

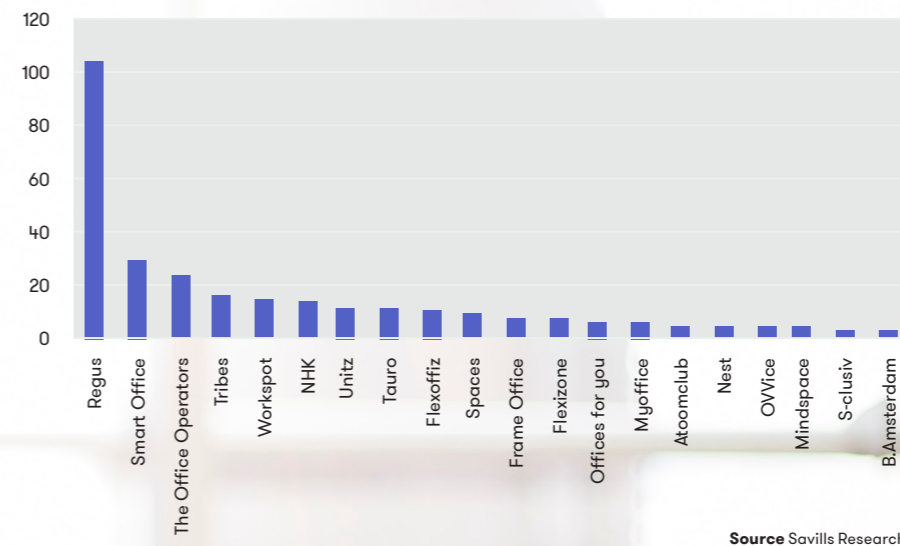


A flight to flexibility

Flexible Office Space

Are growth projections realistic or is the rise of flexible office space just another trend?

Graph Number of locations per operator



Introduction

Service, branding and adaptability are gaining ground across all real estate sectors. As a result, the ability to adapt and customise as rapidly as possible to changing demands is becoming increasingly important. A good example of a product that meets today's requirements is flexible office space. The national and international markets for this type of real estate have seen remarkable growth, with more and more office operators and a surge in take-up by flex operators (+242%) in the Netherlands over the last five years.

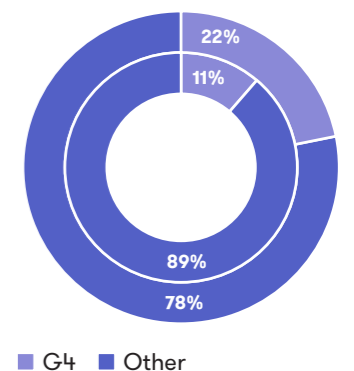
These operators each offer their own type of flexible product, ranging from private offices to the provision of desks within co-working spaces.

