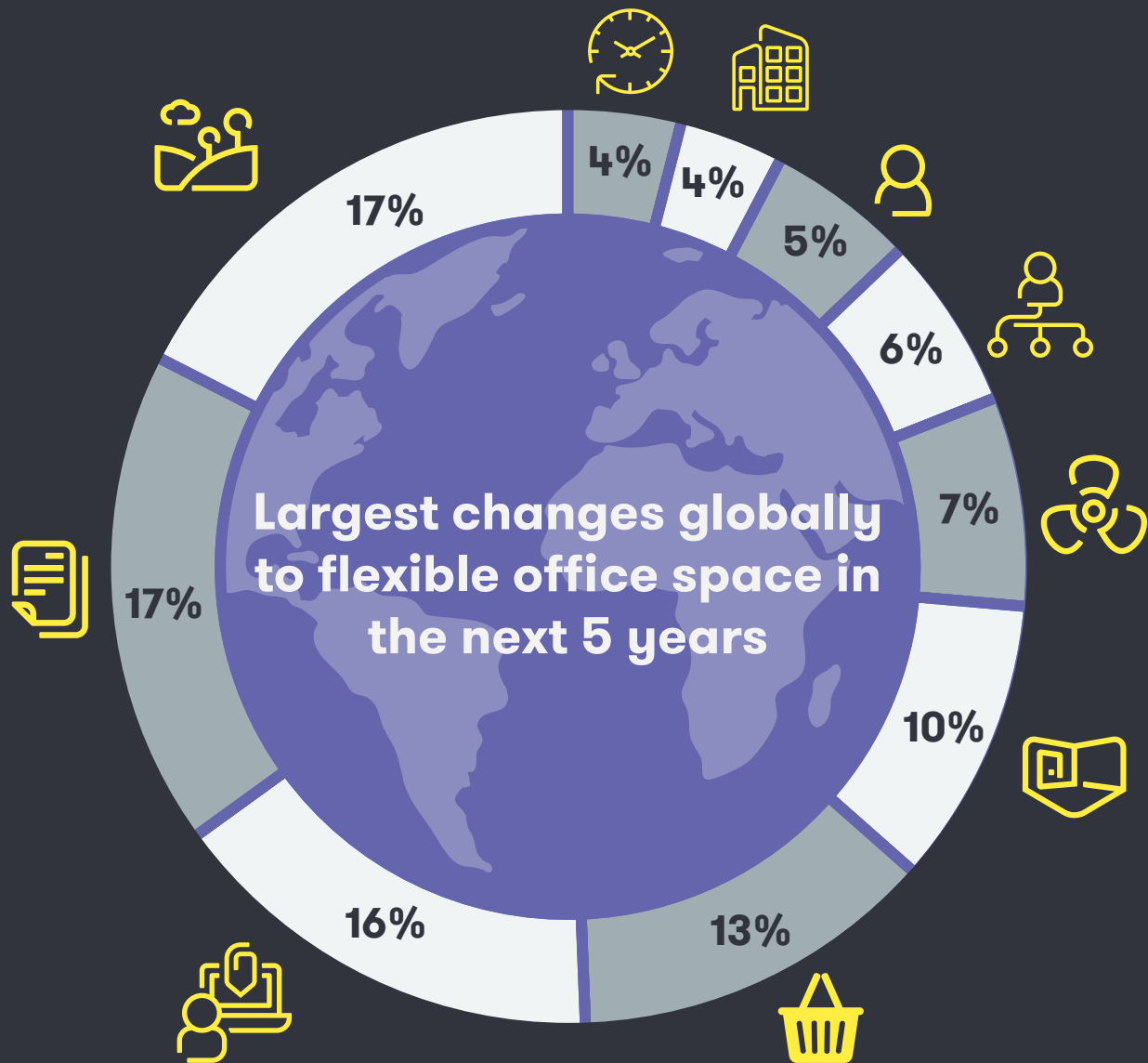





The Workthere Flexmark 2.0


Our Annual Global Flexible Office Benchmark




 Live space availability from operator to broker

 Direct Landlords products

 Zero-Carbon spaces


 Repurposing of retail assets to provide flexible offices


 Management Agreement lease structures

 Timeshare office models

 White label landlord product

 Growth in regional hubs

 Online booking of space through a platform

 Growth in suburban hubs



Executive Summary

Profitability:

- 82% of flexible office providers are profitable at an operating profit margin level, this is up from 79% in our last survey. With providers that have recorded profits over 26% increasing to 16% of respondents in this years survey.
- Private office and dedicated desk occupancy levels dropped year-on-year from 81% to 68% and 65% to 56% respectively.
- Global desk prices have dropped 6% globally year-on-year.
- Dedicated desks and hotdesks have captured a larger share of revenue. Hot desks have increased from 7% to 10% and dedicated desks from 9% to 16%.

Use of space:

- The average size of space taken by flexible office providers is 2,294 sqm, and over a quarter of space is between 1,500 and 2,500 sqm.
- The median number of desks per workspace globally is 209 desks, and the median indoor space per desk is 6.5 sqm per desk including communal areas.
- Private office space accounts for 50% of flexible office space allocation globally.
- Asia has the largest allocation of space to outdoor environments with 8% of flexible office space being used for outdoor areas.



Glandore, Dublin

Member profile:

- Flexible office space is occupied by a varied array of companies. Small start-ups (between 2-10 employees) still account for the most space representing 27% of occupiers globally.
- Over the last 12 months we have seen a rise in the number of corporates (100+ employees) and scale-ups (21-100 employees) occupying global flexible office with both combining to account for 37% of occupiers globally.
- The average lifespan of members has decreased globally from 17.5 months in 2020 to 12 months over the past year.
- Life span is widely varied by region, the UK has an average member lifespan of 21 months, whilst Asia has much shorter lifespans with the average being 8.5 months.
- The largest sector occupying flexible space across all markets other than North America is business products and services (B2B).

