Research Report 2018

UK Market Summary - The evolution of flexible workspace

Instant
RETHINKING WORKSPACE

Contents

Flex Workspace in the UK: Everything is Changing

- Continued growth across the UK
- London space profile changing
- Larger operators taking more space for corporates
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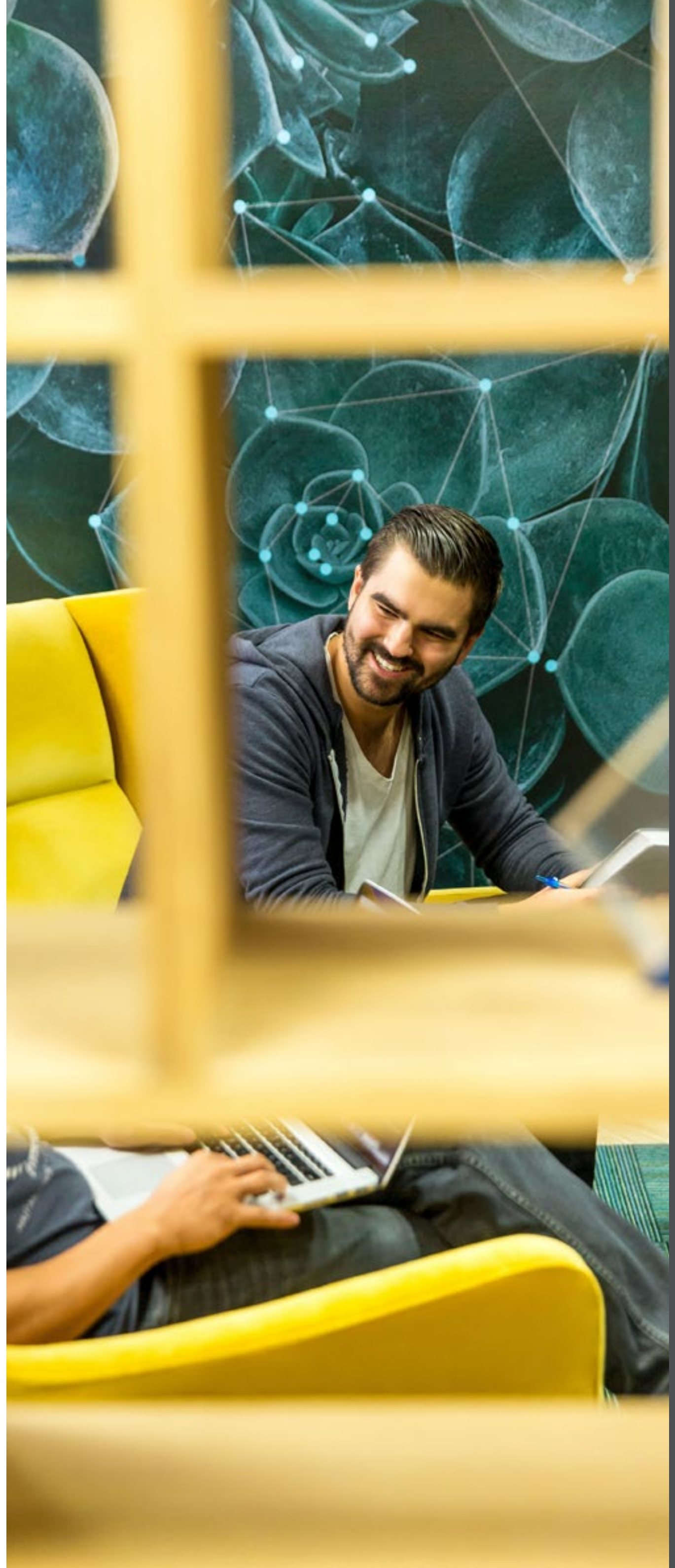
The flexible workspace sector has shown dynamic growth during 2017 but also increasing diversity with more operators offering more choice of space across more locations.*

There is now a greater number of operators of flexible space than ever before, and conventional landlords have begun to enter the market for the first time. For customers this means more choice, a number of different options when taking up space and the inexorable growth of workspace as a service.

> **Across the UK, the number of flexible office centres tracked by Instant rose to 5,320 over the past 12 months.**

This represented growth of just under 10% across the country – which approximately amounts to 824,000 desks across the UK – presenting companies of all sizes more choice as they increasingly adopt flexible workspace as part of their real estate portfolio. The number of flexible workspace London centres grew by 9% last year with more than 1,300 flexible office locations now available across the capital.

*Full breakdown of space types on page 8.



FLEXIBLE OFFICE CENTRES ACROSS THE UK HAVE INCREASED 10% IN THE LAST YEAR

"While this growth rate is slightly lower than we have seen in previous years - double digit percentage growth in supply of new space has been the norm for the past five years – there has been a change in focus for existing companies. Operators have been looking to increase the scale of their locations rather than the number of centres as customer demand profiles change and we see more large-scale businesses looking to use this type of space.

As for the question of whether the market is reaching saturation, pricing is still not being significantly discounted by the major players, all of whom are seeing robust demand, and there is confidence in the market as more companies than ever before choose to take flex space over conventional. It is becoming increasingly competitive in parts of central London – such as the West End and the City fringe – but there are many more companies who might not have previously looked at flex space options that are now committed to flexible workspace as part of their portfolio."

JOHN DUCKWORTH
MANAGING DIRECTOR UK & EMEA
THE INSTANT GROUP

Workspace Supply - Market Fragmentation

As supply of flex space develops across the country, many new players have entered the market including those from the conventional real estate market.

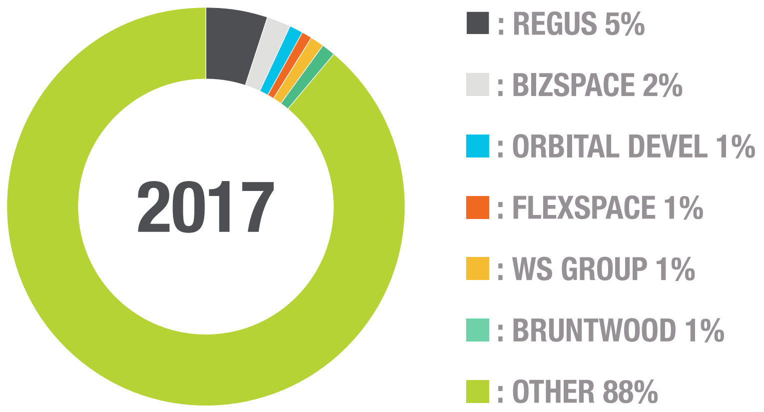
Operators such as Regus, Bizspace, WeWork and Servcorp are still dominant, but strong demand for flex options and a competitive market for conventional space have meant the long-tail of small scale and localised providers has mushroomed.

There are now more than 2,800 companies that have flexible office space as part of their portfolio. This represents a 4.9% increase in the number of operators within the UK during 2017.

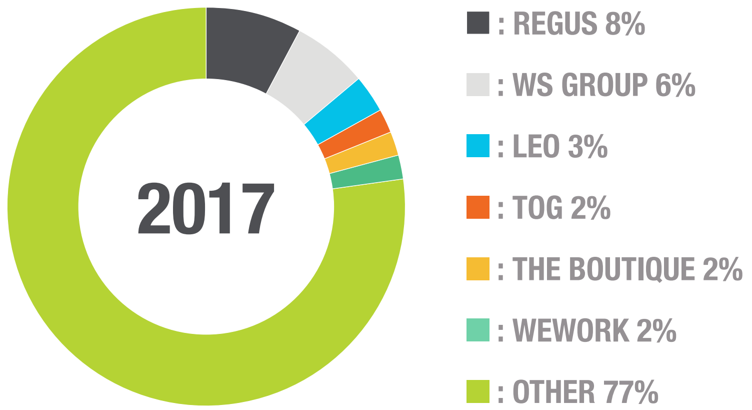
> **"The three largest providers of serviced office space in London in 2017 only made up 17% of the total market with a huge number of niche providers. These smaller operators cater for unique but growing segments of the market such as specialist TMT space or women-only centres. As we have seen in the US, the number of smaller operators, who run only one or two centres, has continued to proliferate despite the growth of the larger players and represent a large proportion of supply to the market."**
>
> **As the industry matures in London we are seeing new centres opening in boroughs outside of the city centre such as Barnet and Hounslow. The increase in supply has also now reached commuter towns including Cobham, Luton and Chelmsford in 2017, which offer cost-effective alternatives to central London hubs, and allow commuters to find locations to work nearer to their homes."**

JOHN DUCKWORTH
MANAGING DIRECTOR UK & EMEA
THE INSTANT GROUP

WORKSPACE SUPPLY - UK WIDE
NUMBER OF FLEXIBLE WORKSPACES BY OPERATOR



WORKSPACE SUPPLY - LONDON WIDE
NUMBER OF FLEXIBLE WORKSPACES BY OPERATOR



TOTAL OPERATOR SHARE BY NUMBER OF CENTRES 2013 - 2016

The market share of the top 10 operators by size is actually decreasing as a multitude of smaller players enter this dynamic and ever-shifting market.