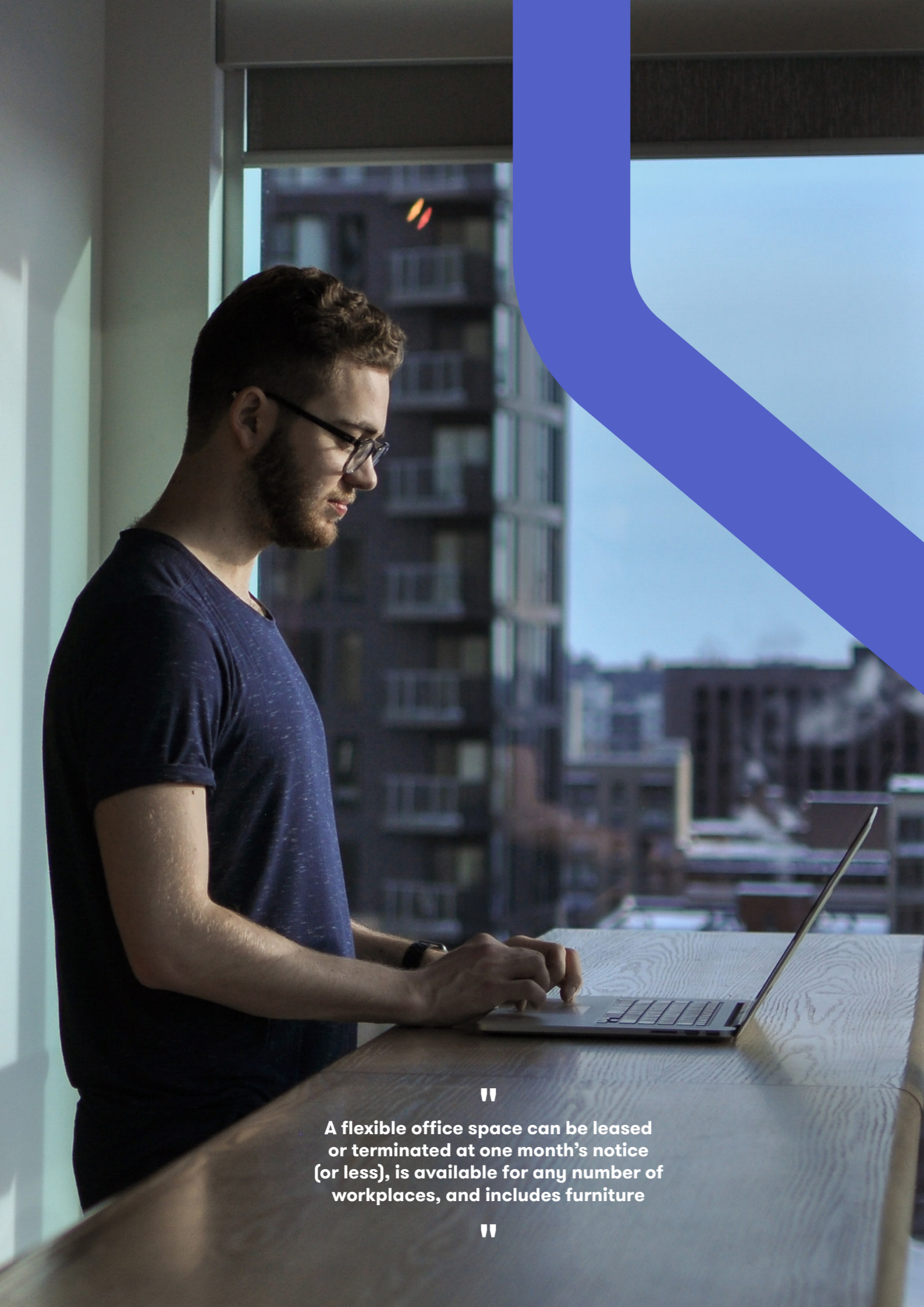
The continuing professionalisation of this type of product, the increase in brands and a broader geographical spread have made flexible offices an increasingly more mainstream alternative to conventional office space.

The professionalisation of the flexible office market is reflected in its growing share of total office take-up. In 2018, this share was 9.3% in Amsterdam, up from 7.6% just one year earlier. International hotspots, such as Brussels, London and Stockholm, seem to be further ahead than the Dutch capital, with shares of over 20% already.

The flexible office market has shown growth in previous decades, but also periods of contraction. As such, the question is whether its current growth will be sustained. Are growth projections realistic, or is the trend towards flexible offices just another blip?

Graph Take-up flex operators (2014 inside, 2018 outside)





“
A flexible office space can be leased or terminated at one month’s notice (or less), is available for any number of workplaces, and includes furniture
”

“
The option of working at different locations has some similarities with the fitness sector: one subscription for multiple plug-in locations
”

What is flexible office space?

The term ‘flexible office’ is a blanket term that includes a range of office types.

Flexible office space varies from products that resemble conventional private office space to subscriptions for the use of desks within shared facilities, for example, co-working, serviced office or shared office space.