Future of space:

- Responses for the largest trends that will impact flexible office space over the next 5 years varied widely by region.
- UK and North American providers see growth in suburban hubs being the largest change to flexible offices, followed closely by online booking of space and management agreements.
- With more developed suburban flexible office markets in European cities, the largest area of change expected from providers in Europe is growth in regional hubs.
- Asian providers expect the number of providers engaging in management agreements to be the largest change, with growth in suburban hubs and the repurposing of retail assets coming in as the 2nd largest changes.
- More operators are exploring implementing day passes in the wake of Covid-19, with 11% of global operators now considering offering day passes.

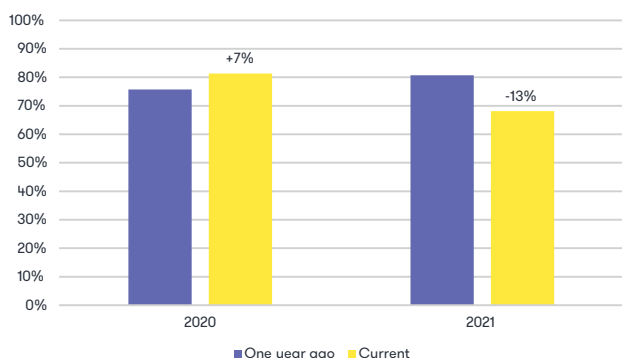


Profitability

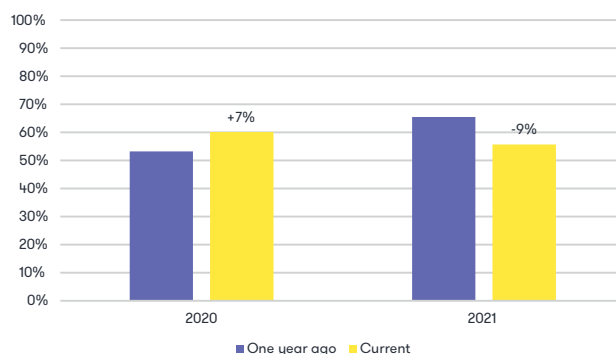
The last year, with a global pandemic, has caused a number of challenges for the flexible workspace sector and unsurprisingly the last 12 months saw the prices of private offices and occupancy levels decrease globally. Since the last Flexmark, private office prices have dropped an average 6% this year globally relative to local currency. This drop in prices has been driven by the pandemic and to some extent happened in two stages, firstly providers were forced to offer discounts to incentivise occupiers as they negotiated on the renewal of their contracts at the on-set of the pandemic, the second stage, as enquiries began growing, was driven by providers offering heavily discounted deals in an effort to attract occupiers and some form of income in the latter half of the year. In reality, the 6% decline in prices at a global level, is arguably lower than we might of expected and demonstrates the relative resilience of the sector.

The lower prices offered helped to mitigate the reduction in occupancy levels observed over the last 12 months, although the average levels of occupancy still dropped globally. Private office occupancy fell from 81% to 68% over the last 12 months, while the shared space occupancy fell from 65% to 56%. Shared office space occupancy has seen a reduced decrease compared with private offices, as there has still been demand from individuals seeking somewhere to work locally as evidenced by the increased proportion of revenue they have accounted for. The lowest drop in private occupancy over the last 12 months was seen in Asia, where the occupancy levels only dropped 5.5% year on year. However, Europe saw the lowest decrease in shared space occupancy, with a decline of 1.4% over the last 12 months.

