UK Commercial – 2024

SPOTLIGHT

Savills Research

Spotlight: UK Flexible Offices

savills

Runway East, Aldgate East

Amenity ● Polarisation ● Diversification

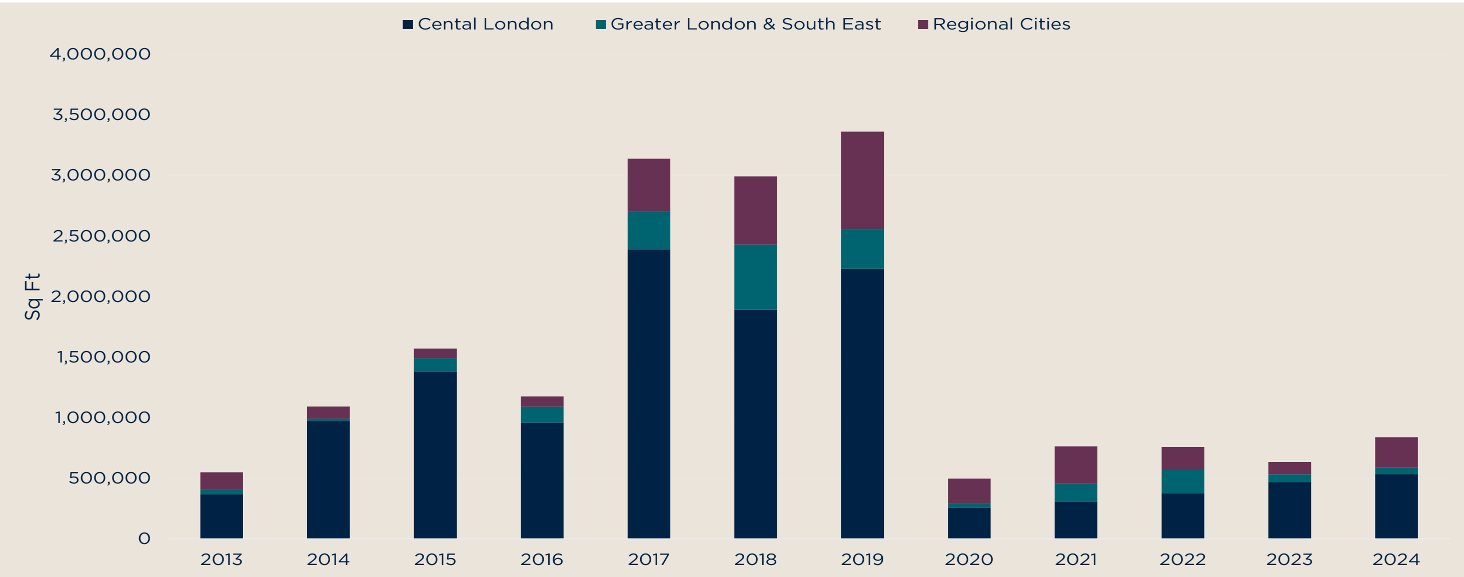
23,000 sq ft
Average deal size since 2023-Q3 2024

Most active operators 2023-Q3 2024
Orega, Cubo, Halkin

Market take-up
Central London has accounted for 68% of operator take-up in 2023-Q3 2024

Flexible office operator take-up 2013-present

2024 operator take-up is set to exceed one million sq ft which would be the highest post Covid-19 total



Source Savills Research

The expansion of the flexible office market continues amidst a growing demand for managed spaces

Flexible office operators have continued to respond to the ongoing desire for flexibility from occupiers which has been reflected in the improved levels of leasing activity. At the end of Q3 2024, take-up from operators reached 839,000 sq ft which was the highest level at this stage for the year since 2019.

It is expected that take-up from operators will exceed over 1 million sq ft by the end of the year which would be the highest level since Covid-19, demonstrating the expansion of the sector. Workthere has reported that enquiries for flexible office space have increased by 14% year on year at the end of H1 2024 and 206% above pre-Covid levels, highlighting the expansion in demand.

Demand from operators has been concentrated in Central London

Central London has experienced the greatest demand from operators in 2024, accounting for 64% of take-up across the UK. Notably, there have been three transactions over 50,000 sq ft, the largest being Techspace leasing 80,000 sq ft at 140 Goswell Road.

