*This paper explores the latest trends in the flexible workspace sector*

Knight Frank

# The Flexible Workspace Outlook Report 2023

## Hong Kong

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# KEY FINDINGS

Number of flexible workspace operators

23

Total square footage in Hong Kong (approx.)

2,200,000

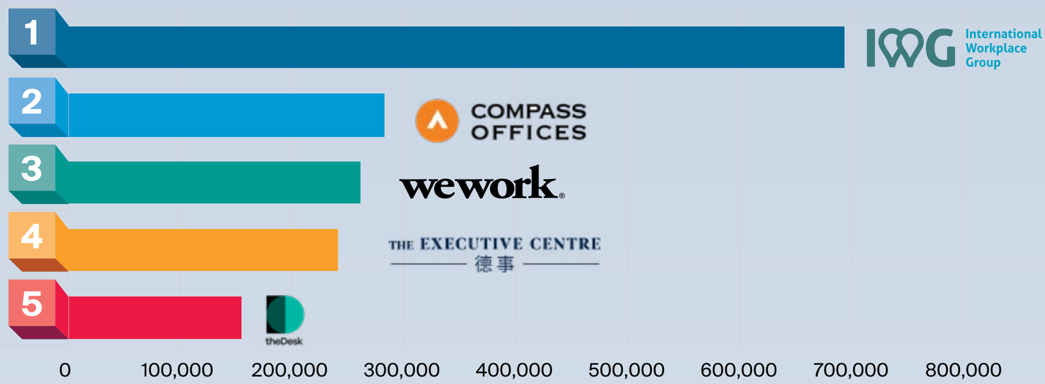
% of market as flexible workspace

2.5%

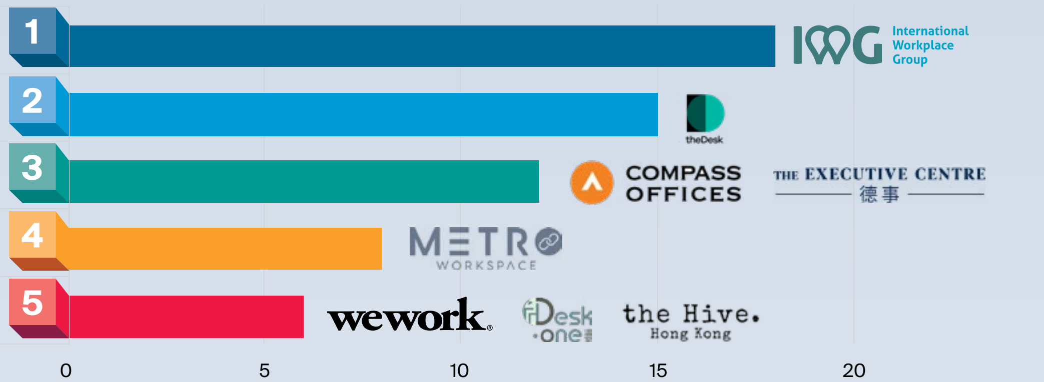
Total Grade A office stock as of end of 2021 (sq. ft.)