Global Private Office Occupancy



Global Shared Office Occupancy



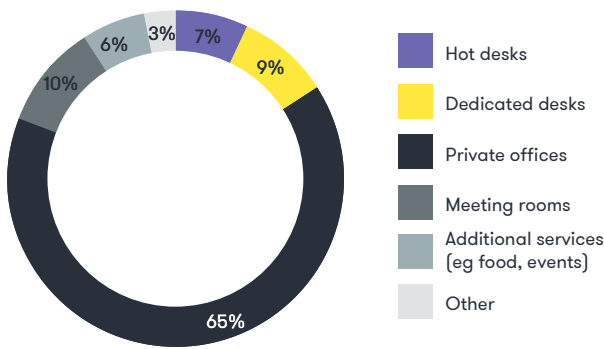
Private office desk price change YoY

+3%
Private office desk price change YoY 2020

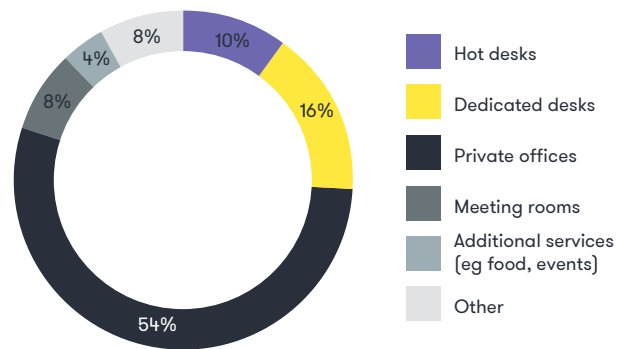


-6%
Private office desk price change YoY 2021

Flexmark 2020 revenue split for flexible offices

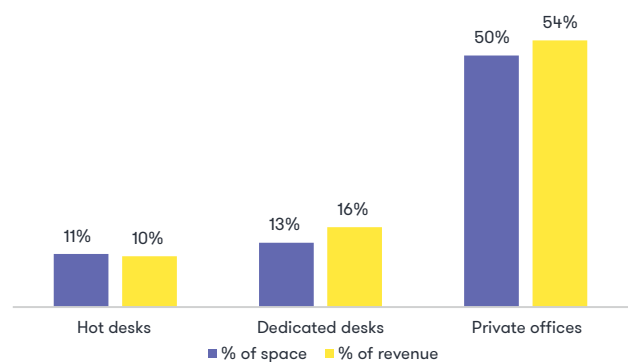


Flexmark 2021 revenue split for flexible offices



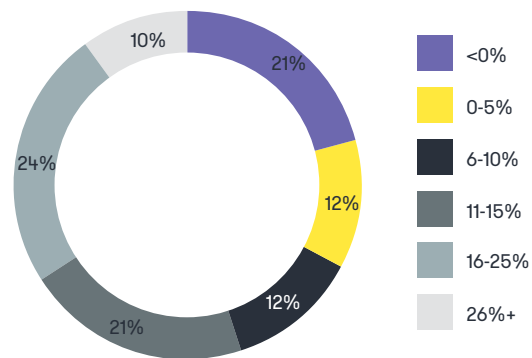
The revenue split for flexible offices has seen some shift from our inaugural Flexmark in February 2020 with hot desks and dedicated desks accounting for a greater split of revenue over the last 12 months compared with the first Flexmark. The majority of revenue is still from private offices. 54% of revenue over the last 12 months came from private office membership fees, this has decreased from 65% in our first report. Covid-19 restrictions have meant that hot desks and dedicated desks have accounted for larger amounts of revenue over the last 12 months, increasing from 7% to 10% and 9% to 16% respectively. The shift in revenue split, has meant that they are more correlated with the space allocation for these types of space, although private offices are still the most profitable component of flex space.

Space vs revenue split for flexible offices



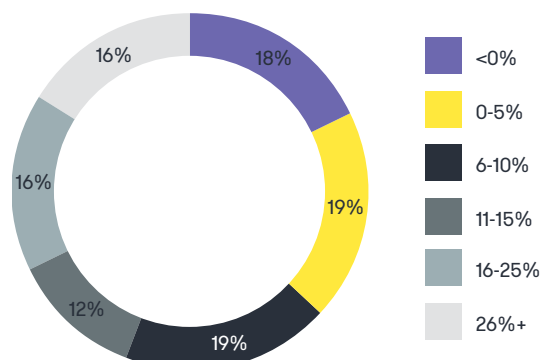
Despite the reduced private office prices and the reduction in occupancy levels, the proportion of flexible offices that are profitable on an operating level (defined as revenue minus operating costs divided by revenue) is higher than last year. Increasing from 79% to 83% across the 100 respondents to our survey, which suggests that despite the fact that occupancy has been reduced operators have managed to effectively cut their costs, such as rent, especially within Europe, the UK and North America, the increased levels of profitability will have been driven by rent holidays negotiated for providers that are leasing space. As such when there is a return to “normal” landlord behaviour we would expect the levels of profitability to decrease. Some operators also changed their model entirely moving away from a lease to a management agreement and therefore losing their higher fixed costs in more challenging times and in turn making their cashflow more profitable.

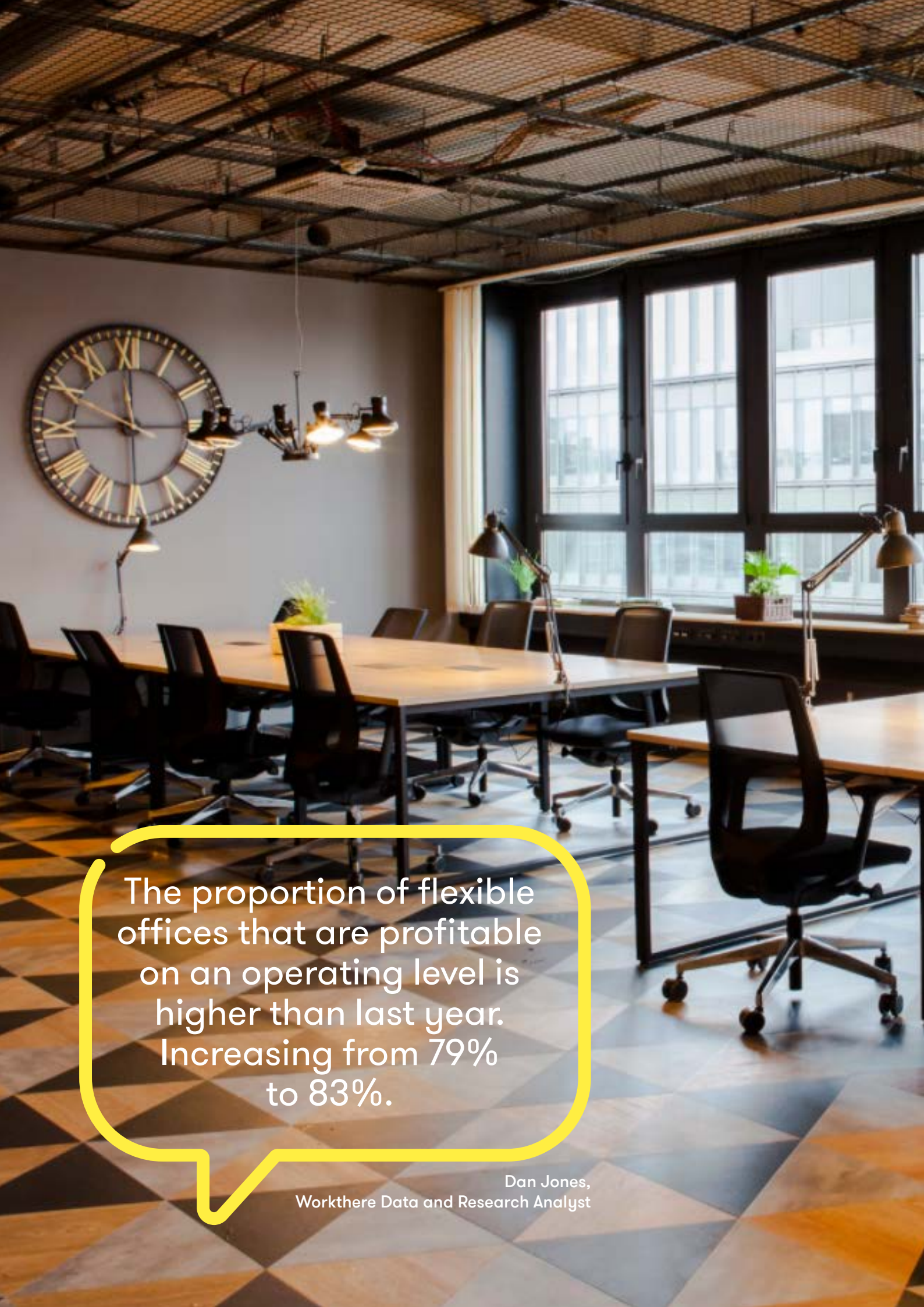
Flexmark 2020 operating profit margins of global flexible offices



