Corporate Occupiers Attitude to *Flex Space* in the Post-Covid Environment

Abstract

Purpose – This paper investigates how large UK corporate occupiers perceive the potential role of flexible office space in their office portfolios in a post-pandemic context.

Design/methodology/approach – The research methodology is qualitative and applied. For a longitudinal survey, convenience sampling was used to obtain co-operation from 11 corporate real estate managers with responsibility for managing large corporate real estate portfolios spread across a range of business sectors and countries. Semi-structured interviews were selected as the core research method to seek to optimise the balance between discovery and generalisability.

Findings – Although the pandemic has led corporate occupiers to fundamentally re-appraise where and when different work tasks are performed, it is not yet clear whether this has major implications for the flex space sector. The flex space model, with its blending of various occupiers and activities, is perceived to be poorly aligned with an increasing emphasis on the office as a core corporate hub facilitating connection, collaboration, enculturation, learning and creativity. Since most flex space is concentrated in central locations, it is also not well positioned to benefit from any decentralisation of office functions. However, as the flex space sector evolves in response to structural shifts in employment and working practices and business change, its various products are likely to be a continuing requirement from corporate occupiers for short-term solutions to demand shocks, the need for rapid market entry, accommodation for short-term projects and access to desk space in multiple locations.

Practical implications – Understanding occupiers' drivers in their decision-making on selecting the method of occupation will assist investors in how they might adjust what they offer in the marketplace.

Originality/value – Whilst there has been a substantive number of surveys of corporate occupiers' perceptions and intentions regarding their office portfolio, this paper focuses on a specifically on the flex space sector. Whilst previous research has mainly been extensive, this research study is intensive.

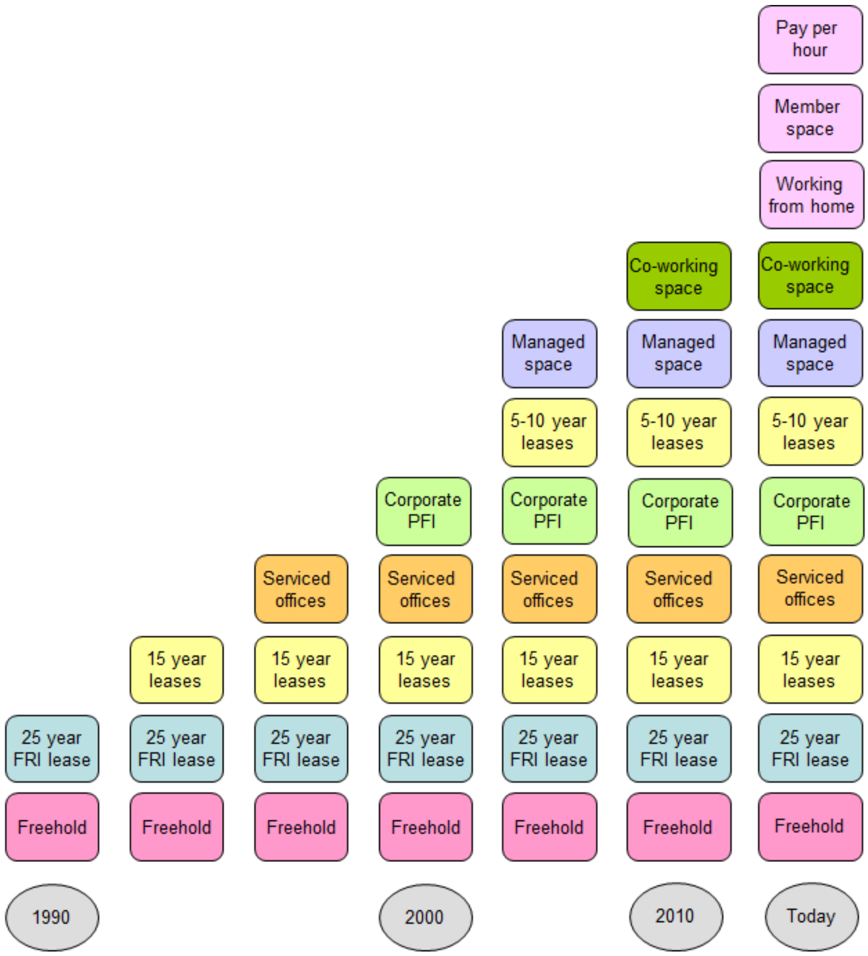
Keywords Office markets, Covid-19, Occupier trends, Flexible working, *Flex space*, Corporate real estate.

