Adaptive Spaces

UK Flex Market Update 2024

REPORT

UK

REAL ESTATE

CBRE FLEX

Introduction

This report explores the key trends across the UK Flex market, providing insight and analysis to address stakeholders from the occupier, operator, and investor community. As evidenced in our Q1 report, corporate flexible office take-up has become a significant contributor to the growth and maturity of the market. This report looks at occupier demand across the UK, assessing trends across client type and size.

The 'flight to quality' term is now engrained in the corporate real estate narrative. The statistics support the trend, and we explore what this means with regards to pricing, discount, and sustainability.

For the first time, we have gone beyond CBRE's transactional data, through round table discussions and questionaries we have collaborated with operators to create a comprehensive market-wide snapshot for Birmingham and Manchester in 2024. This will form the initial step towards addressing data ambiguity and fostering greater collaboration within the market. Utilising CBRE insights from across the UK we explore the size bandings and how this can help influence future workplace strategy for operator growth.

Additionally, Q3 London transaction data assesses the evolution of the market; flexible workspaces appeal to a more diverse group of occupiers who are drawn to the sector by the design innovations and the breadth of products.

Through a UK narrative, this report investigates how sector alignment to flex differs in regional markets.

UK pricing

To provide an overview of how Flex is performing across the UK, CBRE tracks the average rate as well as the top rate achieved in each market (cost per sq ft).

Leeds

The completion of West Village has significantly contributed to the growth of the Leeds market in the first half of 2024. This development has allocated a considerable portion to dedicated serviced office space, responding to strong demand in the city.

Liverpool

Liverpool's Flex market has remained steady in H1 2024. Rates are likely to improve in H2 as premium operators launch new centres across the city.

Bristol

The Bristol market has had a successful first half of the year, take-up was boosted by a large tech company acquiring 175 workstations with a national operator in May. Quality workspaces remain at high occupancy, reflecting the need for further supply and new entrants to the market. Best in class options have increased prime rents, while the average is reflective of the number of smaller independent operators in the city.

