Disruption or Distraction

Where next for the UK flex space market?

Introduction

We are all searching for flexibility to optimise our office space, this is nothing new. The real revolution lies in the variety of solutions now on offer. Providing flexible office space is not limited to co-working space, nor does it simply follow the WeWork model. The combination of these elements begin to define what's next.

In JLL's EMEA Flex report we defined flexible office space as: -

Any space (desks or more comprehensive office space) provided on short-term leases, at variable prices or alternatively on a membership basis.

This report considers how flex is expanding across the UK, and the opportunities and challenges ahead, particularly with political and economic headwinds expected to impact the office market in the near term. Arguably, the market has seen more changes over the last three years than the previous thirty combined.

We look closely at London, the most mature market in the UK, and potentially the world, while also exploring the regional markets, including the Big 6 (Birmingham, Bristol, Edinburgh, Glasgow, Leeds, Manchester). To complement our EMEA research where users of space were interviewed, we have consulted with a range of flex space operators and landlords from around the UK to understand how they view the market. We are also grateful to Hubble for allowing us to use its data on demand for flex space within the London market.

Is flex space here for good, or just the latest real estate fashion?

The flex space market is expanding, with growth from both new entrants and established operators. Many operators are changing their strategy in response to increased competition within the sector. Meanwhile, landlords' acceptance of the sector has supported unprecedented flex leasing activity and the adoption of new landlord delivered models.

Our research with corporates showed that while not all businesses will require flexible space, the clear majority will significantly increase their usage over the next five years. Companies are now considering flex space as an option at the outset rather than as a last resort.

The appeal of the sector is that there is a wide range of offers. Traditional business centres[1] still have a role and, while there is a fixation on co-working space[2], private offices are still most sought after.

Its rapid growth is being driven by the evolving nature of work and the shifting structure of the economy, supported by rapidly advancing technology. Flex space tends to offer no-commitment alternatives to long term leasing, facilities management and up-front capital expenditure. These spaces are being used by individuals, SMEs and increasingly by corporates with the potential to represent as much as 30% of some corporate portfolios by 2030.

Despite these strong fundamentals, the sector still accounts for a relatively small proportion of the UK office stock. JLL estimates that across the key cities[3] analysed for this report, flexible workplaces currently account for just 5% of all stock.

But over the next five years more than 10 million sq ft will be added to the stock and flex space will account for over 8.5% of the total office stock by 2023.

> *"Traditionally, 10 years ago... the product was dull and dreary and not aspirational really at all. Now though... employers and decision makers can be confident that the workforce will really enjoy working there and it's quite cool and sexy suddenly."*
>
> *National flex operator*

[1] Business centres - where occupiers rent private offices on a short term basis.

[2] Co-working space - where individuals work independently or collaboratively in shared office space.

[3] Central London, Birmingham, Bristol, Edinburgh, Glasgow, Leeds, Manchester, Belfast, Cardiff, Cambridge, Liverpool, Newcastle, Nottingham, Sheffield and Western Corridor.

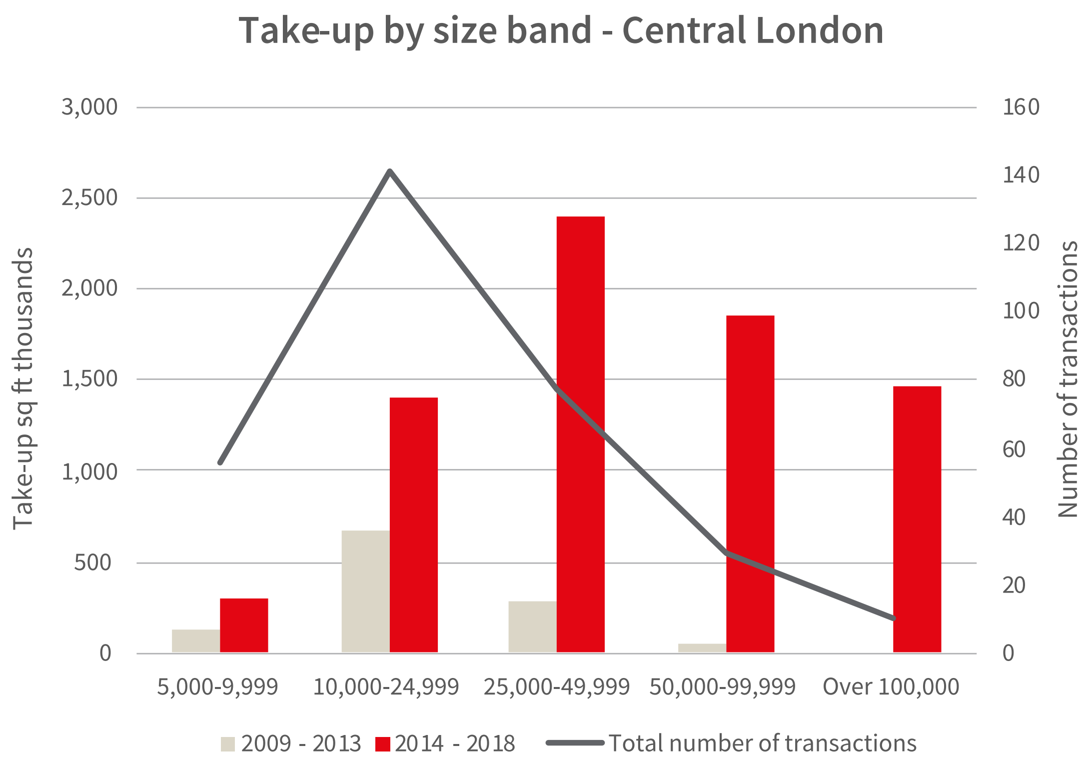
It's not (all) about co-working…

With the continued expansion of the flex space sector, providers have become increasingly diversified in their product offering. First came the serviced office in the mid-1980s, while co-working took off after the financial crisis and offered a completely new style of working designed to encourage collaboration, knowledge sharing and innovation in an open and creative space.

Co-working essentially became fashionable and many operators have frequently used the term to suggest a sense of modernity to their offer. However, true co-working brands are few and far between and generally have a relatively small footprint. JLL estimates that co-working operators make up just 8% of the UK's total flexible office stock.

While recognising the benefit that co-working spaces bring to a centre, most operators are essentially operating a hybrid model, which offers both private offices and open co-working spaces. The rapid expansion of the hybrid model has meant that it already accounts for 48% of all flex space in the UK with nearly half of this added in 2017 and 2018 alone. Co-working has increased as a proportion of the offering of most hybrid operators, but this has been balanced with an increase in centre size. The new wave of facilities are generally larger, making it easier to incorporate larger communal and event spaces.

Amenity space now tends to account for around 15-20% of the net internal space. But co-working is not where operators make money and is often used as a marketing tool; a trend that was confirmed by our interviews. Essentially demand is still focused on private office space, but customers want the added benefit of communal and collaboration space in the centre.



Source: JLL

"We make sure the 15% is very good but the other 85% is fabulous because that is where you spend nearly all of your time."

National flex operator

"It is very difficult to control the income from co-working."

Local flex space operator

or

#transitional

Flex space: Is one approach better than the other?
How far should you go?

Levels of maturity diverge around the country

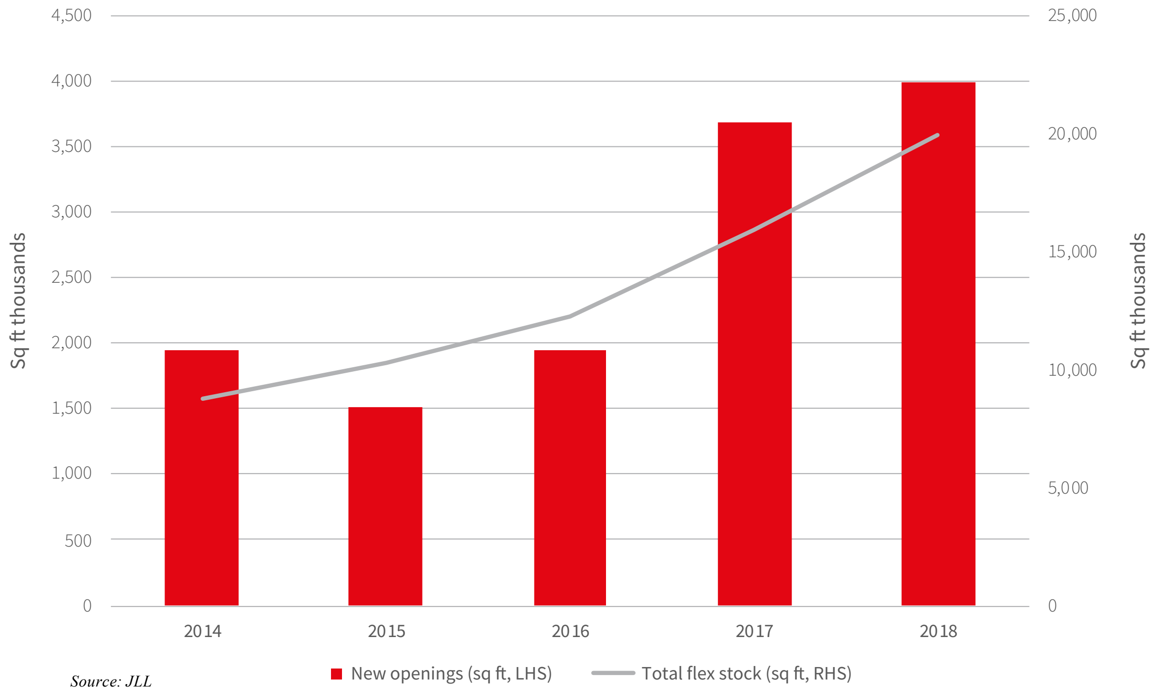
The flex space footprint grew by 25% in 2018, a similar rate to 2017. The 3.9 million sq ft of flex space added to the market over the year was the strongest increase on record and highlights the demand for flexible solutions. While London dominates, Birmingham and Manchester each saw more than 100,000 sq ft added to their flex stock in 2018.