Introduction

The Covid-19 pandemic instigated the sudden shift to remote working for most office-based jobs in the United Kingdom (UK), with a widely expected shift to hybrid working post-pandemic. This has raised questions about the role of offices as workplaces and their future role in cities. A similar debate emerged in relation to globalisation and technological disruptions in the late twentieth century associated with a nascent trend towards remote working (Castells, 1996). Improved access to cities, goods and work have been increasingly impacting upon the way that workspaces are designed and used. Unpredictability in the business environment and a growth in contingent employment has led to the questioning of the length of commitment to leases. Lease terms have been reducing in the UK since the early 1990s (Crosby et al., 2003) and the amount of office space leased to flexible office operators has increased. The range of products offered by operators includes managed, serviced, co-working and membership space. By 2018 the flexible office market (*flex space*) represented 4% of the office stock in London, equivalent to 10.7m sq. ft. (Cushman & Wakefield, 2018) and by mid-2020 accounted for 5.8% of the market (Cushman & Wakefield, 2020).

A taxonomy of terms for *flex space* is shown in Figure 1. It illustrates the progression of real estate 'products' over declining time commitments and increasing service provision. The *FRI lease* ranges from long leasehold with terms of over 50 years down to five to 15 years. Service provision by the investor can range from none whatsoever for a standalone letting to their provision in the common parts of multi-let buildings. One model that was touted as providing occupiers with increased agility was that of *Corporate PFI*, that was used by various UK governments and some large corporate occupiers but has been proven to create significantly larger costs.

Figure 1 Growing Diversity of Product Offerings (Adapted from Harris, 2013)



Managed space or *enterprise space* tends to suit smaller occupiers or larger occupiers wanting flexible project space. Each occupier has dedicated space with their own identity, but shared reception, meeting and conference rooms, plus other facilities. The largest component of the market for *flex space* is *serviced offices*. They offer flexibility providing occupiers an opportunity to have a physical presence in an area. They also offer 'easy-in, easy-out' terms, and avoid capital costs of establishing a new office, sharing costs (e.g., ICT; security; etc) with other users, and occupiers can have dedicated space. *Coworking space* has seen rapid growth in the last decade. It involves the sharing of space, frequently by freelancers and very small firms encouraging interaction and collaboration between users, whereas large organisations may use them to incubate start-ups. *Member space* is similar to *coworking* in appealing to individuals and very small firms but has an atmosphere more akin to that of a club. The offices are smaller, frequently charging by the hour. More specialist offerings exist but, aside from a specific offering such as women only, can be categorised by one of the above labels. It could also include third space such as cafes pubs and hotels. Finally, Working from Home (WFH) did become the default position for most office workers during the lockdowns but has been a feature for many people for some years. The overarching term that will be used throughout this paper is *flex space*.

The Covid-19 pandemic and the prospect of *hybrid working*, working in the office and elsewhere (especially from home), becoming a longer-term feature of working life has forced and is forcing many occupiers to re-assess their corporate office portfolio. It remains unclear how many corporate office occupiers are likely to switch to *flex space* as a shift towards hybrid working becomes permanent and widespread. Occupiers are grappling with whether they should be seeking greater business agility by demanding greater occupational flexibility. This is a long-standing debate for occupiers and is seen to comprise physical, functional, financial, and legal flexibility (see Gibson, 2000; Cooke et al, 2019). The impact of the pandemic with the immediate curtailment of office use and the likelihood of *hybrid working* becoming established is likely to see a change in demand for space and investors having to provide a wider offering.

This paper investigates how large UK corporate occupiers perceive the potential role of *flex space* in their office portfolios in a post-pandemic context. It does so by means of in-depth interviews with 11 corporate real estate (CRE) managers, tracking their responses to the pandemic and perspectives on their longer term CRE strategies. This research reveals the thinking and intentions of large multi-national firms and one government department and speculates on possible consequences for office investors. The remainder of the paper is structured as follows. The next section considers the continuing change in office employment. This is followed by a discussion of the evolution of the market for *flex space*. Next, the methodology adopted, and results are outlined, followed by a discussion on possible consequences before finally, conclusions are drawn.

Background and Context: Structural Change in Office Employment

Whilst the number of white-collar workers have for a long time exceeded blue-collar workers (from the mid-1950s in the USA), it has been claimed that managers have been slow to shake off the shackles of *scientific management* and fully adopt the concept of *knowledge workers* (Drucker, 1966). However, particularly in the last two decades, an interrelated bundle of factors including advancement and adoption of mobile technologies, casualisation and deregulation in labour markets, increased outsourcing and supply chain complexity has meant that businesses now have increasing proportions of contingent workers (sub-contracted, freelance, short-term). In doing so, they have switched from a direct labour model to one of greater flexibility with people being charged per project or per hour (Kenney & Zysman, 2020). The rise of platform-based technologies combined with the expansion of flexible employment have stimulated the expansion of flexible occupation of office space.