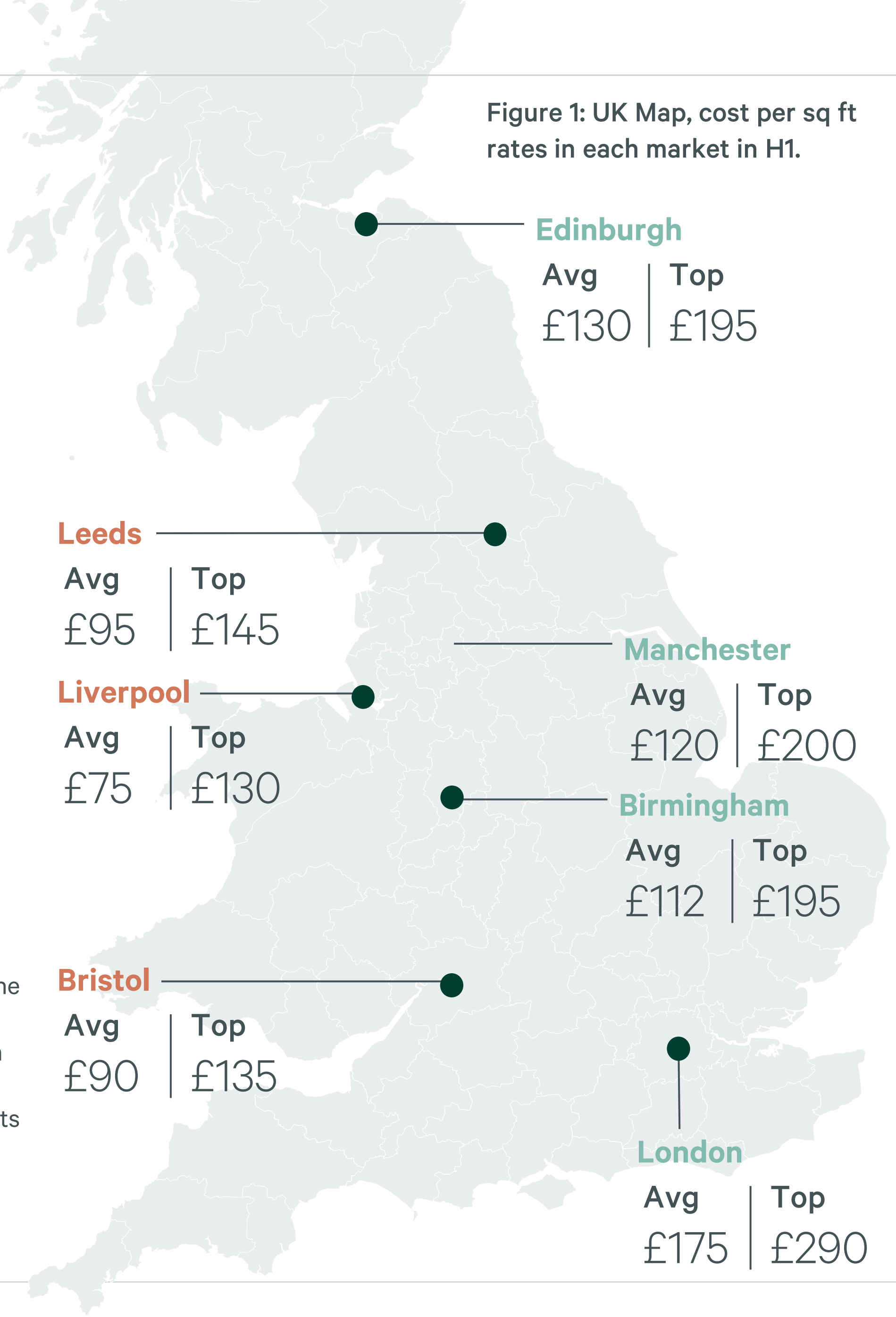


Figure 1: UK Map, cost per sq ft rates in each market in H1.

Edinburgh

Historically, Edinburgh has been an incredibly tight market, however new centre openings alongside movement from larger occupiers has created rare availability in this thriving city. We expect to see rates rise in the second half of 2024.

Manchester

The Flex market has demonstrated stability and resilience throughout the first half of 2024. H1 has seen an increase in demand for smaller offices (below ten desks) in more premium spaces. This trend has subsequently led to an upward trajectory in the average price per sq ft, with premium rates surpassing £200 per sq ft. This affirms the market's recognition of the value and significance of flexible office solutions.

Birmingham

Birmingham continues to mature in terms of pricing and offering. This is driven by a new entrant to the city centre set to deliver 20,000 sq ft of premium flex space. There is movement in the occupier market, with a number of large corporate occupiers set to vacate their flex space in Q3. We will be monitoring this market closely to analyse the effects on pricing. Outside the city centre, flexible workspaces continue to thrive at Brindley Place, with operators maintaining high occupancy and achieving rates of £135 per sq ft.

London

Strong operator take-up in 2023 led to increased supply in the London market in H1 2024. This was met with increased take-up by large occupiers (5,000+ sq ft), who were able to benefit from pre-let opportunities delivering bespoke fitouts. This has reduced the average rate for CBRE transactional data from previous quarters. To attract these larger occupiers, operators particularly in the West End markets have offered greater incentives to remain competitive.

