

# Flex Forward

Episode 3: How can landlords benefit from flex? Gain an investors perspective.

Featuring James Howarth,  
Managing Director, Sterling Property Ventures



## Transcript

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### Tom Sleigh:

Today, I am speaking with James Howarth of Sterling Property Ventures, and we're going to discuss the flexible workspace sector from a developer and institutional developers' perspective. To set the scene, James, it'd be great to get your perspective on the flex sector. Perhaps how your opinions changed over your career.

### James Howarth:

Okay, I mean, in fairness, the developers and working with investors, the co-work flex space was unsophisticated. Arguably in the last 10 years it has got a lot more sophisticated. I think that what we're seeing is, developers and investors, perhaps wanting more collaboration spaces as part of that. So, I think that's how it really evolved, it's evolved quite quickly, right now we've seen some operators obviously coming and going or have problems. And that is also an issue for landlords and investors looking at this sector and trying to accommodate people in their buildings. But as a user of buildings, myself, with my team, we're actually in flex space, in context we have our own enterprise suite, in an office group building. And arguably, we buy into that whole concept of who on the meeting rooms and also collaboration space, for bigger teams. We're a small team, but if we need bigger teams to be brought together that need that space, and we don't necessarily want to spend money or pay for it 24/7, 365. And that's where it's evolved.

### Tom Sleigh:

Yes. And that it's more than just a blank box.

**James Howarth:**

Yes.

**Tom Sleigh:**

And that's been the big evolution, I think. So, the project we worked on in Birmingham 103 Cornwall, we've ended up partnering with a flexible workspace provider there.

**James Howarth:**

Yes.

**Tom Sleigh:**

It'd be great to understand your sort of rationale of why a partnership versus maybe another route, was where you landed. And could you explain your rationale of, obviously, you had some tremendous advice from us along the way. But give us an overview of how we ended up where we did.

**James Howarth:**

Yes. I think for us, it was an evolution we've got investors that needed to be brought on the journey winners, and arguably, you're underwriting these large buildings, assuming rents and traditional ways of approach. And arguably if you want to change that approach, that's quite difficult. The one thing we perhaps saw and, been supported by our investor group interest of capital partners or investors on this project, is the ability to work with that flex operator space, if you like, or there to select an operator, on the basis that, we looked at it kind of holistically, what's our downside? Our downside is we have 40 feet of space, but it was created so that we can lease traditionally, that said obviously the potential of the building doesn't need to weigh traditional lease space, but arguably those occupiers that we were already talking to for the building at 103, were demanding more of our building. And whilst we have a restaurant offer from D and D you have top and bottom, which is gonna be fantastic. It's how do we actually upscale the service provision within the building to provide more to our occupiers. So, we've taken a traditional view on the main building, but obviously in terms of the flex space, yes, we're co-investing and arguably, seeing a managed return if you like over that space. And arguably for me, perhaps fundamentally, I think it will over time, probably provide a better return than traditional lease space, but it's all about the percentage of the building. It's all about the operating you select.

**Tom Sleigh:**

Yes. So, I think when you announced the partnership back into the summer has that affected your leasing campaign? Has it landed well with occupiers you've been talking to? Is it supported? Is it the reason they're now coming to your building?

**James Howarth:**

Yes, I think ironically, it's been a really steep learning curve. We've had obviously COVID, and a lot of the investment we did into this whole arena within the restaurant space or the co-workspace, et cetera, and perhaps making our building more technically tech savvy in terms of our building app, et cetera, was all investment we were making during, during the pandemic. What's happened, and this was, we made the decision to do flex pre-pandemic.

So, it wasn't a consequence of that, but actually where we've ended up is, occupiers, and very big corporate occupiers wanting to have space beyond their own space for private functions, private dining, meeting space, collaboration space, but also conference space. I use the conference word with a small C, up to a hundred people in that auditorium or whatever it might be, that is the kind of spaces that corporates want, but they don't want to provide it for themselves. So, similar big corporate names, Tilney Smith & Williamson, one of our first occupiers made the decision to come to 103 purely because we had that flex office. So, it has assisted that velocity and, arguably, we are in the leasing process right now, but the trajectory and the velocity are quite impressive.

**Tom Sleigh:**

Yes, and I think one of the things that you've got, I don't know of another building outside, in the UK, at least that sort of in London, which has such a concept of shared building immunity and what you've committed to on the 18th floor with the terrace. I mean, arguably it is the most premium floor of the building, but you've flipped this on its head and it's something for the whole building, every tenant could benefit. So, I think that's been a very brave commitment, and it's going to be interesting to see, once it's all leased up and how much it's used. So, I suspect it's going to be incredibly popular.