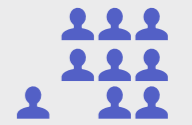
Some general characteristics are:



Flexibility
Flexible leases, which can be terminated at one month’s notice (or less)



Furnished
Furniture is part of the tenancy agreement



Occupancy
The minimum number of rentable workstations starts at one

Other characteristics can include:



Facilities
Shared services such as a reception, catering facilities and meeting rooms



Unique
A branded design



Convenience
The option of using multiple office locations with a single subscription

Fluctuations in the flexible office market

The questions set out above can be answered in part with an historic analysis of market developments. The emergence of flexible offices began as early as the 1960s, although the concept was not known by that name. Concepts from that period had many similarities with today's flex products. Since then, the flexible office market has seen significant periods of growth, but these were always followed by periods of decline. One recurring feature was that the flex market grew during economic downturns but fell back in periods of economic growth. As such, the market seemed to be highly cyclical. However, this trend cannot be seen since the last financial crisis. Despite the 19 consecutive quarters of economic growth in the Netherlands, the popularity of flexible offices has continued to grow at an unprecedented pace.

The flex market throughout the years

First pioneers (1962-1990)

The development of the flex market can be divided into four periods. Between 1962 and 1990, more and more parties with flex characteristics entered the market. These were the precursors of today's flex operators. OmniOffices (1962) and Fegen Suites (1966) began in the US, Servcorp (1978) in Sydney and Regus (1989) in Brussels. The rise of the first operators was driven by the increasing availability of technologies such as computers, printers and voicemail (1980-1985). The choice for flexible offices was largely cost-driven: it was cheaper to share the cost of expensive new technologies than to purchase them outright, and the oil crises of 1973 and 1979 led to much greater cost-awareness. But overall, interest in flexible offices in the Netherlands remained very limited until the early 1990s.

Technological developments drive expansion (1990-2000)

This shift got underway in 1992, when Regus became the first operator to enter the Dutch market. Tauro quickly followed in 1994, followed by Color Business Center in 2001. At the same



time, more and more technological developments were entering the office environment. The internet (1991) and Wi-Fi (1999) provided new ways of working and the "paperless office" began to emerge. In response, the term "co-working" was introduced in the United States in 1999. Meanwhile, various operators opened offices in new countries and cities. In the Netherlands, these concepts spread to smaller cities and Regus became the undisputed market leader worldwide after the acquisition of Stratis Business Centers (2001).

Bankruptcies and takeovers (2000-2007)

The drive for expansion in the 1990s left its mark. Unlike the income that they received from users, operating costs were fixed and not cyclical. The dotcom bubble (1999-2001), for example, resulted in a downturn in overall demand for office space,

resulting in hard times for Regus in the US. In January 2003, Regus ran into serious difficulties in the US ("Chapter 11").

The financial crisis drives further expansion (2007-2015)

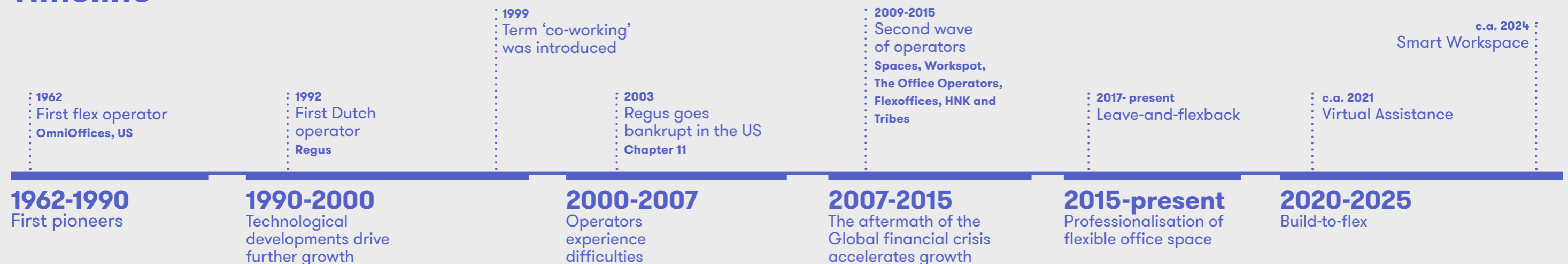
The financial crisis (2007-2009) initially led to several difficult years for the office market more generally, including the flex market. However, the end of the crisis proved a significant boost to the flexible office market. First, just as in the years following the oil crises and the dotcom bubble, the crisis led to increased cost-awareness among companies, which sought to cut their staff and accommodation costs. Staff cuts led to reduced demand for office space but also to an increase in the number of subcontractors, freelancers, small businesses and start-ups. Co-working spaces provided an