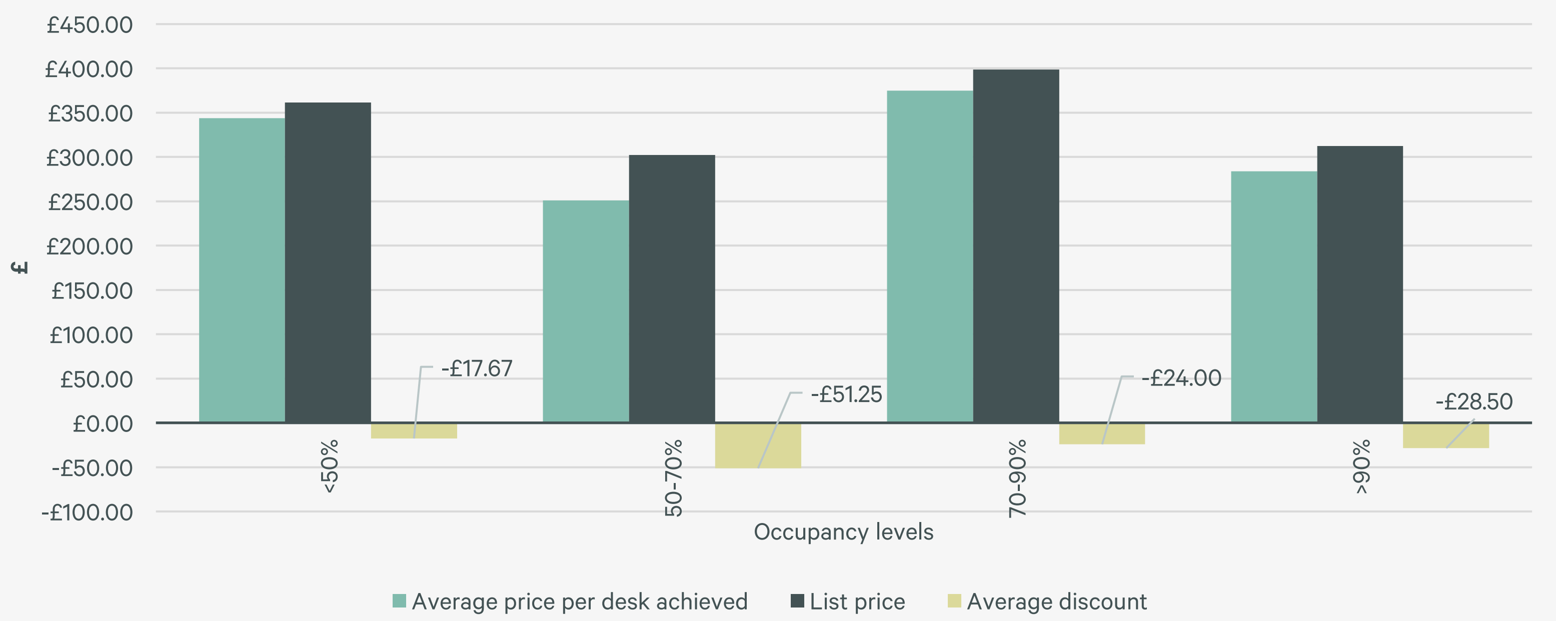
Market overview: Birmingham

Birmingham's city centre flex market incorporates 745,621 sq ft across 22 buildings. This has increased by 20,000 sq ft in H1 2024, with Runway East opening their new site at Arca in June. This new site opening in Q2 has resulted in a total of c.208,771 sq ft of available flex space across the market. The market is diversifying, reflected in its varying price points from £250 per workstation to £600 per workstation.

Figure 2 reveals some interesting trends showing both list and achieved pricing on a per building basis, alongside current occupancy levels. This demonstrates that premium offerings are typically the highest occupied, largely because:

- Operators at a higher occupancy are able to hold high desk rates and offer minimal discounts owing to demand.
- Trends of flight to quality, as evidenced throughout the UK market.
- Occupiers are more agnostic around specific geographical locations (e.g. the CBD) and are prepared to compromise on this to find better quality options.
- Anomalies in the data: In the >90% occupancy range, Brindley Place is a thriving submarket located just outside of the city core. Pricing is lower outside the CBD, and pricing is reflective of being high for the submarket rather than the city.

Figure 2: Birmingham, average occupancy level compared to average discount per desk



Source: CBRE

72%

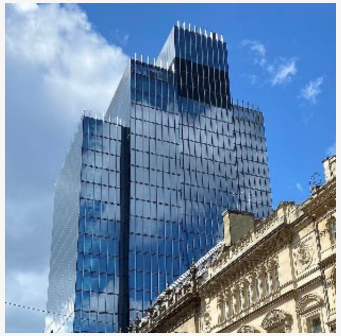
Average occupancy level, Q2 2024

£339.86

Average price per desk, Q2 2024

X+ WHY

103 Colmore



SPACEMADE

10X at 10 Brindley Place

Market overview: Manchester

In Q2 2024, the occupancy rate in Manchester's flex office market has remained stable at 75%. However, pricing has increased from £359 in Q1 to £372 per desk.

The total square footage of flex office spaces across Manchester city centre is currently at 1,200,000 sq ft and is the largest market outside of London. This market is growing, with an estimated 200,000 sq ft set to open in the next six to nine months. This space will be premium in the market, capitalising on the demand for this product evidenced in our market research.

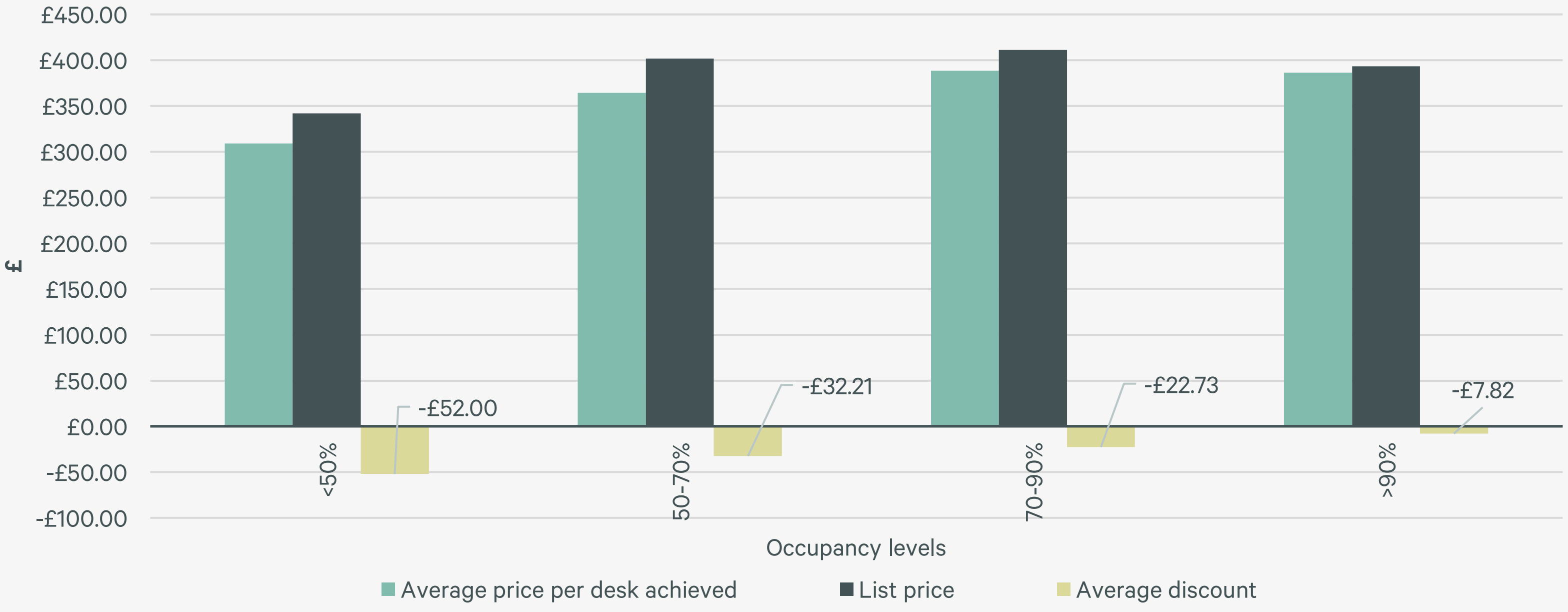
Figure 3 demonstrates the following trends:

