

Further Signs of Recovery in EMEA Flex Office Markets

INTRODUCTION

Our [2021 EMEA Flex Report](#) highlighted that, despite the adverse effects of the Covid pandemic, there were opportunities for both occupiers and operators to explore, including: partnerships between operators and building owners, trialling new business models, and the use of flex space as a way of entering new markets. Nearly a year later, how far have these opportunities materialised and where are markets positioned now?

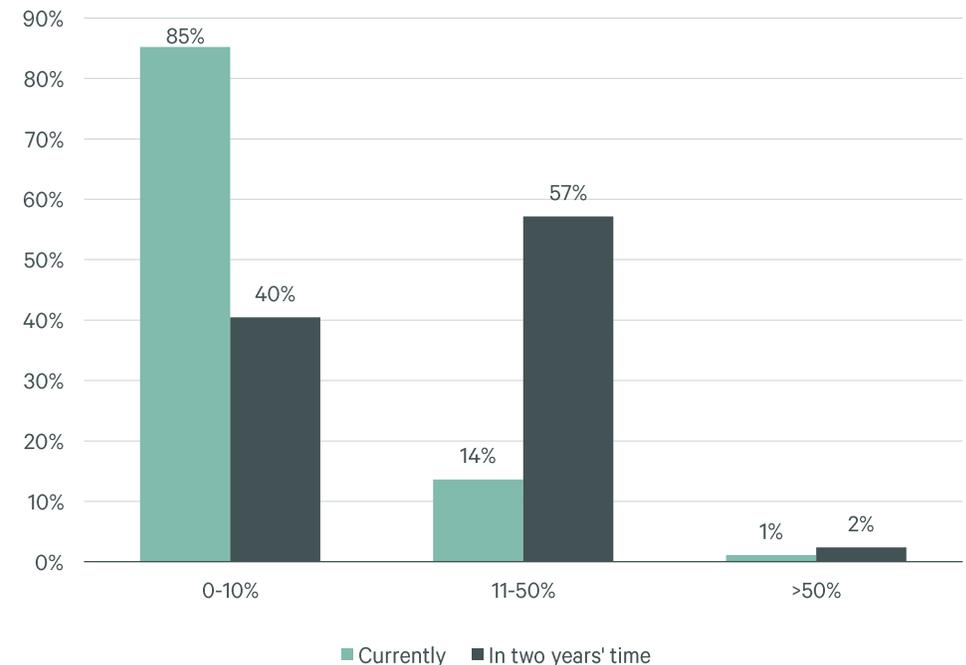
OCCUPIER SENTIMENT

Our latest [EMEA Office Occupier Sentiment Survey](#) indicates that corporate appetite for flex space is rising and is likely to continue to do so. Large numbers of occupiers see flex space as a growing part of the solution to their space needs. The proportion for whom flex represents 11-50% of their portfolio is expected to increase markedly from 14% currently to 57% in two years' time.

Why are we expecting such a significant increase? The reasons for using flex office spaces are varied. Office occupiers are now primarily looking to expand their use of flex spaces as a way of reducing real estate costs, with 39% of respondents citing this as their main motive. Flex spaces also provide occupiers with both adaptability and the scope to experiment with workplace models to identify solutions that are most effective for their workforce.

Building on this, we are seeing a change in the way clients are procuring flex space. Many are engaging with CBRE to develop strategies that select different product types to deal with an array of different business needs and portfolio requirements. This is driving a mindset to a strategic use of flex, quite different from the tactical perspective that flex was previously used for; as clients use optionality to drive towards a more responsive, optimised footprint.