This shift also reflects the broader volatility and uncertainty in the business environment since the beginning of the twenty-first century (Ramirez & Wilkinson, 2018). The period between disruptive *events* has shortened and, consequently, so has the lifespan of business strategies (McGrath, 2013). New business models have emerged that reflect the more fluid business environment and in doing so have moved away from long established models such as *Sustained Competitive Advantage* (Porter, 1985) and the *Resource-Based View* (Barney, 1991). In their place has been the emergence of new models (e.g., *Temporary Competitive Advantage* (McGrath, 2013)) as firms seek agility to enable them to respond quickly to disruption thereby avoiding the build-up of fixed costs and resources (McGrath, 2013). Cutting directly employed people and using contingent, or outsourced resources has allowed established firms to look to mirror and compete with newly established technology-based companies that seek new fields to operate in or to adopt new approaches (Kim & Maugborgne, 2015). Broadly, CRE strategies have needed to adjust to increase corporate agility and attain a dynamic alignment capability (Cooke et al., 2019).

From the early-2000s, a related trend has been a greater focus on enhancing employees' experience of the workplace (Oseland and Burton, 2012). Identified in 1985, New Ways of Working, agile working and activity-based working all came to describe technology-enabled workstyles using mobile technologies rather than workstations with fixed PC and telephone (Stone & Luchetti, 1985). The key trends in the structure, content and process of work changed as it has become more cognitively complex; more team-based and collaborative; and more dependent on social skills and technological competence (Heerwagen et al., 2010). For knowledge services businesses, the role of the office became increasingly about enabling the workforce to interact and collaborate and providing a diversity of settings in which to work. Offices evolved so that they became less a place to go to work on a set of prescribed tasks and increasingly somewhere to visit and interact with colleagues. Encapsulated in the emergence of the term *hotelisation*, offices became increasingly actively curated environments with a high level of service and experience for *guests* (Brunia et al., 2016; Clements-Croome, 2015). Pre-Covid-19, offices had evolved towards being a hub for an increasingly agile workforce utilising a range of workplace settings. The priority for the workplace became to energise and motivate people to improve productivity and effectiveness; facilitate social interaction and knowledge transfer; and create more personal control through the provision of a wide range of support services (Harris, 2019).

The effect of the growth in flexibility over working patterns and performed tasks, and the changes to how a firm views its staff have had consequences in the demand for office space. Firstly, the lease terms occupiers will commit to has shrunk with the 2019 BNP-MSCI lease review indicating an average lease term of six years (unweighted) and around nine years (weighted). Corporate occupiers, such as Barclays Bank, are now taking *flex space* for longer term occupation and not just for project work. Secondly, micro-businesses (< 5 people) and individuals are looking at *flex space* as a more settled alternative than *third spaces* like cafés, but also as a response to unaffordable workspace and challenges of working as a small business (Fiorentino, 2019). This latter group saw an initial focus on *co-working space*, allowing them to find an affordable solution to the isolation of remote working and cutting the costs and uncertainties of setting up a traditional office space (Kojo and Nenonen, 2017). Initially *co-working space* was mostly popular among the creative sector and in more peripheral locations (Ferm, 2014). However, it has developed further as it has become more commercialised and appealing to corporates through the likes of WeWork.

As the pandemic took hold, many studies by consultancy firms predicted a *hybrid future* with increased rates of WFH, alternating with time working in the office (WFO) (for example, see CBRE, 2021). Some commentators have also seen the pandemic as an opportunity to change and adopt new approaches to “create a better experience for talent, improve collaboration and productivity, and reduce costs”; but that such change “will require transformational thinking grounded in facts” (Boland et al., 2020). Other research adopts a different angle for analysis and has examined how the design of hybrid work arrangements will need to take account of individual personal concerns, rather than corporate concerns (Gratton, 2021).

Corporate Occupiers and *Flex Space*

A clear definition of *flex space* and a related taxonomy remains elusive. Describing the sector’s emergence and identifying the appearance of a small number of national operators (e.g., Regus (since 2016 the International Workspace Group (IWG)) MWB, HQ) during the 1980s, Winter (1989) provided one of the first references to serviced offices in the real estate literature. Following the sector’s rapid growth in the 1990s, the serviced office sector generated a body of research from academics and market participants at the end of that decade (for example, see Gibson and Lizieri, 1999; Gibson and Lizieri, 2001; McAllister, 2001 and Harris, 2001). Broadly, the serviced office was defined as office space licensed to third parties on a serviced basis. The services tended to comprise all the building services and a menu of business support services. Serviced office was an umbrella term that included managed offices, office business centres, serviced venues and virtual offices. Operators tended to configure their product offer into three main categories – serviced offices, meeting/events/conference facilities and virtual offices.

The most robust academic research on the use of serviced offices during this early period was carried out by Gibson and Lizieri (2001). They found that the main users of serviced offices were small teams of less than five people. For the corporate sector, the attractions of the serviced office revolved around the capacity to quickly occupy (and dispose of) high quality premises in good locations in a comprehensively managed office environment with the ability to access additional services as and when required. They found that corporate organisations mainly used serviced offices for risky functions with uncertain timeframes. This could involve gaining an initial presence in new geographical markets or starting-up ventures involving new products or services. In later research focussed specifically on corporate organisations, Dabson and McAllister (2014) found that corporate organisations used serviced office space and services for short-term project space, as temporary overflow space, to pilot new locations, becoming familiar with specific geographical markets or simply to gain an initial presence in a market. The same trend was confirmed pre-pandemic in relation to the evolution of co-working spaces, the differentiation of available typologies and the shift in the type of users and memberships, with corporations increasingly taking up memberships in the more corporate oriented or enterprise space operated by commercial intermediaries like WeWork (Fiorentino and Livingstone, 2021).