The London office flex market is one of the most developed markets globally alongside New York. From the number of new entrants into the market to the volume of space let to the sector, it is easy to see why flex space has had a profound impact on the office market. The arrival of WeWork in 2014 was a key catalyst for the flex space revolution in London.

The regional UK cities remain some way behind London in terms of the impact of the flex space sector. However, the Big 6[4] cities have seen strong leasing activity over recent years from flex space operators. Take-up rose 26% between 2017 and 2018 to reach 584,000 sq ft (10% of overall take-up), although this is behind Central London, with 1.9 million sq ft (17% of the total).

The pattern of take-up in the Big 6 is following a similar trajectory to Central London, but lags by circa 3 years. Activity will take off in the next few years, particularly with WeWork who was instrumental in driving the expansion of Central London, now entering the regional markets. They are already present in Manchester and Edinburgh and are actively looking at Glasgow and Birmingham.

Growth of UK flex space



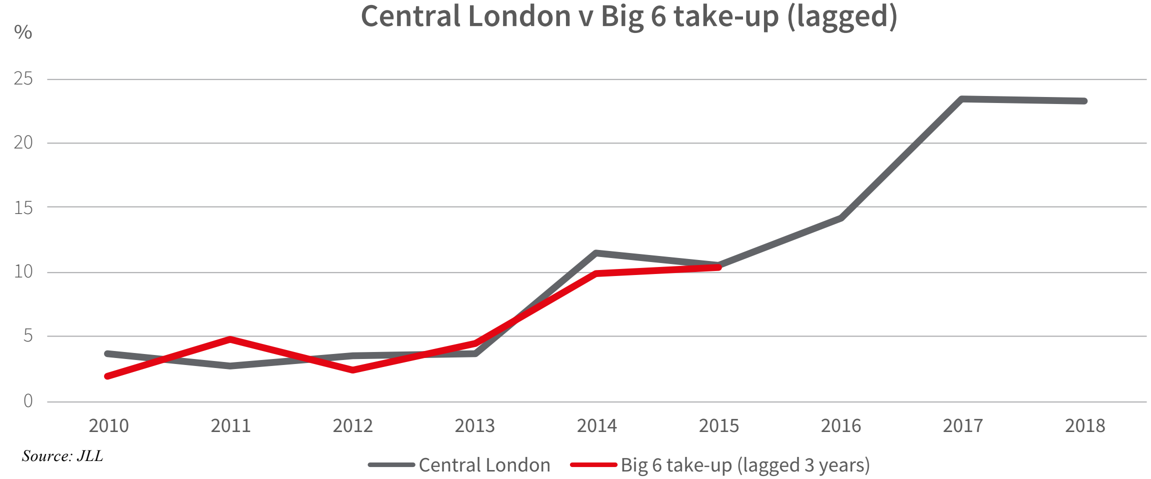
Source: JLL

[4]Birmingham, Bristol, Edinburgh, Glasgow, Leeds, Manchester

Currently, Manchester and Birmingham are ahead of the other regional cities in terms of the size of their flex markets. Manchester is the most mature of the regional cities, with strong recent activity highlighted by WeWork's decision to establish its first UK location outside London within the city. What's more, over the last five years, flex space has increased at a higher rate than in Central London.

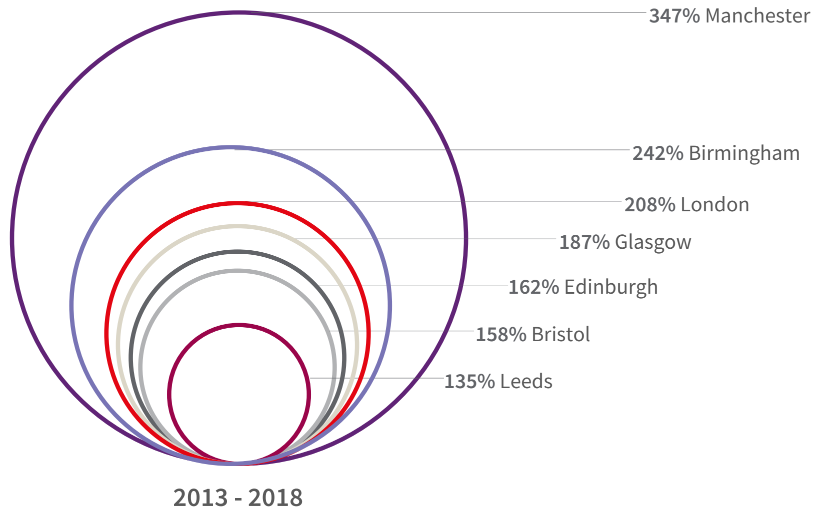
The graph shows take-up in the Big 6 for 2013-2018 but moved back three years to show the relationship with Central London take-up.

Flexible workspace take-up as a proportion of total take-up
Central London v Big 6 take-up (lagged)



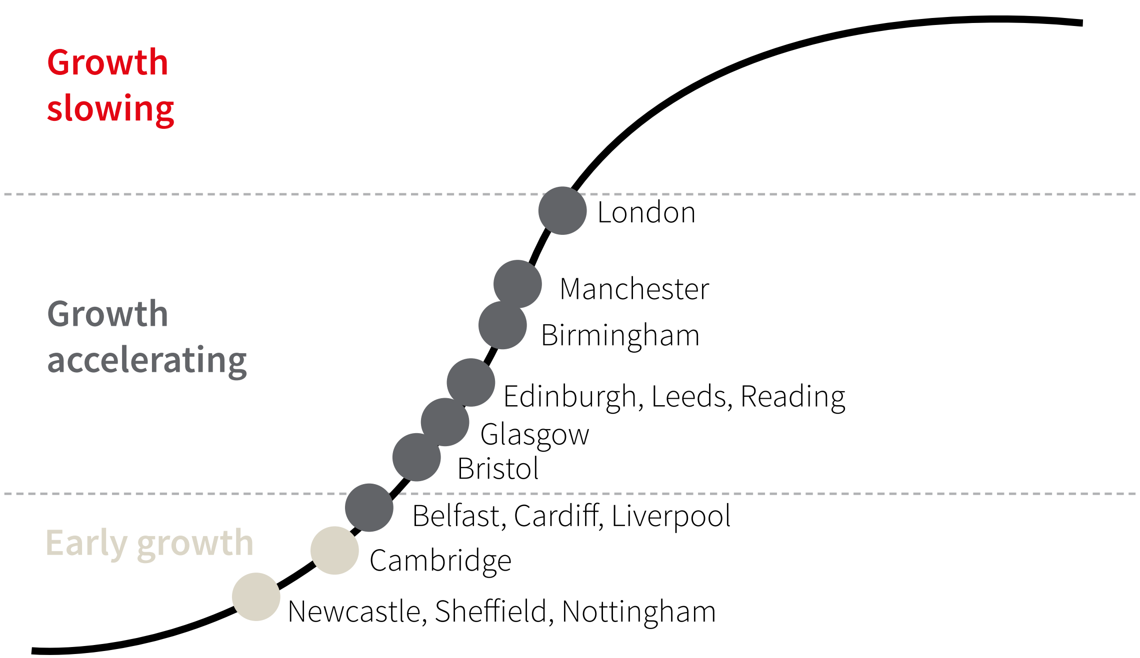
Source: JLL

Flexible office stock growth in UK Cities



Source: JLL

UK flex market maturity



Source: JLL

The Big 6 flex space market profile has started to change, with the arrival of new entrants. These range from expanding existing operators, such as Runway East in Bristol, BE Offices and Orega in Birmingham and WeWork in Manchester and Edinburgh.

The service revolution...

The flex market is far from static. Customers are increasingly discerning and operators are having to keep abreast of clients' needs.