Flex Operators

There has been a significant change over the last year with an increasing number of operators diluting the market leader's presence. The 2016 leaders, Regus, Premier and Servcorp still play an important part in the industry with Regus holding just over 5% of industry supply, but new players have increased the competition.

WeWork growth has been well documented – becoming the largest occupier of commercial space in London, other than the UK Government.

> **According to CoStar, by the end of 2017 WeWork had signed lease agreements for over 2.5million sq ft of space across London.**

They are reported to have £2billion in lease commitments over the next 25 years across the UK market with further expansion forecast. Even so, the flex market is made up of a lot more than the largest suppliers.

The London industry in 2017 was made up of 661 operators with an increase in operator numbers of 7.4% being seen as a mixture of private individuals, landlords and workspace companies who continue to move into the market.

The Flexible Product: Evolution of the Market Offer

The market for flexible workspace now represents a number of different products and options for customers. The majority of press attention is still garnered by the concept of “co-working” when in fact the flex market supply is dominated but what is best described as serviced offices. Increasingly, landlords are launching their own products, offering clients flexible solutions and the Managed Office concept – an outsourced office model with a 3rd party owning the lease and operating the space – now taking up more sq ft than ever before.

ADJUSTING TO MARKET DEMAND

Serviced offices still dominate the UK market with over 3,000 now tracked by Instant. However, the real growth in the market is being driven by a newer area of the flexible office portfolio, the hybrid office that offers private space such as those found in serviced offices, mixed with open, co-working spaces and flexible membership options. These cater to occupiers of all types and sizes but are most often associated with either start-ups or freelancer occupiers.

What really separates these centre types is in part design and workplace strategy but also the “curation” of the space by the operator i.e. the sense of community and atmosphere they chose to inject the space with. For many operators the skill of curation is learnt and comes with experience and knowledge of their customer base. So for many new entrants, particularly the larger, corporates who are less agile in approach, this skill is harder to come by and results in very different approaches across the UK’s centres.

The supply of hybrid offices, those offering both co-working and private space, exploded in 2017 with the tracked market more than doubling in the past 12 months alone.

> **Flexible office centres reporting a hybrid solution now make up 15% of the industry while those only offering a traditional serviced environment fell to below 65% for the first time.**

For what is a relatively nascent market, it demonstrates dynamic levels of demand and a market eager for more options from commercial real estate, which offers agility and options to occupiers of all sizes.

TOTAL UK CENTRES - SPLIT BY CENTRE TYPE

CENTRE TYPE	2013	2014	2015	2016	2017
Serviced	72.6%	70.9%	69.0%	67.0%	65.0%
Co-working	5.0%	5.5%	6.4%	8.0%	9.0%
Hybrid	15.0%	15.7%	16.4%	17.5%	17.7%
Other	7.4%	7.9%	8.0%	8.3%	8.4%

TOTAL LONDON CENTRES - SPLIT BY CENTRE TYPE

CENTRE TYPE	2013	2014	2015	2016	2017
Serviced	67.2%	64.9%	63.0%	60.0%	58.0%
Co-working	9.0%	10.2%	10.7%	11.0%	12.0%
Hybrid	20.0%	20.9%	21.9%	24.5%	25.0%
Other	3.7%	4.0%	4.3%	4.2%	4.4%

SERVICED
A serviced office is an office that is fully equipped and managed by a specialist operator, which then rents individual offices or floors to other companies on a cost per desk basis.

CO-WORKING
Co-working spaces involve a shared environment, most commonly an office, through which individuals not engaged by the same company work side-by-side, and which is charged on a monthly membership basis.

HYBRID
Hybrid space refers to an amalgam of co-working spaces and serviced offices in the same office building.

OTHER
Other flex space, including options such as “managed offices” etc. Flexible workspace is the term the industry uses to refer to any type of space outside of the conventional lease market.

Growth of Co-working

Co-working continues to offer strong growth for the UK flexible office industry. 2017 saw the UK industry grow by a further 12% in centre numbers with only the US showing higher centre numbers within our global data. On an international scale, estimates by Small Biz Labs suggest that 1.6million people used co-working space globally in 2017 with approximately 14,000 centres in operation. While most users do not use co-working space daily, 70% of individuals surveyed indicated they use a space at least 3 days a week.

WHAT SECTORS ARE USING CO-WORKING IN THE UK?

Most sections of the business community have now embraced this new flexible and social way of working, but by far the largest segment of occupiers are creative in one sense or another. If we look at the demographics across the UK, the early growth and focus in London and the South East matches this segment of the UK workforce. A study conducted by NESTA indicated that over 40% of the UK's creatively focused workforce was located in London and the South East.

> **Over the course of the last few years the numbers working in a creative field in the UK have continued to expand with estimates putting the sector at just under 2million jobs in 2016 and a CAGR* of 25% for the past 5 years.**

While not all users of co-working space are creatively focused there does appear to be a strong correlation between this workforce demographic and the growth of co-working space across the UK.

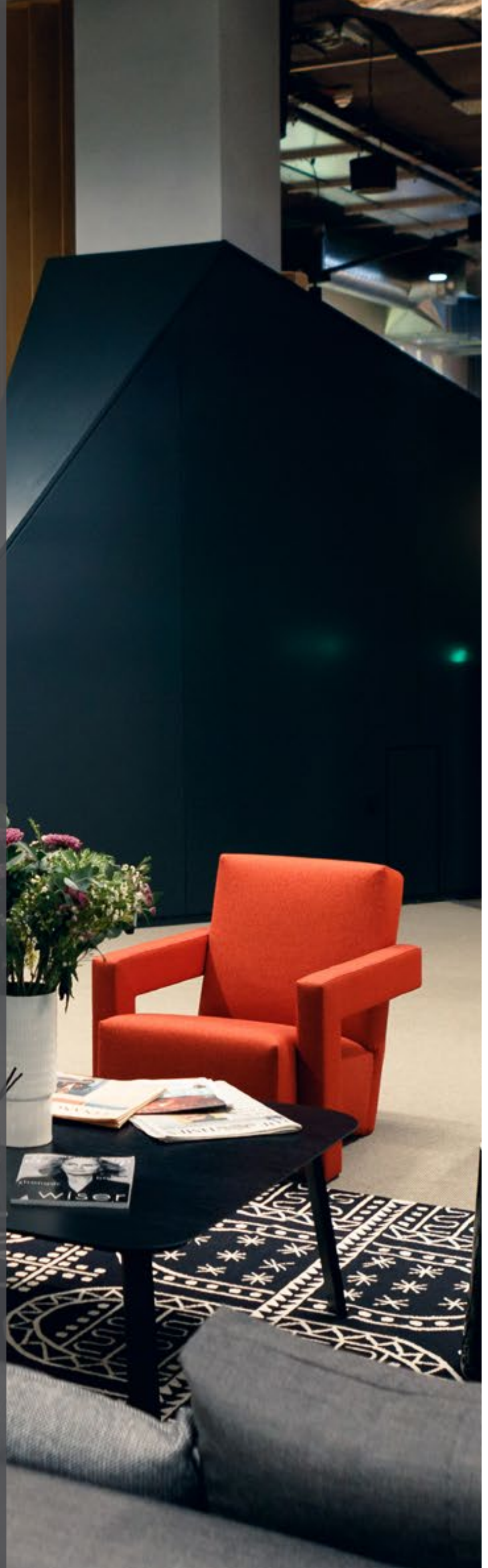
While a large proportion of co-working space users in the UK are freelancers or companies with just one employee we are increasingly seeing enquiries made for centres capable of offering 3-9 desks. These companies do not necessarily want dedicated co-working space, however they are seeking hybrid environments that offer businesses both private office space and a more collaborative environment.

WHERE IS CO-WORKING GROWING FASTEST IN THE CAPITAL?

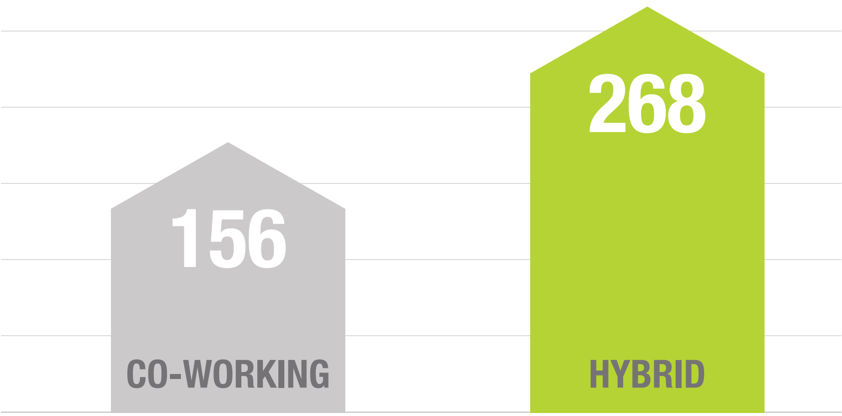
Looking specifically at the UK's largest co-working city, London, we tend to see growth of co-working focused centres in specific areas of the capital. Camden, Hackney and Islington all show higher than average numbers of new centre activity. Unsurprisingly these three boroughs also see the highest demand with enquiries spiking, particularly in Camden.