The wider offering of products has seen a rapid expansion of the space dedicated to *flex space*, with Regus leading the way in *serviced offices* since 1989 and which has traditionally appealed to larger organisations for short-term project space. WeWork has become the only global brand by offering *co-working* space and then enterprise, moving their focus from the individual to large corporates. However, such firms do not want their staff sat side-by-side with people from other firms, therefore what is offered is more akin to *serviced space*, to a degree service provider offerings are converging. *Flex space* has disrupted the CRE industry models of occupation and investment; it is no longer just an affordable solution for creative small firms or start-ups (Sargent et al., 2018). Despite the media attention some providers have received, globally 86% of flexible workspace is provided by small scale and independent operators (Cushman & Wakefield. 2020). Thus, within London, although WeWork became the largest occupier of space (4.5m sqft), second only to the UK government, it is used by many operators with much smaller portfolios. In the City of London *flex space* accounted for the largest take-up of offices at 23% in 2019, up from 12% in 2018 (Powell & Karunaratne, 2020) and global property consultants are providing tailored advice on *flex space*. It is estimated that there are over 33,000 flexible workspaces worldwide worth over $26bn, with 5,923 of these in the UK (Cushman & Wakefield, 2020) and by 2030 30% of office space will be flexible (Schick, 2020). The transition for corporates to greater legal flexibility is constrained by the consequences of previous decisions. The structure of existing leases suggests that 31% have a lease event, break or expiry, in the next five years, with 34% in the following five years and the remaining 35% in more than ten years (CBRE, 2021). Occupiers might be looking to change their approach now, but the tail of previous decisions will hamper their response speed. A corollary of these changes is how office investors will respond, whether that is through partnerships with providers, creating their own *flex* offering or by sticking solely with the traditional Full Repairing & Insuring (FRI) lease. A challenge will be how an investor will manage the transition between offerings and potentially having different models within the same building.

The preceding discussion demonstrates how changing patterns of employment and work associated with increased flexibility have stimulated corresponding changes in the flexibility of office space and the growth of *flex space*. In the last decade, supplementing the well-established serviced office model, demands created by the growth of freelancing and as-and-when contracts stimulated the supply of *co-working spaces* and service providers, epitomised in the rapid growth of WeWork. In the context of the pandemic, it is possible to point to a small number of examples where firms have indicated a tilt towards increased use of flex space.

In the same vein as several large REITs and institutional owners in the last two decades, Canary Wharf Group have launched a new *flex space* product (MadeFor) on the back of a contract signed in February 2022 with Citigroup. This involves Citigroup taking 95,000 square feet of space fitted out by Canary Wharf Group (MadeFor) according to the specifications of the Citigroup, operated and serviced by CWG (MadeFor) and let on more flexible terms than a traditional lease, a similar model to that used by flexible office companies such as WeWork. However, an alternative perspective is that, rather than indicating a strategic pivot towards *flex space* by Citigroup, this may be a way for Citigroup to avoid the costs of fitout and dilapidations for short-term accommodation whilst spending £100 million on refurbishing their current headquarters expected which is to be completed in 2025. It would be unwise to extrapolate from this high profile, but probably quite unique, example.

The Standard Chartered Group have seemingly closely linked their shift to hybrid working with a tilt towards *flex space*. In early 2021, the company started trialling the provision of access for their 90,000 (estimates vary from 85,000 to 95,000 in various press reports) strong global workforce to any of IWG's 3,500 (estimates also vary in the press) global locations for a 12-month period. Strangely less commented upon, IWG also signed a similar deal with NTT for access to IWG's *flex space* portfolio for their c300,000 employees. Many familiar issues emerge in the rationale proffered by Standard Chartered – employees' preference for hybrid working, the need to reconfigure its offices towards activity-based layouts, providing opportunities to work in other locations and security concerns about flex space. IWG are a bellwether of the *flex space* market operating several brands such as Regus, Spaces, HQ, Openoffice and The Clubhouse. There is very little evidence from the capital markets that a major improvement in their financial performance is expected following deals with office occupiers such as Standard Chartered. Having experienced a large fall from £4.69 in January 2020 to £1.60 at the start of the pandemic in March 2020, the share price had recovered to £3.78 by May 2021. However, this positive sentiment has not been maintained with the share price drifting downwards to £2.65 by March 2022. Similarly, WeWork was first listed at $10 in October 2020. By March 2022, it is trading at around $7. In contrast, albeit they are only exposed to the UK, the share prices of two large UK REITs with large office holdings (British Land and Landsec) have remained stable or increased since May 2021.