"We are really in the hospitality business - and service is just so important. There are a few operators who put that at the forefront of everything they do."

London flex operator

In a market with low barriers to entry and limited product differentiation, it is important for operators to develop their own brand, culture and USP. There will still be demand for budget space with a limited service offering but for the hybrid operators the focus is on service, environment and experience to differentiate the individual brand. Providers are disrupting the real estate industry by introducing new levels of customer service and intelligence. They are consulting their customer base to ensure continued relevance and to identify potential new service offerings.

This is even more important as competition increases across the sector. Central Working, for example, seek to curate customer networks and has gone so far as to provide a money back guarantee of a meaningful connection to businesses within the first 30 days, while its workforce is targeted on relationship building and customer satisfaction, rather than revenue generation.

One of the consequences of a more focused client service has been the growth of centres targeting specific verticals. Examples include Ministry of Sound, Huckletree and Runway East focused on tech start-ups while London - based centres such as Third Door and Blooming Founders cater for family friendly and female focused customers respectively. This trend should filter out to the regional offices as gaps in the market are identified. Operators such as Gilbanks, who target professional services in Leeds, and Birmingham University who are opening a 100,000 sq ft plus centre focused on STEM[4] businesses at Belmont Works, Eastside are recent examples.

"The thing that separates the hotel industry is the level of service and that's what makes you come back. That should be the same in flexible offices."

Regional flex operator

The next phase of service provision will centre on the "managed workspace" by flex operators, where space is tailored to the individual occupier's requirements. All occupational costs – rents, rates and service charges – are wrapped together with a rentalised fit out which takes the hassle out of providing the right design and spaces. The occupier is then presented with the option of additional services which are rolled into the monthly costs.

It's a win-win for both sides. Occupiers are provided with a tailor-made offer - not what the operator thinks they might want. Being able to pre-agree or extinguish residual dilapidation liabilities is also attractive. Meanwhile, the operator gets the benefit of a longer lease term - typically 5 years minimum - because it makes financial sense for the occupier to rentalise the costs over a longer period.

This is an area that most of the operators we interviewed are looking to enter. BE offices has already made the move with its Bespoke brand, while TOG will be rolling out a managed solution shortly. WeWork offers the service via its enterprise solution and the Powered by We solutions.

The central point is that operators are encroaching on the traditional landlord market - particularly those that are no longer offering the flexibility of lease terms that characterises flex space.

"The attraction in our opinion, and feedback from customers over the last couple of years who have done this, is the ability to take away the headache of the exposed capital on the fit out and the furniture and to wrap that up into a cost and to depreciate it over a period."

Landlord flex operator

[5]Science, technology, engineering, mathematics

X People

Sign here

or

P,ROF.IT$

Why you should continue to care about where the flex market will go next?

London has dominated activity, with significant growth over the last five years but there has recently been a noticeable shift into the regional markets.

Demand from SMEs alongside a growing trend for self-employment and remote working in the regional markets, as well as demand from their existing customer base is acting as a pull factor for flex operators into the regions. The key regional cities are benefitting from urbanisation and have become attractive locations in which to live and work.

"The driver for us is where are the customers rather than where the real estate is. We can always find offices, but you can't always drum up demand!"

Regional flex operator

The regional markets offer potential for growth, but operators are being selective in where they open new centres. Not every location is economically viable - a suitable location needs to have a critical mass and economic diversity. Consequently, operators are focused on the core regional cities, which have an already established office market with untapped demand.

"But it costs the same to fit out a site in the regions, same cost to buy a desk and you then don't get the desk rates."

London flex operator

Operators seeking to maintain their brand and positioning across their portfolio are finding that the return on investment in the regions is lower than in London. Operating margins are not necessarily tighter, but construction and fit out costs are on a par as operators maintain their product quality. This puts many secondary cities financially out of the reach of some operators. The more established or well capitalised operators can afford to lose money at the outset, as more profitable centres support the wider portfolio, but smaller operations cannot.

At present, there is less competition in the regional cities than in Central London, and this is holding up both desk rates and margins. BE Offices set a record desk rate in Birmingham in part due to the lack of competition but also because it was offering a new product to market. However, the arrival of some of the bigger operators may make it harder for smaller operators to gain a foothold and could hinder future space growth.

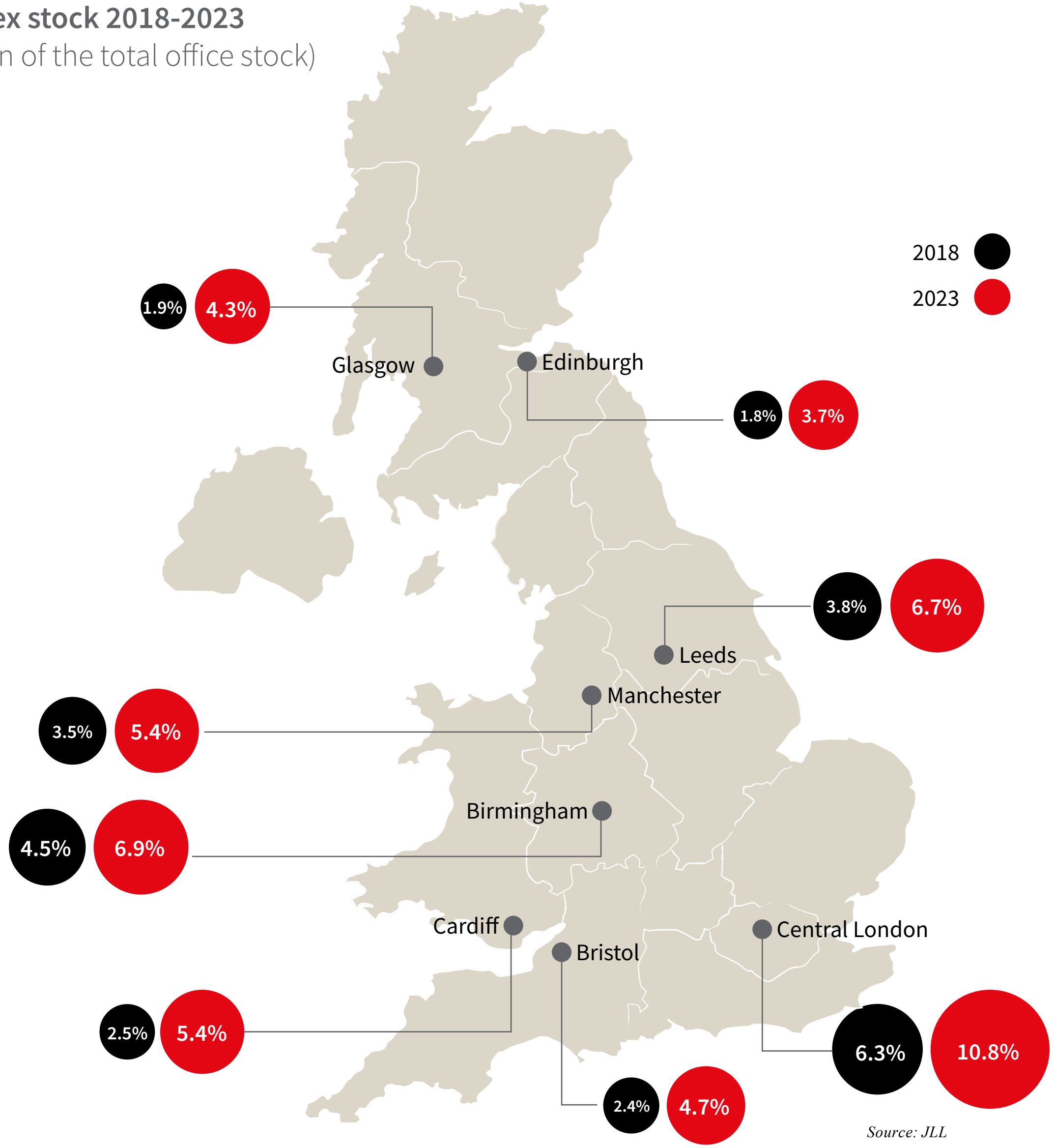
Manchester offers the greatest opportunity for the flex sector to expand and by 2023 we estimate that the sector will account for over 6.5% of the office stock, up from 3.5% today. But all the Big 6 cities will see growth, with flex space accounting for an average of 5% of stock in five years' time.

That's not to say that London will not see further growth. Without exception those we interviewed were all looking to expand their footprint in the capital. In the short term, the pace of growth may slow due to the supply dynamics in Central London. Added to this, as some of the bigger landlords are now setting up their own operations, they will be less willing to let to other operators. British Land, HB Reavis and GPE are examples of companies that are seeking not to let space directly to other flex space providers.

"We have to take a wider view, we are not so reliant on making every single site profitable... but others don't have that luxury."

Regional flex operator

Growth in flex stock 2018-2023
(as proportion of the total office stock)



Source: JLL

Issue to watch - what about demand?