alternative to home-working, with shared services, a climate of innovation and the ability to adapt quickly to changing demands.

In parallel to this, real estate owners were facing sky-high vacancy rates. There was not enough demand in the market for large office spaces with long-term scope. An alternative solution was needed to generate cash flow: flexible offices. Increasing numbers of real estate owners began acting as operators (owner as operator).

The number of traditional flex operators also grew. Spaces (2009), Workspot (2010), The Office Operators (2010), Flexoffices (2012), HNK (2012) and Tribes (2015) all entered the market, providing users with a much wider range to choose from, both qualitatively (in terms of concept) and quantitatively (in terms of location choices).

Timeline



The shift to flexibility drives continued growth in the flexible office market

The upward trend is striking, but not hard to explain.

One important driver is the wider "shift to flexibility". People now tend to stay with the same company for substantially shorter periods and are increasingly flexible in their career expectations. This is resulting in more flexible employment contracts, more home working, more freelancers and, therefore, more transactions involving smaller office spaces.

The people that are driving this change are the millennials, a generation which spends its time very differently from previous generations and for whom sitting at the same desk every day is by no means taken for granted. The ability to decide personally how to work at the office (a quiet room or a meeting room) or outside the office (in another city or while away from home) is very attractive to younger people. This is leading to a rising demand for flexible and more varied office spaces.

2024

By 2024, millennials will constitute 75% of the active workforce

This growing group of office users wants a different type of office. For companies, this is both an opportunity and a challenge. When companies are seeking to attract new talent, the location and type of office space they offer can make all the difference. More and more amenities are becoming part of the office package (pool table, fitness facilities, roof top bar, etc.). Extras, such as networking events, training and

brainstorming sessions, are also part of the office package and, of course, the ability to offer extra services is even greater when these are shared with other tenants. This is causing a shift in the user market - from offering as many square metres as possible, to offering workplaces with a unique branding. Operators are responding by launching different brands. A good example of the "multi branding" concept is IWG (the parent company of Regus). With Regus, Spaces, HQ, Signature and No18, they currently manage five different office concepts. This is widening the range of concepts on the market, similar to the hotel sector: from budget to five star. Professionalisation is making the flex product an attractive alternative for an even larger group.

In the war for talent, added amenities are becoming an important differentiating factor. Options for working from home, office design, public transport connections and extra services are all part of creating an attractive package.

The increasing flexibility of society is being reinforced by technological innovations. Technological developments are nothing new, but the speed of these new developments is increasing exponentially. Also, solutions are becoming more affordable and the options for working remotely are increasing. In the past, this was certainly not the case. This is creating opportunities for flex operators to facilitate the dynamics of changing locations, and to offer the technologies to smaller users in an affordable way (economies of scale). At larger companies (corporates), the drive for flexibility is

already leading to changes in the use of office space. Corporates are moving towards a flex and core approach, whereby an element of their real estate portfolio is on a secure long term lease and a portion is in flexible office space. In some instances, companies are creating their own flexible office space but increasingly they are looking to outsource their provision of flexible space. A trend we call: 'leave-and-flexback'.

