleaning and other 'life admin' tasks, as a more holistic view and blurring of work/life/leisure time emerges.

Flex operators will also need to up the ante on 'standard' amenities such as meeting rooms, as corporates rethink the meeting room experience, moving away from lots of smaller, routine, scheduled meetings (which will be done remotely) to bigger half-day or full-day events. These will require anything from greater allocations of space to high-quality ambience, technical support and catering. The Office Group (TOG) is one operator that has already done this, with an exclusive, tech-enabled, acoustics enhanced meeting room suite at its Liberty House base.

It is also likely that flexible operators will need to make design changes to entice people back to their spaces. This could be as simple as creating more areas to meet, create and collaborate (at a safe distance) after many months of remote working, or creating new spaces, such as areas to recharge and reset given an emerging focus on mindfulness and mental health. As above, The Office Group has introduced mindfulness lounges and other new spaces. WeWork is also looking at re-jigging some of its spaces to include more opportunities for collaboration, as well as investigating partnerships with gyms and coffee houses in order to improve its amenities.

Covid-19 will also have ramifications for the space required for amenities (which also relates to density) with allowance needed to make them 'safe' in line with behavioural and distancing protocols that remain.

WeWork is one of many operators that have 'de-densified' their shared space, such as its lounges, reducing capacity and occupancy by adding staggered seating and buffer zones to enable social distancing, creating single-occupancy work 'nooks' and reconfiguring meeting rooms to allow more space per person.



New 'Mindfulness Lounge' at United House, The Office Group



# 7 Facing the Future

Our analysis suggests that demand for flex offices in the UK is likely to be sustained in the future by a deliberate and long-term shift towards more flexibility in working life. The market for flexible space will therefore grow substantially in the medium to longer term, as more companies devise new strategies to accommodate a hybrid workforce no longer bound by daily office attendance. The global pandemic has accelerated this trend towards flexibility, but did not start it. The underlying shift was already present – it just needed Covid-19 to shock it into action.

Particular trends in the flex sector will include ever more diverse service offerings and specialisation towards particular sectors such as FinTech. As the blurring of work, leisure and personal life grows, more alternative flexible solutions will emerge to cater for specific needs, and to resonate with individual values towards place, culture and people. In addition, there will be a rise in the provision of ‘convenience’ and ‘amenities’ that can be provided by the office. This is particularly important as people now need a reason to work away from their homes, having become accustomed to it during various lockdowns.

Choice and destination will also play a growing part in people’s decisions about how and where they work. Operators may also seek, where possible, to bundle together real estate products with other useful business services, providing these at a discount due to economies of scale. This could be very attractive to the larger corporate occupiers of tomorrow, who will also look to flex for the interior style and design to help attract and retain premium Generation Z talent, underwhelmed by standard offices.

‘Choice and destination will play a growing part in people’s decisions about how and where they work...’

Covid-19 has also boosted use of office automation and artificial intelligence, alongside advanced communications technology. This means it is now possible for firms to build operational and administrative capacity within a smaller footprint and headcount if desired. This is likely to stimulate demand for flex space, as higher take-up from corporate occupiers could drive an increase in hybrid offerings, with operators offering end-to-end services. Operators have already begun to express an intention to move in this direction, whereby they offer an entire building to a single occupier and then manage the custom fit-out of the space and other back-of-house and operational functions.

For landlords and building owners, given the acceleration of trends towards flexibility, it seems that tenant demands will mean that most will need to engage with the flexible market at some point. The long term view is that both landlords and operators will move towards being on level pegging in terms of offering flexible space, and will become part of an ever more diverse supply chain and growing market.

Whether landlords choose to partner with an operator, or to launch their own brand of flexible space, we may see significant take-up of these methods in order to reduce portfolio voids and improve financial performance in the tough post-pandemic landscape. Many landlords may select the latter option due to the attractive profit margins, the ability to make better and more efficient use of their assets, and because they can broaden the appeal of their spaces to a wider range of tenants and keep up with changing demands. The proliferation of technology now allows landlords to upgrade their service offerings in line with operators, with apps and intranet-style platforms to give tenants the same access to amenities and events, as well as other data such as densities, and health and wellbeing factors.

For landlords with assets waiting to be refurbished or redeveloped, to generate profit from either approach (whether partnering with an operator or launching a branded flex space) will help them to create flexible ‘meanwhile’ spaces. If real estate deals stall, or are delayed and the financial climate gets tougher, ‘meanwhile’ space may also become a more popular way for landlords to bide time.

Finally, changes in planning regulations will most likely favour the flexible working market going forward, as flexible office space is provided within mixed-use developments alongside other use elements such as retail, residential, wellness and community services, all enhancing the user experience. And changes in financial reporting could make shorter leases more attractive to corporate occupiers, again boosting the sector. The International Financial Reporting Standard 16

(IFRS16) considers long leases as liabilities on the balance sheet, while short leases are not treated in this manner. Although IFRS16 is currently only applicable to large international corporations, it is likely to be adopted by the UK government.