Although these examples are interesting, it is difficult to separate the signal from the noise with a few transactions. There are usually no press releases when landlords do not begin offering flex space or occupiers do not sign deals with flex space providers. Below, drawing upon a survey of mainly corporate occupiers, the extent to which the pandemic is expected to affect their use of *flex space* is investigated.

Methodology

A range of possible research methods were initially evaluated to address the research questions on the short-term and medium-term impacts of the pandemic on corporate office occupation and operation. Whilst a common rationale for using qualitative techniques is that they are particularly suited to developing knowledge about poorly understood areas, often having an exploratory-discovery orientation, this was not the main rationale in this context. There was an existing body of work generally produced by close-to-market analysts attempting to monitor the intentions of office occupiers. The application of qualitative research methods in this study was not to test the validity of pre-conceived hypotheses. It was mainly concerned with improving understanding of and obtaining deeper insights into experiences, expectations, intentions, rationales, and responses to enable the identification of issues that may have been overlooked in questionnaire-based surveys. Essentially, whilst previous research has mainly been extensive, this research study is qualitative and explores context (Downward & Mearman, 2007).

Clearly, the researchers' pre-conceptions and experience provided the basis for the interview questions and a clear-cut distinction between deduction and induction is not always possible. The use of semi-structured interviews reflected this duality. Semi-structured interviews were selected as the core research method to seek to optimise the balance between discovery and generalisability. They allow flexibility in approach to capture the emerging views and experiences of corporate occupiers regarding their use of office space (as per Bryman, 2016; Denzin and Lincoln, 2011). The approach of semi-structured interviews, in the form of the Causal Network Elicitation Technique (Arentze et al, 2008), have been used previously in CRE research, for example identifying key variables for CRE Manager decision-making (e.g., Cooke et al., 2021).

An interview framework was developed by the research team enabling comparable qualitative data to be collected whilst providing the flexibility to identify and draw out alternative themes and issues that emerged during the individual interviews. In this study, theoretical perspectives along with previous research guided data collection and analysis. The study is also inductive because the understanding of the topic was improved using the empirical findings. In turn, the interpretive analysis is inherently, if invariably, subjective, and prone to particular interpretation as the researchers 'reconstruct' the empirical data.

Our primary data draws information from two iterations of semi-structured interviews with 11 senior CRE managers that form part of an ongoing longitudinal study. Thereby allowing the analysis to track changes in expectations, strategies, and experiences etc. as the response to and impacts of the pandemic have evolved. The 11 respondents predominantly hold EMEA or global CRE Manager roles in organisations that range from public sector through partnerships to publicly quoted entities. As such they are at the frontline of executing changes to the office space and responsible for the acquisition, disposal, and operational management of CRE for large organisations. To extract maximum information, confidentiality was assured. Therefore specific details of the organisations and the extent of the portfolios cannot be provided. The sectors of the respondents are displayed in Table 1. Except for the organisation in the public sector, all the others operate globally, typically with employee levels of over 100,000. Large organisations were chosen as they occupy significant office floorspace through which both the magnitude and nature of changes in relation to the pandemic can be unpacked across several years. Through interviews, expectations of how the office as a workspace has and may change as we shift from pre-Covid to pandemic to an endemic are explored.

Table 1: Corporate Occupiers: Participants and Sectors

Corporate Occupier Sector	Number of Participants	Abbreviation
Consultancy	2	Con
Financial Services	2	FS
Consultancy Legal	1	CL
Manufacturing	2	Man
Public Sector	1	PS
Telecoms	3	TMT

A blend of non-probability convenience and snowball sampling was used to identify the respondents based a combination of requests for participation from the professional contacts of the research team and/or recommendations from these professional contacts. Estimating an adequate sample size to achieve saturation is a long-standing problem in interview-based qualitative research (see Nelson, 2017). Sim *et al*. (2018) argues that setting sample size *a priori* for interviews is very difficult and recommend an approach that is pragmatic, adaptive, and emergent. Given the range of previous studies that suggest that as few as five in-depth interviews can be sufficient, the longitudinal nature of the study, the strong similarities in the interviews and the generic role of offices for the respondents, namely an interchangeable general-purpose facility, the sample size was deemed adequate for the purposes of the research. All interviews took place over Microsoft Teams, normally with two members of the research team present, this facilitated collection of information through recording the interviews and were also Covid restrictions compliant. Respondents were provided with an information sheet at the outset on the research project and completed a consent form. The interviews were transcribed, anonymised, and then analysed. Initially the data was open coded to identify common themes and then re-coded to rationalise the list of themes and identify connections. Findings are centred around themes which have emerged from the interviews in an inductive way. Respondents were also provided with descriptive summaries after the data collection was complete to ensure that the data and researchers' interpretations were recognised by the participants as appropriate representations of their views and experiences.