The most profitable regions were Asia and Europe. Although, in Asia rental holidays were much less common, they do have more management agreements than any other region, thus helping profitability. In Asia, 71% of spaces had profit margins higher than 10%. While in Europe, 44% of spaces were profitable above the same margins. The majority of providers achieving these levels of profitability were based in Hong Kong, Thailand, and Vietnam. All of which were very effective in mitigating the impact of Covid-19, even though some lockdowns were implemented outbreaks were controlled efficiently and meant that occupancy levels recovered very quickly.

Flexmark 2021 operating profit margins of global flexible offices





The proportion of flexible offices that are profitable on an operating level is higher than last year. Increasing from 79% to 83%.

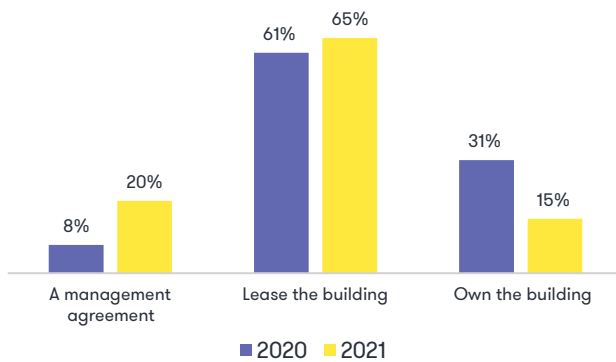
Dan Jones,
Workthere Data and Research Analyst



Leasing and ownership structure

Over the last 12 months, we have seen the number of operators negotiating under a management agreement increase significantly, from 8% last year to 20% this year. The structure of these agreements differ depending on the model. These management agreements when structured well, can provide landlords with higher returns than could be achieved from a typical rental value. It also allows operators to better manage cashflow during difficult economic conditions, as observed over the last 12 months with the onset of the pandemic. Going forward we expect management agreements to be the most popular expansion method used by a large portion of the provider market. Equally we expect more owners to enter the market direct as they seek to offer more flexible space within their wider portfolios.

How providers occupy their buildings



Over the last 12 months, management agreements increased significantly, from **8% to 20%**





The Tara Building, Dublin

Use of Space

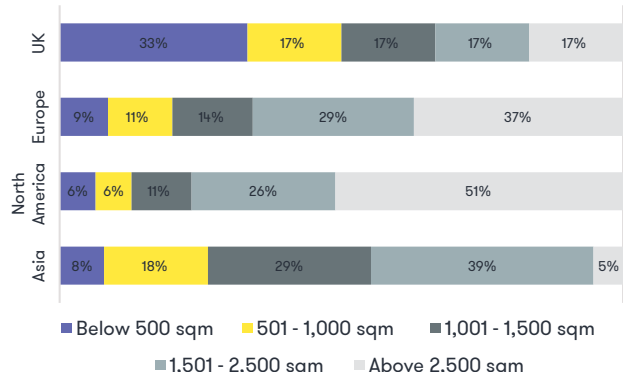
The average size of space taken by flexible office providers is 2,294 sqm, with 30% of the global space taken being between 1,501 and 2,500 sqm. Broken down regionally, the majority of providers occupying space of this size are located in Europe and Asia where they account for 29% and 39% respectively. By comparison 33% of UK providers occupy space smaller than 500 sqm, as the majority of flexible offices are concentrated in cities where it is prohibitively expensive to secure larger spaces.

Unsurprisingly, the highest concentration of spaces over 2,500 sqm are in North America. The next largest concentration of these spaces is in Europe followed by Asia. The average size of space taken by flexible providers was steadily increasing prior to Covid, given the scale of space taken by some providers over the last five years. However the pandemic has driven many providers to seek smaller spaces in more suburban or repurposed locations. As such we expect the range in size offer to continue to grow, but the average may stay stable.

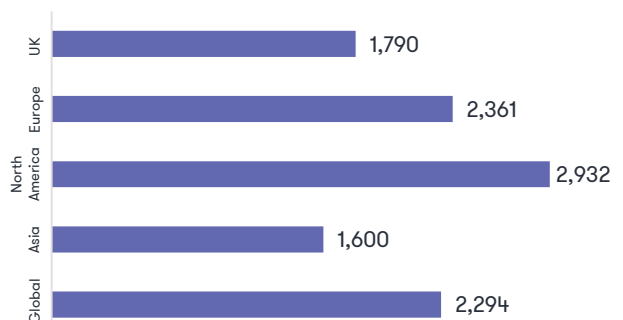
The global median of desks per workspace is 209, and the median indoor area per desk is 6.3 sqm per desk including communal areas. Asia despite having the least offices over 2,500 sqm has the highest proportion of spaces with over 300 desks at 39%. It also has the lowest indoor area per desk with a median of 5.2 sqm. Typically Asia has denser offices spaces than other regions. As there is less regulation around employment densities, and in order to keep pricing competitive the max utilization of space is necessary. Comparatively, in Europe, 38% of offices have over 300 desks, and a median indoor area per desk of 8.2 sqm.

The UK and North America on average have a smaller number of desks per workspace, the most common number of desks in flexible offices for both ranges between 51 and 100 desks. North American providers take the largest amount of space with an average of 2,932 sqm. The large sizes translate to the highest amount of indoor area per desk with a median of 12.7 sqm. It should be noted that the responses that we gathered were skewed towards the West Coast of the US and this will have impacted the indoor area per desk. The UK has a median indoor area per desk of 7.2 sqm per desk, and 50% of UK flexible office spaces fall within 5 - 7.5 sqm.