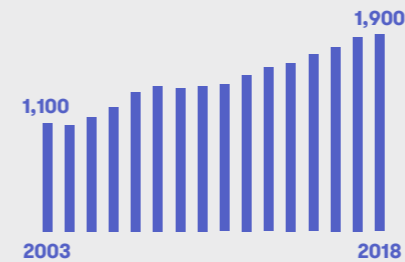
Changing accounting regulations are further stimulating growth in the flexible office market

At the start of 2019, the IFRS 16 (International Reporting Standard) replaced the previous standard, IAS 17 (International Accounting Standard). Essentially, under the new IFRS 16, anything that looks or behaves like a lease, or that contains an 'embedded' lease, will be included in the new regulations. For most real estate, the impact will be substantial, with almost every lease being brought onto the balance sheet as an asset (right to use) and a liability (obligation to pay). However, leases shorter than one year and leases associated with assets of a lower value are excluded. This can have a negative impact on companies' solvability ratio. Leases with flexible offices are usually seen as service agreements, however, and are not included on the user's balance sheet. Keeping leases off the balance sheet now creates an additional incentive for choosing flexible office space.

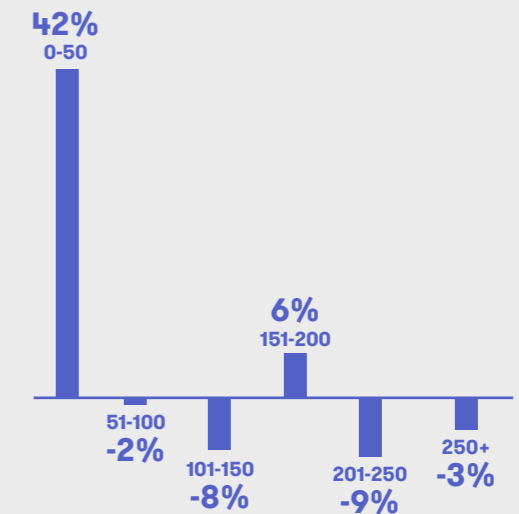
Due to the introduction of IFRS 16, we are seeing increasing interest among occupiers that would normally tend to be more loyal to their own office space. We are seeing a growing number of businesses looking to increase their exposure to flexible office space and reduce some of their lease liability

In the war for talent, extra services are becoming an important differentiating factor. Options for working from home, office design, public transport connections and extra amenities are all part of creating an attractive package

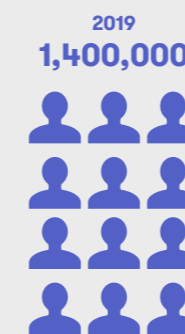
Growth amount of flexible employment contracts



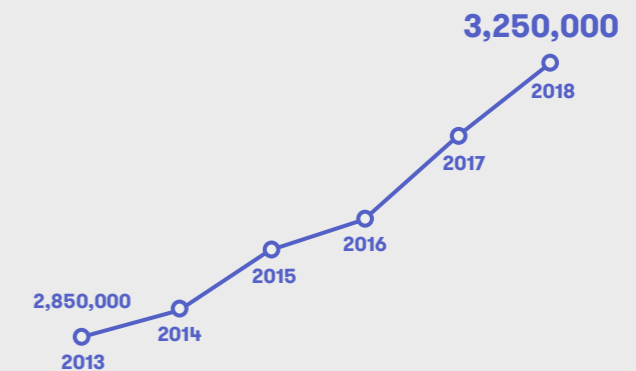
Growth take-up of small office space (<50m²) 2015-2018



Growth self-employment



Growth number of home-workers





Growth potential in the flexible office market

The trend towards flexibility is expected to result in further growth

Last year, the share of flexible office space in Amsterdam rose to 9.3% of the total take-up. In 2017, this stood at just 7.6%, with Amsterdam following the lead of other European hotspots. The frontrunners in this area are Brussels, London's West End and Stockholm, all of which already have a share above 20%.

