Making the move to Flex

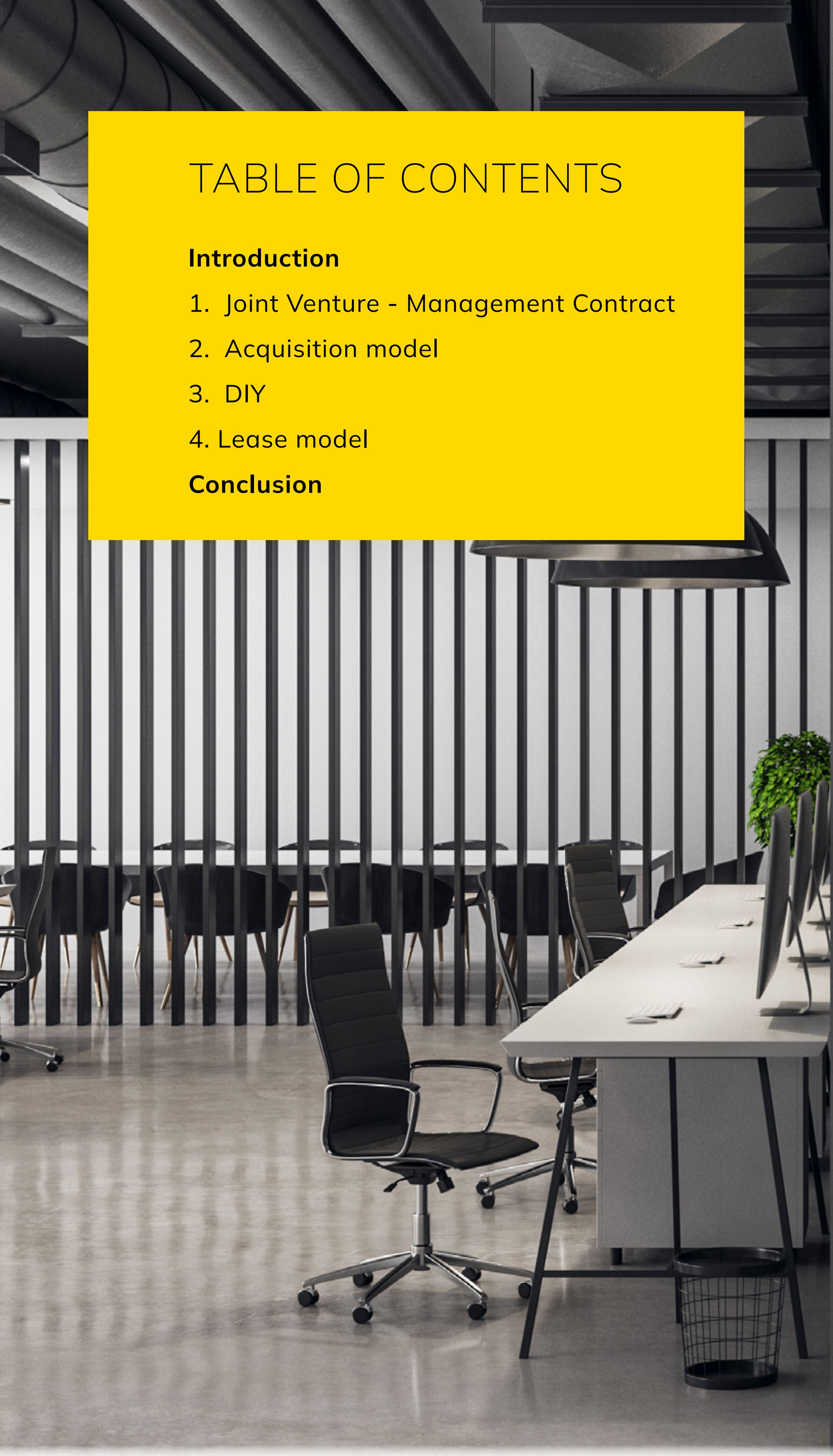

TABLE OF CONTENTS

INTRODUCTION

It's no secret that flexible workspace has taken significant turns over the past few years as hybrid working continues to be the favoured strategy for many businesses going forward.