Size of flexible offices



Average space taken by flexible office providers (sqm)



50%

of global space is private offices

209

the median number of desks per workspace globally

30%

of space is between 1,501 and 2,500 sqm



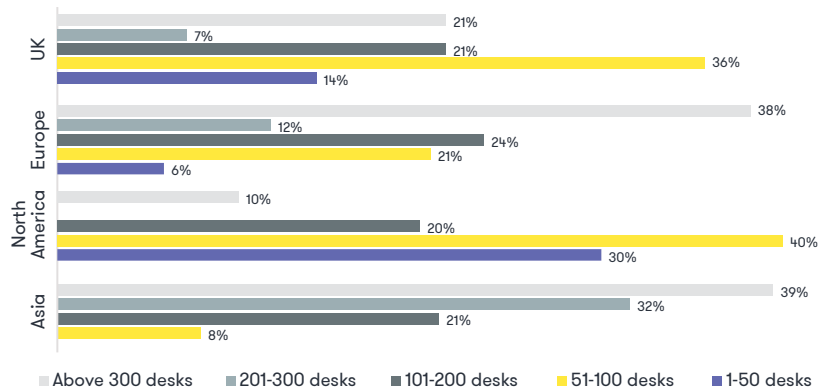
Iconic Offices, Dublin

The allocation of space globally is still overwhelmingly biased, with private offices accounting for 50% of global flexible office space allocation. Dispelling the misconception the flexible offices are predominately coworking space. The allocation of space to outdoor space has been prioritised in spaces, increasing from 2% in 2020 to 7% this year, this emphasises the focus that has been put in wellness and amenity within the space as contact with nature has been shown to reduce levels of stress and improve the health of workers within offices.

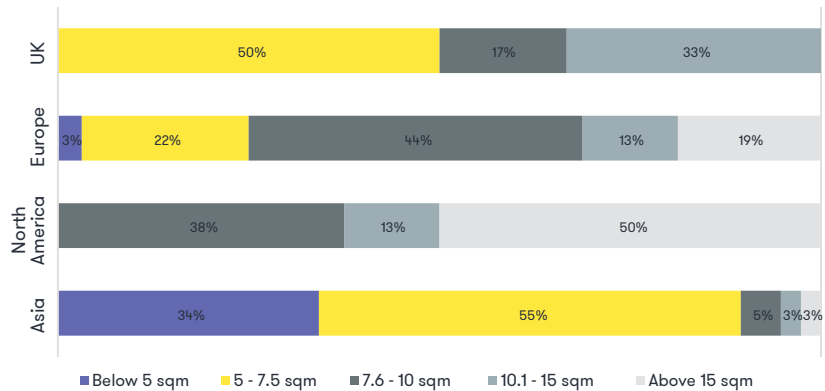
The allocation of space differs slightly across different regions, for example, the UK has the lowest allocation of space for outdoor and communal areas at 4% and 13%. It also had the largest amount of space allocated to hot desks and dedicated desks at 16% and 17%. However, given the focus that the UK real estate sector has put on collaborative environments and wellness recently we would expect future spaces to be designed with this in mind.

If you're looking for large communal areas and more outdoor space in your flexible office, the place to find it is Asia which has the largest allocation of space to communal and outdoor environments at 24% and 8%. Although as mentioned earlier this comes at the expense of more densely populated space. If you are trying to prioritise both, the US would be the best option, with only slightly lower levels of allocation to communal areas and outdoor space (22% and 7% respectively). Europe has the highest allocation to private offices at 52%, reflecting the high level of take up from larger companies.

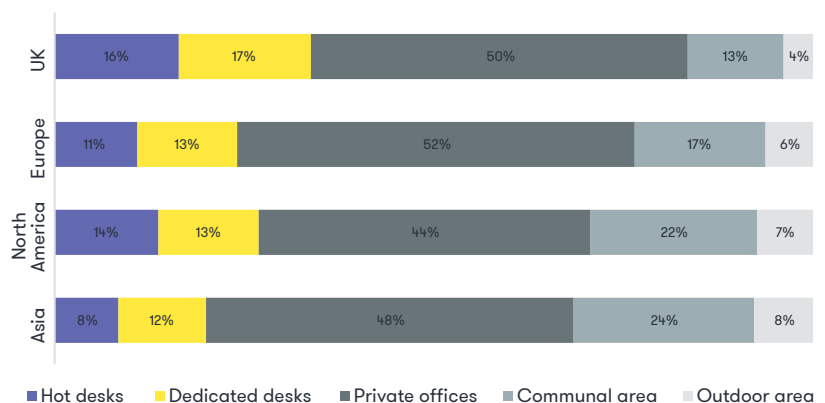
Number of desks within flexible offices



Amount of indoor space per desk



Space allocation of flexible offices





Wojo, Lyon



82% of flexible office are profitable at an operating profit margin level



Private office desk prices have dropped **6%** year-on-year



Private office occupancy is **68%** (down 13% YoY)



Average size is **2,294 square metres**



37% of companies in flexible space are scale-ups and corporates



20% of providers occupy their space by management agreement



27% think suburban and regional growth will be the biggest change in flexible space