If we look at where we are seeing enquiries increase, we can gain a strong indication of future growth hotspots. One such area within London is Lambeth, which has seen enquiries for larger teams grow in the past 6 months and is an area we will continue to track with interest.

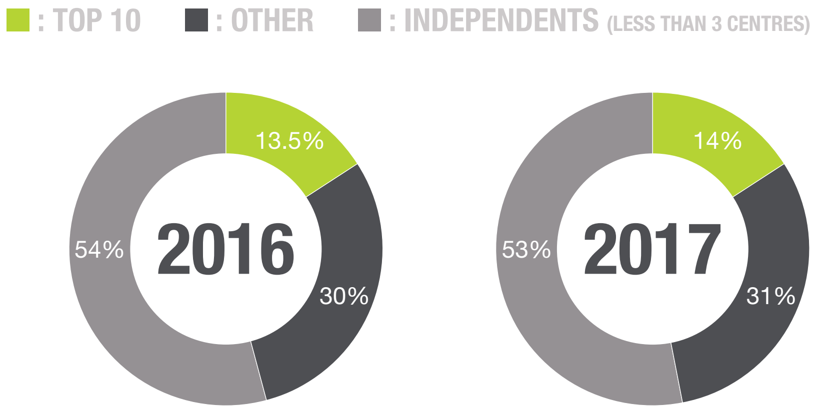
*Compound Annual Growth Rate



HYBRID VS. CO-WORKING CENTRES IN LONDON



UK CENTRES BY OPERATOR TYPE



The co-working model has become more prevalent over the last 2 years, with a number of operators offering a percentage of dedicated space in what can be described as a 'hybrid' model.

Co-working as a practice is what a number of the large operators have been keen to promote, especially with the exponential growth of WeWork in the last 18 months.

A number of global operators have offered the co-working option to clients, but the busy and often loud environment is not suitable for many types of business, which does raise the question of the sustainability and suitability of such a product offering.

The tricky balance for the operators is making money from co-working, and in general they struggle to make as much revenue from the space allocated to co-working as they would if they sold that same space as a private office.

However, several operators have said it is a strong revenue stream for them, and the approach of allocating co-working space in the best areas of buildings close to receptions and with lots of natural light, as this is where it helps create the right atmosphere.

The challenge with regards to the revenue stream is that the membership turnover requires a huge sales effort to maintain the volume of members and to continue growing the client base.

Co-working can be viewed as a flexible workspace solution for some individuals or companies, however it is also seen as an amenity within a building that should be offered and is more about creating a sense of community and ambiance within a building.

LUCY WATTS
SENIOR DIRECTOR – STRATEGIC PROJECTS
THE INSTANT GROUP

WEWORK OLD STREET COMMONS LONDON, UK

The ‘co’ in co-working spaces: Co-presence, Communication, Community or Collaboration?

BY KERSTIN SAILER AND ROS POMEROY, BRAINYBIRDZ

The co-working phenomenon is spreading fast. In addition to general growth, the sector is also diversifying. There are countless variations of co-working spaces on offer with almost any desirable combination of location, look and feel, size, diversity of community, workplace design, management and pricing.

So how do people choose which co-working space suits them best? While users may decide on a variety of personal reasons (Affordable? Close to home? Word of mouth?), there is also evidence that the opportunity ‘to connect, socialise, share knowledge and brainstorm’ is highly valued. So it is worth taking a deeper look into what co-working spaces really can offer in this respect. We contend that four different social resources may be found in a co-working space: co-presence, communication, community and collaboration.

Co-presence is the simple fact of occupiers working alongside each other in a co-working space. Because of the efficiency of sharing amenities, co-presence is also one reason why occupiers join the co-working crowd. Communication arises out of co-presence and may include chats in the lounge and kitchen areas, as well as conversations in the corridors, or at the many networking events, that most co-working spaces run.

Community goes beyond communication. It offers a general buzz, the appeal of background noise, also found in cafes, the atmosphere of productiveness and social chit chat; in the best case, community offers lasting friendships and a sense of belonging. Bill Hillier (in his seminal book ‘Space is the Machine’) argues that community acts as a “psychological resource” in that it allows co-workers to feel part of a larger movement of like-minded individuals. Collaboration finally arises from a common purpose and opportunities for different occupiers to actually work together, for example in skills swaps in entrepreneurial contexts, or brokering new business opportunities. WeWork for instance pride themselves in the fact that 80% of their members end up doing business with other members.

In all of this, what is often overlooked is the role of space. Underlying any social activity is the physical spatial setting in which it happens. Patterns of co-presence, communication, community and collaboration are therefore all products of spatial design. Physical space has the power to bring people together, or keep them apart. It is an important factor, shaping the kinds of encounters one can expect to arise, as well as the ease with which collaboration can flourish.

> **A recent research study at UCL has found that at least two spatial factors can be shown to drive the attractiveness of a co-working space: the percentage of shared facilities, and the opportunities for occupiers to tune in and out of encounters easily, i.e. allowing both privacy and sociality.**

This is an interesting and still emerging field of research, but a crucial one for suppliers of co-working spaces. As the market for co-working becomes more competitive, suppliers will have to develop a more sophisticated understanding of not only occupiers’ needs for co-presence, communication, community and collaboration but also of the role that spatial design has in enabling them.

Brainybirdz is a think-tank promoting scientific thinking in workplace design.
brainybirdz.net

Landlords in a Flex Market

Landlords have historically displayed a lack of surety about flexible workspace, but 2017 was the year that many changed their approach to the flex market. Many landlords are actively introducing flex space into their schemes or using third parties to do so.

There has been a sea change in the sector with landlords radically revising their view of flexible workspace as a “last resort”. The introduction of flex space is now seen as a key component of place-making and creating a viable, engaging scheme.

British Land introduced Storey, its own flexible workspace brand in 2017. Since then a substantial number of landlords and investors have indicated their plans to enter the market. Industry heavyweights Land Securities and The Crown Estate have announced that they will launch their own flexible offer to the market in 2018. We have, of course, already seen significant investment in TOG and LEO from what might be viewed as conventional players in the real estate market with multi-million pound investments from Blackstone and Queensgate Investments, respectively.

THE FLEX SPACE MARKET
IN LONDON HAS GROWN 25%
IN TWO YEARS & AMOUNTS TO
20M SQ FT
OF FLEX OPERATORS

WHAT ARE THE FACTORS CREATING THIS DEMAND?

In assessing landlord interest, we can discuss a variety of themes such as place-making, the growth of TMT companies, and interest in the WeWork model but, in short, the root cause is occupier demand.

The flex space market in London has grown 25% in two years and now amounts to approximately 20m sq ft. Flex operators – whether it is WeWork, TOG or Regus – have regularly topped the take-up charts for space in that time.

London remains the most mature flexible market globally with a high concentration of centres within the CBD alongside multiple locations in lower value areas of the city. Despite its maturity, growth remains strong compared to the traditional office market with a 9% increase in centres during 2017.

> **According to the ‘2017 Deloitte London Crane Survey’, office construction was down by 9% with only 1.8 million sq ft of new space started, the lowest volume since 2014.**

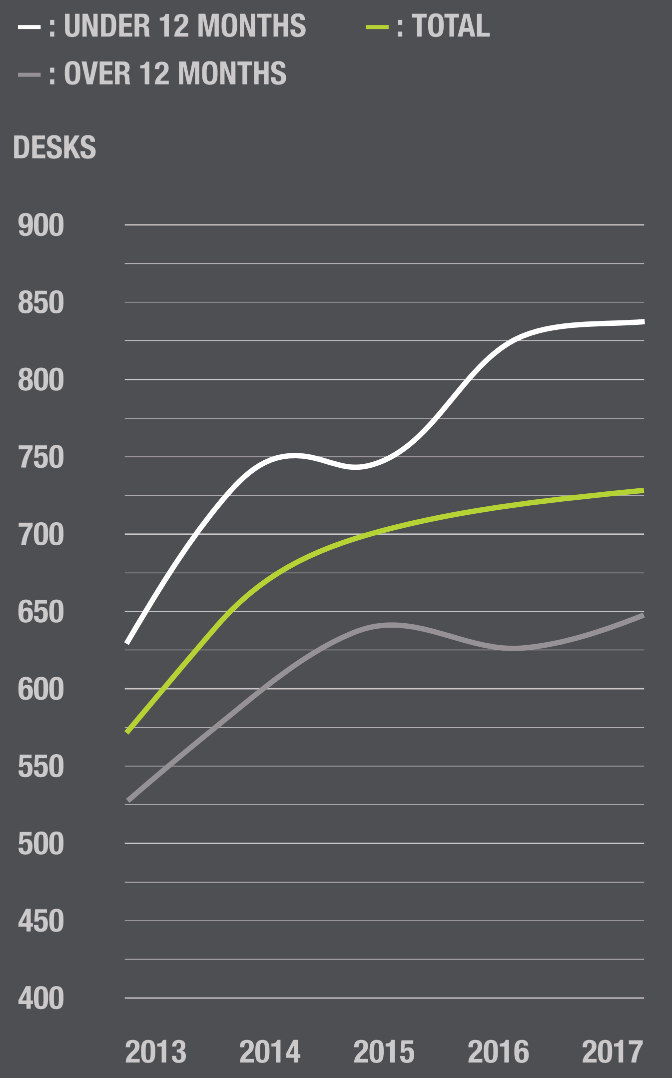
But what is also eye-catching for landlords is the Average Desk Rates that are now being achieved having grown by more than 20% since 2014.

