

As the flexible workspace sector faces the effects of COVID-19, Colliers recently brought key stakeholders together – including occupiers, flexible workspace operators, asset owners and investors – in a roundtable format in partnership with theDesk to discuss common issues, recommendations and opportunities for growth.

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WHAT OUR CLIENTS ARE ASKING US ABOUT THE FLEXIBLE WORKSPACE SECTOR



1 What role will flexible workspace play in corporate real estate strategy in the mid to long term?

We expect the effects on the flexible workspace sector to be short-term and foresee opportunities for growth in the future. In the near term, occupiers will increasingly outsource their occupational real estate and move away from self-delivery models. Easy wins include the outsourcing of meeting, event and conferencing spaces, which can be transitioned to a pay-for-use model.

We anticipate a greater number of enterprise grade offerings that can be leased on 6- to 12-month terms – either directly from an asset owner or via an operator – to accommodate larger teams, but in order to be efficiently delivered these will have to be limited in their customization.

Finally, while some operators might close some locations, occupiers will continue to demand greater flexibility and we foresee further distribution of teams, especially to suburban locations. This is where operators with broad geographical networks will be beneficial to occupiers and we also expect passport products to be increasingly used; occupiers can arm their employees with digital memberships and consequently enable the efficient execution of a distributed city campus model.

2 How can flexible workspace operators support occupier business continuity efforts in their region both now and in the future?

The flexible workspace sector offers several solutions and a multi-layered approach may be needed to best mitigate occupancy risk going forward.

- > **Whole Office Contingency:** in the event an office is closed, taking up space in less impacted locations through a flexible workspace operator could be considered. Several operators are proactively marketing this solution and some are exploring ways to unlock large blocks of inventory to accommodate major continuity demand in markets not under lockdown.
- > **Mission Critical Risk Mitigation:** consider proactively leveraging the flexible workspace sector to disperse mission critical teams across two or more locations in order to mitigate risk.
- > **Suburban Location Touch Downs:** if the commute for some employees is particularly challenging or if working from home is not viable or productive, then using a flexible workspace operator with a network of residential/suburban locations could be another option.
- > **Facilitating Meetings:** occupiers could utilize advanced AV equipment at flexible workspace locations to facilitate necessary meetings, to disperse team numbers to aid distancing and for risk mitigation. For example, large meetings could be broken up into smaller meetings and held at various locations with streaming/VC equipment readily available.

3 While hoping for the best, how should flexible workspace operators prepare for the worst?

In the short term, flexible workspace operators will need to look at cost savings and rationalization of their portfolio, which could see the sector re-trench in the next 12 to 24 months. Most operators have already approached their landlords for rent holidays and/or to restructure their leases. It is not in an asset owner's best interests to allow an operator to fail and we encourage operators and asset owners to engage in meaningful dialogue in order to structure new deals that will allow for the continued provision of flexible workspace within an asset.

In the mid to long term, flexible workspace operators will largely transition to being service providers as opposed to tenants of asset owners. Operators who successfully pivot to this new reality will have greater success in securing management agreements or JVs with asset owners. As markets emerge from the initial impacts of COVID-19, we expect the sector to accelerate, but in an evolved form to current offerings.

4 If occupiers now require even greater flexibility, how will asset owners deliver this?

We have long advocated for deeper partnerships between asset owners and flexible workspace operators. Some asset owners, who have a depth of resources, will choose to build out internal teams to deliver their own flexible workspace product while others will choose to partner with operators. Traditional leases to flexible workspace operators will become rare, but only if flexible workspace operators can transition to acting as service providers to asset owners.

The challenge for asset owners is that each asset is different and is targeted at different occupier groups, which therefore requires different approaches. As such, a partnership approach on an asset by asset basis might deliver a better outcome than a blanket solution with one operator or self-delivery.

We are working with multiple asset owners in all our major markets to evaluate what strategy should be applied, which includes assessing what should be delivered and how.

5 How can asset owner and investor concerns be addressed?

This ultimately comes down to how assets are valued and underwritten. As occupiers will demand greater flexibility, the type of agreements signed between asset owners and occupiers may need to change.

The office sector may need to adapt their valuation methods to something akin to the hotel sector in order to factor in valuing flexibility where the whole or majority of the building is operated as flexible workspace.



Please visit our [microsite](#) to learn more about our insights and recommendations for occupiers, flexible workspace operators, asset owners and investors in APAC.



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