

2017 // THE YEAR OF FLEXIBLE WORKSPACE

UK

Instant



// CONTENTS

1. INTRODUCTION
2. WHAT HAS CHANGED IN THE MARKET?
3. THE DEMAND FOR FLEXIBLE SPACE
4. PREDICTIONS ON MARKET GROWTH
5. ARE LANDLORDS ADOPTING A MORE FLEXIBLE APPROACH TO CO-WORKING SPACE?
6. WHAT KIND OF COMPANIES ARE LOOKING AT FLEXIBLE SPACE?
7. DOES THE INDUSTRY NEED MORE SUPPORT?
8. SO, WHAT NEXT?

// INTRODUCTION

The rise of co-working has been one of the biggest stories in property over the last couple of years. Growth of market supply last year was only surpassed by occupier demand as operators expanded their operations and desk prices increased. To many within the industry, this was not surprising, as the growth of what our sector refers to as “flexible workspace” is a trend that has been on the rise for some time.

Instant has pulled a snapshot of market data from the last 12 months and asked some leading figures from the industry to assess “what’s next for co-working”? Is co-working really a disruptive force that could change the way office occupiers use space?

Our initial numbers show that the total provision of all flexible space grew 18 per cent globally in 2016. Supply of serviced offices has been a large part of this growth but it is the growth of co-working and what we term “hybrid space” which has doubled globally since 2013. Co-working and hybrid space now accounts for a third of all flexible space across the world.

A major story is the growth of hybrid space – a combination of private offices and co-working – where there has been a significant increase in supply. These centres offer a selection of options, but still retain the ability to pay a set monthly fee, responding to demand for businesses of all sizes. SMEs and even large corporates are taking advantage of hybrid spaces sense of community while retaining some private spaces for meetings and confidential work.

The UK market has undergone significant growth – we now estimate the UK market to include about 52m sq ft of space with London making up about 19m sq ft of this total. This is considerably larger than current market estimates imply in part because of the confusion around what constitutes serviced offices, co-working and hybrid space.

So, with this mind, what are the factors behind the growth of flexible workspace? We asked a panel of industry experts, from different parts of the market, to give their views.

// WHAT HAS CHANGED IN THE MARKET?

Beth Hampson is Head of Sales at LEO, a flexible workspace operator recently valued at £700m by the City. We asked her how the major political and economic outcomes of the previous year had affected the market.

“With different markets facing uncertainty, flexible office space becomes even more vital as it offers clients a solution for flexibility in both contractual terms and size of space,” Beth explained. “However, it isn’t seen as a temporary measure; we are seeing clients wanting to renew and commit for longer periods.”

Zachary Douglas, Owner of Orega, a flexible workspace provider that has been privately owned by Zach and business partner Paul Finch for 16 years, explained further: “2016 was the year in which the flexible office industry became more widely understood and accepted by the main stream property landlords as being an important part of the overall real estate mix.”

There certainly seems to be a wider acceptance of flexible workspace procurement. Contract lengths for goods and services have decreased over time, and this is now reflected in the office market.

Furthermore, in 2016 Instant saw the number of enquiries for 100+ desk space grow, as larger firms look to procure space on a more flexible term with monthly fees rather than longer leases.

“Buying habits are driving the evolution of the office. Companies are getting used to working on shorter term contracts with their customers and therefore businesses need to be able to tailor their real estate to match,” explained Beth Hampson.

David Johnstone recently left CBRE to start his own co-working centre in the London suburbs. As a start-up in the market, we asked how he views this changing market. “Continued convergence of traditional serviced office space and co-working hubs into large-plated ecosystems,” he explained.

“We are seeing corporates and freelancers gaining mutual benefits from being co-located, while for operators the larger footprint is bringing much-needed scale to make the tight-margins pay off, and indeed increasingly enabling operators to charge corporates a premium per square foot vs space without a co-working element.”

Working practices are changing, with office workers and their employers gradually adopting a more relaxed view of the rigid nine to five, five days a week structure.

Richard Taylor, Head of Marketing at TOG, said: “With more and more people choosing to start a company as a lifestyle decision (657,000 start-ups in 2016) and the continued buoyancy of the gig economy (self-employment numbers are at record levels), allied with renewed interest from larger corporates and tech giants alike, the demand for shared workspaces and co-working is set to continue its upward trajectory.”

Beth Hampson, said: “The office market is evolving and the modern-day work place is what everyone is talking about. Being “busy” is the ‘norm’ and work life balance is key – the working world is becoming a huge part of our lifestyle so clients are wanting flexibility and a fully serviced office taking out the “hassle” and allowing people to get on with their day to day jobs is paramount.”

MILLENNIALS WANT TO FIND MORE MEANINGFUL CONNECTIONS IN THE PLACES THAT THEY WORK AND LIVE.

JOE GAUNT, UK MD, WEWORK

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// THE DEMAND FOR FLEXIBLE SPACE

Demand for flexible workspace is growing above 15% year-on-year in the UK and at a higher rate across EMEA - why is this?