It is easy to focus on the supply narrative and to assume that the market is saturated but that is because there is limited sight of the demand side. Searches for the term 'co-working' acts as a good proxy for demand for space and illustrates the exponential rise in the level of interest for this space.

According to the operators we interviewed, occupancy rates are still high which suggests that demand remains robust. And if demand and supply are in balance, then pricing should also hold up - with most operators stating that desk rates had remained stable.

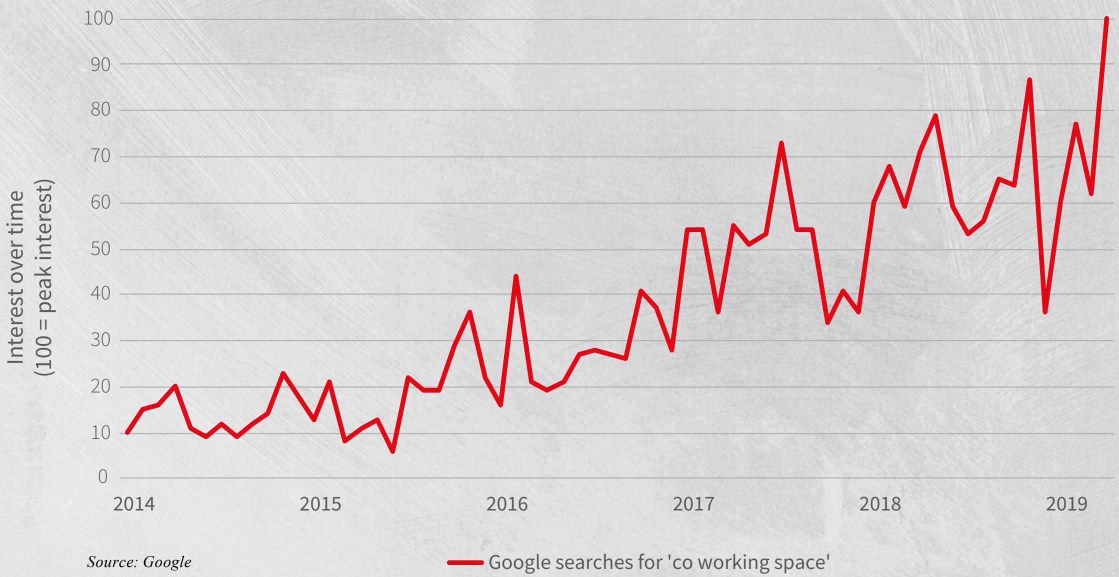
Who is searching for flex space?

Data from Hubble has given JLL insight into the end users of flex space across London. By analysing searches on the Hubble platform in 2017 and 2018, several trends are evident relating to the geography, business sector, type of space, size of space and pricing.

What is Hubble?

Hubble is London's largest online platform for flexible office space. Hubble owns the most comprehensive dataset on the flex office market and is an investee company of the JLL Spark Global Venture Fund.

Google searches for 'co-working space'



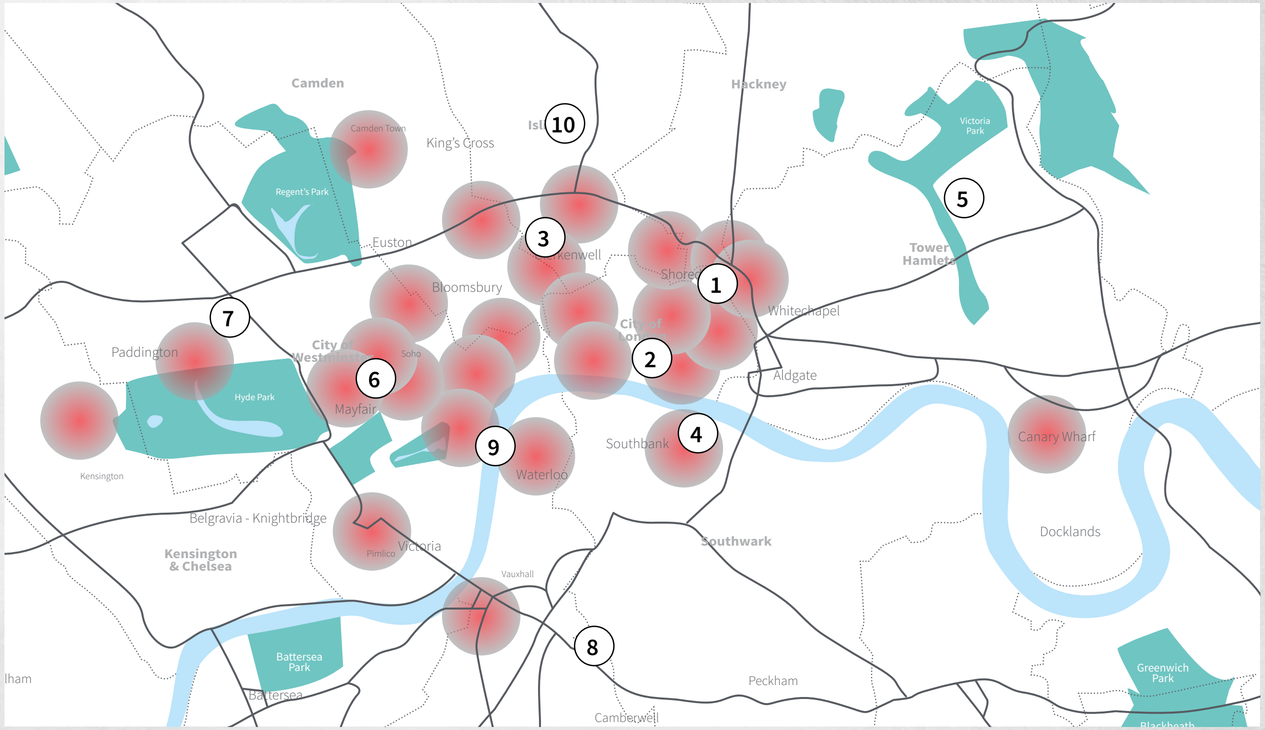
Source: Google

Fringe locations most popular

The most popular search locations in London are Shoreditch/Old Street (13%), Farringdon/Clerkenwell (11%), and London Bridge (8%). Interestingly the most popular search term on Hubble in 2018 is 'Central London', with general terms like North, South, East & West London also prominent, suggesting micro location may not be the top priority for many flex space customers.

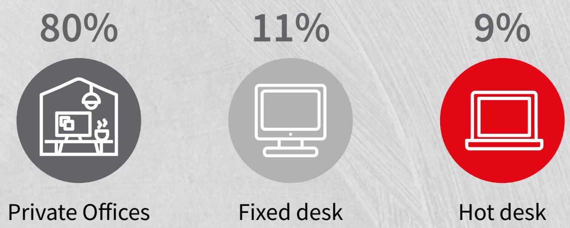
Top 10 search areas	
1. Shoreditch & Old Street	**6.** Soho
2. Central London	**7.** West London
3. Farringdon & Clerkenwell	**8.** South London
4. London Bridge	**9.** Waterloo
5. East London	**10.** North London

Hubble search hot-spots (2018)



Source: Hubble

Hubble searches by office type, 2018



Private space important

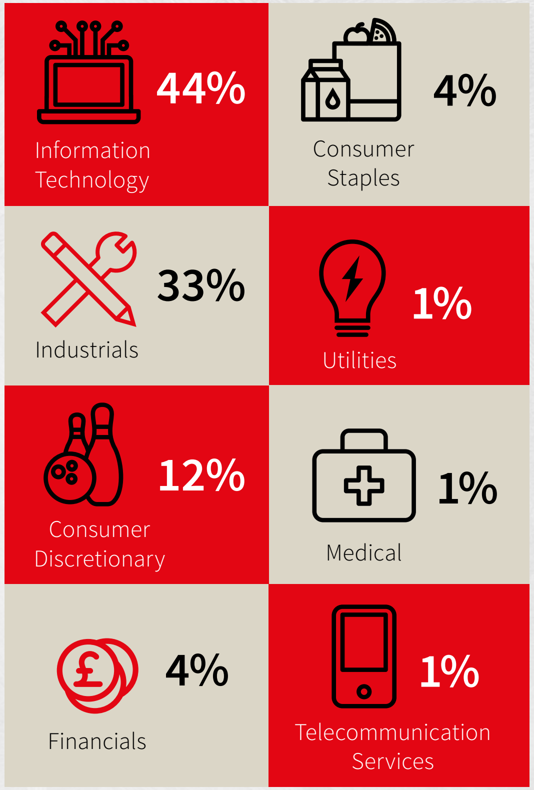
The term 'co-working' has featured prominently in the flex workspace narrative in recent years, demonstrated by the exponential rise in the level of interest using google search data. However the majority share (80%) of searches on Hubble are for private offices, with co-working space appearing infrequently. This indicates that privacy and quality of the environment for cognitive tasks are key and that the importance of co-working/shared space may be overstated.