Results

Broadly, the findings were in line with recent surveys of corporations. Albeit to different degrees, most respondents' organisations had been engaged in densification and consolidation of their office portfolio prior to the pandemic. Several organisations had explored WFH, but adoption had been limited. The initial lockdown in the UK in March 2020 highlighted the agility some firms had already achieved with their adoption of mobile technology. This group were able to respond with less disruption to the business and had in place management structures for hybrid working. Those that were desk-focussed faced challenges around procurement of technology and the transition to new ways of managing. Most organisations, given the perceived success of the shift to WFH as the pandemic took hold, envision some type of hybrid working pattern for most of the workforce. With certain exceptions, they expected that most staff would prefer to work from the office two or three days per week whilst experimenting on what works best in terms of managing demand. Most respondents expected to have lower real estate footprints as a result. A reduction of 20%-30% was cited most. This was also expected to produce changes to office space configuration with a shift to more informal, activity-based layouts. However, lease events within ten years are an inhibitor of change to new layouts. Organisations have indicated a reluctance to spend capital if that will fetter future flexibility.

Focussing specifically on *flex space*, in line with previous research on the use of *flex space* by corporate occupiers (see Gibson and Lizieri, 2001; Dabson and McAllister, 2014), a number of the organisations had and continued to use *serviced offices* for specialised purposes, either as project space or when they opened an office in a new city as a short-term trial before moving to a more traditional occupation subsequently. However, the use of serviced space had certain caveats applied to it, especially for confidential matters and specific activities and tasks: "*…we can't have people going into an open plan serviced office space, working on the laptop, with the headsets on doing the confidential calls. It just doesn't work. The only time when we use service offices is where we take a dedicated space*" (FS2). Different types of activities are instead open to *flex space* seeing them as a new opportunity. One respondent's organisation had never used *serviced space* before, but "*It is being perceived as a real success, but as a pure short-term stopgap…I would think, in our future transformation strategy, there will be more of a willingness to consider them in a similar convenient situation as a bridging point*" (PS). This suggests that even organisations that have opted for a more traditional approach to occupation have recognised the benefits of agility that *flex space* offers to accommodate demand shocks in the short-term.

The overhang of existing leases inhibits occupiers from total change to their portfolio and the move to *flex space*. The profile of lease events is one factor, but as important are the financial (including accounting) consequences of disposal. Even when lease events offer an exit opportunity, previous capital expenditure on space will discourage taking it because it "*would mean book value write--offs. … Let's exclude them*" (Man1). Therefore, the re-configuration of the portfolio is more likely to be longer than one to two years, indeed "*we're talking about a 10-year program [...] based on different criteria* (FS2). Consequently, part of the short-term solution to changes in how the firm operates is going to be the re-configuration of existing space. The key being the *"flexibility of designs to moving away from fixed partition, meeting rooms… to mitigate some of that risk* (Man1). A difference in how firms had been operating pre-pandemic and attitudes was seen with the scale of change to existing portfolios. "*I think there will be a significant reduction in the portfolio. I would say 20% to 30%. Possibly more.*" (FS2), whereas those agile prior to 2020 "*can essentially accommodate an increased headcount within the existing footprint"* (Con1).

A decline in space is likely for many occupiers, but there is also the possible shift for some to *flex space* from FRI leases. For occupiers, incorporating *serviced space* and *member space* (e.g., Con2) into their portfolios can help employees cut commuting and overcome challenges of WFH (factors such as children, housemates, or caring duties). The more general view is that serviced space only works in certain circumstances and for the short term, unless as with one firm there is a special relationship for a building they already had leased space in. A challenge with opting for local *serviced space* is that "*big suppliers like WeWork and IWG etc. have their critical mass in city centres and town centres, so that defeats the object, and they might as well come in the office if they're going to do*" (Con2). The *hub-and-spoke* model, incorporating core and satellite offices, had limited interest in December 2020 and six months later had been totally discounted. It was regarded as counter-productive to split teams across satellite locations and the benefits of having people in a core location collaborating, learning and team building far outweighed nominal reductions in commuting. For example, *"the idea of staff being able to* *go into an office, close to the home … in an open plan setting doesn't really work for us…there's no improvement in terms of collaboration*" *(FS2)*. And *"to a large degree, people are going into the office to collaborate, meet, socialize, and hub and spoke doesn't provide for that, doesn't solve any problems for that*" (Con1)

What is clearly seen is occupiers actively seeking agility within their portfolio and this has become part of their CRE strategy. For example, "*we have committed to flex being fundamentally part of our strategy...we've got a component of traditional leasing. We've got a component of serviced office…we've taken membership...So, we're trying to build flexibility*" (Con2). What is emerging is that each organisation has specific requirements which will determine what they decide to do in the constituent elements that make up their office portfolio. Those organisations that remain committed to 'traditional leasing' have finessed their criteria. One example is the growing importance of the *"sustainability commitment*" (Con2), and second is how flexibility is considered. With a desire for the best space, therefore new space, lead times are important, *"who knows what's going to happen to the business in the 4-5 years until that building is actually bricks and mortar or steel and glass. So, optionality around space take, right of first refusal agreements and things like that, we're looking at flexibility, at both ends really*…" (Con2).