Average member **lifespan is 1 year**



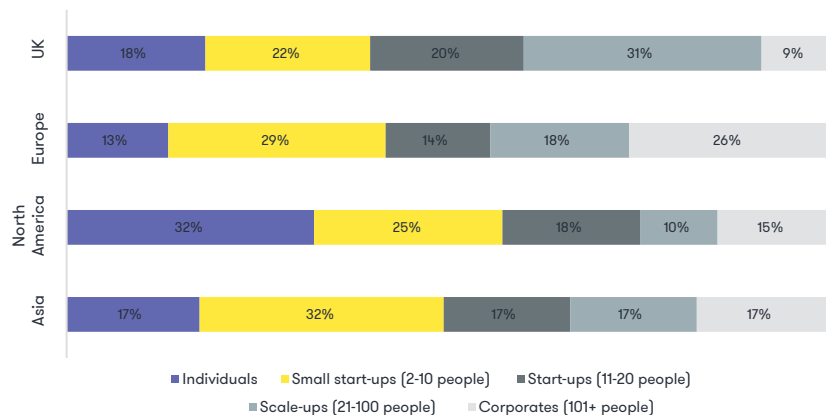
Morning Coworking, Paris

Member profile

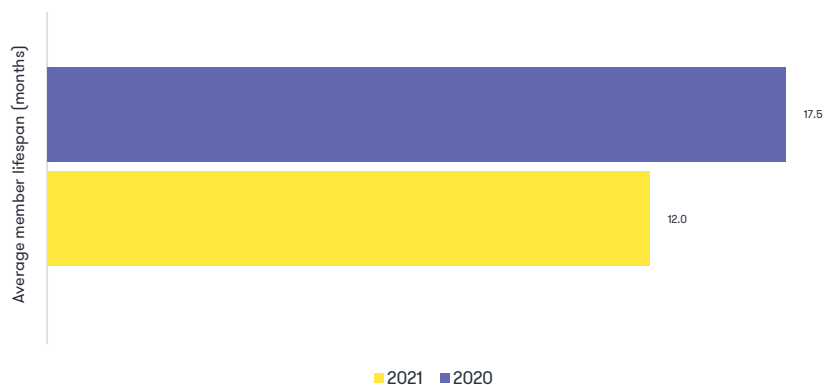
Flexible office space is occupied by a wide variety of companies of different sizes and sectors. It's a common misconception that flexible office space is only used by start-ups, freelancers and digital nomads. Our results this year show that the demographics of flex space vary wildly by region.

In North America the traditional view of flexible space is starting to shift. Although 33% of flexible spaces are occupied by individuals, and 22% by start-ups, corporates now account for 20% of flexible office space. Asia however, currently represents the traditional view of flex space. The largest categories are start-ups at 30%, followed by individuals at 22% and larger companies accounting for less space. Although, the largest occupiers in Europe are small start-ups at 28%, European corporates occupy the largest proportion of flexible space globally at 26%. Demonstrating a shift is occurring, with corporates being more open to including a higher portion of flexible office space in their portfolio. Similarly, in the UK 32% of flexible space is occupied by scale-ups, these are companies employing between 21 and 100 people. Many of these are companies that began as start-ups and have grown quickly in size, some may even become the corporates of the future.

Size of companies occupying flexspace



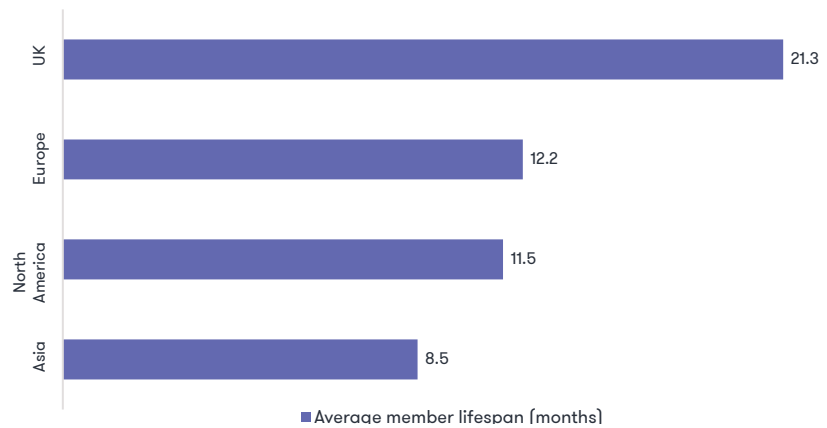
Average global flexible office member lifespan in 2020 and 2021



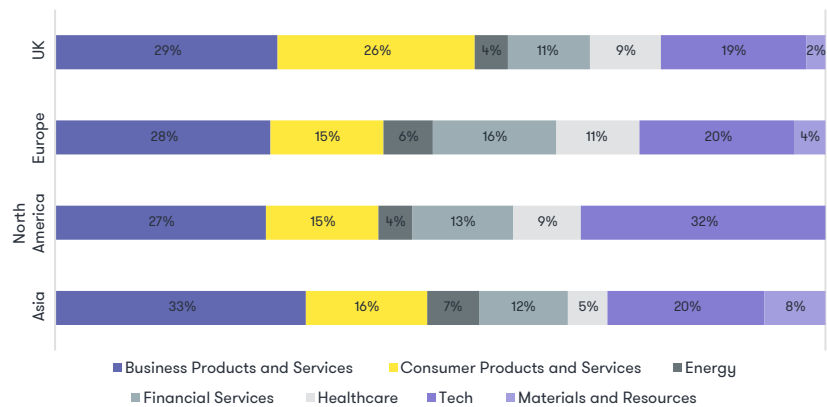
The average lifespan of members has decreased globally from 2020, dropping from 17.5 months to 12 months, which is reflective of the global sentiment. However, the average lifespan over the last 12 months varies massively by region. The UK has the longest member lifespan on average, with members staying for 21 months, this contrasts significantly to all other regions. Europe and North America have average member lifespans of 12.2 months and 11.5 months respectively. While Asia has the lowest member lifespan of only 8.5 months, given the flexible nature of the contracts many would expect the member lifespans to be much shorter, however our research demonstrates a level of stability in the market.

Contrastingly the sectors that occupy flexible office space don't differ too much by region. The largest sector occupying flexible space across all markets other than North America is Business Products and Services (B2B). B2B companies occupy over a quarter of flexible office space in every region. In North America the flexible market is occupied predominantly by companies in the tech sector, given that four tech megacities (Los Angeles, New York, San Francisco and Toronto), four tech lifestyle cities (Austin, Boston, Denver and Seattle) and one rising global tech contender (Detroit) are based in North America, it is no surprise that the tech dominates the flexible office market in the US. The UK has a strong contingent of Consumer Products and Services (B2C) companies occupying flexible office space with 26% of space being taken by these companies, which is 10% larger than any other region.

