

ARTICLE | Adaptive Spaces

Managing Flexible Office Space

TOP 10 RECOMMENDATIONS FOR LANDLORDS
CONSIDERING FLEXIBLE SPACE SOLUTIONS



Introduction

While a huge volume of material explores flexible office space from an operator, occupier or investor perspective, discussion of property management's importance in the world of flex has received considerably less attention.

Now, property management is taking on a pivotal role in meeting rising tenant demand for flexible space.

Simultaneously, the pandemic has induced an increase in direct and sublease vacancy and a softening of rents across many markets. This trend is likely to increase the urgency for landlords to explore leasing space in a different way, and one that in many cases will lead to flex.

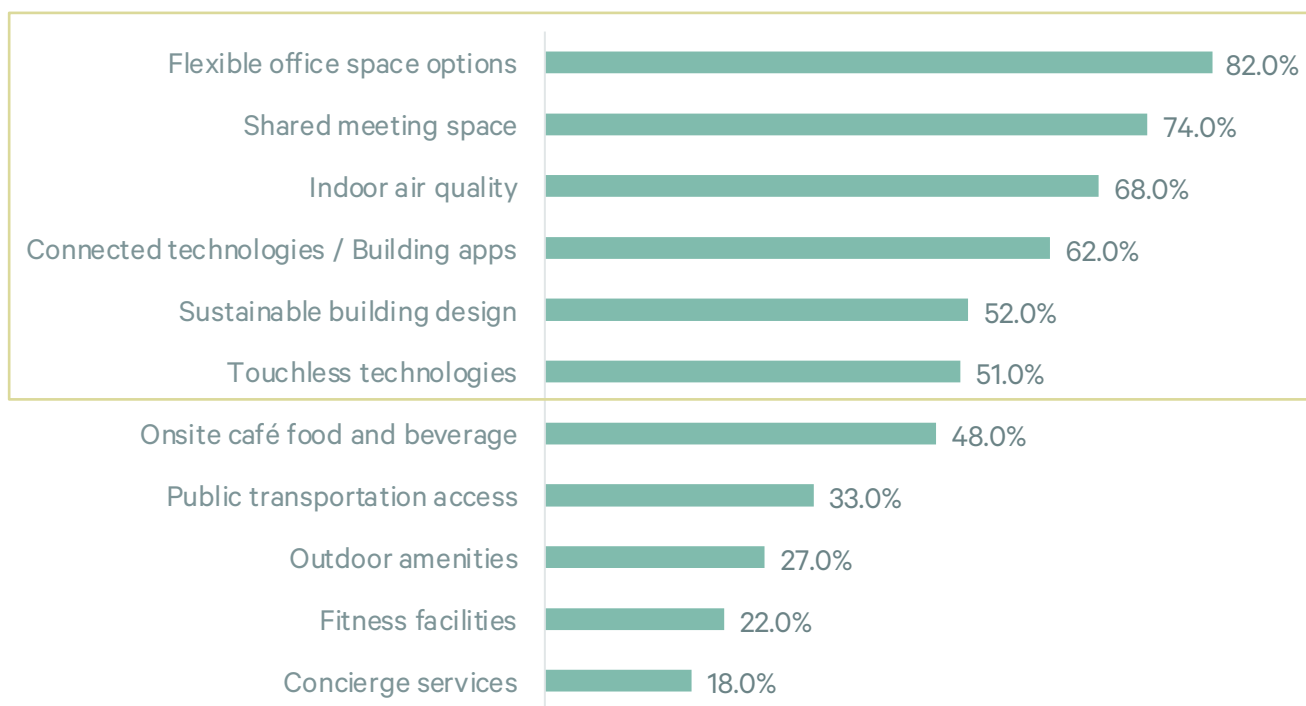
This need for change is creating myriad challenges—including flex space design and density, the impact of flex on building operations and the new skillsets required to staff flex spaces—many of which can be solved using the expertise of property managers.

CBRE professionals in the U.S., Europe and Asia Pacific have identified the top 10 property management opportunities, challenges and priorities landlords need to consider when incorporating flexible space into their buildings.

