

# EVOLUTION IS KEY IN FLEX SPACE MARKET

Last month, *Property Week* in association with Yardi hosted a digital think tank to discuss the flexible workspace market with the title: ‘Commercial landlords need to rethink their way of working or become obsolete’. Key issues discussed by the panel of experts from across the industry were how landlords can make the transition into this space, which business models will work best in the post-pandemic world, and what role technology will play in offering ease of operation for landlords and a better service for tenants

**Alex Duckett** managing director, Gilbanks

**Douglas Green** managing director, G8 Consult

**Ciara Keeling** CEO, Bruntwood Works

**Nathan Lonsdale** founding partner, Spacelab and Sense

**Paul Rowe** senior account executive, Yardi

**Simon Creasey** contributing editor/features, *Property Week* (chair)



**Simon Creasey:** Last October, the volume of ‘grey space’ – office space no longer needed by occupiers – available in London hit 5m sq ft and this number is expected to grow this year. This surplus space is a major problem for landlords. They need to find tenants for it, but the number of large corporates with sizeable office requirements is dwindling as we move to a new normal where remote working is more prevalent. As a result, a growing number of landlords are exploring becoming flex workspace operators. But how can they smoothly make the transition from letting tens of thousands of square feet to single businesses to potentially letting single desks or offering day passes to space users?

**Ciara Keeling:** We still have customers who want longer-term leases, but for a long time we’ve been on this trajectory of people requesting more flexibility and we’ve adopted a lot of our products to do that. I think because we’re an owner [of buildings], it’s been a bit easier for us to do that. We have a construction arm and we have a design team in house, so as customers evolve and move, we can move quite quickly and be a bit more nimble. As a result, it probably hasn’t been as large of a shock to us as perhaps it could have been.

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**Alex Duckett**

**Douglas Green:** Bruntwood has been ahead of the curve and was one of the initial movers in terms of understanding the need for flex. I think we all understand it’s being driven by the market and by occupiers. Interestingly, CBRE did a survey recently of 10,000 global employees from across 32 companies and the key statistic that stood out for me was 82% of people surveyed will favour buildings in the future that offer flexible office space and shared meeting options. I think that’s the key driver and it really is an adapt or die situation.

I think the property industry has been slow to change, but if you look at the way in which people like Bruntwood and the other big propcos such as British Land, Landsec and even some of the more regional ones are now bringing in a flexible product, or working with operators, you can see that they are adapting.

**Alex Duckett:** What I would add to that is I think it’s important to recognise there is a different skill set to being a landlord and being an operator. So the question is, has the

landlord got the appetite to be an operator and has it got the resource to do that? Historically, if you’re signing tenants to long leases you can have two asset managers looking after 20 buildings and maybe 150 tenants, but if you’re going down to managing six-monthly rolling contracts it’s a very, very different skill set.

It was best explained to me as being a bit like owning a restaurant and running a restaurant. You don’t know how to run a restaurant just because you eat in them a lot and the restaurants that regularly fail are set up by people who made that mistake. I think it’s really important that landlords recognise that and I suppose that’s the conundrum. Do they gear up to be an operator or do they stick to their knitting and work on how to derive value from the actual real estate?

**SC:** Will the social distancing protocols that have been implemented in offices as a result of the pandemic have a significant impact on office

**densities? And as a result of this potential reduction of densities, does the existing model used by some flexible workspace operators still stack up financially?**

**AD:** We typically recommend a density of about one person per 50 sq ft, but there are operators offering space at one person per 30 sq ft – I even saw one yesterday that was offering 26 sq ft per person and that barely fits a desk and a chair. So if an operator’s model is based on high density suites to drive down desk rates, then they are definitely going to have some financial challenges.

**Nathan Lonsdale:** I think the real challenge anyone that charges for space has probably got is that most people are getting more tuned into sitting down in any space and more than likely that space – ie: cafes and community spaces – is free. We’ve been talking for quite some time about how the day

of the desk is going. It’s something that stretches back to the production age of how we used to work and we just don’t work like that anymore.

**DG:** I think moving forward, most [flexible workspace] operators will not be taking leases on buildings, so they won’t be under that rental pressure. It will be a shared pressure of collaboration with a building owner to deliver net returns and net profits, so it’s a different discussion that they’re having. That to me is the way forward. From here on there will be

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very little leasing, certainly in this next property cycle, and we will see a much more collaborative approach.

**SC:** What role can technology play in helping traditional landlords manage the transition towards becoming flexible workspace operators?

**Paul Rowe:** The choices you make when selecting flexible workspace technology can give you a competitive advantage. If you’re a multi-site operator, your members should be able to connect to your wi-fi seamlessly no matter which site they’re working from that day. This is a huge selling point that traditional landlords can learn from.

In terms of landlords taking on flexible workspace themselves, they’re going to want solutions that offer a one-click approach that simplify their processes. Offering day passes and monthly contracts at the same time are things that they are not experienced in, so

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having the tech available to manage that is absolutely key.

**NL:** A lot of the tech that we see coming to the fore is actually a tech-led product, not a knowledge-led product, and that’s why I think we see this space awash with different technologies – some that work, some that don’t – and it’s really hard to navigate your way through. The reason we got into the tech world was because of some of the problems that we were starting to find and the biggest problem





was that the majority of tenants generally have too much space, but they don't know it.

So we created an insight-driven platform called Sense that's very much about how you give the occupier and landlord a tool that allows them to constantly understand how space is being used. We have a little mantra: if you don't measure you can't manage.

**SC: What role can apps play in terms of customer relationship management?**

**AD:** The benefit of an app is it's very scalable and it's an easy to control community, but we're in the fortunate position of being quite tiny and we don't even let people do online bookings for things like meeting rooms, because we feel we

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**Ciara Keeling**

can offer a better service by talking to them and can extract more from them in that way to give them a better user experience.

**CK:** We have an app, but equally we have customer engagement managers and for me, tech will only ever be additive. It will never replace human interaction and never, ever should.

**PR:** If a custom branded app is used in the right way then you can create community interaction. App technology will continue to evolve, as will the way we work.

**SC: With the amount of grey space flooding back onto the market and many landlords increasingly starting to explore offering their own flex solutions, what does the future outlook for the flex workspace market look like?**

**PR:** We're creatures of habit at the end of the day and I think we will want to be in a workplace, or want to be in an office, so people will come back to those empty streets that you see at the moment in major cities. There are statistics that flexible workspace will probably

account for 30% of all workspace in 10 to 15 years' time, according to research by JLL. Covid will drive it forward and we will see more and more spaces provide flexible workspaces. So I think it's an exciting time for the market.

**NL:** I think the important thing we probably need to do going forward is to track what's happening now. Track how people return, track what happens and then make the decisions as we go forward. We're certainly finding a lot of decisions being made are quite reactive, quite operational and I think we just need to take a take a breath, look to the future and just manage and track it along the way.

**DG:** I think the one thing that we all agree on is that nobody knows at the moment what will happen. Pricing is going to be a big issue because never has there been such availability

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and vacancy across the operators' networks and it is a given that brokers and operators will be selling on price, which will add to the pain of those operators that are stuck on a leasehold model. Pricing is the one thing I'm nervous about and I don't think we are going to get back to pre-Covid pricing for a number of years.

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