The costs and benefits of different *flex space* offerings include that the *"staff have also got access to common areas, further breakout space, coworking space, additional meeting rooms... And it also gives us a chance to really measure utilization ahead of making a decision about a longer-term commitment"* (Man1). However, the same interviewee commented that *"some flex offices start to become less cost efficient after years two or three".*

The limited enthusiasm for *flex space* links to an explicit recognition that the office is a safe hub which facilitates connection, communication, collaboration, enculturation, creativity, and learning, not focussed work. There are doubts about whether serviced offices or co-working spaces could fulfil these functions. *Flex space* might be appropriate for those for whom WFH is not a viable option (e.g., lack of space, connectivity, etc.), but the "*hub and spoke model I think is quite sterile and it's quite impersonal, it doesn't feel like an office with any identity*" (Man2). The longstanding perception that *flex space* tends to be more expensive over the medium and long term was also mentioned as a disadvantage as" I *don't think longer term, it's a financially sustainable thing* (Man2). For some it was implicit that *flex space* could provide short-term solutions when unanticipated demands for accommodation emerged, although for other respondents' membership in shared workspaces were not viable mainly for reasons of branding and confidentiality, such as, "*there are a number of challenges for us with serviced offices and one is we're very careful about security because of the IP*" (TMT1). And "*coming into the office is a way that I promote my culture and my values, or with the people that work for my organisation, what are they getting when they go and sit in a serviced office?*" (TMT3).

The positive aspects of *flex space* were more apparent in the July 2021 interviews and the emphasis on the relatively well-known benefits of *flex space*: the ability to enter, expand, contract, or exit quickly and access to geographical networks of accommodation and office services. That means firms have specific criteria for its use, "*we sort of tend to use those solutions are where we're opening sort of a new office in a new location, and it just suits us to put down quickly and get an office up and running"* (CL). To avoid confidentiality issues firms will use *flex space* but within certain parameters, "*the only time when we use service offices is where we take a dedicated space… as part of the footprint reduction we are challenging ourselves in terms of whether we need a leased space or whether we can go to a more flexible, serviced office space, but that is dedicated space*" (FS2).

What is emerging as a factor that will influence future space requirements will be the management of the demand for workspaces. This issue is the need *"to accept that we will have higher occupation Tuesday, Thursday, and less on Monday and Friday."* (TMT1). How firms manage that 'bell-curve' will directly impact the demand, if peak occupancy is not managed it may frustrate occupier's efforts to reduce their portfolio. Part of this will revolve around team co-ordination, but *"we are still debating the challenge around how we handle the collaboration of teams and how we make that that work."*(TMT1).

Discussion

Pre-pandemic there had been long-term structural changes in the economy. Digitalisation, globalisation, deregulation, outsourcing, increased volatility, uncertainty, and turbulence in the business environment was driving a move to shorter business time horizons (Ramirez & Wilkinson, 2018; McGrath, 2013). These had implications in terms of shorter, more flexible employment contracts and working practices linked to the emergence of higher rates of freelancing and the platform-based or sharing economy that had led to the growth of New Ways of Working and a preference for increased CRE flexibility. The *de* *facto* closure of offices along with recommendations that people work at home has provided managers with first-hand experience of a more fluid working arrangement for staff and seems to have dispelled the notion that productivity would significantly decline. The *WFH* concept has, by default, been extended to many who had not previously adopted flexible working.

The perception that *flex space* is expensive in comparison to FRI space seems to have been shifting for some occupiers with the adoption of a more holistic approach to cost assessment. Part of this shift relates to break clauses, part to the recognition of the broader range of costs that comprises the total cost of CRE and part also to the accounting consequences of capital expenditure, including how writing down such expenditure can inhibit change (e.g., Man1). *Flex space* has relatively simple contractual documentation, and it removes the need for the in-house procurement and/or management of facilities, as well as speeding up lead times to occupation. With a third party dealing with all the aspects of occupation in one contract can reduce contracts and headcount, resource build-up is avoided, and agility is enhanced (McGrath, 2013). Inclusive contracts also have the benefit of a single monthly payment programme not quarterly in advance, thereby matching the operational cashflow of the business much more closely and reducing invoicing.

Given the uncertainty around the trajectory of the ongoing pandemic/endemic, the adoption of *hybrid working* practices facilitates a closer alignment with future business environments. Flexibility of and optionality in the design of space and lease terms has become more important to occupiers since March 2020. The timeframe for change is longer than occupiers ideally want, typically more likely to be four to six years rather than one to two years, but there is a desire for enhanced flexibility. An overall reduction in office space is probable, but how space will be used has yet to be determined.