1. Recognize that flexible space is here to stay.

CBRE's regular surveys of senior-level global real estate executives consistently find that flexible office space remains an essential component of their long-term real estate strategy. In fact, many of these companies now expect flex to play a greater role in their portfolio strategies than prior to the pandemic, with flex space now firmly established as the single most-desired building amenity globally.

FIGURE 1: Most in-demand building attributes in future



Source: The Future of the Office Survey, CBRE Research, September 2020.

The pandemic has provided added impetus to many of the long-term trends driving occupier demand for flexible space in recent years: the emergence of a hybrid workforce and the role of the workplace as a tool to attract and retain talent, for example. As a result, occupiers in the Americas and Europe in particular, and to a lesser extent Asia Pacific, are doubling down on reducing long-term fixed commitments in favor of space that provides them with the flexibility to swiftly expand and contract when needed to accommodate business needs.

As companies in the U.S. seek to entice employees to return to the workplace, the provision of well-managed flex space supported by amenities, enabled by technology and featuring personalized human-delivered services is being offered as a major incentive, so much so that buildings lacking a flexible space offering are now seen as having a major disadvantage.

¹ The Future of the Office Survey, CBRE Research, September 2020.

EMEA is reporting a similar trend of increasing occupier demand for flexible space, in particular well-designed space that offers amenity, connection and community, rather than somewhere just to locate desks.

Optionality is informing demand for flex space in Asia Pacific. Multinational corporations in Asia view flex as a hedge against headcount uncertainty, providing them with options to avoid committing to fixed locations, long-term leases and high upfront fit-out costs. Asian companies, among whom hiring intentions are positive, are also attracted to the diverse locations and cost-effective nature of the flex market.

As landlords consider if and how flex can be introduced to their buildings, property managers will need to respond in terms of how they operate these assets.

2. Identify the appropriate operational model.

Landlords are already well aware of the variety of flex space operating models available to them, including signing traditional leases with flex operators; forming joint ventures and profit shares; entering into management agreements; and establishing their own platforms.

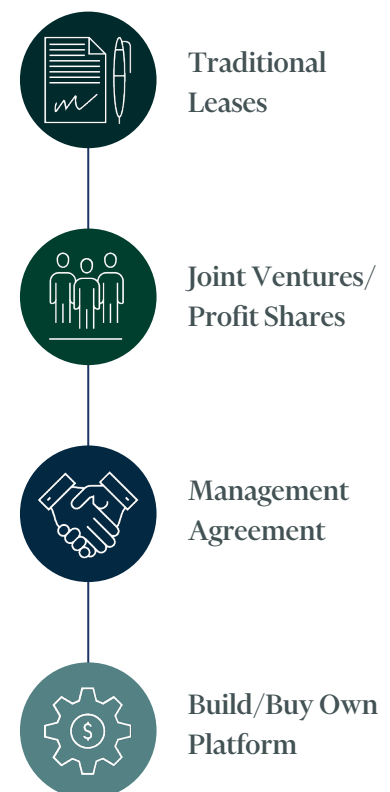
CBRE's flex space experts in the U.S. have observed stronger demand for management agreements over the last 12 months, with owners seeking to collaborate with reputable third-party flex operators that meet the traditional landlord requirements of covenant strength and stability from both a business performance and financial perspective.

In EMEA, operators are leading the shift to management agreements as they seek opportunities to reduce capital expenditure and avoid lease liabilities. Some operators are even encroaching into property management and offering to take on entire buildings on behalf of landlords, although in many cases these operators may still outsource aspects of facilities management.

Asia Pacific is also witnessing a move away from traditional leases with operators and towards a management structure. Recent months have also seen an increase in models where large landlords create their own flex space offering and then run it themselves.

Depending on the model adopted, this will present a new set of challenges for landlords and property managers. These challenges are often exacerbated by large, diverse and global office portfolios, where a one-size-fits-all model may not be appropriate.