**James Howarth:**

Yes. So, I mean, just to kind of dwell on that for a second here, this is non-traditional flex enterprise suites, hot desking kind of environment, that floors, you know, 103, but at 80, we've actually created a business club for the building and the building occupiers, as a paid for amenity on top of the flex space. So, you have to be a member or be it at certain times a day, it's open access the whole building in terms of a managed access for whether it'd be functions or events or things that the building is running. The building management team will be running alongside, X and Y and obviously D and D is our restaurant operator. So yes, we wanted to create even more or that the traditional, because, ultimately, that's what people expect and you're quite right. You know, we hope that the business lounge or business club will be used by the corporate occupiers of the building. It is dedicated for the occupiers of 103, not for external, counter parties or be that it's a function you could perhaps hide the space, but arguably limited. And arguably for us, created another, from a landlord perspective, it creates another way of, perhaps, upscaling the revenue prospect, a lot of flexible provision.

**Tom Sleigh:**

And you touched on it slightly there about, it's a bookable service and that's going to be, integral, integrated within your building app. We've spoken at length about this in the past, but I think we were aligned that these types of apps need to be really compelling for users. You can't just be, oh, you can get a discount at some coffee shop that, downstairs, or notionally sort of book your dry clean, it needs to be ingrained, access control, bookable events, registering visitors. So, how is that integration between what you, the investment that you've got for, building app, of the huge range of things you're going to be offering within that and all of the backend stuff in terms of FM (Facilities Management). How's the integration going with X and Y with all of their services and all their bits and pieces?

**James Howarth:**

Yeah, I think, interestingly, in a day, you've got to have open access technology with

your apps so that you can dovetail with whoever you put in the building. We've been quite savvy working with curiosity and disrespect and arguably, have an app that is bespoke and is not been supported for the builder. All the provision in the building will dovetail with that app. So, you can book a meeting room, you can book a restaurant table, you can get your dry cleaning picked up, you could book a hotel room. And of course, you know, we talk about three-dimensional apps. This is multi-dimensional, the whole point about an app is if it's deep in dimension, then it will be used. And I think we've got a situation here where if you look at your iPhone, you've got dozens of apps you don't use, or maybe 10 or 15 that you use really thoroughly. And of course, from an access and egress perspective for not a user of the building, I'm assuming your tenant signs a lease, but it's the use of the building-only employees, that will be able to pass through security gates with Bluetooth technology, all this sort of stuff being dovetailed makes the app really useful. So, it's something that you don't have to use, and if people don't want to use it, they don't have to, but ultimately the majority of people working in that building will use that app.

**Tom Sleigh:**

Yes. Because it's flooded with functionality that's useful. I know you've invested a lot in this and it's likewise with the partnership with X and Y, that big financial commitment, as you say, you could have easily during COVID, hunkered down, limited investors, you went totally the other way and actually invested more. We went beyond the business plan, which is a very brave thing to do.

**James Howarth:**

Yes, I mean, the other thing is it takes a whole team of people, it's not just us as developers, takes the whole investment team at interest and capital and the management team in terms of Knight Frank community managing the building, from a design for management was embedded in this building from day one. So, we didn't just say let's build a building as developers and then lease it up and hand it over and then forget about it. This has been literally designed to be managed. So, the evolution of the app has been invested pre-pandemic and then we made the decision we were going to build the app. What was it going to look like? How it's going to be managed? But obviously over the period of the pandemic, we just hunkered down and actually thought about the building holistically and said, alright, how are we going to make this building really achieve its potential? And I think it distills down, from the Sterling team with 20 plus years of experience of building grade-A offices. We're now in place where we've really probably thrown the kitchen sink at this building in terms of our ability. And we want to replicate it with other investors and other sites and other developers around the UK, because actually the learning curve, we been on is vast. And if that's the new way of working and the new way of looking at office occupation, but then we perhaps at the vanguard of that right now, and, you know, we want to do more because we've actually got all those things, you know, the building blocks together.

**Tom Sleigh:**

Yes, and one of those components is flats. One is technology. And another big one that we haven't spoken about yet is, sustainability and ESG. And I know that 103 is hitting all sorts of accreditations. It's sort of table stakes in a way now. I think tying it back to a lot of our corporate occupiers. It seems like the last 18 months, the penny is undoubtedly dropped in all of this. All of these targets are looming, there's obviously an increased amount of PR around sort of what ESG policies are, what's your net carbon neutral goal? There are all sorts of stuff happening. Do you think the flex sector is doing enough to support? Did that have any influence on where you land within operator?