Operators have also targeted new sites across the regional markets, predominantly in Big Six regional city centre locations. This trend has been evident this year with 252,000 sq ft acquired across the regional markets by the end of Q3 which represented a 150% increase when compared to the same time period in 2023. Notable openings included Gilbanks leasing 34,000 sq ft at No.1 St Michaels, Manchester and Cubo acquiring 59,000 sq ft at No. 1 Spinningfields, Manchester.

New wave of entrants into the flexible office sector

The market has continued to mature with a new wave of operators establishing a presence across the UK in recent years. The new entrants are both from global and domestic operators highlighting the strength of the UK flexible office market. Notably, Industrious plans to open 30 to 50 new centres globally.

Cubo and Gilbanks have also expanded their portfolio, both of these operators have originated from the UK regional market. Established operators are also expanding their footprint across the UK. IWG Group announced it plans to open 2,000 new centres in the next five years across the UK.

There is a growing polarisation in demand between prime and secondary centres

The flight to quality evident in the conventional office markets has also been mirrored in the flexible office sector. Since the start of 2024, 84% of space leased by operators has been of Grade A standard.

Occupiers are seeking prime flexible workspace that offer multiple amenities. This preference has resulted in operators increasing the quantum of amenity space in their centres. Gyms, saunas, roof terraces and private dining and club spaces have all been included in new operators schemes.

Occupiers are seeking to attract and retain staff in a competitive labour market by providing aspirational workspaces. Savills Research recently surveyed [HR professionals](), which uncovered that 90% of respondents believed that real estate plays an important role in attracting and retaining talent.

This sentiment will help drive demand for best-in-class flexible workspaces. Historically, corporate tenants would be able to lease space in buildings which provide multiple amenities whereas smaller companies would occupy space in schemes with either limited or no amenity.

Flexible workspace can cater for requirements of smaller occupiers whilst also enabling access to amenities which is proving attractive for these occupiers. This is increasingly becoming more important as occupiers of all sizes are seeking to align their workspace with their business values.

Consequently, the demand for amenities, such

> "The flexible office market has continued to evolve with a greater diversification of products available to customers."

as prayer rooms and parents rooms are not solely from larger corporate occupiers. Smaller occupiers are also demanding amenities that can support and foster inclusive and accessible work environments.

This trend is resulting in a polarisation in demand between prime and secondary centres which has seen occupancy levels fall at poorer quality centres.

There are increasing number of centres that provide a hospitality-style five-star service to their customers which is becoming more essential to help attract and retain tenants.

The centres that do not provide these services to their customers will experience falls in their occupancy levels as competition between operators intensifies amidst the ongoing expansion of the sector.

Diversification of Flex Space

The flexible office market has continued to evolve with a greater diversification of products available to customers. This trend has further developed in 2024 with the increasing provision of managed spaces.

This offering is a blend of conventional and serviced office space. The operator or landlord will provide fully fitted space that requires no tenant operational expenditure. The quantum of space can range from a suite to an entire building. The amenities provided by the landlord for the tenants are for their private use, unlike serviced office space which provides shared amenities.

Managed spaces are becoming more frequently sought after by tenants who are seeking a flexible, long-term and self-contained workspace. This trend was reflected in Workthere's UK [H1 24 Flexible Office Market Snapshot](), where only 14% of enquiries were for project or swing space, demonstrating that flexible office options are a longer-term solution for occupiers.

Central London landlords and operators have been leading the trend of providing managed space to occupiers. This type of offering has evolved from Cat A+/fully fitted space delivered by landlords.

There has been limited provision of managed space in the regional markets, there is, however, notable demand for Cat A+/fully fitted space in the regional markets. This trend has been more evident in larger centres, notably in Manchester, where 23% of all lettings below 5,000 sq ft in the city centre in Q1-Q3 2024 have been for fully fitted suites.

Looking forward, we expect managed space to become more prevalent across the regional markets, with landlords and operators seeking to capitalise on the existing demand for flexible and fitted office space.