Occupiers are seeking larger contracts, and operators are searching for larger spaces to meet burgeoning occupier demand – the flexible market is beginning to encroach on the landlords’ traditional market and they are keen to respond.

> **Demand for 20+ desk enquiries has grown significantly – in fact proportionately-speaking, they are biggest growth area of the market.**

It is this surge in demand, from corporate occupiers who might otherwise sought out conventional leases, that has made the landlord market take notice.

LONDON AVERAGE DESK RATE - OVER LAST YEARS



KEY FACTORS FOR LANDLORDS

- Cost advantages are being achieved through longer term contracts across the city
- Rates continue to increase despite more stable market conditions in London
- Terms continue to increase on average within the sector as companies become more comfortable with the flexible proposition
- Slowing growth in centre numbers means we see limited price competition compared to other markets
- Operators are starting to focus on opening larger locations to attract medium and enterprise sized companies who offer higher value contracts

The Managed Office

NEW SOLUTIONS FOR LARGER FLEX REQUIREMENTS

The rise of the managed office – a product that is sometimes described as "space as a service" by industry commentators – has continued in the past 12 months and provides an interesting counterpoint to increased corporate demand for flex space.

> **"Just as it is now easy to buy almost any Software as a Service, so it will become with real estate. Space as a Service, is the future of real estate. On demand and where you buy exactly the features, and services, you need, whenever and wherever you are."**
>
> ANTHONY SLUMBERS
> REAL ESTATE INDUSTRY COMMENTATOR

And deals like this are already going ahead – and proving increasingly attractive for companies of all sizes. Instant now manages over 540,000 sq ft across the UK's 2 largest cities (London and Birmingham). The average area per managed office is 13,000 sq ft with the offices on average catering to teams of 140 people.

Instant are not the only provider – WeWork famously moved into the space as a service model. IBM took an entire WeWork space in New York for 600 employees, designed and managed by WeWork. The co-working company occupies eight floors covering around 70,000 square feet in the 10-story, 86,927-square-foot building.

> **"It's a dedicated space just for IBM and our client, being at a WeWork building lets us both get out of our own office environment where there's always a meeting, always a call to take, always someone tapping you on the shoulder with a question."**
>
> ROMAS PENCYLA
> VICE PRESIDENT, IBM

The Managed Office is a bespoke space in company branding that is procured and facilitated by a third party.

INSTANT MANAGED OFFICE, LONDON EC3A

What is driving demand for the Managed Office?

WHY ARE COMPANIES LOOKING FOR THIS TYPE OF SPACE?

It is not just tech companies looking at offices managed in this way by a third party. Instant manages nearly 490,000 sq ft of space within the UK capital with the largest office capable of housing 550 staff.

Industry sectors using Instant managed space within London include, Construction, Consulting, Finance, Transportation, Charity, Technology, Energy and Public Services.

> **Companies are taking up larger, branded, flex space to help their businesses grow quickly without the encumbrance of additional CAPEX or having to manage the process internally.**

Speed of delivery for this type of flex space is a critical factor for many companies looking to scale up our on-board project teams against tight time-scales. A managed office solution can reduce time to occupancy by three to four months for a company looking to take on new space.

Time can be saved both prior to a contract being signed but also post-contract, helping companies minimise the expenditure on multiple building rates. In some instances, clients can be in situ in as little as six weeks compared to 7 months for a comparable, conventional lease arrangement.

MARKET DEMAND FOR LARGER FLEX SPACES

To take a data-led view of this trend, there has been year on year growth of 19% in enquiries for 50+ desks from corporate clients for flex space.

These firms are looking to the flex market as they move away from conventional leases but want more choice over brand, privacy, space and supply over amenities than is currently available from the flex operators. For instance, in a market such as Birmingham where there is simply not enough flexible workspace supply to meet demand, managed offices made up 5% of total take up within the city in 2017.

> **"Managed solutions take the complexity of managing an office space away from a occupier while allowing them to have their own private, high quality space over a flexible period of time."**
>
> **JOHN DUCKWORTH**
> **MANAGING DIRECTOR UK & EMEA, THE INSTANT GROUP**

Flexible operators are increasingly looking to secure larger floor plates to help cater for this 50+ desk demand. WeWork took on a lease of over 280,000 sq ft in York Road, London last year, TOG acquired 70,000 sq ft in Eccleston Square, London and Regus took on 77,000 sq ft in Great Charles Street, Birmingham at the back end of 2017, the second largest Regus office in the UK.

Demand for Flex Space continues to grow and grow

To assess the industry from the demand side we can gain insight from our own Instant enquiry data. While this data only represents a portion of the market, it does give us a picture on the changing demand profile of potential occupiers.

The UK flex market is moving more towards a hybrid model with demand for serviced offices diminishing year on year, as co-working and hybrid enquiries increase. However, serviced offices still represent half of total UK requirements with the co-working model making up less than 10%.

> **London clearly continues to lead in occupier demand but across the UK we are seeing higher levels of interest in markets such as Birmingham and Edinburgh than ever before. In a similar sense the type of enquiry being made is also evolving as larger companies explore flexible office space solutions across the UK.**

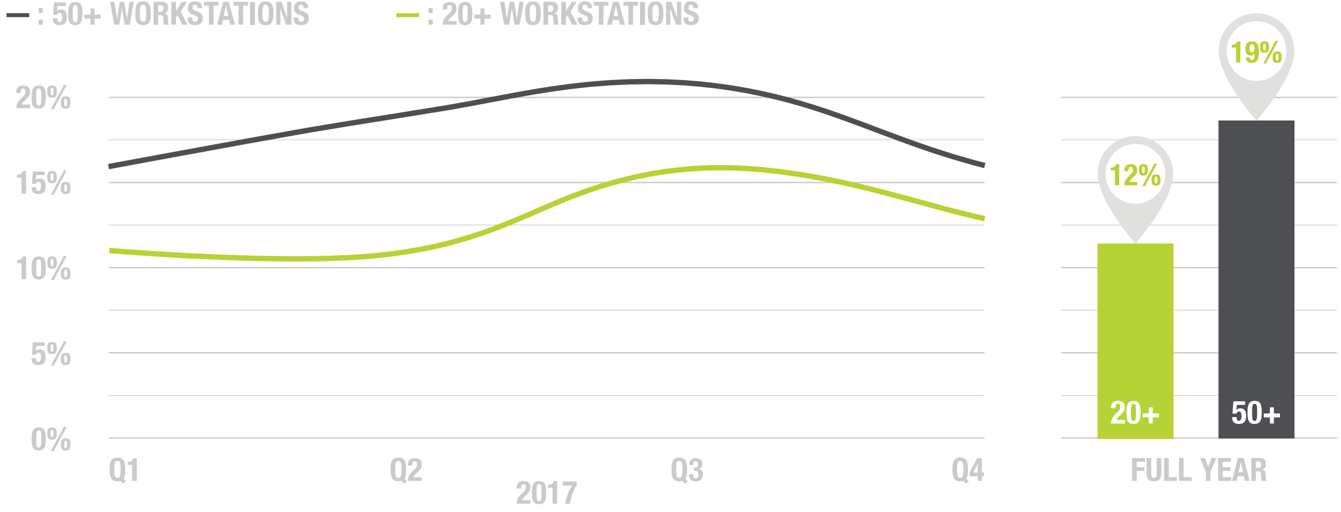
The majority of demand still comes from companies looking for flexible office space for 1 – 4 employees although over 25% of demand now does come from occupiers looking for space for between 5 and 25 employees. In terms of growth, head counts between 50 and 99 are proving the real story seeing high levels of new interest. Nowhere is this more prevalent than London where enquiries in this segment have grown by 19% in 2017.

Corporate occupiers are making their presence felt within the UK flexible industry. It is thought that between 25% and 30% of flexible space within London is occupied by corporate organisations at present, with the proportion increasing year on year.

Demand for 20+ and 50+ workstation requirements has increased by 12% and 19% respectively during the course of the year. This is a trend that we predict will continue going forward with increasing demand from larger occupier groups.

IN THE LONDON AREA ENQUIRIES FOR 50-99 DESKS HAVE GROWN BY NEARLY 19% IN 2017

DEMAND GROWTH 2017 VS. 2016



ENQUIRY INFORMATION

Why are clients flexing?

The rationale for using flexible offices is also changing with potential occupiers accepting that flexible office space can be a long-term solution to some of their wider business challenges.

> **Enquiries for terms over a year and also for those looking at between 1 and 3 years are increasing both in real terms and also in proportion to other term periods. While the shortest terms, those less than 3 months, are declining in a general sense.**

If this trend continues it could be an indication that companies are viewing the flexible office space sector as a long-term solution to not only allow for flexibility but also to drive profitability and support cultural changes within their businesses.