Average flexible office member lifespan over the last 12 months



Sectors occupying flexible space



European corporates occupy over a quarter of flexible space in the region.

Ed Bouterse,
Head of Workthere Europe

37%

Corporates and scale-ups occupy 37% of flexible office space globally

1 year

Average member life span is 1 year

30%

Business product and services occupy an average of 30% of flexible space globally



It's a common misconception that flexible office space is only used by startups. Our results show that the demographics of flex space vary wildly by region.

Cal Lee,
Global Head of Workthere





The work project, Singapore

Future of flex

Flexible offices are a sector that incorporates a wide variety of trends from real estate, so in this year's Flexmark we asked providers what they thought would be the largest changes to the sector in the next 5 years. The priority of these vary by region but the overarching trend that we can see is growth in suburban and regional hubs.

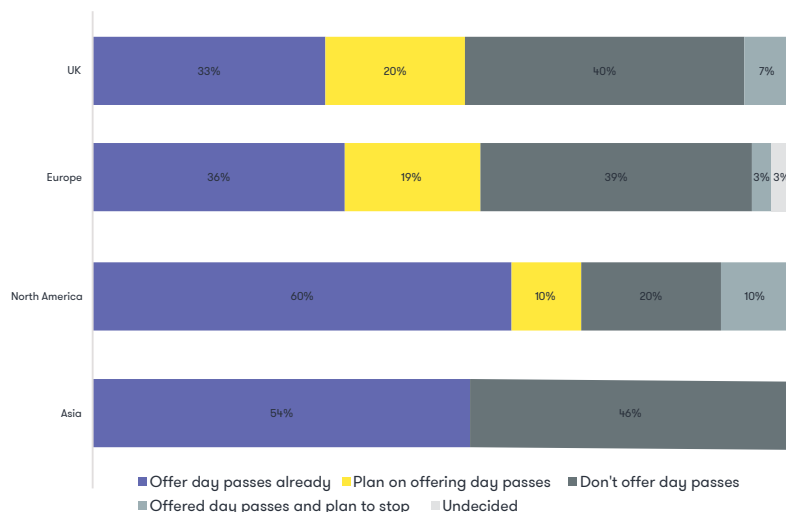
The lead trend predicted by UK providers was growth in suburban hubs, with online booking of space, management agreement lease structures, growth in regional hubs and the repurposing of retail all tying for 2nd place. North America similarly to the UK sees growth in suburban hubs as the number one change in the sector, with management agreement lease structures and online booking tying for second. These regions expecting further growth in suburban hubs reinforces our concept of hub and roam as we see operators expand into these suburban spaces anticipating a rise in demand from occupiers outside of city cores. The trend towards more flexible working patterns seems inevitable and we expect that the flexible workspace sector can benefit from this, especially those with a diverse location offer.

Contrastingly, Europe sees the largest change to flexible offices as growth in regional hubs, with online booking of space coming in 2nd and direct landlord products, white label landlord products and growth in suburban hubs all tying for 3rd. The reason for growth in regional hubs being seen as a larger change than growth in suburban areas is many European countries such as the Netherlands already have established suburban operators and now they are expecting this trend to spread further outside the cities to accommodate more occupiers needs.

Asian providers expect the largest change to be an increase in the number of management agreements, with growth in suburban hubs and the repurposing of retail coming in 2nd and 3rd respectively. This is a trend that we have identified as one to watch going forward given the increase in traction it has gained with providers.

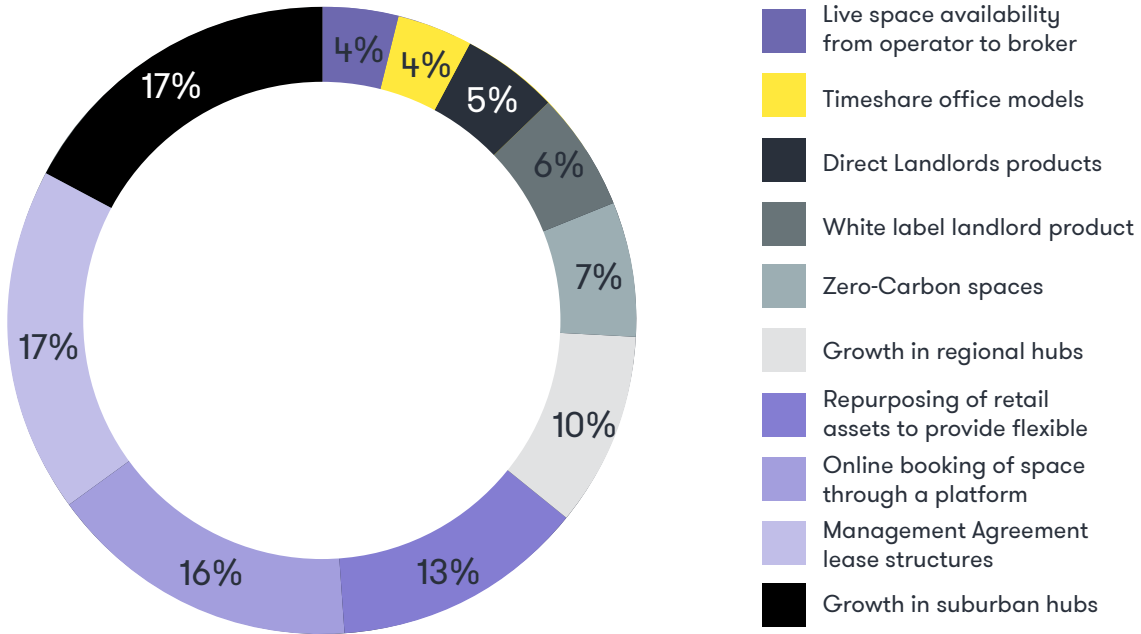
The pandemic has also given some operators food for thought, with 11% of operators globally now considering offering day passes. This is reflective of the shift towards more flexible working weeks, which we expect to see becoming more common in the wake of the Covid-19.