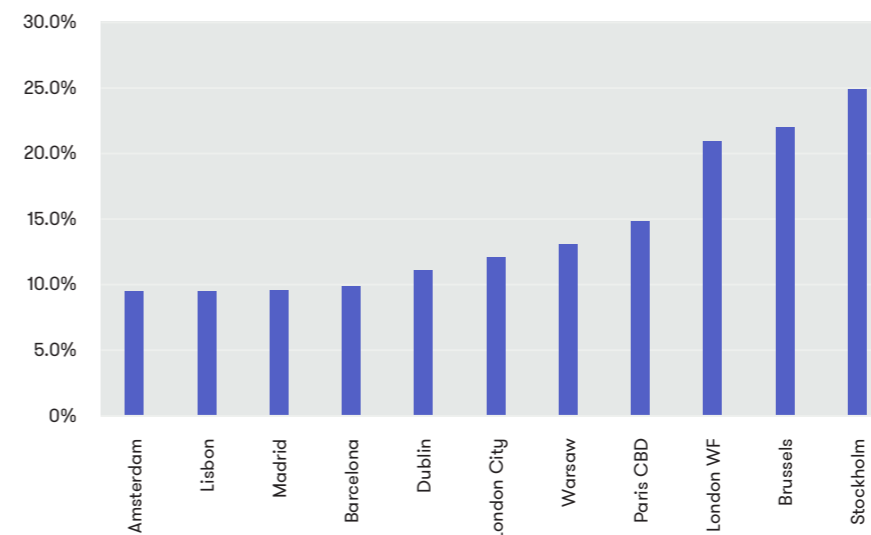
The Amsterdam share is expected to rise above 10% in 2019, and to 25% in the longer term. The most important

factor is that Amsterdam is trailing the main European hotspots, but it has the same structure and characteristics. Just like the frontrunner cities, Amsterdam has strong growth (demographic and employment) and strong pulling power for millennials. The city's low vacancy rate and good accessibility will also have a positive effect.

The growth of flex is impacting on the price of office space, with technological

developments and a tighter user market expected to drive prices upwards. Improved options to customise the office cost money (climate, lighting, desk height etc.). However, companies' overall occupation costs will remain stable or even decrease due to the more efficient use of space and less physical presence. Growing demand close to hotspots will result in a further split between primary and secondary office real estate locations.

Graph Flexible office take-up as percentage of total take-up (year)



In Stockholm, Brussels and London's West End the share of flexible office take-up is already above 20%

Share of flexible office take-up is expected to rise to 25%



Low vacancy rate, attractiveness for talent and good mobility are driving growth expectations for flexible office space take-up in Amsterdam up to 25%

Savills Outlook

The flight to flexibility is clear.

For the first time, the market has continued to grow during a period of economic growth. The flex market will continue to grow in the years to come, to account for an even more substantial share of the office market. In Amsterdam, the share of flexible office take-up will, for the first time, exceed 10% this year, and is expected to grow further in the longer term to reach 25%.

The rise of flex will further increase pressure on primary office real estate. Existing flex concepts have mainly originated from existing stock, but less and less suitable stock is available at primary locations. Savills therefore expects that buildings will be built specifically for flex purposes in the coming years: "build-to-flex". This type of construction will also result in more opportunities to change usage in periods of surplus stock.

Key findings

Flexibility
The flexible office market is clearly undergoing a flight to flexibility: upward trend in a period of economic growth.

Take-up
Flexible office take-up in Amsterdam will account for over 10% in 2019 and will grow further towards 25% in the longer term.

Trends
Savills expects trends such as leave-and-flexback, multi branding and build-to-flex to professionalise the flex product further.



Expansion opportunities outside the G4



Diversification diversity in product (multi branding)



Shortage suitable stock



Occupier interest leave-and-flexback



New developments build-to-flex (2020)

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Workthere

Workthere is a business by Savills focused solely on helping businesses find flexible office space, whether that's a serviced office, co-working or shared space.



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