The profile of companies using flexible space is changing. Start-ups have been commonly associated with the move towards the adoption of more flexible workspace but of equal importance is the expansion into new markets and housing project-based teams.

'Scale ups' are another type of organisation who have been adopting flex space, allowing greater agility, lower risk and more flexibility to add additional desks when required.

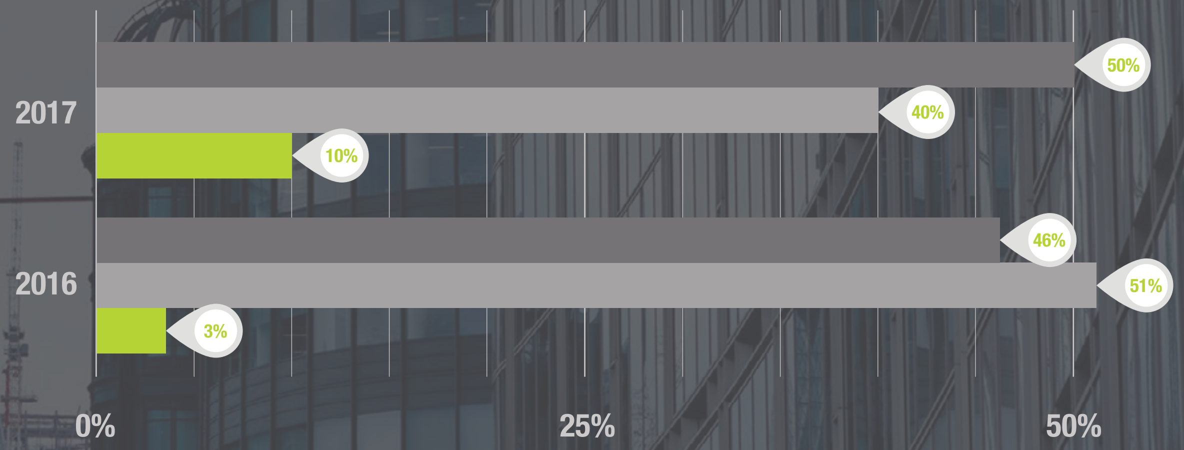
From a sectoral perspective, enquiries come from Financial, Technology, Consulting and Professional service companies in equal measure with their sizes and requirements also highly varied.

Sole traders and small companies (head count less than 100) have traditionally made up a large proportion of the industry but already we are seeing large companies (head count above 1000) making more inroads over the last year, a trend that is likely to continue.

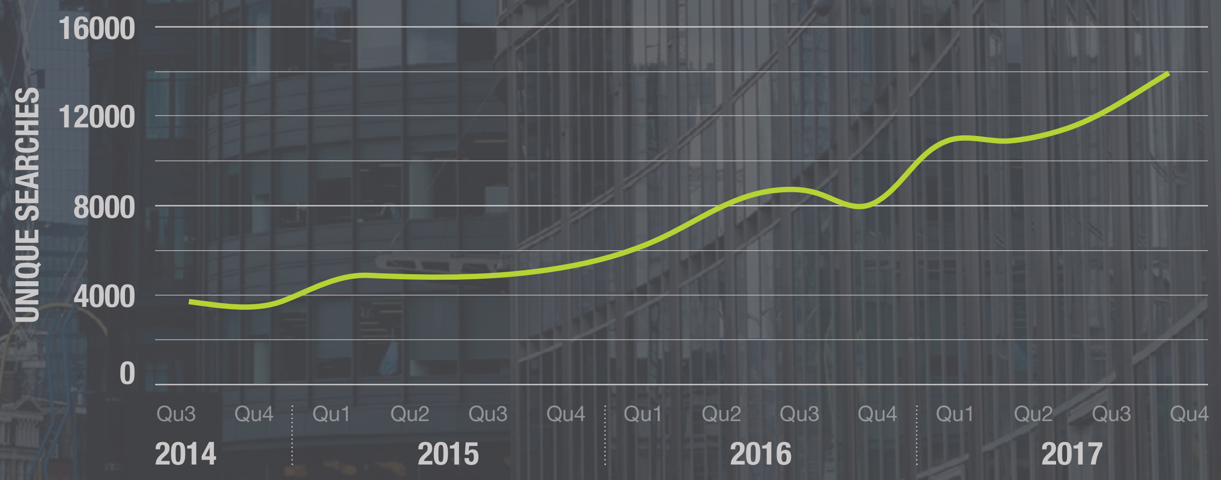
> **Looking at Google Trends there is clearly a growing interest in flexible and co-working office space across the UK. Searches for "co-working" have doubled during the year with a gradual upwards trend month on month.**

TERMS BELOW 12 MONTHS AND ABOVE 18 MONTHS

: UNDER 12 MONTHS : 12-18 MONTHS : OVER 18 MONTHS



GOOGLE SEARCHES FOR FLEXIBLE OFFICE TERMINOLOGY*



*Search terms include Flexible Office, Co-working Space, Co-working, Shared Office Space, Shared Office, Serviced Office

Spotlight on London: Growth in the Capital

London remains the focal point of the UK's flexible office industry with over 25% of the tracked centres operating within the greater London area, but this market is starting to mature.

Growth has slowed at a total level, with increases in central London centres falling below the proportional growth in supply elsewhere in the UK. However, the size and shape of centres in London are changing, as they reach the next stage in their development.

The average size of flexible offices is increasing, and the market definitely has a greater number of large centres within the Capital.

> **A number of operators are now taking on spaces above 100,000 sq ft, which is far above the average flexible space within the London market.**

We are also increasingly seeing centres focus on providing hybrid space with the look and feel of a co-working centre but with far more private office space available than hotdesking open plan environments.

OVER 25% OF CENTRES IN LONDON OFFER HYBRID WORK SPACE

IN 2017 THE AVERAGE DESK IN LONDON COST OVER £690

AFTER SEVERAL YEARS OF HIGH ACTIVITY CAMDEN & SOUTHWARK GENERATED SIGNIFICANT INTEREST FOR FLEXIBLE OFFICE SPACE

Supply of Space in London

Hybrid centres – those combining co-working and serviced office space - are bucking the overall London trend and showed growth within London through 2017. Over 25% of centres based in London now offer hybrid work space, the largest percentage within the UK. In the main this growth is coming from existing centres changing their offering to the industry as occupier demand for greater flexibility and multi-use space continues to grow.

The ratio of specifically co-working spaces has stayed flat in London through 2017 with just 12% of spaces reporting to only offer this type of environment. This contradicts a wider UK trend where dedicated co-working centres are increasing in presence albeit in smaller numbers, a possible indication that we are starting to see some saturation in London in the co-working environment.

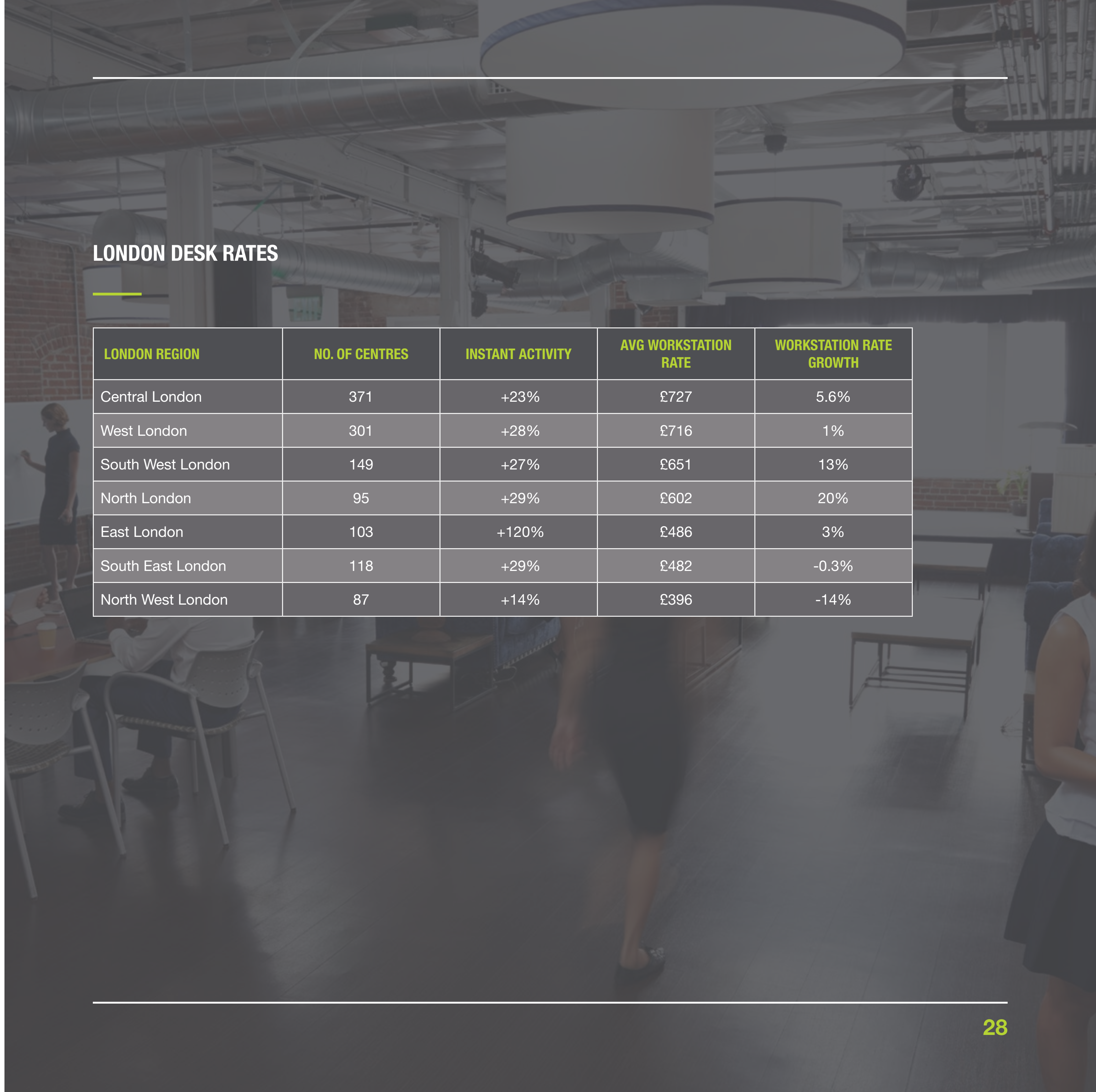
The existing supply looks to be maturing with reports indicating that the centres that do exist are expanding in size if not number and expect to continue to grow in the coming years, in space if not centre count. An indication that demand does remain high but occupiers are demanding greater flexibility within the space they use and increased space for larger headcounts.