According to the UK Flex Market Overview 2022 report by The Instant Group, the demand for flexible workspaces has increased 22% across the UK year-on-year. The market now contains over 6,000 flex spaces with 84% of these in Central London alone.

In 2022, consumer preference continues to change in commercial real estate. Flex space operators have made flex a viable option for any office occupier, and as we move forward, landlords will be expected to have a full flex policy in place.

The way people work and use offices has evolved – consumers have moved away from having one central location for work, they want multiple work areas throughout the space for meetings, general catch ups and quiet areas for Zoom or Teams meetings.

In a recent FlexSA panel, Zach Douglas, CEO for Orega stated that, "Back in 2000, lease lengths were just under 10 years whereas now they're just under five years – In just 20 years, they've halved. Landlords are realising their building needs to be the destination as opposed to the client floor – employees are going to demand more of their workspace than they ever did before."

With this being said, companies are going to need to change their office space offerings and there will be less willingness to invest in CAPEX. As Douglas Green, managing director of G8 Consult said, "The resilience of the flex workspace sector has not escaped the notice of landlords currently leasing to operators, while traditional office and ailing retail landlords are looking to capitalise on strong post-pandemic prospects of space as a service."

With flexible working continuing to grow and traditional office spaces starting to include flexible components, the industry is once again on an upward trend.

In this ebook, we explore several different avenues for Making the Move to Flex so you can discover which operating model is best suited to you.

IMAGE: A SPACEMADE PROPERTY

"We sit alongside building owners to deliver and operate a flexible workspace unique to their asset or portfolio"

JONNY ROSENBLATT, CO-FOUNDER spacemade

1. JOINT VENTURE - MANAGEMENT CONTRACT

A popular operating model is the joint venture, or management contract.

Simply put, this is a partnership between a landlord and a coworking or flex space operator. While the property owner needs to fill vacant space, they may not have the experience or time to devote to running a flex workspace. The operator will manage the space and hire staff and the property manager would likely pay a management fee every month to do so. But the space will provide amenities and accessibility to those already in the building. The operator sees reduced risk of starting their location from scratch.

Jonny Rosenblatt, co-founder of Spacemade, operates a unique business that is the first-of-its-kind as an operational partner for landlords. "We sit alongside building owners to deliver and operate a flexible workspace unique to their asset or portfolio," Rosenblatt said. Their company takes on full operational responsibility for the space, which enables the building owner to deliver the best workspace possible to the members. The building owner can provide the space, service and price point that best suits the local market. The benefit for the businesses who occupy the space is that "they get the best of both worlds - an individual brand and unique space with access to a trusted network of spaces," Rosenblatt added.

"You're using your asset without taking on the risk of having to learn the complexity of flex space," said Justin Harley, director of global solutions for Yardi. "You're getting an expert in straightaway, and that expert should be able to advise you the quickest way to fill the space and start to achieve return on that office," he added.

Operators typically view these management agreements as a way to increase their footprint quickly without an onerous lease and without purchasing land or a building, which can be difficult for many operators.

There are not many downsides to this model. You could potentially have some contract issues, because there needs to be a tedious balance in risk/reward for both parties involved. Landlords may have some qualms in finding a partner in an industry they have no experience with. But in general terms, the management contract model is one of the more popular routes, with the fewest downsides. "Both parties should be conscious of the others' priorities in terms of rewards," Green said. "Property owners will likely want a premium on the net effective rent as the premise for entering into the JV."

2. ACQUISITION MODEL

Although less common simply due to the capital it requires, the acquisition model is great for those who have the capacity to do it.

As was widely reported, the prime example here is Blackstone's acquisition of The Office Group (TOG) in 2017 for £500M. For commercial real estate companies who are experts in acquiring assets but admittedly don't have the knowledge of the intricacies of flexible space management, an acquisition is a preferred route to take.

In the case of an acquisition, the flex operator gets a large financial payout for years of hard work and the prestige of being linked with what is often a massive corporation acquiring them. As quoted in Reuters at the time of the deal, Anthony Myers, Blackstone's head of European real estate said, "the traditional workspace is being redefined in gateway cities across the globe, as evolving business practices increase demand for flexible office space." TOG clients include AOL, Dropbox, Pinterest, British Gas and Santander.