Tech firms driving demand

Nearly half of all 2018 searches were by Information & Technology companies - perhaps not surprising given London's status as one of the world's pre-eminent technology hubs.

'Industrials', a broad sector which includes professional services, consulting and design, also featured prominently with a further third of searches. Financial services companies, which remain London's largest occupiers of office space, accounted for a relatively minor share of searches.

Hubble searches by business sector, 2018



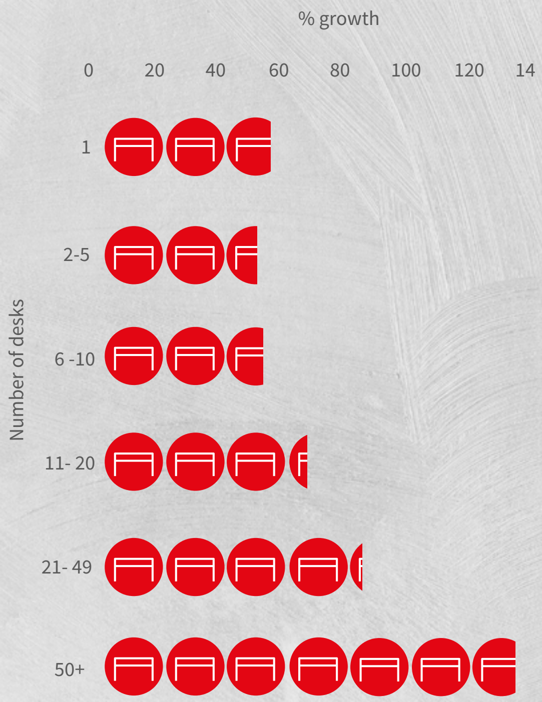
Average requirement size increasing

The largest increase in searches year on year was from the larger size brackets, with searches for 50+ desks more than doubling. This is perhaps an early indicator of larger organisations' desire to use more flexible space as part of their portfolio strategy, and willingness to engage via alternative routes to market – using an online marketplace.

Pricing equilibrium not yet achieved

The flex market in London remains in high growth mode, with operators expanding aggressively to achieve market share and, in some cases, offering generous discounts to achieve this goal. The heavyweight backers of some larger operators mean that they may continue to operate at a loss to achieve scale. At the same time, new entrants with different business models continue to enter the market. As a result, the flex market has not yet reached maturity and pricing equilibrium. This is reflected in the desk rates quoted on Hubble which range from £186 to £1,109 per desk, averaging £637 per desk, and do not yet correlate strongly with the cost of leasing space for operators.

Annual increase in searches by desk range, 2017 - 2018



Source: Hubble

A D O P T

or

ADAPT

Adopt or Adapt?

The rise of flex space raises many issues about the evolution of the office market and of how we work. JLL's research demonstrates quite clearly that the demand for flexible space shows little sign of abating.

Investors and developers are being forced to consider what the rise of the sector means for their portfolio and how they ensure that their space remains relevant and delivers the best returns. Expectations from corporates that new buildings should have some flex operation or provider as an added amenity are also fuelling this change.

While at one time seen as risky tenants with weak covenants, many landlords are now comfortable enough with flex business models to lease space to them.

"Even three years ago you had to really justify putting flex space into a building, but now people are working differently and it's the norm."

National flex operator

Limited exposure to the flex sector is now generally associated with an upside for the landlord, with the right flex operator activating leasing velocity and energising communal spaces, and has not had any significant impact on yields.

But there has been some evidence of buildings trading at a discount where flex space represents more than half of the office space, albeit the number of deals is limited. But covenant strength still has a part to play and a weak track record will still be reflected in the underlying yield.

The last 18-24 months have seen a raft of announcements from, mainly London based, landlords launching their own product. But the likes of Bruntwood and Orbit in the North West have operated this model for some considerable time.

In fact, many landlords have been operating their buildings on a flexible or plug and play basis for some time. GPE is one such landlord, with around 2% of its portfolio dedicated to plug and play space, while Legal & General's Capsule concept is a similar offering.

But why now? Landlords to a certain extent are enriching their total property offer in response to the increased demand for flexibility and are seeking to gain control as the new wave of flexible workspace providers continue to expand around them. A flex offering is complementary to their existing customer base who increasingly want a core and flex arrangement.

"The reason for doing our own operation, is so that you own the conversation."

Landlord operator

New landlord offers are typically targeting 20-80 person businesses, which they believe is under-served by the existing flexible workplace offerings. The smaller end of the market is more management intensive and less economically viable. Revenue for flexible space is typically higher than space let on a conventional lease and landlords are benefitting from the uplift in the value of their asset.

The benefit of scale gives the landlords the ability to move customers around their portfolio. Landlords are banking on loyalty and by providing the right service are hoping the customers will stay in their portfolios long term.

"WeWork have created a bubble of enthusiasm and a lot of landlords will get their fingers burnt, as they (landlords) don't have the right skillset to operate their own product."

London flex operator

None of the landlords we spoke with were entering the sector with the belief that it would be an easy journey. Operators viewed this as a defensive move by landlords and were dismissive of the potential competition. Successfully incorporating the supply chains to run a profitable operation, generating economies of scale and the provision of a service culture are the real challenges.

"The risk and reward profile is attractive if you get it right."

London flex operator

Few landlords have the scale, will or resources to invest in their own product and landlord operations will be a small part of the offer. While some will continue to pursue a straight lease to an operator, the partnership model is gaining momentum as an alternative solution.

By partnering with an operator, the landlord benefits from the upside but without having to enter directly into the sector. In our interviews, nearly all operators had been approached by landlords directly to discuss partnering.

Just a few years ago this conversation was unthinkable for many operators and landlords.

6 out of 14

flex workplace operators currently have a partnership with landlords

11 out of 14

flex workspace operators had been approached directly by landlords about a partnering model over the last 12 months

But more needs to be done to give some level of comfort to owners that this is a very real opportunity for landlords to invest and participate in the sector. The hotel industry provides a model of the operational and contractual arrangements that could achieve this.

The obvious issue to the speed of adoption of partnerships is how do you value the asset? Traditional valuation models are coming under scrutiny and the challenge for the sector is to provide a consistent approach in assessing the operational income. Valuation models are moving towards a cash-flow model - akin to how hotels are valued - which are more reflective of trading performance.

Disruption

or

Distraction

Preparing for a flexible tomorrow

While the sector has seen significant growth in recent years, it remains in its infancy, especially in the regions and a sense of perspective must be applied. Flex has not yet truly disrupted the office market but is a response to the consumerisation in the workplace.

One operator summed this up neatly,

"In any other sector, a new offering would not have generated such waves but, because the property sector is slow moving and hasn't changed, it's a talking point."

"Like any industry, especially during a period of accelerated growth, some players will consolidate, some may go out of business, but the industry will remain – driven by the underlying fundamentals of the market."

National flex operator

1. What does it mean for operators?

Regional cities now offer the greatest prospects for expansion, and some operators will develop new products and set new value benchmarks in these cities. Operators will not target every city, and secondary cities are less likely to see the widespread adoption of flex. New markets will be chosen carefully, but growth is more likely to be demand led. Understanding the subtle nuances of the local customer base and the local geography/dynamics will be the key to success and hence profitability.

The focus on space as a service will persist and over time operators will need to differentiate themselves more clearly. The sector will continue to lead the real estate industry in terms of consumerisation of office space. Amenity and service levels will continue to evolve and those that remain at the forefront will be most successful.

Co-working and collaboration space will increasingly be ancillary and will be used to animate space, particularly on the lower floors of buildings to provide a sense of community rather than a revenue generating product.

Expansion of flex space will see a blurring in the lines between landlord and operator offer, with both sides adapting to occupier demands. Operators' business models will evolve to encompass more bespoke management offerings. Longer lease terms will be evident in the flex sector, which will converge with shorter lease terms being offered by landlords.

There will be some real opportunities for consolidation within the industry. The rapid growth in the number of operators, combined with the low barriers to entry will place some under pressure. This is likely to result in a further polarisation of the sector, with the bigger operators cementing their position and niche operators holding their own.

2. How will landlords react?

The rise of the flexible workplace sector will act as a catalyst for landlords to change their relationship with occupiers. If landlords are slow to adapt to a consumer centric approach to leasing space, then flex space operators will step in and take a larger market share.

Landlords will have several routes to market and choosing the right vehicle for their portfolio will be more important than ever. The sector will increasingly mirror the hotel industry in terms of the focus on services but, more importantly, in the relationships between the landlord and operator. Partnerships will see significant growth, as landlords seek to gain from the upside, allowing operators to focus on their core business.

Landlords on large schemes will have to consider having a flex operator within their tenant line-up, often on the lower floors to help activate this space, but also because the majority of occupiers will demand it to provide them with future flexibility and amenity space.