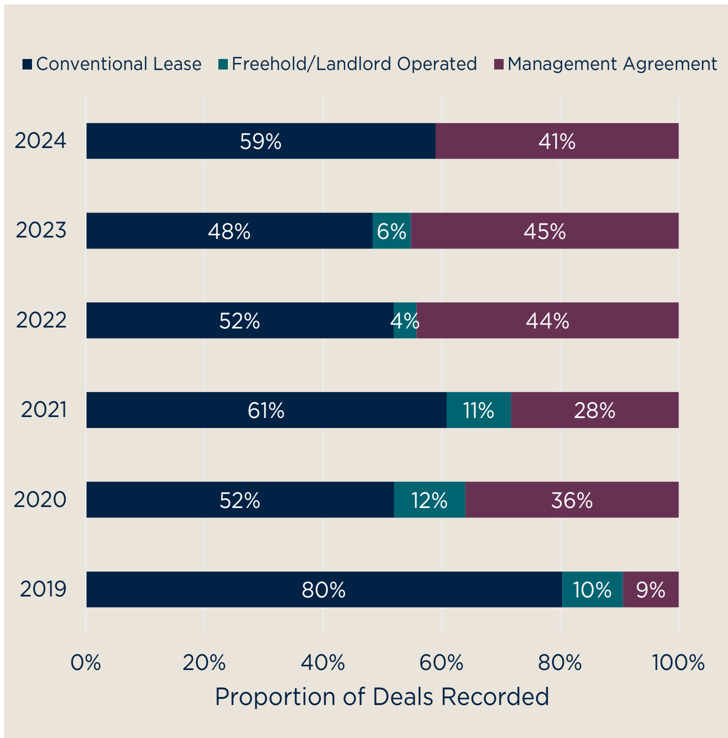
Management Agreements

Management agreements have become more accepted in the market place as landlords and operators can experience the mutual benefits of a successful flexible office space offering. Prior to Covid-19, management agreements were rare with only 9% of flexible office operator transactions adopting this deal structure. The proportion has been steadily rising since then and currently sits at 41% of deals recorded in 2024.

Landlords are increasingly viewing flexible office space as an amenity and a management agreement can provide greater control on how amenity space interacts with the wider building. Well-structured management agreements can enable both operators and landlords to benefit from the increased demand for flexible office space. According to Workthere, the average price of a private London office desk has increased by 12% from the previous year. The growing polarisation between prime and secondary centres can provide motivation to both operators and landlords to maximize the returns of management agreements.

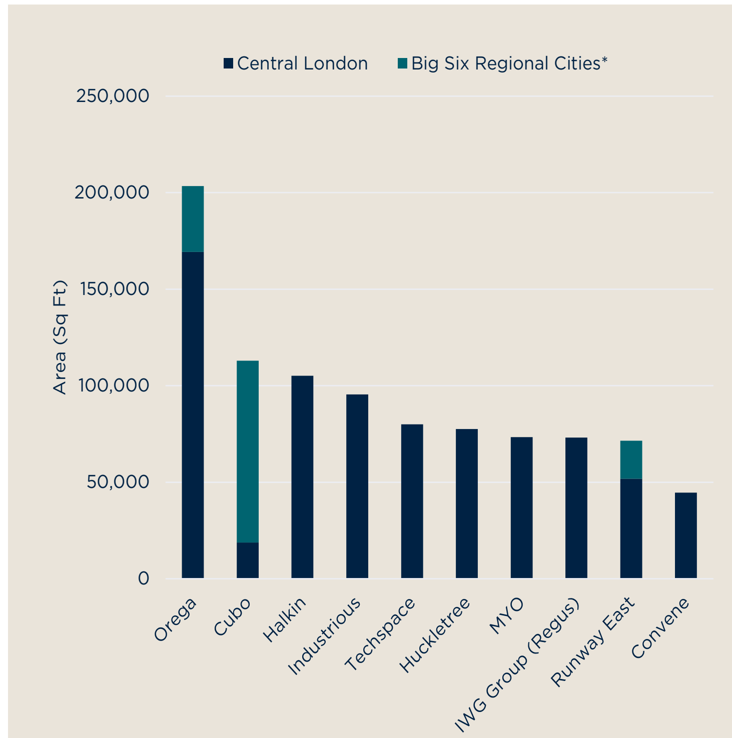
Flexible office operator transactions by deal type 2019-present

The proportion of management agreements in the serviced office sector is



Take-up by Operator 2023-present

Orega, Cubo and Halkin have acquired the highest quantum of space since 2023.



Source Savills Research *City centre markets are only included

Savills Commercial
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