87,833,000

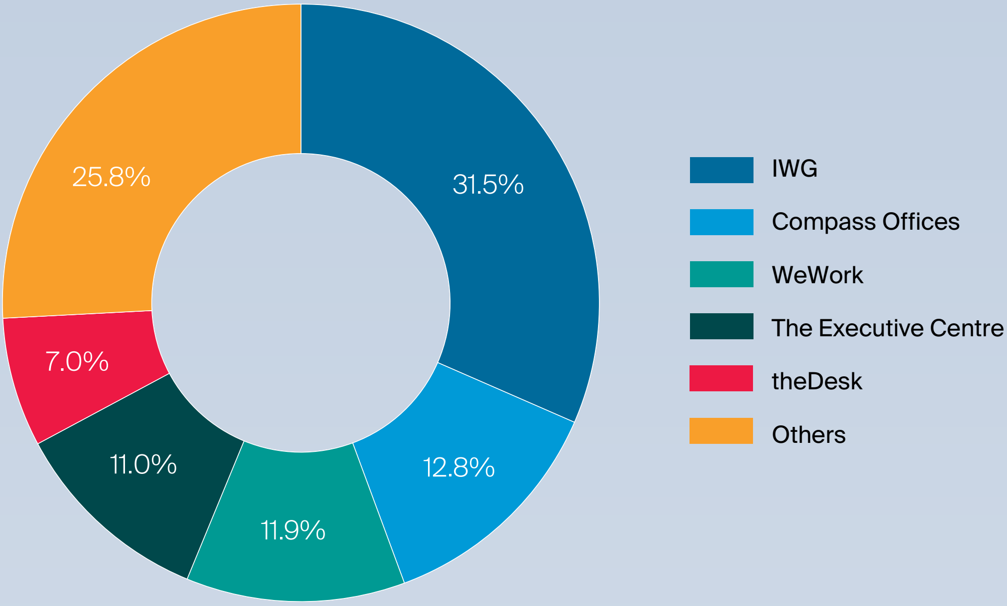
## Top five operators by square footage



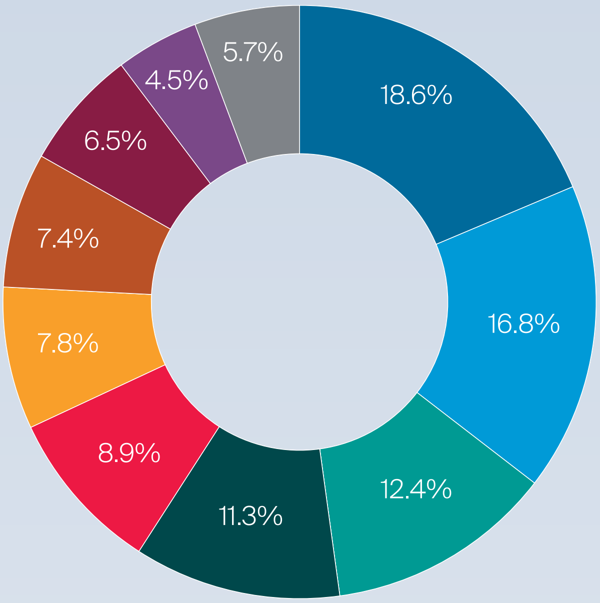

## Top five operators by number of locations



**Operator market share**




**Flexible Workspace by district**




| District | Area (sq ft) |
|---|---|
| Central | 427,001 |
| Causeway Bay | 384,752 |
| Wan Chai | 283,530 |
| Sheung Wan | 258,361 |
| Kowloon East | 204,812 |
| North Point / Quarry Bay | 177,539 |
| Tsim Sha Tsui | 168,923 |
| Kowloon West | 149,904 |
| Admiralty | 103,864 |
| Others | 131,264 |

# FIVE PREDICTIONS FOR 2023

01 **The emergence of a managed suite product**

02 **Increasing number of non-traditional leases between operators and asset owners**

03 **Asset owner amenity war to gather pace**

04 **Occupier take-up to shift further to flex**

05 **Range of products continuing to evolve and expand**

# FOREWORD - THE DAWN OF OFFICE 2.0

*At what point do we stop drawing a line between "traditional" office space and "flexible workspace"? With a proliferation of products in the office sector the line is becoming ever more blurred.*

The office sector has shifted and while asset owners need to adjust so too do flexible workspace operators, otherwise flexible workspace operators, who were once seen as disruptors to the office market, will themselves be disrupted.

Shifting occupier profiles are leading to white space opportunities. We have seen an uptick in demand for enterprise solutions and turnkey offices. We believe this presents an opportunity for a managed suite product, which is a product yet to become mainstream in many Asia Pacific markets. The question is: who is best placed to deliver this?

Meanwhile, asset owners are aiming to placemake with holistic, integrated, hospitality-led amenity stacks to elevate the occupier experience.

Is this an opportunity for a new type of operator?

This is an incredibly exciting time, with occupier trends driving innovation in how the market delivers the workplace of the future. This may be the dawn of Office 2.0; at the very least, it is the dawn of Flex 2.0.

# TURN THE KEY

*In Hong Kong and many other markets we have observed occupier demand trending towards enterprise solutions and turn-key offices.*

The reasons for this demand uptick are obvious. We remain in turbulent times, so signing traditional leases and committing capital no longer work for many occupiers. However, for asset owners, deploying capital into every transaction is not a sustainable practice, both commercially and from an ESG perspective. It is not commercially viable to fund an occupier's fit-out, rip it out at the end of the lease and repeat.