Nobody denies the brutal economic impact of Covid-19 on the flexible workplace market in the UK. But it is a short-term blow and one that the sector is well placed to recover from swiftly. The signs are all pointing in an upward direction; a hybrid future of work will be all about flexibility – and flex workspace will be a big part of that story.

‘A hybrid future of work will be all about flexibility – and flexible workspaces will be a big part of that story...’

# Glossary of Flexible Sub-sectors

Flex offices, as we know them today, have many sub-sectors and variations. Typically these are:

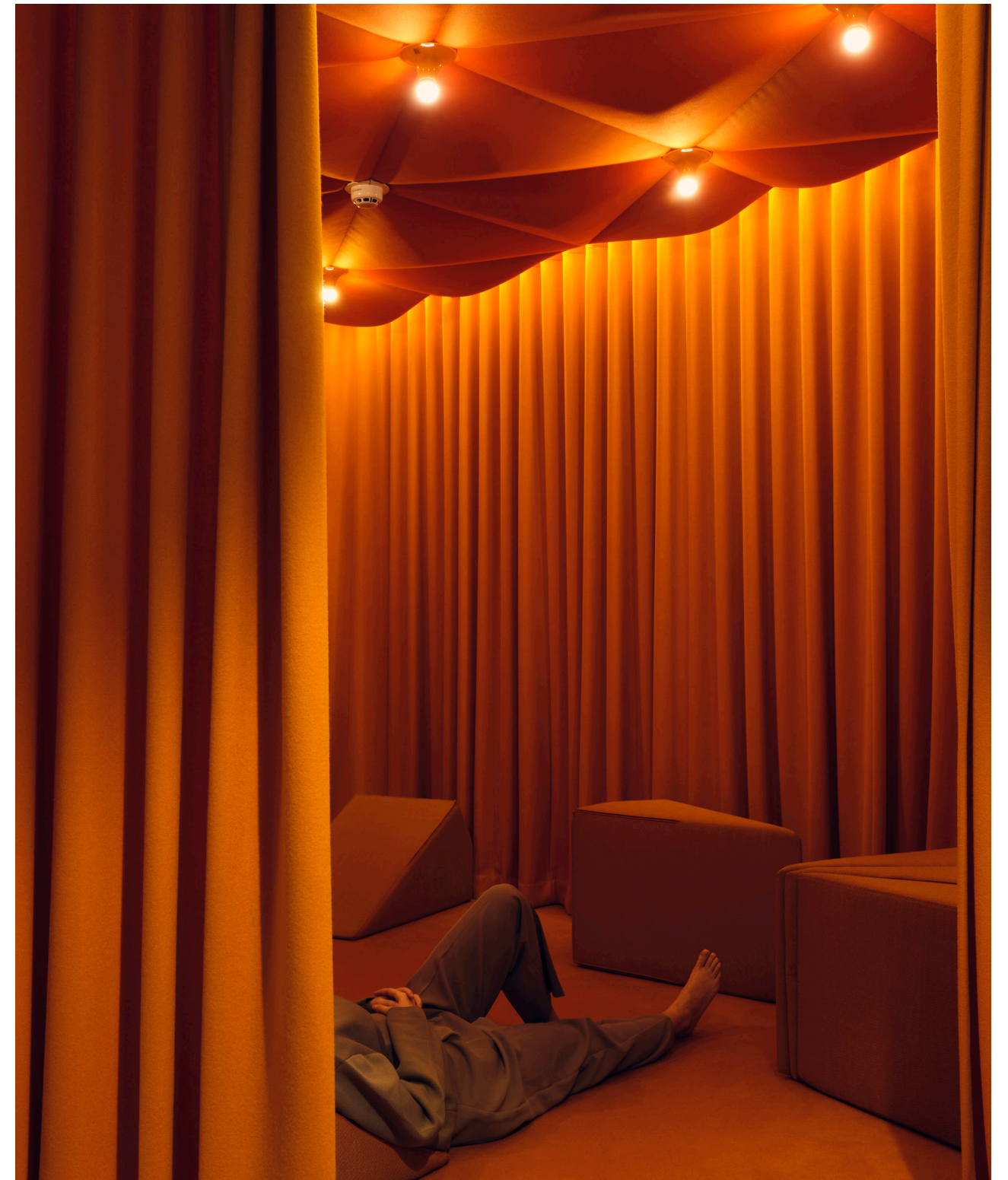
**Public spaces:** Public spaces such as cafés, libraries, and hotel lobbies, have become popular informal places to work, and so fall under a loose classification of flex space. Some public spaces are tailored to ensure they can take advantage of the revenue stream from the more nomadic and mobile sections of today's workforce.

**Serviced offices:** Pioneered by Regus, 'serviced offices' are the forerunner for today's flex offices. This model involves the operator taking a longer lease on larger office space, which it divides into smaller office floor plates which it leases to multiple tenants. Serviced offices provide desks, meeting rooms and all the facilities and equipment a firm might need. From these first serviced offices, 'hosted' spaces emerged – which today we would term a flex office. 'Hosted' spaces operate a similar business model to serviced offices but also offer a range of back office bolt-on functions as part of the lease.