Across London work station rates continued to rise in the flexible office space with the average desk costing over £690 through 2017. Central London leads the industry in regard to workstation value.

Central London has maintained the most expensive average desk rates as might be expected - but both North London and the South West saw growth levels rise by 30% as demand continued to rise alongside increasing numbers of higher end workspace locations and those offering co-working / hybrid space.

> **Leading flex providers such as WeWork and TOG have expanded their presence within the Central areas but are also growing outside of Central London including 56,000 sq ft TOG in Hammersmith, Uncommon in Holloway and WeWork Shepherd's Bush.**

While Regus, WS Group & Leo lead the London market in terms of centre numbers they only make up 17% of centres thanks to the number of small and specialised operators across the London area.



LONDON DESK RATES

LONDON REGION	NO. OF CENTRES	INSTANT ACTIVITY	AVG WORKSTATION RATE	WORKSTATION RATE GROWTH
Central London	371	+23%	£727	5.6%
West London	301	+28%	£716	1%
South West London	149	+27%	£651	13%
North London	95	+29%	£602	20%
East London	103	+120%	£486	3%
South East London	118	+29%	£482	-0.3%
North West London	87	+14%	£396	-14%

LONDON CENTRE NUMBERS AND DESK RATES

LONDON AREA	RATE (£/DESK)	NUMBER OF CENTRES	NUMBER OF CENTRES PRE 2013
Kensington and Chelsea	820	32	10
Westminster	753	328	134
City of London	747	152	75
Islington	645	106	37
Hackney	659	100	40
Camden	695	142	76
Tower Hamlets	583	93	36
Southwark	564	77	39
Hammersmith and Fulham	500	33	21
Hounslow	599	14	8
Lambeth	393	50	26
Barnet	379	30	13
Merton	341	14	8
Brent	344	22	9
Wandsworth	326	29	17
Ealing	235	29	16
Other	N/A	91	44

Occupier Demand in the Capital

Spikes in demand occurred particularly in East London where interest in flex space has been higher due in part to a lack of large conventional space.

Client demand for flexible workspace doubled within the wider area with the Docklands and Canary Wharf - desk rates remained attractive compared to other London areas and the combination of appealing rates and proximity to some of London's largest financial services companies was an enticing mix.

Westminster and the City of London generated the most demand in both London and the UK by a considerable margin over the last year despite also commanding the highest desk rates.

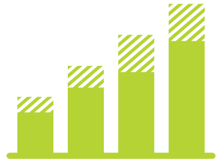
Camden and Southwark are two other London regions that have generated significant interest through 2017 following on from several years of high activity for flexible office space. Demand continues to grow in these areas with the number of enquiries and deals increasing.

London has shown a steady increase in the value of workstations thanks to high demand in desirable central areas, the average desk now commands £690 in the capital, an increase of 14% on last year.

As we saw in 2016, the main areas (for proportional) growth in London have been the areas outside the centre, with Greater London seeing a 12% uplift while the city itself saw an increase of 9%.

Locations such as Harrow, Beckenham and Heathrow have all seen an increase in activity through 2017, a perhaps unsurprising trend when taking into account the increase in enquiries and desk rates in these areas that was seen in 2016.

THE AVERAGE DESK IN LONDON HAS SEEN AN INCREASE OF 14% AND NOW COMMANDS £690



Explosive Growth in the UK's Regions

The flex market has shown really robust growth and a large opportunity for expansion in the regions. 2017 saw increases in supply above 10% in the North West and Midlands, as the UK's 2nd tier of cities continue to see new investment and a more agile working climate.

In fact, there has been double digit centre growth in the majority of UK cities, although it is the regional hubs such as Manchester and Leeds where activity remains strongest. While the pull of the South East remains and uplift in centre numbers has been seen, the largest levels of centre growth were instead seen in the North West and West Midlands through 2017.

> **Brighton & Oxford were both highlighted in 2016, saw slower growth and instead it was the UK's second cities of Manchester, Liverpool and Birmingham that saw some of the highest activity in 2017.**

Birmingham, Leeds & Manchester all have well over 100 flexible office centres in operation and continue to grow but it is the smaller regional hubs such as Cardiff, Liverpool & Newcastle seeing growth levels above 10%. While these figures point to a strong increase in supply it is also important to look at the price of desk space that is being commanded to get a full picture of this changing industry.

Looking at the other key cities around the UK, reports are mixed when it comes to the average workstation rate.

> **Overall the average desk rate has been dropping outside of the capital with cities that are reporting some of the highest centre growth also showing some of the largest decreases in rates, as market demand responds to increased supply.**

Within many of these cities, new flexible workspace is being established in out-of-town technology parks or close to transport links where rents are lower, and operator margins improve accordingly.

OVER 40% OF THE UK'S
CREATIVELY FOCUSED
WORKFORCE IS LOCATED IN LONDON & SOUTH EAST

OVER 20%
OF CENTRES IN LONDON NOW OFFER
HYBRID
WORK SPACE

SMALLER REGIONAL HUBS ARE SEEING

CARDIFF · LIVERPOOL · NEWCASTLE

GROWTH LEVELS ABOVE **10%**

Has regional supply overtaken London?

Workstation rates in many of the UK's largest cities have remained relatively flat with Leeds, Birmingham and Manchester all seeing very little change through 2017. Interestingly these cities have average desk rates at around £250 but also offer widely varied ranges of office space.

In Manchester WeWork advertises space with hot desks from £238 a month to private offices for £460 a month. While Beehive Lofts further out of the city offer dedicated space from £250 per month if a six-month lease is secured.

Leeds' prices per desk vary from Duke Studios offering co-working space from £115 a month with private Studio space from £440 a month. In comparison TOG offer a premium location, No.1 Aire Street from £375 per month for a hot desk as part of their multi-location package.

> **The South East remains the largest flexible office space region outside of London and solid increases in centre numbers have continued over the past 12 months.**

There has been a slight increase in average workstation rates in the South East, which could indicate an increase in demand but is more likely due to the growth of specialised centres in regional hubs helping to command higher rates.

2016 saw expansion in supply in cities such as Brighton, Southampton and Reading; while growth still exists in these areas in 2017, there has been high levels of new centre activity in areas such as Basingstoke and Croydon where rates are on average lower and therefore contribute to more stable market pricing by region.

> **In the South West there has been growth in the number of centres while workstation rates remain flat – that, again, is seemingly a case of pricing catching up with an increase in supply.**

Centre numbers, however, remain lower than in the South East and are focused around Bristol and Bath both of which continue to show steady increases so we would anticipate growth yet in this market.

Summary by region

GROWTH IN THE MIDLANDS

The Midlands shows steady increases in supply with the West Midlands in particular showing an increase of nearly 11% in centre numbers through 2017. Rates remain flat in this area of the UK with growth in both major cities, such as Birmingham and Nottingham, and in smaller lower cost local hubs such as Wolverhampton and Northampton helping to stabilise figures.

The data is similar in the East Midlands where centre supply increased by just 9% and workstations rates saw matching growth levels. Cities such as Norwich and Ipswich saw high levels of new centre activity as flexible working trends continue to expand outside of major regional cities. Technology hubs and high-end industry around Cambridge dominates the area and helped to maintain a high average value in the area.