Changes to operator day pass arrangements

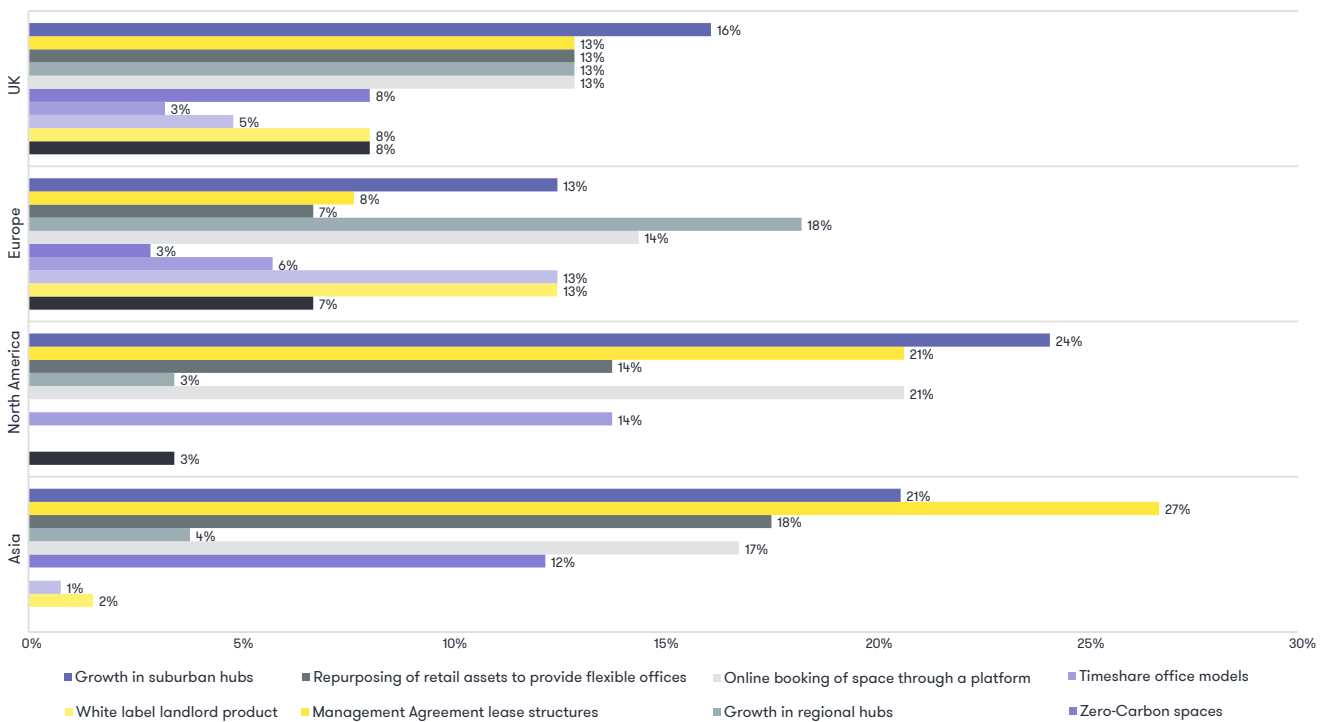


11% of operators globally are now considering offering day passes

Largest changes globally to flexible office space in the next 5 years



Largest changes to flexible office space in the next 5 years



Appendix



Our analysis is based on 100 flexible offices around the world and uses data from Savills Research team, the offices were located across Australia, Belgium, France, Germany, Hong Kong, Ireland, Japan, Malaysia, Singapore, Spain, Taiwan, Thailand, The Netherlands, The Philippines, The United Kingdom, The United States and Vietnam.



The data was collected via an online survey that we sent by email to flexible office providers.



We collected the data during the period of 8th December 2020 until 22nd February 2021.



A 'member' is defined as one membership agreement. This could be for one person or one membership agreement for 150 people.



'Acquiring a desk' is defined as one person signing a membership agreement for one desk in a flexible office.



Use of 2020 and 2021 in graphs within the report refers to the Flexmark 2020 and Flexmark 2021.



We have included certain images in this report that originate from the flexible office providers we work with for illustrative purposes only and does not mean they are included in the survey results.

Glossary

Flexible office: Flexible office is the blanket term used to cover the various different types of office space, from co-working to serviced offices. In general, it offers space that is furnished and ready to use, available on a short-term contract, with all costs rolled into one. It is known as 'flexible' space as the monthly or 12 month contract is more flexible than your traditional five or 10 year lease.

Coworking space: A coworking space is a type of flexible office that comprises a shared working environment (i.e. no walls/private offices), which is typically open-plan and offers either hot-desks or dedicated desks for members along with shared access to meeting facilities, break out areas, and often some office equipment, such as printers.

Private office: A private office is a type of flexible office that comprises a private working environment (i.e. the office is enclosed by walls), which typically offers dedicated desks but can also include hot desks. Members usually shared access to meeting facilities, break out areas, and often some office equipment, such as printers.

Dedicated desk: A dedicated desk is a desk designated to a specific individual or business.

Hot desk: A hot desk is a single desk that is used by multiple workers during different time periods.

Membership: A licence agreement between a flexible office space provider and a member. Memberships are offered on flexible terms.

Member: A person who pays a membership fee to a flexible office space provider in return for the use of the flexible office space. The fee is paid either by the individual or by their employer on behalf of the individual.

Operating profit margin: We define this as revenue minus operating costs, divided by revenue. Operating costs include costs such as rental, staff and utilities costs. Operating costs do not include depreciation, amortisation, interest paid on debt or tax.





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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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