**Coworking spaces:** Coworking spaces are often thought of as flex offices, but there are some subtle differences. Coworking spaces usually emphasise the creation of 'communities' of like-minded individuals within their buildings, with operators typically curating community-building events and other activities for their tenants. Coworking spaces originally catered for tech start-ups and freelancers, but increasingly target large corporate tenants. Coworking spaces are typically arranged to encourage chance encounters, interaction, collaboration and knowledge sharing between co-located workers (not necessarily from the same company).

**Incubator spaces:** Incubator spaces (also known as 'accelerator spaces' or 'start-up hubs') are usually aimed at new/early-stage businesses, particularly digital first/tech and FinTech start-ups. Most use membership models, which give tenant businesses access to legal counsel, and even seed money from the operator, typically in exchange for a share of their company's equity. Some incubator spaces are created by governments, others by non-profit organisations. Larger corporate enterprises also run incubator spaces on a similar model, providing space and support for a start-up, the corporate in exchange for access to new technologies, innovation and talent.

**Hybrid spaces:** Hybrid spaces are an amalgam of coworking spaces and serviced/flex offices, which operate in the same building. Hybrid space typically includes numerous common characteristics of flex offices and/or its sub-sectors, such as collaborative and individual workstations and communal lounge areas, but this will be set alongside more traditional private lettable offices. Typically in hybrid spaces, the flexible and non-flexible offices occupy separate floors of the same building, but occasionally can be located on the same floor plate but in different areas.



Recharge Room at the White Collar Factory, The Office Group



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## About Arney Fender Katsalidis

Arney Fender Katsalidis creates inspiring places and spaces for people to live, work and play better. We are a boutique global design firm with an integrated approach to architecture and interiors.

Arney Fender Katsalidis was founded in 2013, while our sister studio, Fender Katsalidis, was founded in 1988 - together we have over a quarter century of collective award-winning experience. We are young at heart and nimble of mind and have a specific focus on workplace, residential and cultural sectors to ensure we are specialists in what we do.

We strive to deliver the world's best projects and have built a reputation for exceptional client service and design excellence. We purposefully focus the size of our firm to create rich ground for fostering deep client relationships and to ensure the accessibility of our Directors to every project. This continuous connectivity of Directors throughout the life of our projects, is a fundamental platform on which our firm is built.

Our 100+ design professionals work from our London and Toronto studios, and our sister studios in Australia, and we practice across the UK, Europe, Canada, USA and Middle East.

[afkstudios.com](http://afkstudios.com)

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## About WORKTECH Academy

WORKTECH Academy is the world's leading knowledge platform and membership club exploring how we'll work tomorrow. The Academy's content on the future of work and workplace is curated in six streams: people, place, technology, culture, design and innovation. It brings evidence, ideas and insights from its extensive membership base to a global community of workplace professionals. Arney Fender Katsalidis is a corporate member of WORKTECH Academy.

[worktechacademy.com](http://worktechacademy.com)

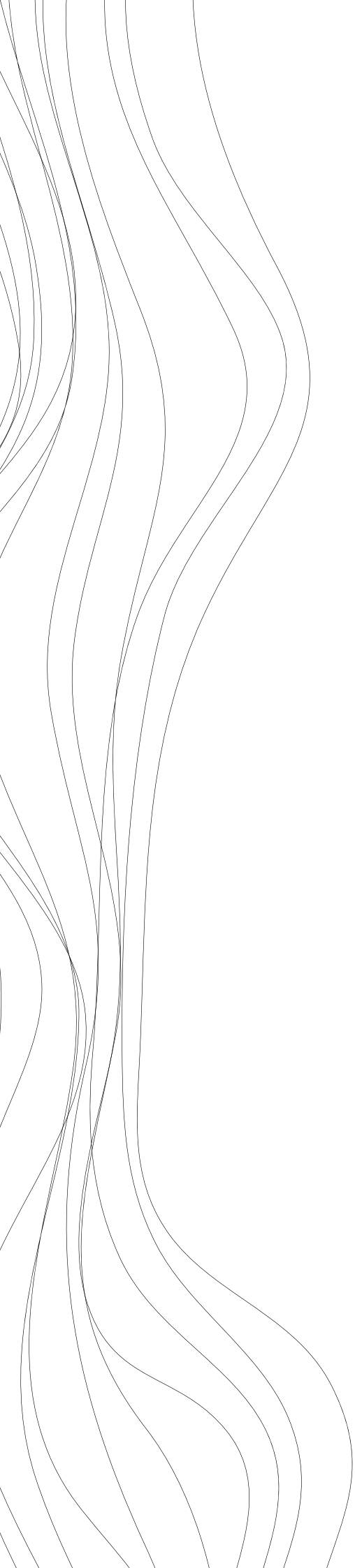


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