FIGURE 2: Flexible space operating models



While many landlords are still evaluating the model that works best for them, some now recognize that operating flex space involves significant CapEx and considerable administrative and operational challenges and are therefore looking to partner with experienced providers through management agreements entitling them to a share of the profits.

3. Evaluate the pros (and cons) of specific management agreements.

As more owners explore management agreements with specialists to deliver a flex offering, they will need to perform a thorough analysis of the pros and cons of this particular model.

Management agreements can often mitigate the risk of leasing space to a potentially unstable flex space operator while leaving responsibility for day-to-day operations to experienced providers. Another of the major advantages is that a management agreement provides owners with greater transparency into the performance of start-ups and other smaller tenants in flex space who may one day grow to a size at which they require a fixed-term lease for a large space within the same landlord's building or portfolio.

Many landlords are not aware that a management agreement with a flex space operator does not necessarily preclude them from developing a long-term relationship with the end customer. In fact, partnering with a skilled operator can provide landlords with valuable insights into what's happening within their building and help provide tenants with a better level of service. This can be especially useful when catering to enterprise clients.

Flex operators are also increasingly turning to management agreements as they look to carve out more stable and sustainable businesses. Industrious—in which CBRE recently acquired a 40% stake—was among the first to do so.



4. Engage property managers to relieve flex pain points.

While a flex space can cause a certain level of disruption to other tenants within the same building, especially in terms of people flow and elevator usage, good property managers will be able to accommodate them relatively easily.

Property managers also have a key role to play in helping owners navigate and understand the potential pitfalls of leases with flex operators such as agreement structures, profit shares and turnover arrangements, many of which can be opaque.

Landlords may also call upon property managers to resolve disputes with flex operators, particularly with regard to rent collection. CBRE's property management teams in the U.K. were recently deployed to help a landlord receive the full amount of rent that was due from a flex operator that had been withholding part of the rent to help bolster its financial condition.



5. Win the amenities race.

Over the past 12 months, all regions have witnessed a sea change in the mindset of how flex spaces are operating as providers compete in what has been referred to as an “amenities arms race.” Sought-after offerings include tech-enabled concierge services such as food and beverage, conferencing facilities, drycleaning and even pet-care services.

As the pandemic wears on, amenity offerings in the U.S. and elsewhere are increasingly focused on wellness. Balancing work and life demands is creating more appetite for fitness centers, virtual classes and subscription services to meditation and mental health apps.

As well as amenities, flexible spaces in EMEA are seeing a sharper focus on differentiating services such as community managers to organize events where users can mingle and network. Space requirements are also evolving, with stronger demand for isolation pods and single meeting rooms. Innovations in Asia Pacific include creating studio rooms in flex space for tenants to create digital content.

As occupiers in many markets continue to strategize on how to lure employees back to the office, they are looking for the same amenities in flexible spaces as they are in traditional corporate office space.

Property managers worldwide are implementing richer and more diverse programs, whether on single and multiple floors, in common areas or even in an estate or campus environment. Done correctly, any additional costs are more than offset by facilitating higher occupancy and even driving premium rents or ancillary income.

6. Adopt a hospitality-first approach.

“Hotelization”—characterized by the introduction of a hospitality service ethos to the management of office space—is a well-established corporate real estate trend and one that is now becoming more prominent in the world of flex. All signs are that the two worlds of corporate real estate and flexible office space are converging, creating exciting yet complex opportunities for landlords.



Across all regions, the community administrators, customer experience staff and lifestyle executives, many of whom come from front desk roles in industries such as hospitality and aviation, are becoming the visible face of flex office space management.

These on-site teams are typically well trained in customer service, response management and health and safety and often notice the little details that traditional facilities managers may sometimes overlook but which can make a crucial difference to the user experience.

As the front-of-house offering evolves, facilities management teams are taking on more back-of-house functions and running control centers. Many roles such as building access and routine monitoring traditionally performed by security are increasingly being handled by technologies such as drones, facial recognition and CCTV.

As well as a stronger emphasis on hospitality and customer service, property managers of flex spaces in EMEA are hiring specialists capable of managing data related to regulations, compliance and integration and introducing them into platform solution teams.