Providing flexibility within a building will become the norm and we expect that around 20% of space within an office building could be allocated to flex space. This could rise to as much as 40% for landlord operated space - split between collaboration space and private offices.

Landlord operated models will continue to grow but will remain a relatively small part of the market. Few landlords will have the critical mass to really challenge flex space operators.

3. How are investors reacting?

Investors will increasingly consider buildings with an element of flex in their portfolios, but many still demonstrate a degree of caution towards investing in the sector. A lack of transparency and tenant track record will still deter some investors, who, as a result, may perceive the asset has a greater risk profile.

But the associated risk will diminish, as growth in the flex sector provides a critical mass and operators become more comfortable with the covenant of operators. Investors may focus more on real estate let to experienced operators who are well funded to reduce the risk level. They will also need to consider the various degrees of security to the lease.

The business model of short-term income verses long-term lease commitment still sits uncomfortably with investors and they are likely to seek a higher return to compensate for the risk around the security of income. But in any event, a flex centre can be let or converted for use by traditional tenants, which may mitigate the long-term risk, so the quality of the underlying real estate is key.

Investors are recognising that having an element of flex space in a building could drive rental values and boost income streams. They should not shy away from incorporating flex into their investment strategy, as a moderate exposure to the sector will complement not deflect from value.

The sector could become a separate asset class and this would support an agreed, and potentially new, approach to valuation of the sector. Valuations will become more sophisticated and will move towards a discounted cash-flow model rather than a conventional approach, potentially offering higher income returns, based on risk adjusted returns.

Investors are increasingly likely to view the sector as a longer-term investment opportunity and for many who have already invested in real estate let to the flex sector, the long-term income opportunity is on a risk adjusted basis likely to outweigh the tenant risk.

4. Impact on occupiers?

The expansion in supply will be accompanied by demand from corporates as they embrace the greater choice. The wider geographic coverage in key office markets will provide opportunities for corporates to enter new markets or to adapt core and flex approach across a wider portfolio.

Managed solutions will be a growth area for operators and occupiers will benefit. Speed to market, shorter leases and a tailor-made solution will enable occupiers to be more agile and to add flexibility to their portfolio.

Occupiers will be paramount in the future of direction of the sector, as operators (and increasingly landlords) become more aware of their customers' needs and understand how they use spaces. They will benefit from a greater choice in real estate options than at any time previously.

Importantly, providing aspirational workplaces allows companies to enhance the human experience and create an environment where people want to work. This is an essential consideration wherever an office is located.

NXT Office

At JLL we give occupiers the ability to search for both traditional office space and flex space at the same time in our NXT Office Studio. We have mapped every flexible office in London in our NXT Office app, allowing us to deep dive into location, size and provider.

UK market overviews

Birmingham

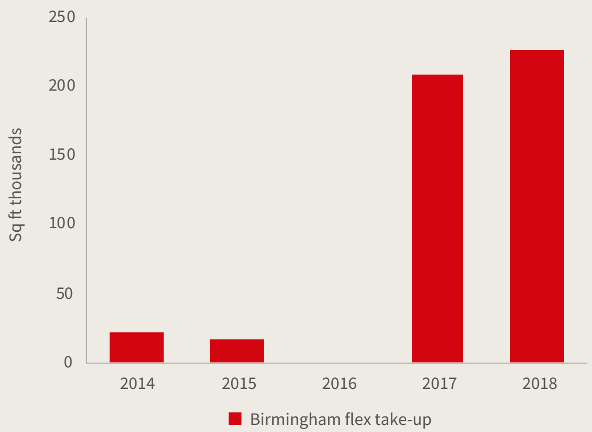
Market overview

Birmingham is a relatively mature market with a substantial stock of flex workspace. Over 700,000 sq ft of space is occupied by flex operators, comprising 4.2% of total built stock. Most major national operators have a presence in Birmingham and there continues to be a steady flow of new deals to flex space operators.

The standout deal of 2018 was Birmingham City University taking 118,240 sq ft at Belmont Works, Eastside for flexible workspace for the STEM[2] sectors. In addition, BE Offices took their first premises in the city at Somerset House in 2018, which follows Spaces committing to a total of 109,293 sq ft at The Crossway and The Lewis Building in 2017.

Much of the recent flex space take-up has been driven by HS2-related occupiers but demand for flex space is from a broad range of businesses spanning established professional firms through to digital and creative start-ups.

Flex take-up, 2014-18



Source: JLL

Demographics

Population
(Primary Urban Area)
2.6 million

Numbers employed in technology
(Primary Urban Area)
227,000

Self employed[1]
(Primary Urban Area)
48,400

Flex market

Flex office stock
732,000 sq ft

Average flex operator size
26,800 sq ft

Flex share of office stock
4.2%

Key flex transactions 2017-2019

Operator	Address	Size, sq ft
Birmingham City University	Belmont Works, Eastside	118,240
Spaces	The Crossway, Great Charles Street	76,000
BE Offices	Somerset House, Temple Street	38,162
iHub	2-6 Colmore Row	36,756
Spaces	The Lewis Building, Bull Street	33,293

Source: JLL

[1]*Relates to office-based proxy sectors*

Largest operators

Operator	Space occupied, sq ft	No. of locations
Regus / Spaces	222,701	6
Birmingham City University	118,240	1
Instant Offices	70,227	4
Landmark	51,913	2
BE Offices	38,162	1

Source: JLL

Bristol

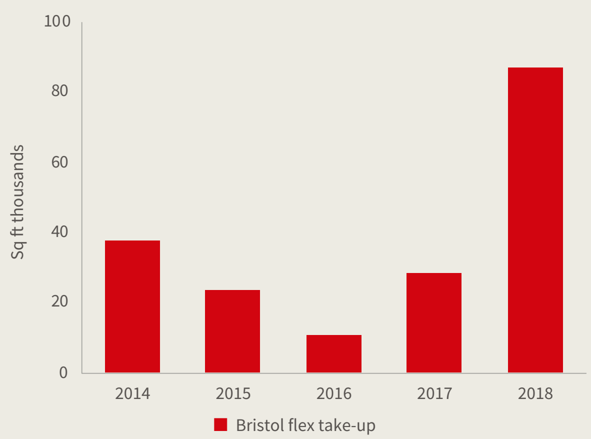
Market overview

Bristol has a relatively small volume of flexible workspace; the 323,000 sq ft equates to 2.4% of total built stock. While Bristol may not be as mature as some markets, it is high on operators' lists of priorities and expansion is expected over the next 12 months with a number of new centres already committed to opening during 2019.

Regus & Runway East (who selected Bristol as its first location outside of London) have both secured units over 30,000 sq ft in recent years while Origin Workspace will open 42,000 sq ft in the city during 2019. Bristol has experienced a shortage of office supply in recent years, but this is now being addressed with close to 300,000 sq ft of new build space currently on site.

While much of Bristol's flex space has been traditional serviced offices there is growing demand for co-working space on the back of Bristol's fast-growing tech sector. Temple Quarter, one of the largest urban regeneration schemes underway in the UK, is likely to be a focal point for much of the tech activity.

Flex take-up, 2014-18



Source: JLL

Demographics

Population
(Primary Urban Area)
745,500

Numbers employed in technology
(Primary Urban Area)
26,325

Self employed[1]
(Primary Urban Area)
17,300

Flex market

Flex office stock
323,000 sq ft

Average flex operator size
21,500 sq ft

Flex share of office stock
2.4%

Key flex transactions 2017-2019

Operator	Adress	Size, sq ft
Origin Workspace	40 Berkeley Square	42,000
Regus	Lower Castle Street	34,000
Runway East	1 Victoria Street	30,148
Desklodge Ltd	Unum House	28,732
Ethical Property Company	The Paintworks	20,738

Source: JLL

Largest operators

Operator	Space occupied, sq ft	No. of locations
Regus	83,760	3
Desklodge	52,285	2
Origin Workspace*	42,000	1
Runway East	30,148	1
Orega	26,000	1

Source: JLL **opening soon*

[1] *Relates to office-based proxy sectors*

Edinburgh

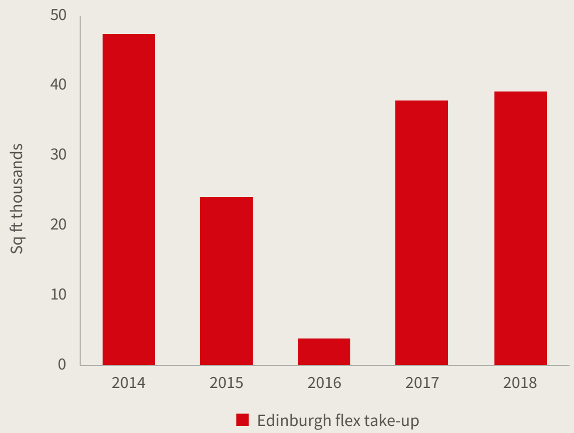
Market overview

Flex workspace providers occupy a modest 1.8% of Edinburgh's total office stock, comprising 413,000 sq ft across the city centre. The largest flex operator by some margin is Regus, who occupy 184,500 sq ft in six city centre and west Edinburgh locations.