Occupiers are trialling different formats of workplace so that it is shaped to accommodate diverse roles as people choose to occupy it at a variety of times for a variety of tasks, interactions or activities that are increasingly replacing a one-size-fits-all uniformity. As a result, a less rigid, multi-functional, multi-setting, more person-centric workplace has emerged presenting several managerial and CRE challenges. Digital technology has been a key enabler to the demand for more stimulating, experiential environments that provide choice, support, and variety throughout the working day (Harris, 2021). The increasing demand for *flex space* and their inclusion in CRE strategies and, therefore, portfolios is a consequence of the transformation in the management of people and the differentiation in office needs.

At present there is little knowledge of the extent to which *flex space* has accommodated new demand or acted as a substitute for demand for the *traditional office*. The importance of *flex space* could, relative to market importance increase, decrease or remain stable as the office market falls. The relative importance of *flex space* could well increase for corporate occupiers after the pandemic, but this does not mean that it will change because of the pandemic. As the taxonomy illustrates, *flex space* comprises a range of offerings *managed* or *enterprise*; *serviced*, *co-working* and *membership*. Which, if any, of these offerings corporate occupiers look to utilise could change because of the pandemic.

Conclusion & Limitations

The last three decades have seen *flex space* expand and evolve. Initially, driven by demand mainly from SMEs, the business models of *flex space* providers mainly focussed on the provision of a bundle of space, workstations and supporting infrastructure and services with relatively smooth entry and exit. For corporate occupiers, they effectively delivered fully managed, scalable workspace for relatively short timescales and with short product delivery lead times. This core product was augmented by hospitality services for meetings and conferences as well as virtual offices. In the last decade, a predominant model seems to be emerging. While providers may offer different 'vibes and experiences', the bulk of *flex space* providers offer a product range encompassing membership, access to a shared workspace, private allocated workstations and exclusive workspaces within shared office buildings with occupiers able to procure from a wide range of support services.

Although the pandemic has led corporate occupiers to fundamentally re-appraise where and when different work tasks are performed, it is not yet clear whether this has major implications for the *flex space* sector. The pandemic has certainly forced most large office occupiers to evaluate the role of their office accommodation. The evaluation process has produced much more emphasis on the office as a central hub facilitating connection, collaboration, corporate enculturation, learning and creativity with offices becoming increasingly curated environments. The *flex space* model with its blending of various occupiers and activities also seems poorly aligned with this increasing emphasis on the office as the core corporate focal point. There is little evidence emerging from our research that corporate occupiers are interested in creating smaller 'spoke' offices in decentralised locations. Even if they were, most of the *flex space* is concentrated in central locations.

However, the underlying structural factors that have supported the growth of *flex space* business models certainly remain in place. As they did pre-pandemic, most corporate occupiers view *flex space* as an important solution for activities needing accommodation quickly and/or with relatively short-term occupational horizons. The underlying drivers of this demand, in the form of shorter-term projects, market entry, new ventures, and business uncertainty, persist and have been confirmed by the interviewees. Similarly, the increasing flexibility of employment is likely to maintain demand for co-working solutions. However, there is little evidence that, from the perspective of corporate occupiers, there will be a significant change in demand for external *flex space* due to the pandemic, at least in the short-term.

Whilst there have been longstanding debates about the appropriate investment appraisal methodology for *flex space*, the effective costs of *flex space* relative to conventional leasing for occupiers and its performance as an investment sector, it seems likely that the business model will continue to evolve. As interest in operational real estate from investors has increased and lease lengths have shortened, some investor-owners have been putting increasing emphasis on active operational management of their office portfolios with increased focus on services and support. At the same time, corporate real estate managers are likely to have increased pressure to collaborate with facilities managers to deliver attractive, productive workplaces. Many of these areas form the core competency of *flex space* providers because the intrinsic flexibility of their business model means that they must be responsive to customer needs and regularly 'sell' the space and services. This is less so the case with traditional owners and investors.

Whilst there remains significant uncertainty about the shape and extent of hybrid working, the future evolution of the wider office and *flex space* sector are likely to be directly linked. In terms of their absolute size, the evaluation of both in terms of scale and product range is expected to continue to be driven by structural changes in employment and working practices. In terms of their relative importance, it may become increasingly problematic to distinguish between *flex space* and 'traditional leasing' as office owners try to actively manage their portfolios. An emerging operational turn in the real estate investment sector may lead to 'coopetition' between office owners and *flex space* operators. There is scope for further research to provide quantitative evidence on these trends and taxonomic issues. Not surprisingly, the research did not identify homogeneity of responses across the interviewees. However, bar one, the interviewees were from large, commercial organisations. In addition, little is known about how the forced shift to WFH has also affected the perceptions and preferences of the SMEs and freelancers who have been the main source of demand for *flex space*. An interesting area could be to explore whether there are similarities or differences of responses for a wider range of organisations, in particular those in the broader public sector and not for profit organisations. Likewise, the corporate real estate managers were from large organisations and SMEs may have a different view of the role of *flex space*.

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