> **Prices in Birmingham range from £75 per desk per month in locations such as the Old Print Works, to a dedicated pod in the Innovation Birmingham Campus from £225 per month, to a private office in ALPHA Works for £450 per month, per workstation.**

THE NORTH-WEST POWERHOUSE

Both the North West and North East performed extremely well from a demand side with trends first seen in 2016 continuing through 2017. The large North-Western powerhouses of Manchester and Liverpool performed well in terms of supply growth but high increases throughout the year have possibly supported the lowering in average workstation rates across the two cities.

While the North East has a smaller centre base and therefore growth rates can look exaggerated we have seen a lot of new activity outside of Leeds and Newcastle which remain the key North-Eastern cities for flexible office space. In particular Gateshead, Hull and Doncaster saw their flexible centre numbers nearly double during the course of the year as this expansion took effect.

MORE SUPPLY FOR NORTHERN IRELAND AND SCOTLAND

Northern Ireland and Scotland are both areas that have seen steady growth in supply with the more mature Scottish market growing by 9% and the relatively nascent Northern Irish market seeing increases of just 7% as its business community adopts more flexible workspace options.

While supply has been steady in both areas the average workstation rate in both regions has fallen heavily over the last year based on our data. This could be due to the increasing levels of supply creating excess levels of choice for businesses looking for flexible space in the region, but also down to the creation of new centres further out from the main cities of Edinburgh and Belfast.

Both Scotland and Northern Ireland have seen a change in the mix of flexible office space during 2017 with the number of dedicated co-working and hybrid spaced increasing above wider UK averages and there could be excess capacity in the short term in this area. Dedicated co-working spaces appear to be doing well in a market that is still relatively new to the concept with high growth but small numbers.

NORTHERN IRELAND AND SCOTLAND DEALS IN 2017

Regional Summaries - city by city

CITY	NO. OF CENTRES	CENTRE GROWTH	AVG WORKSTATION RATE (£)	WORKSTATION RATE GROWTH
London (City)	1224	9%	£690	12%
Leeds	108	15%	£261	-1%
Birmingham (city)	123	13%	£264	4%
Edinburgh	93	13%	£224	-15%
Manchester (city)	188	17%	£287	-2%
Bristol	115	8%	£287	-1%
Glasgow	104	4%	£231	-8%
Nottingham	80	3%	£190	-10%
Sheffield	59	4%	£214	-7%
Milton Keynes	37	3%	£219	-20%
Belfast	40	8%	£209	-15%
Aberdeen	46	2%	£244	-9%
Newcastle	59	12%	£201	-10%
Liverpool	70	23%	£199	0%
Brighton	36	6%	£397	36%
Northampton	37	1%	£263	4%
Cardiff	41	10%	£233	0%
Oxford	33	4%	£350	2%

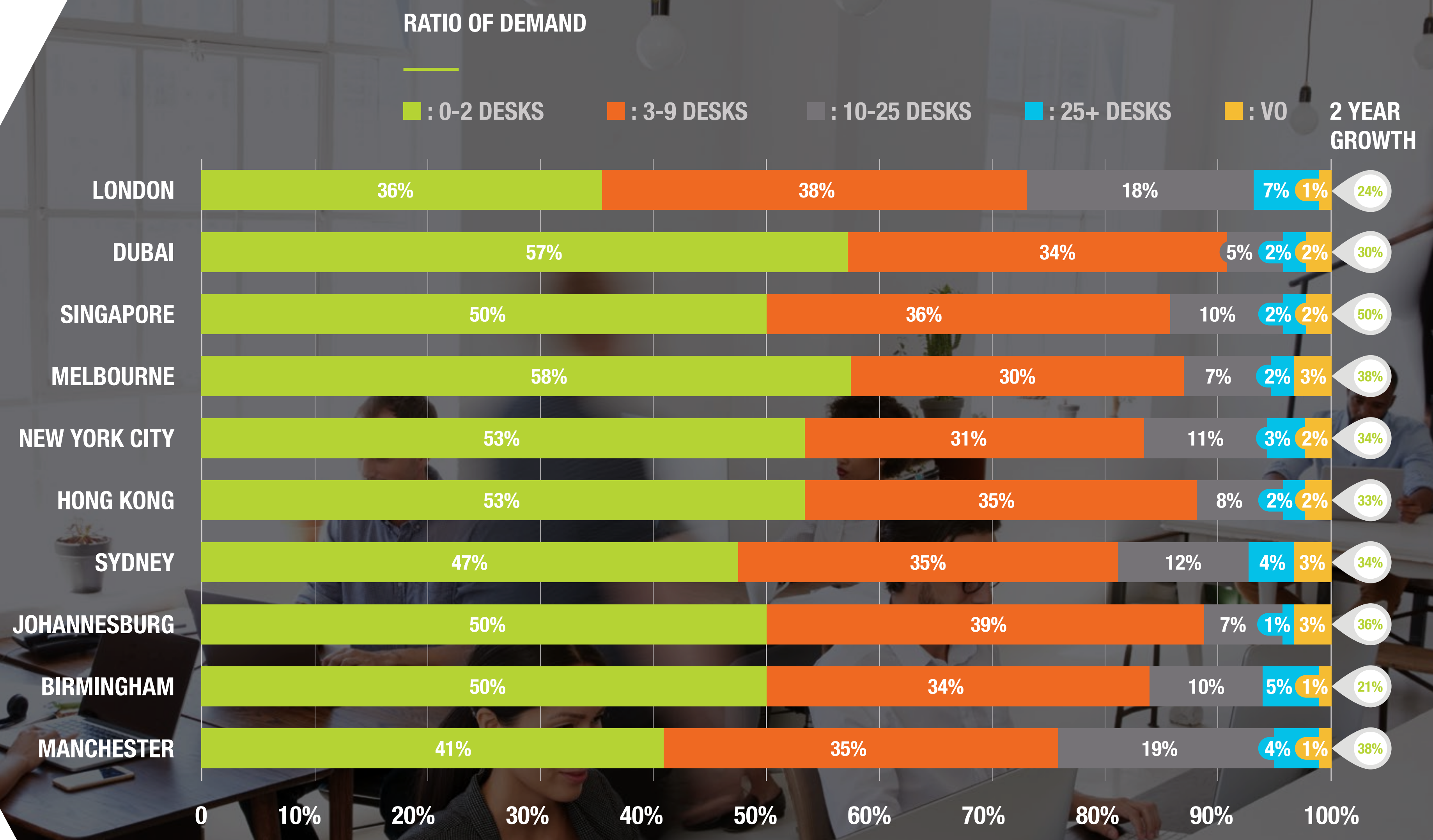
REGION	NO. OF CENTRES	CENTRE GROWTH	AVG WORKSTATION RATE (£)	WORKSTATION RATE GROWTH
Northern Ireland	52	7%	£209	-15%
Scotland	354	9%	£210	-5%
North East	204	6%	£205	-11%
Yorkshire & Humber	379	10%	£216	-11%
East Midlands	281	9%	£221	6%
East of England	412	5%	£270	-5%
South East	804	8%	£303	0%
Greater London	1373	12%	£570	14%
South West	375	8%	£250	-5%
Wales	103	10%	£220	-15%
West Midlands	355	11%	£237	-7%
North West	628	12%	£224	-13%

UK Market compared to the Rest of the World

The UK flexible office industry continues to grow at an impressive pace, with more than 20% of commercial space in London leased to flex providers in 2017 (up from 8.5% in 2016) and uptake across the UK increasing by over 5% in the same period. Of the offices that Instant track, the UK represents over 25% of global supply thanks to early adoption and strong demand from occupiers - though this figure is forecast to decrease as other global markets grow at a much higher rate.

While the UK's growth remains strong on the back of new investment and rising demand, it is the newer APAC markets where overall centre growth rates remain highest. Thanks to centre increases well above 15% in already large markets such as China, Singapore and India, the region supports wider global growth and is expected to be an area of high opportunity going forward.

CHINA, SINGAPORE & INDIA HAVE SEEN CENTRE INCREASES WELL ABOVE 15%



EMEA

There are over 5,000 centres across EMEA and we have witnessed growth of 15% in the last 12 months. A number of operators including Mindspace and WeWork have expanded their footprint in Paris, Berlin, Amsterdam, and Tel Aviv. Demand from larger corporate organisations is also fuelling the appetite to open new locations in this market.