Recent take-up has been steady, with similar levels leased in both 2017 (38,000 sq ft) and 2018 (39,000 sq ft), following a blip in 2016. We expect stronger take-up in 2019, driven in part by WeWork, who has recently agreed to open its first location in Edinburgh.

Edinburgh's status as one of the UK's fastest growing tech hubs is reflected in the diversity of the city's flex workspace offerings. Codebase, a tech incubator, operates across a 76,600 sq ft site which was first established in 2014/15, while a few smaller niche operators also cater for Edinburgh's start-up community.

Flex take-up, 2014-18



Source: JLL

Demographics

Population
(Primary Urban Area)
519,600

Numbers employed in technology
(Primary Urban Area)
16,800

Self employed[1]
(Primary Urban Area)
16,700

Flex market

Flex office stock
412,600 sq ft

Average flex operator size
16,500 sq ft

Flex share of office stock
1.8%

Key flex transactions 2017-2019

Operator	Address	Size, sq ft
Regus	One Lochrin Square, Fountainbridge	45,300
WeWork	80 George Street	40,585
Instant Offices	60 South Gyle Crescent	23,558

Source: JLL

Largest operators

Operator	Space occupied, sq ft	No. of locations
Regus	184,479	6
Codebase	76,566	1
Citibase	41,231	2
WeWork*	40,585	1
Instant offices	23,558	1

Source: JLL **opening soon*

[1] *Relates to office-based proxy sectors*

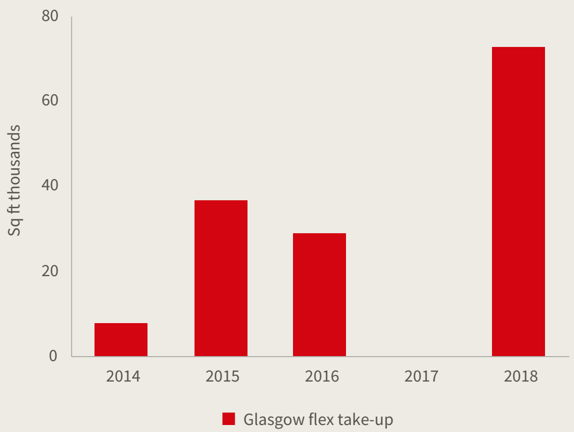
Glasgow

Market overview

Glasgow's flexible office market is in its early growth stages, relative to London, Birmingham and Manchester. JLL estimates that the sector occupies 1.9% of the city's total built stock. The majority of Glasgow's flexible workspace is traditional serviced office space run by national operators, with a smaller share operated by regional providers Clockwise and Nexus.

Flex workspace take-up reached a recent peak in 2018 with 73,000 sq ft transacted in three deals. The bulk of which saw Regus expand its presence to two further locations at 1 West Regent Street and 100 West George Street. Glasgow's largest flexible workspace is operated by Centrum offering private offices, who opened a 45,000 sq ft space at 38 Queen Street in 2016. Looking forward, we expect Glasgow's flex workspace stock to continue to expand at a modest rate, supported by ongoing expansionary requirements, primarily from national operators.

Flex take-up, 2014-18



Source: JLL

Demographics

Population
(Primary Urban Area)
1.3 million

Numbers employed in technology
(Primary Urban Area)
22,400

Self employed[1]
(Primary Urban Area)
16,700

Flex market

Flex office stock
276,000 sq ft

Average flex operator size
25,150 sq ft

Flex share of office stock
1.9%

Key flex transactions 2017-2019

Operator	Address	Size, sq ft
Regus	1 West Regent Street	30,933
Bizspace	The Pentagon Centre, 36 Washington Street	24,854
Orega	9 George Square	21,929
Regus	100 West George Street	19,686

Source: JLL

Largest operators

Operator	Space occupied, sq ft	No. of locations
Regus	82,619	3
Centrum	45,000	1
Clockwise	36,500	1
Spaces	30,000	1
Bizspace	24,854	1

Source: JLL

[1]*Relates to office-based proxy sectors*

Leeds

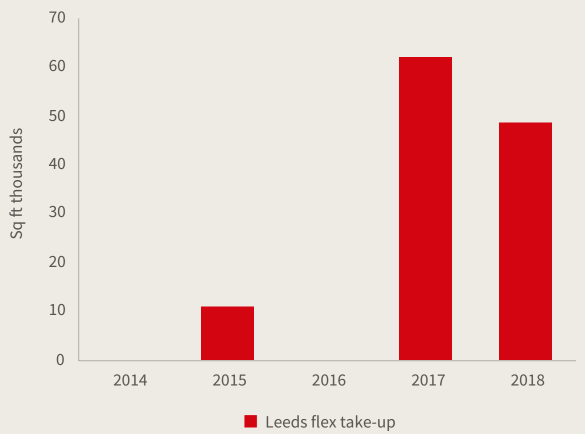
Market overview

In line with some of the other Big 6 markets, Leeds has witnessed strong recent flex space activity. Although it has not advanced at the same rate as Manchester and Birmingham, the sector has grown noticeably over the past 2 years. Over 140,000 sq ft was transacted in 2017 and 2018.

Leeds is home to a handful of established national operators such as Regus and Orega, but also local operators including Gilbanks and Wizu Workspace. Furthermore, Bruntwood operates a government assisted tech hub in its Platform building, enhancing the development of the sector.

A key highlight in late 2018 was the announcement of Channel 4's pending arrival in Leeds for a new national HQ, moving 200 plus staff to the region ahead of Birmingham and Manchester. Although not significant in terms of size, it is politically resonant, endorsing Leeds as a major creative industries hub and encouraging supporting companies to follow them, with flex space operators well positioned to take advantage of any new entrants.

Flex take-up, 2014-18



Source: JLL

Demographics

Population
(Primary Urban Area)
789,950

Numbers employed in technology
(Primary Urban Area)
19,800

Self employed[1]
(Primary Urban Area)
22,200

Flex market

Flex office stock
455,000 sq ft

Average flex operator size
19,800 sq ft

Flex share of office stock
3.8%

Key flex transactions 2017-2019

Operator	Address	Size, sq ft
Avenue HQ	10-12 East Parade	30,527
Tech Hub	Platform, New Station Street	29,396
Regus	Pinnacle, Albion Street	20,344
Gilbanks	1 Park Row	19,838
Our Space	26 East Parade	12,000

Source: JLL

Largest operators

Operator	Space occupied, sq ft	No. of locations
Regus	88,342	3
Bruntwood	63,500	2
Bracken Business Centres	38,480	2
Avenue HQ	30,527	1
The Office Group	30,000	1

Source: JLL

[1] *Relates to office-based proxy sectors*

Central London

Market overview

The flexible office market in Central London is by far the largest in the UK, with total flexible stock of 14.7 million sq ft. Growth in the sector accelerated from 2013, when the flexible office stock totalled 3.6 million sq ft. Take-up has averaged 1.7 million sq ft between 2014-2018 compared with just 252,000 sq ft over the previous five years. Flexible offices have dominated recent leasing activity, accounting for 20% of Central London take-up in 2017 and 17% in 2018. This compares with just 5% in 2013.

Despite the high number of operators in Central London - we have tracked over 150 - there are fewer than 15 operators who operate more than ten centres in Central London and only around 20 who operate more than 100,000 sq ft in the capital. WeWork is the largest operator with a current footprint in the order of 3.5 million sq ft, even though it only opened its first office in 2014.

Flex take-up, 2014-18

Source: JLL

Demographics

Population
(Primary Urban Area)
10.2 million

Numbers employed in technology
(Primary Urban Area)
485,500

Self employed[1]
(Primary Urban Area)
404,600

Flex market

Flex office stock
14.7 million sq ft

Average flex operator size
26,900 sq ft

Flex share of office stock
6.3%

Key flex transactions 2017-2019

Operator	Address	Size, sq ft
WeWork	2 Southbank Place	283,443
WeWork	5 Merchant Square	159,106
WeWork	125 Shaftesbury Avenue	140,000
WeWork	The Stage, The Bard	135,517
WeWork	Aviation House, 125-133 Kingsway	131,515

Source: JLL

Largest operators

Operator	Space occupied, sq ft	No. of locations
WeWork	3.5 million	51
Regus	2.1 million	79
The Office Group	1.4 million	41
Workspace	1.1 million	29
LEO	0.7 million	38

Source: JLL

[1]*Relates to office-based proxy sectors*

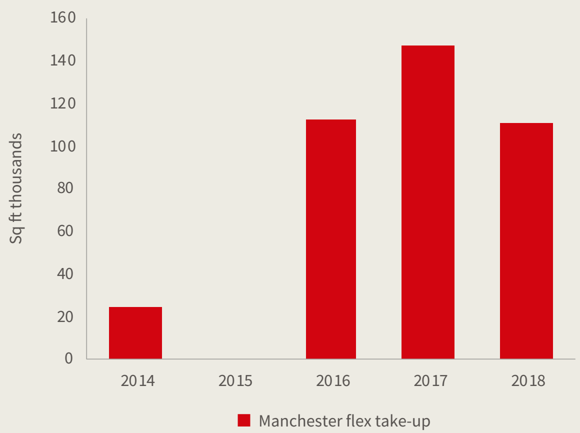
Manchester

Market overview

The Manchester flex space market is the most mature outside London. It has seen a strong rise in recent activity, highlighted by the decision of WeWork to locate its first UK operation outside London in Manchester. Manchester has established itself as the largest regional office market, with a young and dynamic workforce which has helped to boost the growth of the flex space sector.