– Occupiers are willing to pay more for premium products with rich amenity space, driving up pricing and reflecting high retention rates.

– The demand for such spaces highlights the importance of providing high-quality and well-equipped work environments which attract businesses in the competitive flex office market.

– Data intricacies: In the Manchester market, flex is offered in some of the best buildings in the city. Gilbanks at 11 York Road has been 100% occupied for 12 months. This is due to a specialism in product which appeals to the market, and the high-quality location and building.

Figure 3: Manchester, average occupancy level compared to average discount per desk



Source: CBRE

75%

Average occupancy level, Q2 2024

£370.84

Average price per desk, Q2 2024

x+why

100 Embankment

INDUSTRIOUS

24 Mount Street

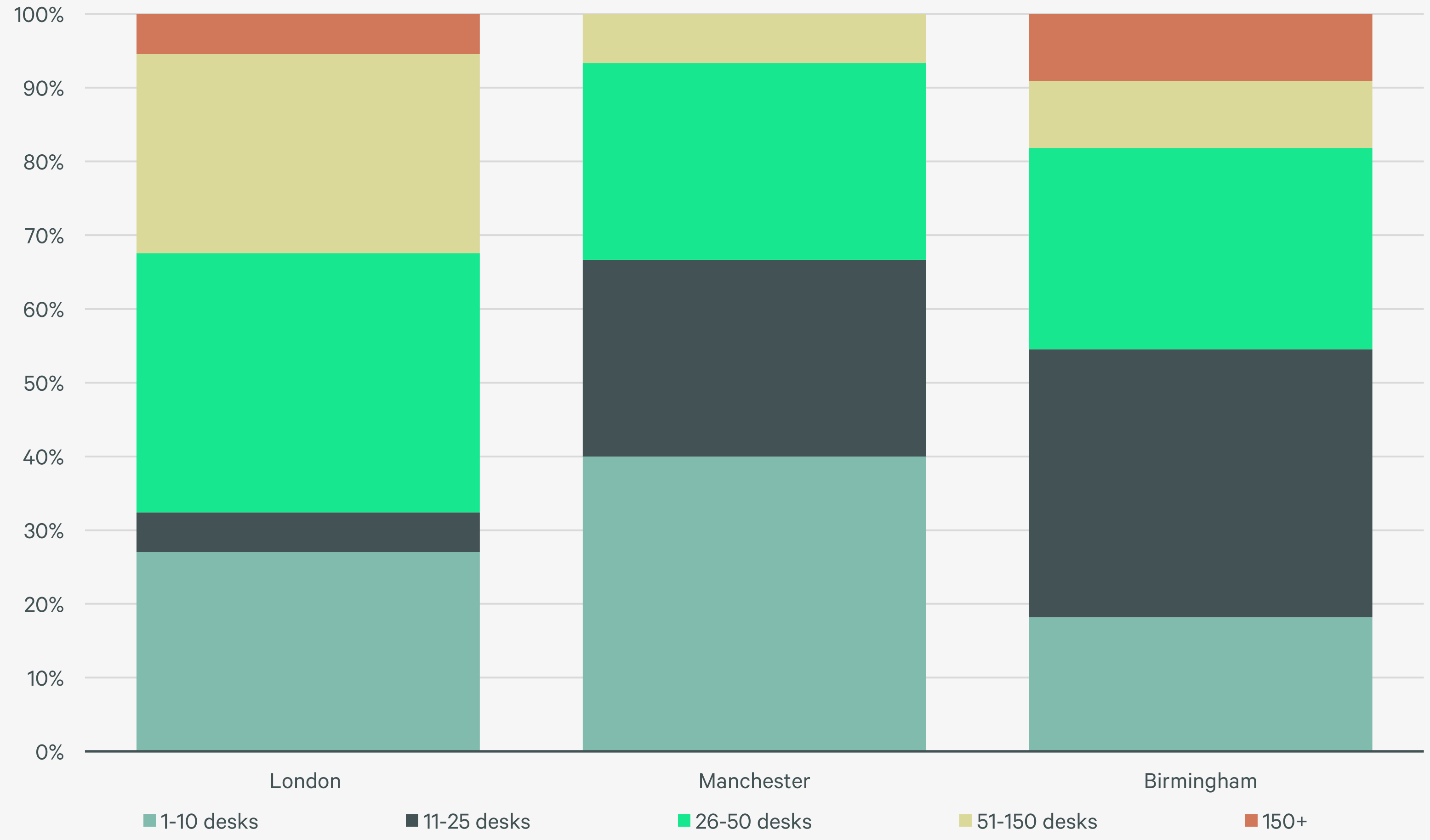
UK transaction analysis: H1 2024

The flexible workspace market continues to appeal to a diverse range of occupier. Across UK markets, the 1-25 desks size band is most active, and unsurprisingly this 'core' flex offering remains a central part of CBRE's transaction base.