For a flexible workspace operator, delivering large suites is challenging and presents increased risk. Typically, larger suites carry a lower per-desk rate, while the nature of larger suites means there can be longer void periods. If a flexible workspace operator is on a traditional lease then delivering enterprise solutions can negatively impact margin to the point of it being prohibitive.

This leads us to advocate for the emergence of a managed suite product. A managed suite is a fitted office, typically less than 10,000 sq. ft., with furniture, fixtures and equipment (FF&E) and ready to move into on relatively short terms (usually 12 to 36 months). A level of customisation is sometimes available, such as a selection of furniture and company branding. The demand is clear, but the delivery model is broken.

There are two clear delivery models:
1) self delivery by the asset owner; or
2) partnership with a flexible workspace operator (either a hybrid lease or management agreement).

**Flexible workspace operators in Hong Kong have noted that deals of 20 desks or more now account for approximately 20% of new deals. And asset owners have commented that almost 70% of occupiers with space requirements of sub-10,000 sq. ft. show a preference for fitted offices or turn-key space.**

Asset owners are well placed to self-deliver managed suites, especially in a market such as Hong Kong, where lease terms are typically short (as short as three years), therefore it would not create significantly more work for asset managers. However, creating a managed suite product as a standalone offering does not necessarily add value to the occupier.

A managed suite product may be better positioned as part of a broader stack of amenities, such as a lounge and shared meeting spaces, therefore a partnership with a flexible workspace operator may be a solution to an asset owner looking to deliver a managed suite product.

Curating an asset to deliver a broad range of products provides a platform to secure occupiers with differing demands, which will increase leasing velocity in a new development and protect against void periods in mature buildings.

Careful consideration should be given to the stacking of amenities and flexible workspace in an asset in terms of what function each space provides and how they complement each other, particularly if there are multiple operators delivering F&B, wellness offerings and flexible workspace. This is the art of placemaking, which is increasingly important for asset owners in the fast-evolving market landscape.

> "Enterprise customers have always been a big part of our business. However, we have noted that larger deals have become much more common in the past two to three years, and we believe this demand profile will continue.
>
> Partnering with asset owners allows for a broader, more integrated offering and better enables a building to capture the full range of demand."
>
> **Paul MacAndrew**
> General Manager | Hong Kong & Greater Bay Area
> IWG

# THE BROADENING SPECTRUM OF FLEX

The catchall of “flexible workspace” has commonly been used to describe both serviced offices and coworking. However, the sector is much broader and encompasses a spectrum of products that can be integrated across a building. In addition to physical spaces, asset owners are increasingly seeking to offer services and experiences to their occupiers and the delivery of these are also part of the sector.

In addition to the workplace products set out here, we are increasingly seeing the integration of wellness and F&B offerings in buildings. The right integration, whether via a single operator or multiple, can lead to the multi-purposing of space and therefore increased monetisation opportunities. For example a work lounge can be paired with a coffee shop and/ or a light F&B offering. Meeting, conferencing and event space often requires full-scale catering so it could be paired with a restaurant and with thoughtful programming could also double as wellness space.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**A further segment in the broadening spectrum of the flexible workspace sector has emerged in recent years – the private members club. While this may not be the solution for hybrid and distributed work models at scale, we are seeing an increasing number of asset owners looking to add clubs in their office buildings.**

◆◆

**A hospitality operator has the capabilities to deliver the amenities, services and experiences asset owners are seeking in order to set their buildings apart, while providing the ability to bring wellness, F&B, a work lounge and meeting, conferencing and event space under a single platform. Expanding these products to a building level and helping to create a community, therefore stickiness, is the driver for an asset owner.**

◆◆

There are opportunities for asset owners to reimagine how office space is delivered in order to capture occupier demand for products beyond the traditional lease of a bare shell office. Approaching the landlord-tenant relationship as a partnership can have benefits for both parties, providing solutions for the workplace requirements of occupiers with less friction and a better experience for end users, along with “stickier” customers (occupiers) for asset owners.

# TAKE UP OR FAKE UP?

**Flexible workspace operators were particularly active in 2022 and remain active in 2023 as a source of take-up for asset owners. However, we would argue that take-up by flexible workspace operators is, in fact, not true take-up.**

Currently, the flexible workspace sector is guarded over occupancy rates and so it is difficult to pinpoint a vacancy rate within flexible workspace locations across any given market. Until there is greater transparency this cannot be truly measured. However, asset owners who tick off occupancy in a building by entering into a lease, or any form of agreement, with a flexible workspace operator may not understand the full picture and are missing an opportunity.