One of the key characteristics of the Manchester market is the strong presence of national and local operators. For example, local landlord, Bruntwood operates flexible space within its portfolio, with its recent opening at NEO providing a diversified offer of both co-working and private offices, while recent new entrants include Work.Life and Central Working.

Flex take-up, 2014-18



Source: JLL

Demographics

Population
(Primary Urban Area)
2.0 million

Numbers employed in technology
(Primary Urban Area)
44,800

Self employed[1]
(Primary Urban Area)
49,600

Flex market

Flex office stock
756,000 sq ft

Average flex operator size
22,400 sq ft

Flex share of office stock
3.5%

Key flex transactions 2017-2019

Operator	Address	Size, sq ft
WeWork	Dalton Place	76,176
WeWork	No. 1 Spinningfields	55,802
WeWork	1 St Peter's Square	44,000
XYZ Work	2 Hardman Blvd	27,846
Huckletree	Express Building, George Leigh Street	25,800

Source: JLL

Largest operators

Operator	Space occupied, sq ft	No. of locations
WeWork	176,000	3
Regus	128,500	5
The Federation	65,000	1
Bruntwood	56,850	7
Landmark Space	54,000	2

Source: JLL

[1] *Relates to office-based proxy sectors*

Western Corridor

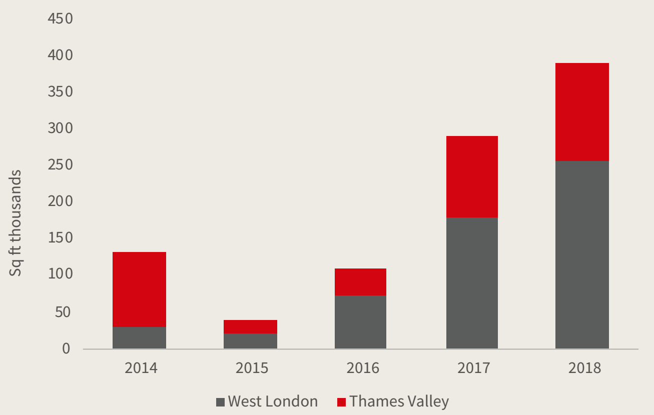
Market overview

The Western Corridor has always been home to several flexible space operators, with the nature of the office environment in the area easily aligned to the flexible space model. IWG has been prominent since the 'dot-com' boom of the early 2000s and it remains the largest operator in the region via its Regus and Spaces brands.

However, the recent rapid evolution of the flexible office sector has resulted in new market entrants and a rise in space being leased by flexible space operators. These occupiers accounted for 15% of all take-up across the Western Corridor in 2018.

As one of the key business centres of the Western Corridor, Reading is a principal location for flex operators, with over 350,000 sq ft of space in the town. Reading has both a strong town centre and out of town flex space provision with established operators, and new entrants present such as Fora, who has recently opened in the town centre.

Flex take-up, 2014-18



Source: JLL

Demographics

Population
3.5 million

Reading population
452,500

Reading numbers employed in technology
40,100

Reading self employed[1]
15,000

Flex market

Flex office stock
2.1 million sq ft

Average flex operator size
24,000 sq ft

Flex share of office stock
2.6%

Key flex transactions 2017-2019

Operator	Address	Size, sq ft
WeWork	12 Hammersmith Grove, Hammersmith	52,023
WeWork	184 Shepherds Bush Road, Hammersmith	45,997
Regus	The Bower, 4 Roundwood Ave, Uxbridge	45,824
Spaces	The Foundry, 77 Fulham Palace Road, Hammersmith	42,000
Instant Offices	Kennet Place, 121 Kings Road, Reading	40,000

Source: JLL

Largest operators

Operator	Space occupied, sq ft	No. of locations
Regus	1,056,066	40
Spaces	257,544	10
WeWork	98,020	2
The Office Group	95,369	1
Orega	87,746	4

Source: JLL

[1] *Relates to office-based proxy sectors*

Beyond the Big 6

Belfast market overview

The Belfast flex space market is expanding in response to the evolution in ways of working and the growth of new businesses particularly in the tech sector. There are more than 30 centres in the city, which account for around 4.5% of the office stock. Much of the growth has come from hybrid centres, while several co-working spaces have also opened. Recent entrants include BE offices, which operates a managed solution, and Clockwise, which is the newest arrival in the city and provides a hybrid offer.

Flex space as % of total stock *4.5%*

Number of self-employed (Primary Urban Area) *30,000*

Number of national operators *2*

Cambridge market overview

The Cambridge flexible space market is polarised between smaller co-working operators in the CBD and larger operators in the outlying areas of the city. Regus has centres at Vision Park and Cambourne Park, while Central Working has partnered with Trinity College to set up a centre at Cambridge Science Park. Demand is supported by the number of high-end businesses and spin offs from the university and the city is well placed for further flex space expansion.

Flex space as % of total stock *1.5%*

Number of self-employed (Primary Urban Area) *4,400*

Number of national operators *3*

Cardiff market overview

JLL estimates that the flex sector accounts for 2.5% of the office stock. Centres typically provide serviced offices, but there has been a gradual influx of co-working centres since 2010. These include Indy Cube, which has set up multiple centres in the city alongside not-for-profit organisations who provide cost effective desk space. There are few multicentre or national operators, except for Regus, which has three centres in Cardiff, and Bizspace.

Flex space as % of total stock *2.5%*

Number of self-employed (Primary Urban Area) *8,500*

Number of national operators *2*

Liverpool market overview

Liverpool is one of the largest regional flex markets, with an estimated stock of around half a million sq ft. The sector is clustered in the city core and in the Ropewalks and Baltic Triangle area. The sector has expanded since 2015 and the offer has evolved, with almost half of the space now being in hybrid centres. Bruntwood operates around 17,000 sq ft of flex space in the Plaza, while Regus, Orega and Citibase have all opened new centres in the last two years.

Flex space as % of total stock *5.0%*

Number of self-employed (Primary Urban Area) *12,700*

Number of national operators *3*

Newcastle market overview

Newcastle has a well-established flex space market. The supply of space has steadily been increasing over the last ten years and we estimate that there are more than 50 centres. As with many tier two cities, the offer is dominated by traditional serviced offices, with few co-working or hybrid operators present. Of the national operators, Citibase and Regus both have three centres in Newcastle, while Bizspace and Spaces are also present.

Flex space as % of total stock *5.0%*

Number of self-employed (Primary Urban Area) *17,700*

Number of national operators *4*

Nottingham market overview

Leasing activity to the flex sector has been moderate and the sector amounts to just over 2.0% of the CBD office stock. Operators are mainly independent, typically providing serviced office facilities but there are a handful of co-working spaces across the city. One of these is Dispace, which launched in the city in 2018 and revitalise non-office space, with two venues in a pub and a hotel. Of the national operators, Regus, Citibase and Bizspace operate centres in Nottingham.

Flex space as % of total stock *2.2%*

Number of self-employed (Primary Urban Area) *11,700*

Number of national operators *3*

Thank you

We would like to thank the following people for their valuable insight

- BE Offices - David Saul and Simon Rusk
- British Land (Storey) - Joff Sharpe
- Bruntwood - Andrew Butterworth
- Central Working - Grant Powell
- Eoffices - Pier Paolo Mucelli
- Fora - Enrico Sanna
- Gilbanks - Alex Duckett
- GPE - James Pellatt
- HBR (Hubhub) - Steven Skinner
- Hubble - Tushar Agarwal, David Anderson and Alex Richardson
- IWG - Richard Morris
- Independent - Philip Grace
- Knotel - Chris Namih
- Landmark - Rob Strachan
- LandSec (Myo) - Oliver Knight
- Legal & General (Capsule) - Andrew Mercer
- Orega - Nadia Garcia
- Orbit Developments - Paul McLeman
- Runway East - Natasha Guerra
- The Clubhouse - Adam Blaskey
- The Office Group - Charlie Green
- WeWork - Patrick Nelson
- Workspace - Chris Pieroni
- Work.Life - David Kosky

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