

A TALE OF 19 MARKETS



CAL LEE, GLOBAL HEAD OF WORKTHERE (SAVILLS FLEXIBLE OFFICE SPECIALIST), AND **JAROSŁAW PILCH**, HEAD OF WORKTHERE IN POLAND, WRITE ABOUT THE PROSPECTS OF THE FLEXIBLE OFFICE SPACE MARKET GLOBALLY AND IN WARSAW.

Demand for flexible office space (flex) is recovering driven by corporates looking to adapt to the new world of work and individuals seeking refuge outside of working from home. With this, demand for flex is expected to remain strong, especially in an environment of ongoing structural changes and cyclical uncertainties.

DRIVING FACTORS

In 2018, flexible office take-up by providers accounted on average for about 8 percent of total office absorption across the 19 global markets that Savills monitors. The pandemic came to disrupt this trend, as people's homes became their workplaces for an extended period of time. In 2021 flexible operators began taking new spaces again, with flex office take-up accounting for 5 percent of the total last year.

Since the end of 2021, the negative trend has been gradually reversing as operators begin securing new sites for expansion. Demand for flex

is now fueled by a wide range of different businesses, both in terms of sector and size.

OCCUPIERS AND LANDLORDS DRIVE EXPECTATIONS

This resurgence of demand is evident in the increased occupancy levels, which have, on average, rebounded to the levels seen before the pandemic. According to the latest Flexmark survey by Workthere, this has been reflected both in the private office and in shared space occupancy, which increased from 68.1 percent to 81.2 percent and 55.7 percent to 69 percent respectively.

Demand for space that meets emerging environmental criteria is another key driver for flex, as many cities, particularly in Europe, have made large commitments to reducing energy emissions. Engineering, procurement and construction (EPC) deadlines are approaching in markets such as the Netherlands and the UK. Tenants who do not comply with the regulatory criteria,

and cannot find high-quality accommodation may opt for flexible office space.

A common misconception is that this type of office structure is just for technology occupiers. A significant increase in demand for space from legal, financial and pharmaceutical organizations is expected as they are following in the footsteps of their tech counterparts. The average size of companies is also rising with corporates and large scale-ups accounting for a bigger proportion of flex. According to Flexmark, in the first half of 2022, they accounted for 42 percent of global flexible office occupiers, compared with 37 percent last year.

Landlords are also acknowledging the value of flexibility. Given the capital that is required to set up a flexible office, many providers look to partner with landlords to reduce their risk, while landlords can achieve rental income at a premium to

the market rate if spaces are successful. Besides, several landlords have also converted their space into serviced offices offered on shorter/flexible lease terms as a response to rising occupier demand.

GLOBAL GROWTH MARKETS

As part of its Impacts research, Savills selected 19 major global office markets and analyzed key factors that are likely to drive flex demand in the coming years. We focused on factors that determine how innovative and attractive to the talent they are, such as VC investment, education and attitude towards flexible working. We also compared their office market characteristics such as demand and supply dynamics, traditional lease lengths and future service sector growth projections. Whilst we expect the trend to be positive across the cities of our index, the top cities are the ones that are likely to



Savills-affiliated Workthere expects that demand for flexible office space in Warsaw will grow as companies scale up their operations in Poland.

EXPERT FLEXIBLE OFFICES

witness the highest demand for flex in the coming years.

At the top of the index, we have London (1st), Mumbai (2nd), Amsterdam (3rd) New York (4th), and Paris (5th).

London, New York and Paris are cities where the concept of flexible offices had emerged and expanded in the years following the global financial crisis and the rise of the gig economy. The economies of these cities are driven by innovation, and they all have an established business culture geared towards flexibility. In addition, they are among the most expensive markets in the world in terms of office costs, with London and the US markets also characterized by long leases (10 years on average).

Mumbai, in second place, has a fast-growing service sector and an active startup scene. Local operators are particularly active, and companies tend to commit to flexible office space for long as they are accustomed to long leases.

Amsterdam ranks third. Despite its small size, it has a large proportion of office-based employment, flexible business culture and relatively high levels of VC investment. The share of office take-up by flex operators last year was the third highest in our index at 10 percent versus 9 percent pre-pandemic, and activity levels have been sustained also during the first half of 2022.

In terms of Asian cities beyond Mumbai, Shanghai ranks 7th, followed by Ho Chi Min (8th) and Tokyo (12th). Ho Chi Min and Tokyo saw an increase in the share of flexible office take-up last year vs 2018, reflecting the growth dynamics of the sector in these cities.

SMALLER MARKETS

Finally, Frankfurt, Warsaw, and Barcelona rank 9th, 10th, and 11th respectively. We expect demand for flex to rise in these smaller European markets for several reasons. Frankfurt scores

highly in office-based employment driven by the financial sector, innovation and flexible work culture. Warsaw, on the other hand, is a market that due to its competitive labor and property costs and skilled workforce has attracted major international companies. It is becoming a regional hub of innovation with VC investment almost tripling between 2020 and 2021. Barcelona is also acknowledged as an innovative city; VC investment has been steadily rising over the past five years.

There has been a sharp increase in interest in flexible office spaces in Warsaw. Occupancy rates fluctuate between 80 percent and 90 percent, and more and more people are prepared to accept such a rental formula. In 2022, there was a record number of such transactions, a significant proportion of which were agreements with large IT companies, which choose to lease such spaces for around 50-90 workstations.

The short-term leasing formula gives them the necessary flexibility in a difficult market, where the ability to meet the reduction or increase in size gives them a significant competitive edge.

There is a clear flight to quality in many global markets from businesses seeking flexible space. The result is that the supply of good quality flex space has reduced significantly, with the best-placed operators already at over 90 percent occupancy. Many operators search for new space. However, not all landlords are yet open to management agreements, and many are beginning to explore the self-delivery route. Nonetheless, the Savills index points to the markets where there is the most opportunity for further growth and it is no surprise to see the large metropolis of London, New York and Paris in the top 5. However, it is positive to see growing markets such as Mumbai, Amsterdam and Warsaw all make the list.

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