With a far greater proportion of flex space in the office market (10%+), London continues to attract larger organisations in the 25 desks+ market, equating to over 60% of H1's transactions. This represents an increase in larger requirements from 2023 and shows a continuing trend of corporates acquiring flex space.

This trend is consistent in Birmingham and Manchester, where flex represents a far smaller proportion of the market, 5.5% and 4%, respectively. This demand is driven by the provision of high-quality enterprise space, attracting larger business to Flex space who would have only considered conventional space to the market. In both cities, we believe the evolution of the flexible workspaces with larger floorplates has directly impacted the scale of transactions.

Figure 4: Number of CBRE Flex transactions H1 2024, by size band



Source: CBRE

Occupier market demand by sector

The Tech, Media and Telecoms sector (TMT) remains a dominant and consistent user of Flex in London. Initially this was due to to the early adoption of flexible working with shorter contracts and the ability to scale quickly. As the market has matured however, we have drawn parallels with clients across all sectors, specifically in length of term. In H1, all TMT sector transactions acquired space on 12 months+ contracts, with one third of occupiers taking space for 24 months+.

This is an interesting contrast to the Birmingham and Manchester market, which shows Business & Professional Services such as recruitment greatly overshadow TMT in terms of transaction numbers.

CBRE research demonstrates that tech talent pools in regional cities are growing at a significantly faster rate than in London, therefore we predict a surge in occupier demand as a result.

TMT

41%

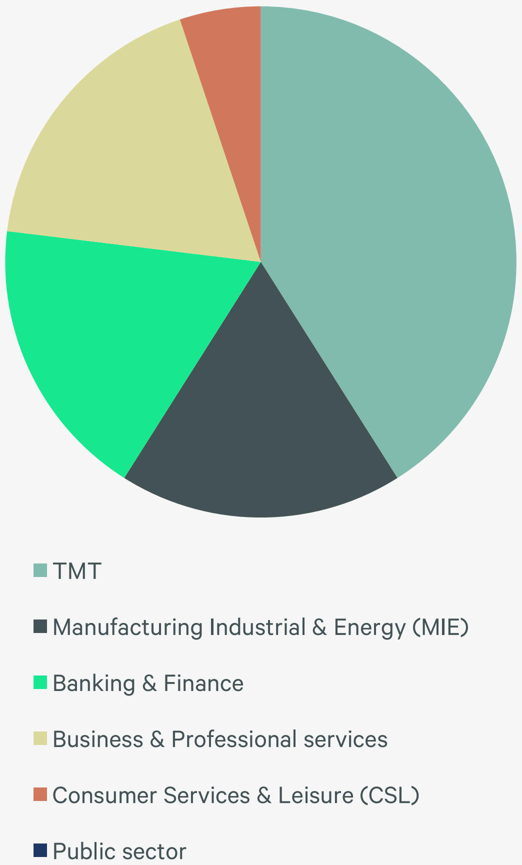
in London

Business & Professional Services

52%

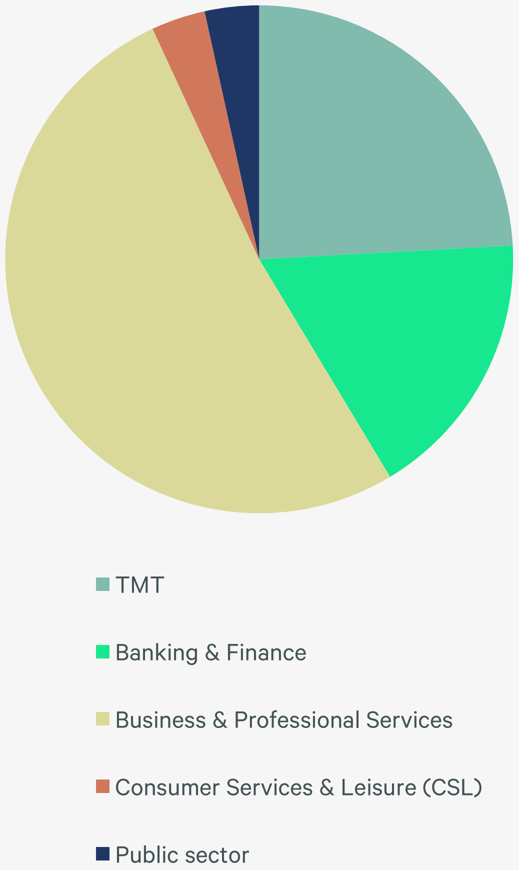
in Birmingham and Manchester

Figure 5: Number of CBRE Flex transactions in London in H1 2024 by sector



Source: CBRE Research

Figure 6: Number of CBRE Flex transactions in Birmingham & Manchester in H1 2024 by sector