Joe Gaunt, UK MD at WeWork, said: “What we’ve seen is that the way people want to work is changing. More people want to work on the projects they’re passionate about in an energetic environment where others are also working hard to bring their ideas to life.

This is a global trend amongst all people, but particularly youth, and there are 190m millennials in Europe who will soon inherit the workforce. This new generation wants to find more meaningful connections in the places that they work and live, and WeWork provides a platform - space, community, services - that helps people pursue and achieve their goals, internationally and here in the UK.”

Beth Hampson said: “Fewer clients are wanting to be tied into longer term leases but want choice and flexible office space is the solution for this. In addition, cost certainty and low capital expenditure are key for companies as this enables them to expand into new markets and locations. Flexible space shouldn’t be seen as a temporary measure and we are seeing a huge increase in clients renewing on a longer-term basis.”

“The way people work is changing, driven by technology and the demands of employees to be in the right locations with the right building image. Therefore, more companies are seeking more flexibility for their business and their new style of working.”

In the previous recession of 2008, after an initial dip, demand of flexible workspace actually began to increase during this uncertain time as companies of all sizes looked at their real estate portfolio choices in different ways.

The two market shocks of the Brexit vote and the Trump victory seemed to have played out the same way. After an initial period of uncertainty, the market bounced back to produce a record year in terms of occupier demand and centre supply.

The views of our experts confirm the trends Instant has witnessed. “Uncertainty increases the demand for serviced office space as it is a flexible solution. When people are uncertain they want to plan for 12 months – three years, rather than 10-15 years meaning demand for serviced offices is increasing and will continue to,” said Beth Hampson.

Zachary Douglas confirms this view: “Initially both of these events in the lead up to and immediate aftermath had a negative impact on business opportunity but the market picked up quickly shortly afterwards.”

// PREDICTIONS ON MARKET GROWTH

So, if the growth in co-working is being propelled by these wider professional and economic factors, where do we expect to see the biggest growth rates?

In 2016, supply of co-working grew by double figures in central London, particularly in the city fringe markets such as Old Street and Southwark. But it was London's suburbs that saw the greatest increases in pricing and occupier demand as supply of space failed to keep up with the amount required by the market.

Zachary Douglas said: "We are seeing increasing demand from US landlords looking to get involved in the shared workspace market and we see great potential for growth in the US."

"London has always been an area that has performed well and I do not see this slowing. The serviced office market has seen some shift out of London areas for back office teams who do not require central London locations, however, the demand for a premium London address is not slowing," explained Beth Hampson.

David Johnstone said: "The growth of flexible office space and especially co-working hubs will spread from high-density city sites to satellite towns and increasingly rural

locations. Of course not every town or village can accommodate a 25,000 sq ft 'WeWork' style hub, but here in the UK the fast-growing contingent workforce and increasing acceptance of flexible working practices by corporates is driving demand and viability of spaces outside of the big cities.

Richard Taylor from TOG has a different view and believes that it is the type of space that is going to create significant growth and their ability to retain their client base.

"It's going to be the year of the studios – fitness studios, co-working studios, recording studios, makers' studios – everybody is going to want one. But it will be in the area of community where companies will really stand or fall," explained Richard Taylor.

"Often shared workspaces have paid lip service to the idea of creating communities – a few ad hoc events here and there – but there is now a genuine opportunity to connect members from both large and small companies and create business ecosystems that are mutually beneficial to all involved. Whether that's through gaining business, attracting talented partners or just getting help and advice from people that have seen it all before, shared workspaces that get this right, through physical or digital means, will be the ones that stand out from the crowd."



IN 2016, SUPPLY
OF CO-WORKING IN
CENTRAL LONDON
↑ GREW
BY DOUBLE FIGURES

// ARE LANDLORDS ADOPTING A MORE FLEXIBLE APPROACH TO CO-WORKING SPACE?

Beth Hampson, said: "Yes, absolutely. I feel they must be to remain competitive and the demand for flexible space is driving this. Additionally, it can in some instances be more lucrative for them as they can offer a higher premium for shorter contract terms."

"However, sustainability is key and co-working in my opinion needs to be in conjunction with office space due to the yields you receive from this area. No one can deny the yields companies get from flexible office space are greater than co-working however, co-working forms part of the office environment so shouldn't be forgotten. We are also seeing a rise in open plan offices so that companies can work collaboratively together moving away from the private office set up."

Zachary Douglas said: "As one of the only operators with a truly differentiated operating model, working in profit sharing partnership with our landlords, we are seeing an increasing interest from landlords wanting to work with us to share in the financial upside of delivering short to medium term shared workspace."



// WHAT KIND OF COMPANIES ARE LOOKING AT FLEXIBLE SPACE?

Technology companies are often thought to be the most suited to this type of office working but it works for many companies that use project workers or consultants. And this now includes firms from the vast majority of sectors.

Beth Hampson said: "All sectors are looking at flexible work space. We are seeing business plans changing rapidly so they don't want to be tied into a long-term lease rather, can expand and grow at the rate their business requires. We are seeing an increase in companies wanting to be based near their clients meaning there is increased sector variety across all locations."