Knotel, which designed, built and ran custom headquarters for businesses around the world, acquired Paris' largest flex space provider, Deskeo, in 2019, a few months after acquiring Ahoy!Berlin, a large operator in Germany. Earlier this year, they were actually purchased by real estate brokerage Newmark. Also just this year, CBRE announced a $200 million investment in U.S.-based Industrious, who also has locations in London and Manchester. Industrious then acquired Canada-based Breather, an on-demand workspace, conferencing and meetings platform. So, while it remains a lesser-used option, acquisitions are a powerful way of cementing a foothold in a growing industry. The downsides are primarily the capital and the length of time it would take to fully complete such a deal.

IMAGE: A SPACEMADE PROPERTY

3. DIY

Landlords getting involved in flex space on their own, the do-it-yourself model, is gaining traction as of late.

Just a few examples from recent years: Landsec launched a flexible office brand called Myo in 2019. British Land launched Storey in 2017. The Crown Estate created their own branded coworking and flex office space in the West End of London in 2019. Northwood Regional UK created Pure Offices for flexible serviced offices and a joint venture with UK Land Estates to provide industrial space in northeast England, creating a very diverse nationwide portfolio.

For landlords, this option is a great way to get into the industry and profit directly without a flex space operator entering their building. They still need the expertise and advising to successfully launch into this sector, especially in regard to workspace technology, offerings, branding and day-to-day operations. The risk is entering a world quite different from their traditional real estate ventures in the hopes of establishing greater return, especially now as we re-enter the workplace without standard 40-hour work weeks in a centralised office.

4. LEASE MODEL

The lease model is the more historic or commonly thought of model for operators who don't own the asset.

A flex operation could get a nice location in a great building through a traditional lease. The operator assumes risk but creates an independent community of coworkers who network and build off each other. Operators often seek out spaces that can host events, or with outdoor or patio options. Some operators seek to establish their brand in thriving urban communities where there is consistent demand for space, albeit among many competitors. Others seek to lease space in underserved areas where there is potential to build a brand new community for members who don't want to head into crowded city centers.

While property owners traditionally would lean toward a straightforward lease term to flex operators, many now recognise the value of joint ventures for balancing risk and return for both parties.

The downside of this model is that you are buying long (multi-year leases) and selling short (flexible memberships). Margins are going to be tight. Operators need multiple revenue streams to compensate for high turnover rates. Beyond that, financial institutions typically don't like to lend into this model because of the high risk. Regus, a brand with thousands of locations worldwide which operate on the lease model, can get around the lender hurdles, naturally, but smaller operators may find it a challenge.

"I don't think people will take out leases anymore. I think they may renew leases if they've already got a property and it's running well," said Harley. "But I think it would be less likely than a management contract," he added.

> "The resilience of the flex workspace sector has not escaped the notice of landlords currently leasing to operators, while traditional office and ailing retail landlords are looking to capitalize on strong post-pandemic prospects of space as a service.""

DOUGLAS GREEN, MANAGING DIRECTOR

CONCLUSION

With many options to explore, there are risks and rewards to each of these models for those seeking to get into the flex space industry. All of them can be successful if done right with the proper expertise behind you. Property managers are exploring the flex space industry more often than ever, due to the increasing demand across the UK. Introducing flexible space into a portfolio improves brand value and attracts a more diverse tenant base. There are also benefits to the building or to an office space in particular, such as adding a modern renovation to an older unit, aesthetically, but also providing an increase on revenue per square foot. Establishing flexible components within a traditional space will also help to draw employees back into the office as flex provides more options for distancing, privacy and hybrid work.

The next step after properly establishing how you will operate a flex space is to select property management software for your day-to-day operations and IT infrastructure. One of the biggest keys to a successful workspace is streamlining operations and financials to ease the burden on staff and provide a better member experience. In the next installment of this ebook series, we will look at how to ensure you are operationally efficient and how IT management and connectivity is key to growing and scaling your business.

Thanks for reading!

We hope this smart guide helps you select our space management software that will really work for you.

WANT TO LEARN MORE?

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