Source: CBRE Research

London: Sector analysis

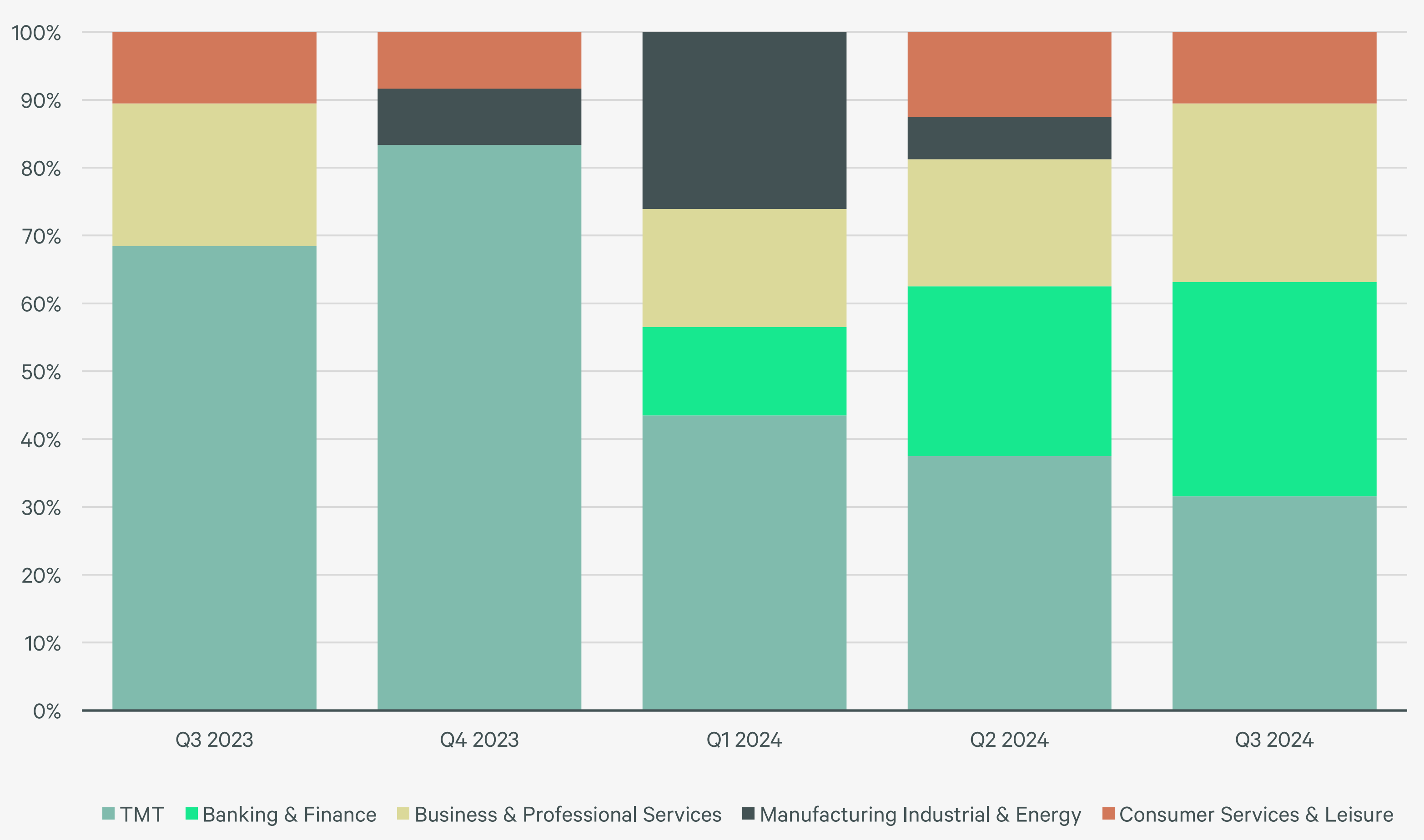
As evidenced in our European Office Occupier Sentiment Survey, 42% of occupiers anticipate 11-50% of their portfolio will include flexible workspace in the next two years. This analysis was taken from a wide spread of CBRE occupiers, collating data from SMEs and global corporates across all sectors. This trend can already be evidenced in London, the most mature market in Europe.

As breadth of flexible workspaces have evolved, a more diverse range of occupiers have entered the market. This year has seen greater take-up from organisations in Manufacturing, Industrial & Energy such as Life Sciences, emulating trends seen in the conventional market. CBRE's London transaction data indicates a broader range of industries are embracing flexible work solutions, rather than a focus on growth in a single sector.