"Typically, people think of entrepreneurs, start-ups, and SMEs as WeWork members, and that's certainly true. However, in recent years, we've seen a dramatic increase in enquiries from mid-to-large-sized companies," explains Joe Gaunt at WeWork. "In fact, roughly 10% of Fortune 500's are currently WeWork member companies, and over 800 member companies have 15 or more members in a WeWork location globally."

"This change is happening for a few reasons: enterprise companies are realising that the way people want to work is changing, and they're coming to us to help create that culture of innovation and collaboration. Creating an innovative environment for employees helps traditional companies with recruitment and retention of talent, as well as inspiring new ideas in their employees. We also offer amazing value-for-service of course, especially when you consider our offering, which includes access to a global community, events and programming, and the amazing community teams that run each location. "

// DOES THE INDUSTRY NEED MORE SUPPORT?

The provision of flexible workspace seems to go hand in hand with the growth of SMEs and fostering entrepreneurialism. So could the Government be doing more to support the industry?

"I would like to see some control on the rise in business rates as these are simply a hidden and hugely expensive business tax, for which little or no business benefit is gained and have a significant and uncontrollable impact on the cost of delivering our product to our customers," explained Zach.

Beth Hampson said: "London is one of the world's largest business hubs and awareness and benefits of a flexible solution to new companies both in and outside of Europe should be addressed."

"In some parts of the UK we have seen successful partnerships between co-working operators and the Government, where even moderate investment by local authorities has brought about significant return on income based on job creation and ultimately money invested back into the local economy," David Johnstone puts forward.



MyWorkSpot

// SO, WHAT NEXT?

Flexible workspace and co-working is now a worldwide phenomenon and with that, international companies coming to the UK are becoming much more open to the idea of adopting this style of office space for their employees and the benefits of doing this when opening up in a new market.

Richard Taylor at TOG said: "...With increasing demand comes increasing competition and the winners of the battle to attract and retain members will be the ones who offer something meaningfully different. Outside of the fundamentals - flexible contracts and great tasting coffee - companies are drawn to shared workspaces to attract key talent or to grow their business. A large, open space, some vintage desks and decent wi-fi just aren't going to cut it any more. People will continue to push the boundaries of space design and offer better facilities in tune with a modern lifestyle and an increasingly mobile workforce."

With shorter deal terms, flexible workspaces generally experience more liquid market demand than conventional office space and the demand for it is therefore an interesting indicator of market sentiment and business confidence. Over the last 12 months we have seen record levels of enquiries from EMEA businesses looking for space in the UK peak with the highest number of requests for workspace at any time in the last three years.

There was an initial cautious response for UK enquiries from the EMEA market following the Brexit vote and demand dropped by 18% in the UK, with a particular dip in London. However, once the initial shock disappeared, this drop subsequently bounced back with strong levels of enquiries for co-working and serviced offices in the UK in the latter half of the year. As the EMEA market grabbed the attention of multi-national firms we saw double the usual levels of enquiries for flexible space across co-working and serviced offices in Europe from UK businesses.

Beth Hampson said: "LEO are a zone 1 London based firm which has always been a buoyant and successful location. However, our client base has many international companies who initially were not aware of the benefits that serviced office space could offer when opening a new market area.

"Thus, globally increasing knowledge of the sector through increasing the information on the product and agent knowledge would further increase growth in the sector. For international trends, you cannot deny flexible workspace is increasing globally due to demand coming through."

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"LEO already has a fantastic reputation within the market and are the leaders for premium 5 and 6-star office space. Due to the demands and revenue growth, we are looking at new areas for acquisitions so we can continue to offer our clients 5 and 6 star locational choice as the company goes from strength to strength."

David Johnstone offers a different perspective: "New services under the banner of 'co-working' will continue to appear. It is a maturing industry and one that seems to have many facets, but ultimately it offers services that help to meet different financial or strategic goals. Can you compare a multi-billion VC funded workplace, with a 10-desk community site, with a corporate-funded tech accelerator, with a remote co-vacation destination designed to attract members of the digital nomad workforce?"

Joe Gaunt at WeWork says: "We have just opened two new locations in London (WeWork South Bank Central and WeWork Mansion House) and are set to double our presence over the coming months. London is our second largest market globally, and a very vibrant one, and we can't wait to add to the community here this year and in the years to come."

The Instant Group is the independent global flexible workspace specialist.

Underpinned by unrivalled expertise we tailor unique workspace solutions to help businesses of all sizes grow, drive efficiency and gain invaluable insights.

Partnering with 99% of the world's flexible office providers, The Instant Group's workspace procurement platform, Instant Offices, lists over 10,000 flexible office options across 153 countries and over 2,200 cities.

From small businesses to mid-caps, corporates to project-led businesses, it's the go to partner for more than 7,000 organisations globally - making it the largest buyer of flexible office space in the world.

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Note: All figures in this report were collated using The Instant Group's proprietary transactional data and market research surveys as at June 2017.

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