Europe & MENA

Flexpansion 2020

May 2021

The digital shift

Ever since the first COVID-19 shock wave radiated economic damage across the world, it's been a waiting game to see how the office-based economy has, and will, continue to adapt to the longer-term aftermath and impact.

Businesses have adjusted remarkably to agile working in an increasingly digital world, with city economies and office markets now starting to recalibrate according to 'new' fundamental needs.

The flexible workspace market has needed to adjust to the impact of the pandemic, alongside the broader 'traditional' office market. As physical distancing becomes part of the new norm, it has magnified some of the hairline cracks in the foundations of the sharing economy. Yet one thing is clear: in the modern office environment, agile working and the flexibility that comes with it will remain at the forefront of employee and subsequently business decisions. The rapid acceleration of this change was mirrored in the performance of the flexible office market, particularly in the second half of 2020, with the sector holding up better than initially expected.

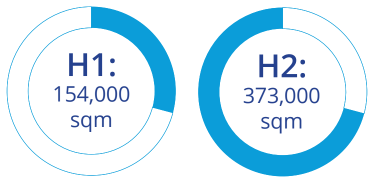
Some 527,000 sqm of new flexible workspaces were established across the 42 European and Middle Eastern markets surveyed during 2020. This means that H2 2020 more than doubled H1's completions performance.

That said, the second half of 2020 witnessed higher levels of distressed activity – over 110,000 sqm of new flexible workspace that was previously committed to was either abandoned or mothballed as operators optimised their portfolios.

There were additional site closures comprising 200,000 sqm – some of which were planned pre-COVID, but many directly linked to the fallout in demand.

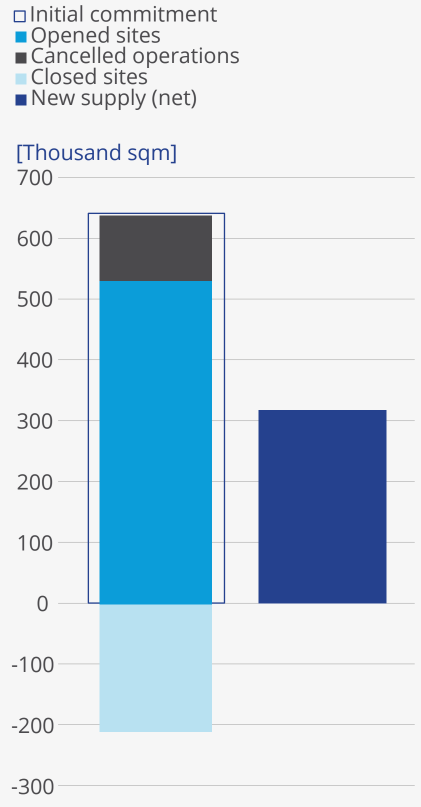
Overall, the net balance of flexible workspace expansion during 2020 came to just under 350 thousand sqm, across 211 sites. Although the numbers alone suggest a major setback to activity – back to levels last seen in 2015 and 2016 – more importantly, this flexible expansion compares to a broader net release of excess traditional office space across Europe in 2020.

Figure 1:
New supply of flexible workspace, 2020



Source: Colliers

Figure 2:
Planned vs realised new flex supply, 2020



Source: Colliers

A central decentralisation

Reflecting on our earlier observations and projections, that the flexible office market had started to decentralise in the aftermath of COVID-19 (read our [Flex Forward – The Flexible Workplace Report | 2020 here]), evidence of operator activity in the second half of 2020 has reaffirmed this trend.

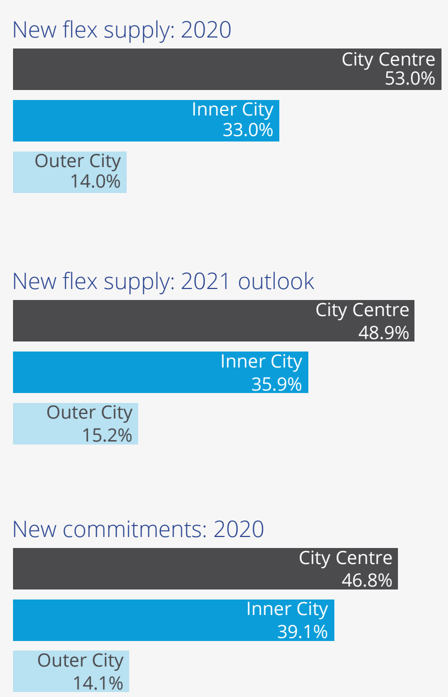
A further decentralisation of activity has been evident, although the shift has been more subtle. While the CBD's are still expected to lead the way in terms of delivering new flex supply in 2021, as they were in 2020, operators' focus on non-CBD locations is rising as businesses continue to seek a range of geographic locations to suit their distributed workforce.

While there was a strong city centre (CBD) focus with regards to newly opened flexible workspace in 2020 (Figure 3), this newly delivered flex space had already been in the pipeline since 2018-19. Meanwhile the provision of new flex space in the peripheral areas of a number of key cities is already underway. Such as in Paris, Brussels or indeed the Top-7 German cities, among others. Some operators are even looking to expand their operations across the whole country while a select group are opting to solely become regional providers, tapping into the substantial deficit of supply in suburban areas, secondary cities, commuter towns and emerging markets.