42%

11-50% or more
in Flex in two years,
up from 25% today

Figure 7: Number of CBRE Flex transactions in London in by sector



Source: CBRE

London transactions by sub-market

Throughout 2024 a trend emerged whereby occupiers were acquiring larger space of a higher quality and were more agnostic in location across the core sub-markets. In most cases, these occupiers considered conventional leased opportunities but proceeded with Flex to try out new real estate strategies and to attract talent.

We have transacted in multiple 100+ desk transactions from a range of occupier sectors across all key submarkets. This diverse data set helps to draw conclusions on which markets our occupiers have been most active in accruing space in 2024. Particularly in the West End, occupiers have transacted in high quality flex space with premium amenity capitalising on the pre-let opportunities in the market

Across London many operators were prioritising an occupancy drive, leading to increased incentives and a lower average price rate per sq ft than previous quarters.

3,695 sq ft

The average size Flex deal for Q1 –Q3 2024

Figure 8: Number of desks taken through CBRE Flex Transactions Q1 – Q3 2024 by London sub-market

Source: CBRE

Is the London Flex market stabilising?

As per CBRE's transactional data, the number of desks acquired per quarter has begun to stabilise since the spike in Q1 2023. This can be attributed to a variety of factors, namely corporate demand with strategic requirements alongside natural curiosity from SMEs exploring the evolution of the market.

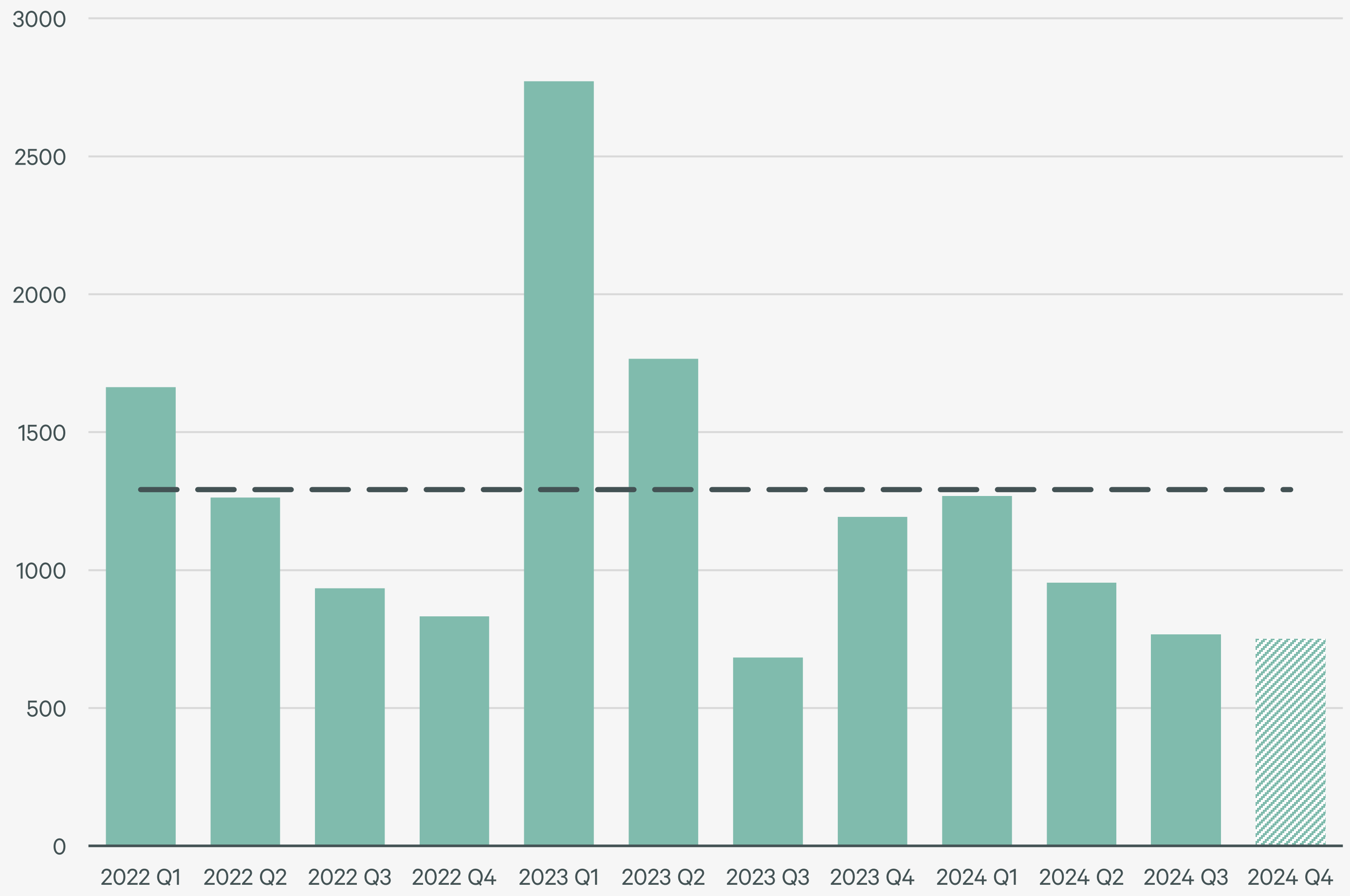
The 750,000 sq ft of net growth in the Flex market in 2023 facilitated large scale pre-let opportunities, where corporate clients were able to influence design and workplace in tandem with a bespoke fitout programme. Operator take-up year to date is a lot lower, leading to supply constraints and an availability challenge for larger requirements.