FIGURE 1: Percentage of portfolio in flex today vs in two years' time



Source: CBRE Research, EMEA Office Occupier Sentiment Survey

The markets

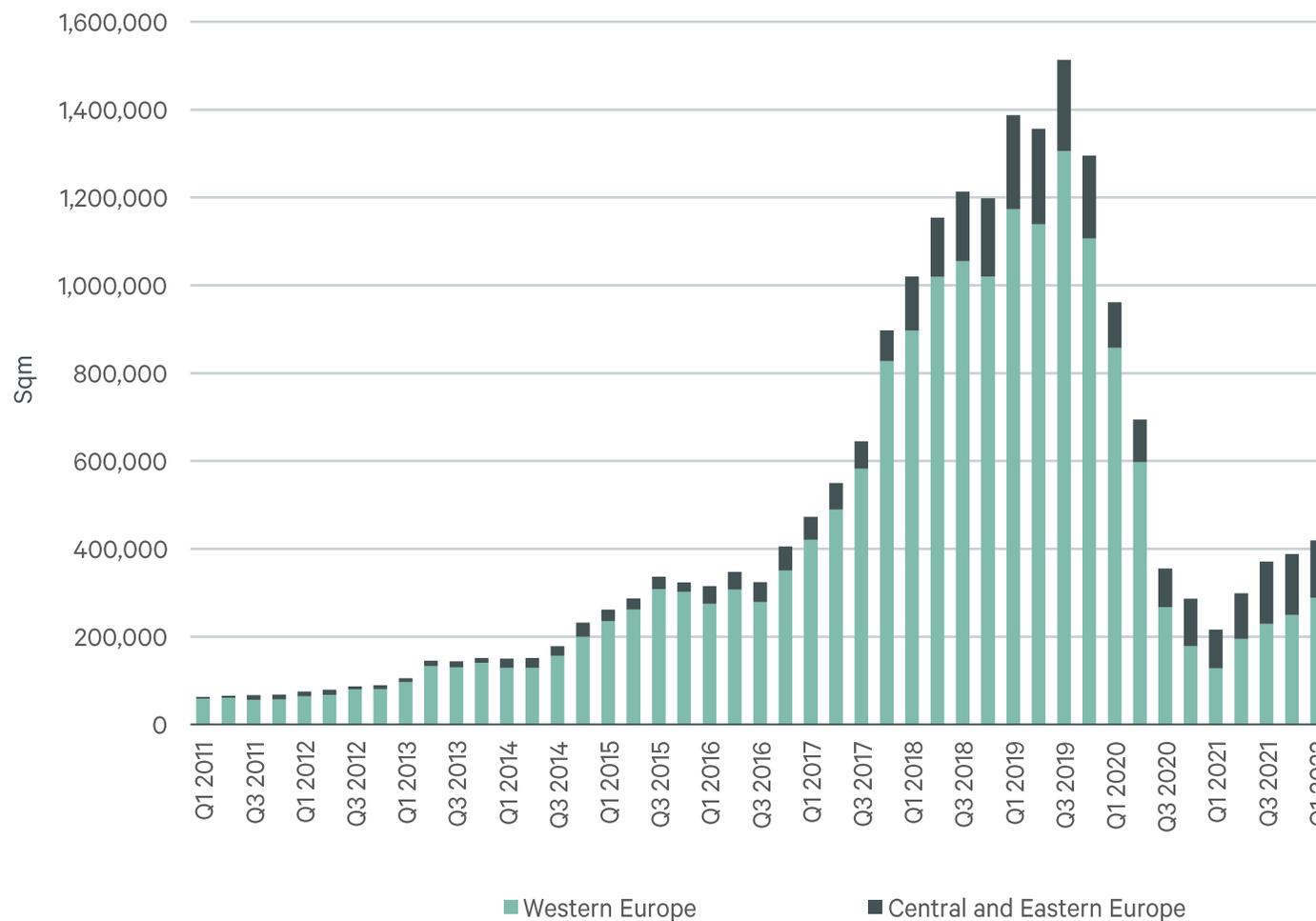
Operator take-up of space is showing strong signs of recovery. On a full year comparison to Q1 2021 (past four quarters with the previous four), leasing by flex office operators is up 94%. Western Europe increased by 125% and central and eastern Europe by 49%. A rising proportion of leasing demand is concentrated in some of the smaller emerging flex markets, including Lisbon, Rotterdam, and Wrocław.

The overall rate at which flex office stock is being delivered has slowed. Heightened occupier demand and a lack of capacity in existing centres is causing friction among operators who are competing for spaces, particularly in certain markets like Amsterdam, Dublin and Munich.

TABLE 1: Recent operator take-up (sq.m.), selected markets

| City | Q1 2022 | Past four quarters total |
|-----------|---------|--------------------------|
| Amsterdam | 5,787 | 8,918 |
| Barcelona | 7,155 | 20,706 |
| Berlin | 2,300 | 3,491 |
| Dublin | 816 | 816 |
| London | 3,830 | 41,153 |
| Madrid | 9,468 | 18,794 |
| Milan | 4,531 | 8,931 |
| Munich | 2,900 | 15,107 |
| Paris | 22,200 | 61,299 |
| Warsaw | 0 | 954 |

FIGURE 2: Operator take-up of space, 2011-2022 (Rolling 4Q aggregates)