In 2022, 405,700 sq. ft. of office space was taken up by flexible workspace operators. However, approximately 200,000 sq. ft. was handed back, meaning positive take-up was approximately 200,000 sq. ft..

Set against the overall market, which saw negative take-up in 2022, the flexible workspace sector contributed positive "take-up". However, flexible workspace is essentially the repackaging of space and so we need to consider how we account for this.

We would encourage asset owners to fully integrate flexible workspace offerings with the traditional leasing of a building in order to unlock the full benefits of the model, whether the flexible workspace is delivered by a third party or not.

Notably, over a third of deals in 2022 were non-traditional leases, meaning either hybrid or management agreement.

**Table 1: Major Flexible Workspace Operator Deals in 2022**

| Operator | Building | Size (sq. ft.) |
|---|---|---|
| TEC | 28 Stanley Street | 55,000 |
| IWG | 8 Queen's Road East | 64,000 |
| IWG | LKF Tower | 25,600 |
| IWG | ICC | 33,800 |
| The Flexi Group | Chinachem Tower | 17,000 |
| theDesk | Enterprise Square 5 | 18,000 |
| theDesk | One Pacific Centre | 18,000 |
| Bela Offices | The Chelsea | 12,400 |
| Bela Offices | New World Tower 1 | 10,300 |
| Bela Offices | Dina House | 10,000 |
| The Great Room | Cheung Kong Center | 21,300 |
| WeWork | 9 Queen's Road Central | 13,700 |
| Compass | Admiralty Centre Tower 1 | 20,000 |
| Compass | Lee Garden Two | 31,400 |
| Compass | Lee Garden One | 7,600 |
| Compass | Infinitus Plaza | 47,600 |
| | | **Total: 405,700** |

TEC, 28 Stanley Street

# EXPERIENCE EXPERIENCE EXPERIENCE

Location Value refers to the premium associated with a location which translates into higher property values in the vicinity, the inverse is also true. But what value should we attach to experience, answer: a high one.

One of the biggest contributors to a building's success is occupier experience. How an asset owner delivers on experience will affect leasing velocity, retention and rental tone, in turn impacting capital value.

So, who is best placed to deliver the software to an asset owner's hardware and what does this look like? An asset owner could build out a team, at present this typically sits with marketing teams or the asset management/in house leasing teams. Alternatively, an asset owner could partner but with who?

Flexible workspace operators brought the theme of community to the office sector but perhaps there is an opportunity for hospitality operators – hotel and members club operators, for example, to meet the growing need of asset owners to elevate the occupier experience.

The choice of partner may largely be guided by the physical spaces that an asset owner chooses to deliver, should there be a flexible workspace operator in the building it may make sense to extend their scope of physical spaces to include building level amenities and to broaden the range of services offered to include programming and content in order to engage occupiers on a building level. However, for many flexible workspace operators this is outside of their core business and would require third parties to support delivery.

In Hong Kong, Swire Properties and Hongkong Land are great examples of asset owners striving to elevate occupier experience. Swire Properties will bring online a full stack of amenities, together with programming, at Two Taikoo Place that promises to set a new global benchmark, while Hongkong Land have recently delivered a range of initatives including on-trend F&B at Basehall, experiential retail at Belowground and dedicated work, meet and host amenities at Centricity, supported by best in class technology.

In summary, asset owners should carefully consider what they wish to deliver in terms of experience and what physical spaces can drive engagement, before then working through a process to determine the most appropriate

**A great workplace extends beyond an occupier's four walls, now, more than ever, an asset owner must consider placemaking as part of their asset management strategy and create engaging, well programmed and productive environments for the end user, elevating the occupier experience, otherwise they will no longer be competitive in the market.**

> "Entering the post-pandemic era, the lines of work and play are blurring, and community and social connections are prioritised. At Swire Properties, we have embarked on a creative transformative journey to build well-designed physical spaces for our people to forge meaningful connections. This is matched with an array of arts & cultural programmes and tenant engagement events where we cultivate the social fabric of our Taikoo Place community."
>
> **Natalie Leung**
> Swire Properties

**We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.**

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