**James Howarth:**

Yes, it probably did. When we look at it at the end of the day. The net zero carbon agenda is something we need to clearly define in the real estate sector and it's something we're not quite there yet. We all strive to build the best buildings we can and be as environmentally, thoughtful, as we can. And of course, if you think about the design evolution of a building, it could be anything from two to five years. So of course, we're at the vanguard of where we are right now in terms of say the house town or announcer, sorry, regional asset, like, 103 in Birmingham, where we have more connections with district heating, which will be, or renewable. We do have other, photovoltaic whatever it is, the technology that's there right now. But of course, this is a bit of evolve, but the biggest carbon, but if you'd like a gain that we had on this building was that we recycled a subterranean basement. This one used to be before the one at west tower in Birmingham, banking, core and volts, and God knows what else in the basement. And we've used that substructure rather than filling it in or doing some more or whatever. So that helps the building and in terms of its credentials, but from an occupier/patient perspective, it's all about cost of occupation and our service charge because we have long agreements on our energy supplier, obviously ties in to give occupier's benefits. Turning to the co-work provision or the flex provision within the building, it was important to, as we picked and operate, and that kind of, would agree with that kind of sentence and thought process there and X & Y B Corp. They are driving an agenda themselves, which actually helps our overall building sell.

**Tom Sleigh:**

Yes. And it's authentic as well. It's that theme that runs through the building and it's what occupiers are demanding now. A lot more to that to happen in this space, but I think that the flex sector needs to really lead the way on this. One of the things I was talking about with a colleague was the carbon cost of occupation, as a flex operator their delivering the whole environment. So, you would have thought it would be easier for them to quantify that carbon impact if you're just leasing space and you had provided different suppliers. I think, lots more to do for sure. But it's interesting that X and Y were one of the key reasons. The other thing I wanted to ask you about as you gear up to PC and launch, and everything was just this integration, because as you mentioned, you haven't done a lease. You've been very progressive. You've created this partnership to align interests and unlock all of these wider benefits. How's that going in practice between Knight Frank, the management team, obviously your leasing teams, yourselves, Tristan and now X and Y and that party? Is it working? How's it going?

**James Howarth:**

The collaboration of the building, from the landlord team, whether that goes to the full length this, in terms of D and D with the restaurants X and Y with the flex space management and Knight Frank and Tristan and in terms of asset managers getting forward. The reality is because we've designed this building from scratch and also brought in the design for management team from Knight from day one. Everything is very joined up. So, there's no gaps there. You, as an occupier or as a user of this building, you are going to be completely surrounded by a way of thinking, a joined-up way of thinking and something that supports you in your everyday work processes. And for us, we always talk about, occupiers being our clients. They are absolutely our clients. They sign leases and that's important. But ultimately, it's their employees that count, too. And we're much more customer focused now in terms of those people, how they access the

building, the welcome that they get, their guests get, the whole hoteling or concierge scenario needs to go the next level. But it's dovetailing that with X and Y building management, front of house, it's all been thought through. And I think that's a testament for me to really want to create the complete building. And I think with 103 Colmore room we really have. We had a relatively small site, a lot of subterranean space, changing rooms, and that sort of wellbeing facility, but rather it would be a little bit of a business club or terrace etc. It's really important to buildings now. They have to be able to breathe with their users. And I think hopefully what we've done at 103 is be right at the forefront of that I think.

**Tom Sleigh:**

Yes. Definitely. I think it's a project for us working with you on it, feels like you guys committed to almost every recommendation we suggested. We always try and push our clients to go further and you guys really went further than I think we even suggested.

Final question. Flex prediction over the next five years, who is the biggest winner from this set because it's still growing. There's lots of new entrants. So, who do you think the winner is going to be from your perspective?

**James Howarth:**

From a developer's perspective, it's got to be the end user of the building. Whether it be occupiers, individuals or otherwise. The reality is that we have to provide additional facilities in our buildings. And as we move forward, flex is here to stay and they get the covenant issue surrounding this whole sector is one thing. Landlords need to be fairly open-minded about that and work with people that they want to create unique spaces with. For me, we always look at buildings and we always think about, lease rental or capital value, but the value in these buildings is the people who occupy them and staff alike and attrition rates is something that people really need to reduce. Big corporate occupiers, the biggest cost is their people. And if you're in the best building with the best facilities, with the best views of the best day, you know you're going to retain staff and attract talent and that's what's important. So, there's gonna be some winners out there in terms of, operators. I think X and Y are unique. They're small, they're growing. I like the management team. I think they will win out a little bit too. So, each operator has got a little nuance; they suit different needs.

**Tom Sleigh:**

I think that there's no one size fits all, every asset is different. There's always different agendas behind all of them. But it's interesting when you say the winner is going to be, the human, the employee, because they are, hopefully going to have a better experience, better work and will be more productive. And benefits everyone, doesn't it?

**James Howarth:** Absolutely.

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## Contact

Our flexible workspace consulting team provides best-in-class consulting and transaction services to occupiers, operators, asset owners and investors across this dynamic sector. Please reach out to:

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