Asia Pacific is also seeing a big drive towards hiring data scientists to draw information from building management systems, tenant feedback and swipe card data to predict future trends in occupant behavior.

7. Mitigate the impact of flex on building operations.

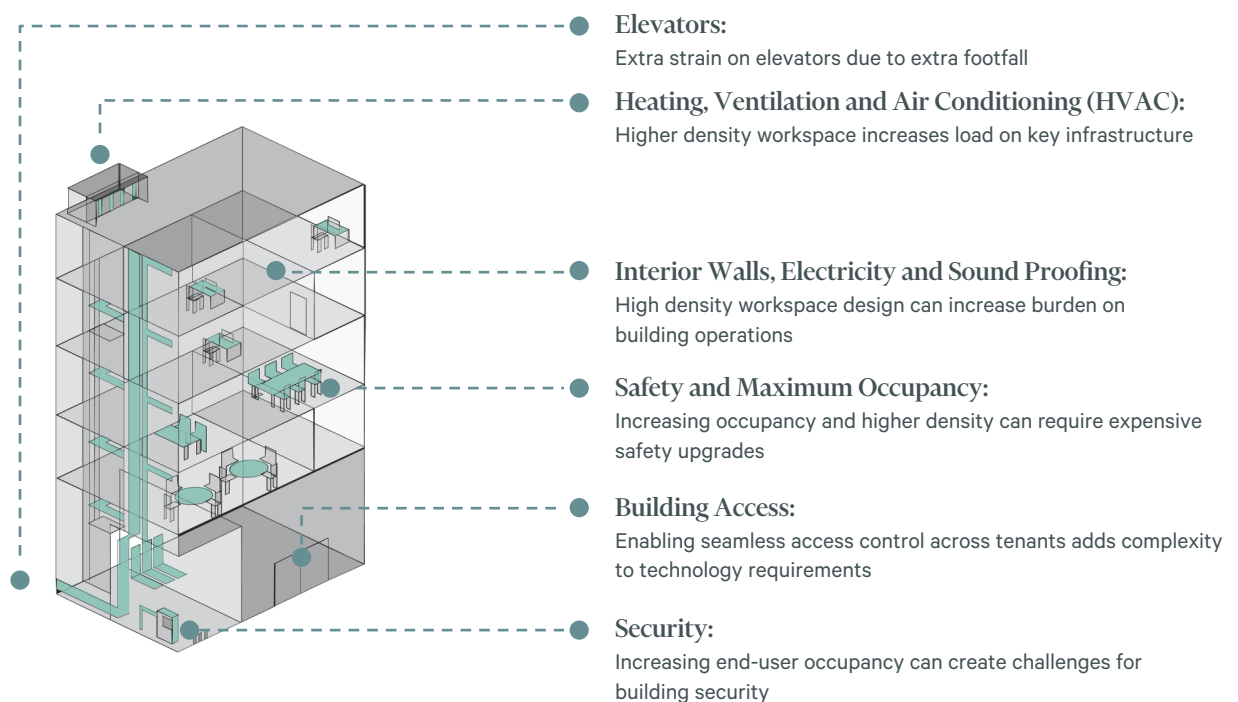
As flex space operates at a higher density than traditional office space, it can put considerable strain on resources such as heating, ventilation, and air conditioning (HVAC) machinery, elevators and other building hardware, property managers face added demands to mitigate these impacts.

HVAC is a particular area of focus at present as increased awareness around wellness drives demand for healthier indoor environments featuring better circulation. While flex operators continue to seek opportunities to increase density to raise profits, a certain density point is not going to be palatable or sustainable.

Other elements of flex space such as internal walls, electricity configuration and soundproofing all place additional building demands that do not exist in single-tenant spaces. Features such as fire escapes and evacuation routes often require major upgrades if density is doubled on a particular floor, as often happens when incorporating flex space, a trend that can also lead to higher insurance premiums.

Property management teams also can temper the impact of flex space tenants—many of whom are accustomed to a more casual start-up working environment—on other occupants who prefer to operate in a more formal work environment as well as on the brand and image of the asset itself.