All the data dictates that occupier demand for Flex space remains buoyant and is expected to continue. With the emergence of the landlord community offering high-quality fitted space, in addition to both managed provider expansion and the enhanced product offering from operators, occupiers now have more choice than ever before.

> To capture continued occupier demand, we anticipate further development of both the design and functionality of the workplace, and in some markets, greater price compression. As the market becomes more mature, we also predict further consolidation, especially with larger national and international players looking at agile, boutique practices with access to new locations.

Michael Glynn,
Head of Flex UK, CBRE

Figure 9: Desks taken through CBRE transactions in London, Q1 2022 – Q3 2024



Source: CBRE

Operator insight: x+why

Throughout this report we have referenced 'flight to quality' in the Flex market; we are engaging with a wide range of occupiers who are consistently choosing more premium Flex offerings. We sat down with CEO of x+why, Rupert Dean, to discuss operator growth, occupier demand, and the role sustainability will play in further expansion.

Occupier experience is becoming a key focus in the flexible workspace market, with sustainability and food & beverage (F&B) offerings gaining prominence. This trend reflects a shift towards creating environments that enhance tenant satisfaction and well-being, emphasising the need for sustainable practices and quality F&B options to attract and retain occupiers.

Lucy Blackwell,
Workplace Lead,
CBRE

"Occupiers are increasingly prioritising ESG and sustainability in their building choices, recognising these factors as essential for achieving broader business goals. This not only enhances their brand image but also plays a crucial role in attracting and retaining top talent by creating healthier, more inspiring work environments. Flexible workspaces, like those offered by x+why, provide an excellent gateway to achieving these goals, offering adaptable and sustainable environments that meet the evolving needs of modern businesses."

The Foundry, Brindley Place, Birmingham

Gaining B-Corp status in 2021, x+why has been amongst market leaders in sustainability. From an operator side, do you see sustainability as requirement for occupiers?

Rupert Dean
CEO, x+why

"It is great to see there is a growing market of sustainably conscious occupiers, even those with a sustainability agenda, do acknowledge that this is second to space that aligns with their needs. The spaces need to be amazing and operating at a high standard and this still counts for 80% of the value offer. We want ideally want to partner with companies who share our concepts but we completely understand engagement levels may vary. Having a mission and a clear mission statement helps facilitate connections and engagement easier but we understand that engagement is not all be about sustainable impacts, we want people to join our community and get involved in a wide range of events for fun as well!"

Dan White,
Head of Flex –
Midlands, CBRE

"All of the occupier transactions I have done in the regions with x+why have agreed with the purpose of the mission statement which takes the form of a pledge within their terms. General feedback is that these align fully with what corporate occupiers are looking to achieve on ESG themselves."

Operator insight: x+why

Across your sites, the F&B and events space is premium, do you feel it is outdated to refer to market just as flexible office space?

Rupert Dean
CEO, x+why

“As an umbrella term, I feel it is quite out-dated and a bit confusing but it brings into question what a landlord wants to achieve when they say they need a ‘flex provision’ within the building. Do they mean amenity such as meeting rooms or premium conferencing or do they actually mean flexible office space? Often it is the ability to have high quality amenity provision in the building for their conventional tenants which can also be used as an additional workspace as well as an amenity provision.”

Evelyn Heavens,
Senior Flex Advisor, CBRE

“Rupert’s response highlights the shift in narrative that we are seeing in the market; the perception of flexible workspace differs depending on the stakeholder. We believe that the diversity of product will lead to an updated term for ‘flexible office’.”

The Orchard, 1 Great Cumberland Place, London

Conclusion

01

In H1 2024, flexible workspaces have matured in the key UK markets. Strong operator take-up in Birmingham and Manchester indicates that flexible workspaces will continue to grow and thrive in the regions.

02

Across the UK, CBRE is transacting with a diverse range of occupiers across all size brackets, a testament to how flexible workspaces have matured to appeal to the 'mainstream' occupier.

03

In London, pre-let opportunities have enabled large scale occupier take-up in 2024 across the core markets. Pre-let opportunities offered the ability for occupiers to bespoke their fit-out and 'test out' hybrid working while not being locked into a long commitment.

04

Operator take-up in London has slowed towards the end of this year, which may lead to constricted supply. We anticipate that trend of 'flight to quality' will continue with occupiers becoming more agnostic on location across core markets.

05

We have predicted M&A activity since the pandemic, and with growth proving harder to achieve organically, we expect to see operators and landlords come together to form larger providers that will benefit from economies of scale through larger portfolio scale.

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