US

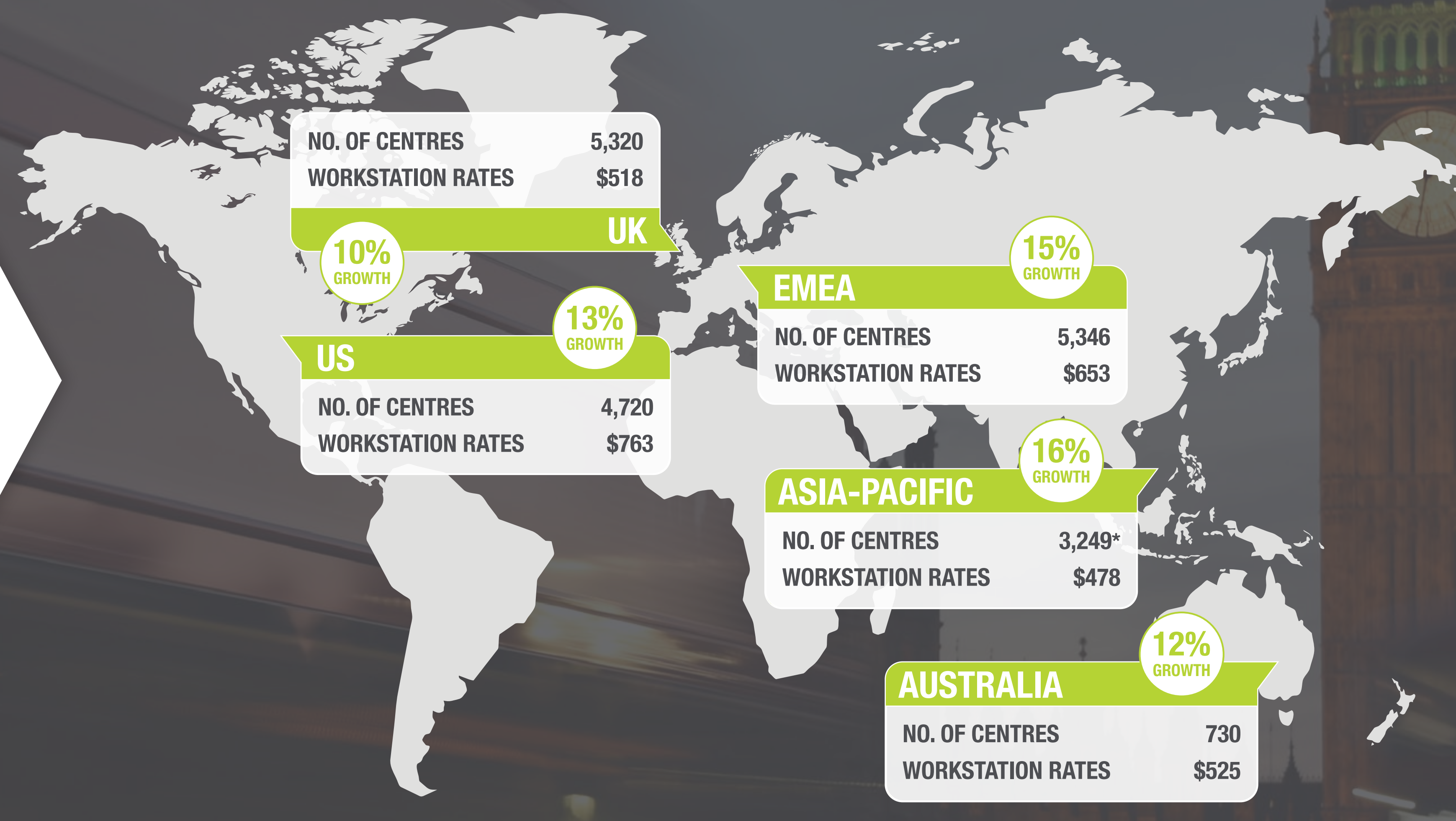
The US has almost 5,000 flexible office centres and has experienced steady growth for the past 5 years, although this has slightly slowed through 2017. A key trend underpinning the US expansion is that growth is being driven not only by the giants of the industry but by entrepreneurial operators– with only one or two centres – that are creating very specific spaces for niche audiences. The top 10 operators in terms of total number of centres account for only 34% in what is a highly fragmented market.

ASIA-PACIFIC

It is not only The Americas and EMEA that have embraced hybrid and co-working environments, the APAC market has seen some of the highest levels of growth coming from this area of the industry in the last year. Dedicated co-working centres in the APAC market have the highest level of penetration thanks to double digit growth in 2017, when combined with hybrid centres the APAC market sees nearly 50% of its centres now offering some form of co-working environment.

AUSTRALIA

Australia leads this region of the world with over 25% of centres located in the country dedicated to providing a co-working environment. The success of this type of space in Australia can be attributed to a number of factors. Firstly, Australia has one of the highest life expectancies in the world along with an aging population, and they have a positive attitude towards their work-life balance. Australia also has a high percentage of self-employed workers, a report by Self-Employed Australia indicates that 28% of private sector employees are self-employed and therefore more likely to be looking for flexible and hybrid based office space.



*Centres known to Instant

Future of Flex: What issues does the market face?

There are several key trends that will significantly shape the future of what is still a nascent industry. The flex market is only 30 years old, at most, but the majority of its growth has come in the past decade with supply ramping up and more operators joining the market. This rapid growth and increasing interest in flexible solutions from the more traditional side of the property sector is already creating issues that the market will have to address.

SPACE PER DESK – HOW LOW CAN YOU GO?

As competition grows across the market and is compounded by increased cost to operators of taking space, sq ft allocation per desk has fallen dramatically to ensure margins are retained.

> **Increased adoption of workplace technology and improved design is off-setting much of this reduction in space for the customer occupier but there will come a crunch point for the industry when client demands override the need to make the model work.**

For many customers, the increase in amenity space and shared space overcomes the need for personal desk space, and the close quarters nature of co-working carries obvious appeal from a networking perspective. However, as more corporate occupiers take to flex space and co-working becomes a growing solution for staff overflow, the need for privacy and quiet space will become increasingly important.

LANDLORDS, LEASES AND CO-WORKING?

The established flex operators will continue to grow while they offer agile space, services and solutions better than traditional Landlords. When/if Landlords enter this market in a meaningful way, (rather than just offering shorter term leases) the outlook could change significantly.

> **Although the current choice for buyers of flexible space today is better than it’s ever been – there are more options in the office market than ever before and, in turn, that is making occupiers of all sizes question exactly what it is that suits their business.**

Our view is that market fragmentation and customer choice will proliferate, and clients will demand more information. Insight and market visibility from the intermediaries working across the flex sector will therefore become even more valuable as customers try to navigate the options available in the market.

The Flex Market in Post-Brexit Britain

The buoyant flex market in the UK is one of the key reasons the country is so attractive for companies to do business in when compared to other European cities. Traditional leases still dominate across most of the European Union and 'flexibility' in a commercial property deal refers to the outdated ability to sub-let or assign your lease.

The variety of occupancy options far outweighs those in Paris, Frankfurt, Dublin or Madrid, and while supply in the EU is growing fast, London represents the largest city market in the world for flex space. This is also borne out by companies looking outside the capital and choosing to procure flex space rather than a conventional lease.

> **London remains more expensive per sq ft for start-ups, but the capital is arguably more business-friendly than the second cities where choice is still relatively restricted and the type of space available is not yet of the same quality (though this is slowly changing).**

The markets in Birmingham, Manchester and Liverpool are adapting to the new market dynamics and choice is starting to become available but it will be sometime before the regions can supply the variety of options in the UK's largest city.

The uncertainty surrounding post-Brexit Britain means that many companies are using flex as a 'hedge' against a shortening planning horizon, which will impact the market further in 2018.

What's next for Flexible Workspace?

The last five years has seen terrific growth and a new dynamic for the flexible workspace market as the wider real estate sector wakes up to the possibilities that a more agile approach represents. As a result we are seeing more landlord interest, higher customer demand, the adoption of flex space by corporate occupiers and growth in supply across the UK as a whole.

Interest in the flex market model shows that the conventional market is finally responding to occupier demand that has been growing significantly year on year. In every other sector where market disruption has taken place - retail, travel, media etc. – this initial acknowledgement of changing end-user behaviour has ultimately led to significant changes to the status quo.

The next five years, therefore, promise to be an extremely exciting time for those of us working in the workspace market. It is my view that the sectoral landscape will look very different in 2022 than it does now. And it will be very interesting to see which of the more traditional firms see this journey through.

The property market will need to adapt and evolve to this challenge of meeting consumer demands in a way it has never had to do so before. The flexible workspace market provides space to its clients on their terms – flexible pricing, length of stay, choice of location, buying online and improved amenities. Space blends with service and is then packaged up as a single product. This is the fast moving end of the property market where the customer (not the tenant) is right, and the end-product has been created for a specific user-base.

With new landlord and conventional entrants into flex space, it will be very interesting to see how they adapt to this more consumerised market. This is a digital market place, one which is highly transparent, data-led and where price comparison is easily available. Fast moving, highly competitive and customer/client focused, it will continue to raise the bar across the whole property industry.

JOHN DUCKWORTH
MANAGING DIRECTOR UK & EMEA
THE INSTANT GROUP

Rethinking Workspace.

Founded in 1999, The Instant Group is a workspace innovation company that rethinks workspace on behalf of its clients injecting flexibility, reducing cost and driving enterprise performance. Instant places more than 7,000 companies a year in flexible workspace such as serviced, managed or co-working offices including Sky, Network Rail, Serco, Capita, Teleperformance, Worldpay, and TMF making it the market leader in flexible workspace.

Its listings' platform "www.instantoffices.com" hosts more than 12,000 flexible workspace centres across the world and is the only site of its kind to represent the global market, providing a service to FTSE 100, Fortune 500, and SME clients.

With offices across the world, The Instant Group employs 230 experts and has clients in more than 150 countries. It is also included in the 2018 Sunday Times' HSBC International Track 200.

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Singapore

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Contact:
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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 December 2017.

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RETHINKING WORKSPACE