FIGURE 3: Impact of flexible space of building operations



8. Power flex space with technology.

Much has been written on the specific tools and technologies that can aid flex space users' workday and help them connect, collaborate and perform to the best of their ability.²

One recent addition to the suite of must-haves is contactless technology such as self-opening doors, contactless elevator buttons and voice-activated vending machines. With the pandemic heightening awareness of everything people touch, especially in the workplace, touchless environments can provide users with the necessary proof and certainty of health and safety.



However, piecemeal technology solutions are not enough: occupiers of flex space increasingly require technologies capable of driving outcomes such as meaningful data insights around usage and engagement of the workforce within the space, while removing friction and automating communication between people and their workspace.

Fundamentally, technology has to be utilized as a communications tool that can engage occupants; democratize access to services and amenities; and increase the quantity of participants who can hold conversations about a particular space, thereby influencing more people about the available offerings.

CBRE believes that leveraging the procurement and supply chains of their property managers will be a powerful differentiator for landlords looking to invest in technology for their flex assets.

Property managers are ideally positioned to help landlords and the providers who operate flex spaces on their behalf adopt the right technology and wrap it under efficient service delivery. With some landlords unaware that technologies often require the same amount of capital expenditure to operate as they do to purchase, property managers can add real value by sharing this type of expertise.

² <https://www.yourhana.com/en-US/insights/critical-office-tech-in-flexible-workspaces/>

9. Create a differentiated offering.

The competitive world of flex space means landlords and service providers must differentiate their offering by providing the agility and amenities that can create value for landlords while driving productivity for employees.

CBRE believes programming flex spaces for productivity of the whole workforce, rather than for the individual can be a key differentiator. This will involve shifting away from offering piecemeal initiatives like free snacks in the foyer and promoting fitness classes to individuals toward providing classes and other programs for the entire workforce of a particular space.

Other differentiators can include a more holistic approach to health programming. While physical health and social interaction have traditionally been front and center of landlords' and flex spaces' wellness offering to tenants, the pandemic has extended well-being to include mental health. Practical steps may include allocating space to patient rooms for in-house psychologists and even pop-up space for counselling.

Flex spaces must shift away from guessing what users want to knowing what users want. CBRE's property managers are able to achieve this by utilizing the CBRE Host platform that can perform tenant surveys and collect data from the back end to show what is actually being used and valued.

10. Think future-forward and consider sustainability.

As the flexible space industry continues to evolve at a rapid pace, landlords must stay on top of nascent trends that may impact how flex fits into and operates within their properties.

One such trend is the concept of the 24/7 office, whereby a conventional 9-to-6 office space is transformed into a flex space after hours. Utilizing an office space around the clock will have significant implications for building infrastructure, maintenance and security, the consulting community and Mechanical, Electrical, and Plumbing (MEP), and structural engineers will need to collaborate with property managers to create strategies to reduce strain on building systems while optimizing space.

Other solutions may lie in adopting more flexible and modular office designs that enable building features such as walls, ductwork and power points to be moved and reconfigured within a relatively short timeframe.



While 24/7 building usage is an obvious way to maximize the utilization of flex space, the increased energy usage will have serious implications for sustainability, especially at a time when Environmental, Social and Governance (ESG) performance is rising up the occupier, landlord and investor agendas.

As landlords have to factor in increased costs to support additional infrastructure as well as install energy recovery systems to offset the additional use of electricity to meet regulatory compliance, the investment proposition should be stringently evaluated.

Conclusion

The growing adoption of hybrid working will make flexible office space an essential component of long-term corporate real estate strategy. As a result, more landlords will need to assess the various flex operational models and formats as they prepare to introduce this feature into their portfolios.

When considering flexible space options, owners are advised to consult with their property managers to help connect them with the right resources and identify specific opportunities or challenges that may be present at their buildings.

By drawing on property managers' expertise in the areas identified in this report, landlords can avoid many of the pitfalls commonly encountered when considering how to cater to tenant demand for flex space, while capitalizing on the multitude of benefits created by including this most essential building amenity.

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