Nevertheless, it is between the city centres and the inner cities where the existing gap is expected to narrow most. Existing and new operators are engaging in an optimisation of their portfolios that balances city centre and well connected inner-city locations with the provision of new flex space.

Some of this new flex supply is being delivered by repositioning non-office (retail and hotel) assets. Indeed, the allocation of coworking space in shopping centres is expected to gain traction in popularity in Moscow and St Petersburg, while hotels in Copenhagen have already been opting to rent out rooms as flexible office spaces. Read our [Flex Forward | What's next for Flex in 2021? report here].

Figure 3:
Supply decentralisation



Source: Colliers

What does 2021 have in store?

The pandemic has brought into focus the need for organisations to offer more flexibility and choice to their employees. As the vaccine rollout accelerates across Europe and economies emerge from lockdowns the sector is gathering increased attention from both occupiers and investors.

Occupiers are grabbling with how to attract employees back to the office, mitigate costs and have agility within portfolios. The flexible workspace sector can support these objectives and we are expecting a strong recovery as occupiers utilise the full range of products on offer.

Some landlords are considering launching their own flexible products, this is primarily fitted out leased space on shorter terms, rather than high hospitality flexible workspace. Most activity is landlords partnering with operators to deliver flexible workspace and tenant amenities, this is driven by tenants wanting flexible workspace in the building to act a pressure valve for future growth, improved tenant amenities such as work lounges and meeting rooms. Landlords recognise the need to partner with an expert operator to deliver these environments but also to have direct exposure to changes in occupier demand.

Operator expansion is beginning to pick up but in a measured and considered manner, new projects announced in Q1 2021 is significantly down on the corresponding quarter a year ago (-61%), according to fDi Markets. However, there is significant activity by operators looking to expand primarily by partnering with landlords and we expect supply to begin increasing later in 2021 and into 2022.

> "The pandemic has dramatically expedited the future adoption of flex and the coming years will see a transformation of occupier utilisation."
>
> **Tom Sleigh | Head of Flexible Workspace Consulting, EMEA Occupier Services**

Europe & MENA coverage

42 Markets

1,314 Operators

3.4k Operational sites

6.4m Operational space

2020 at a glance

2.0 Size of flex market [% of office stock]

3.8 Share of operator activity [% of office take-up]

45 New operators

211 Opened flex (#)

529k Opened flex (sqm)

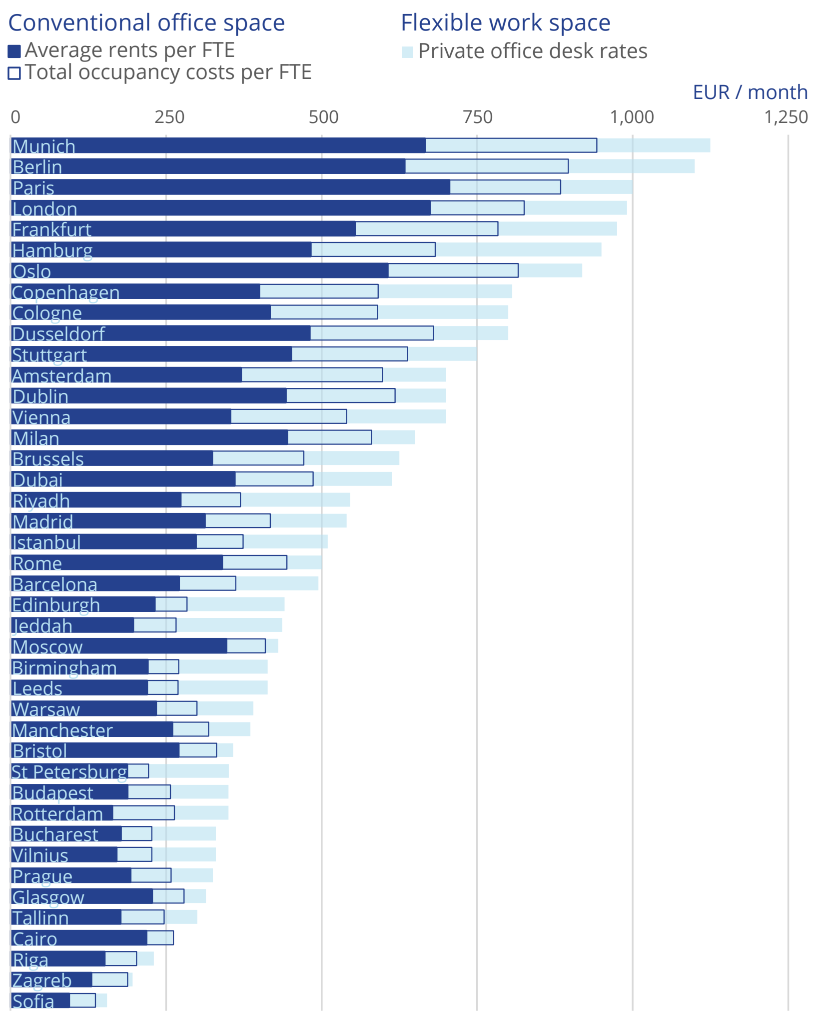
123 Closed flex (#)

211k Closed flex (sqm)

25 Cancelled flex (#)

112k Cancelled flex (sqm)

Figure 4:
Flex space premium to conventional offices, CBD



Source: Colliers

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