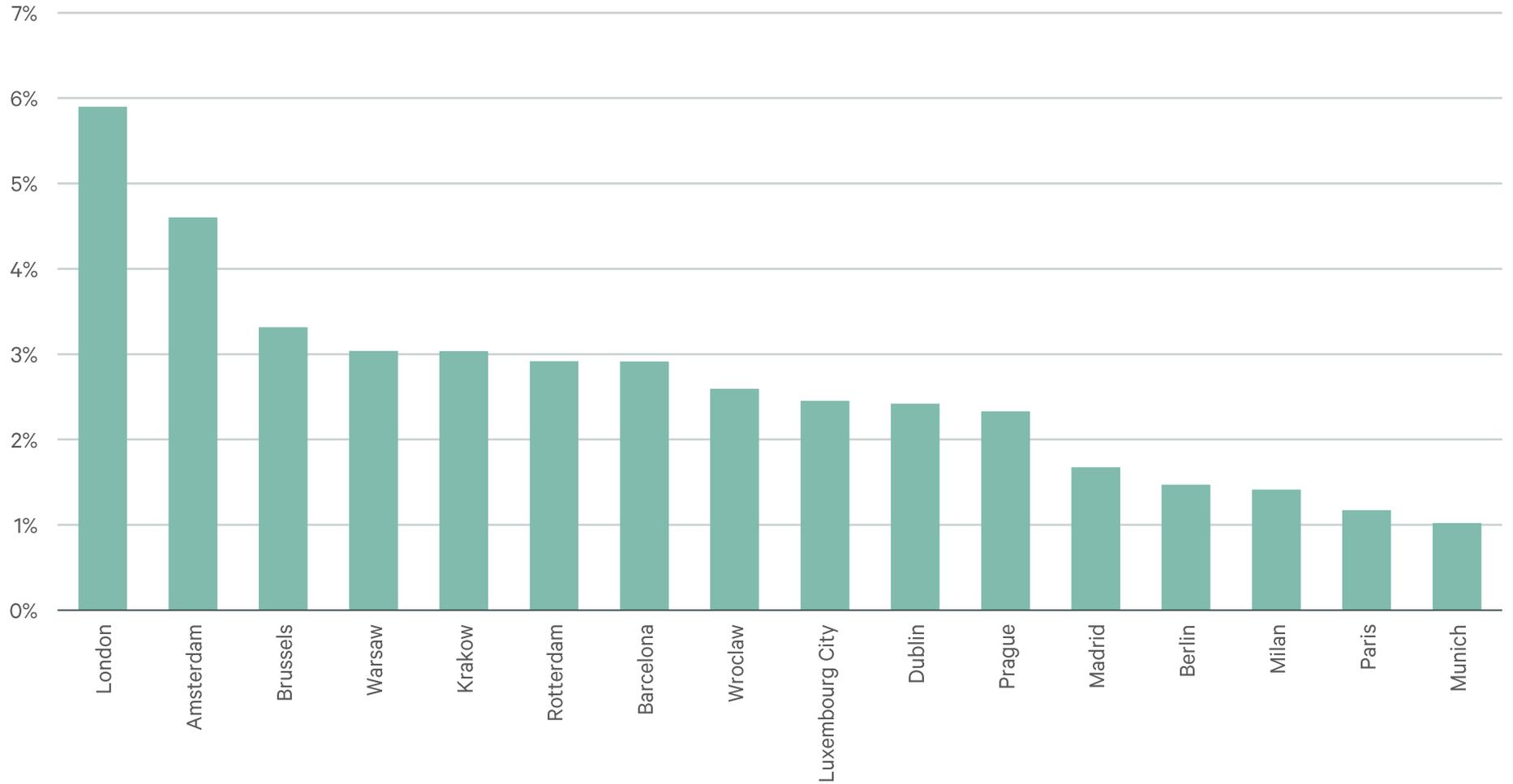


Source: CBRE Research

The markets (continued)

Increased leasing demand is supporting continued growth in flex office supply which has increased 0.3% since year-end 2021. The changing pattern of operator take-up is altering market dynamics with more flex office stock being delivered to less mature markets. These changes in supply patterns have started to filter through to overall penetration rates with markets including Krakow, Rotterdam, and Wroclaw now showing higher levels of flex penetration than, for instance, Berlin, Madrid, and Milan.

FIGURE 3: Flex office penetration rates, selected markets, Q1 2022



Source: CBRE Research

Pricing

As demand has risen for flex space, pricing for flex offices has increased, especially for premium operators; and the discounts/incentives seen at the peak of the pandemic have reduced. The below table summarises dedicated office workstation rates across Europe’s top markets.

TABLE 2: Pricing levels, selected European markets, Q1 2022

| City | Price per desk per month, range |
|-----------|---------------------------------|
| Amsterdam | €450 - €850 |
| Barcelona | €370 - €530 |
| Berlin | €500 - €900 |
| Brussels | €400 - €770 |
| Dublin | €500 - €800 |
| London | €800 - €1,300 |
| Madrid | €400 - €650 |
| Milan | €630 - €850 |
| Munich | €650 - €1,000 |
| Paris | €700 - €1,000 |
| Warsaw | €300 - €450 |

Source: CBRE Agile Team

Case study

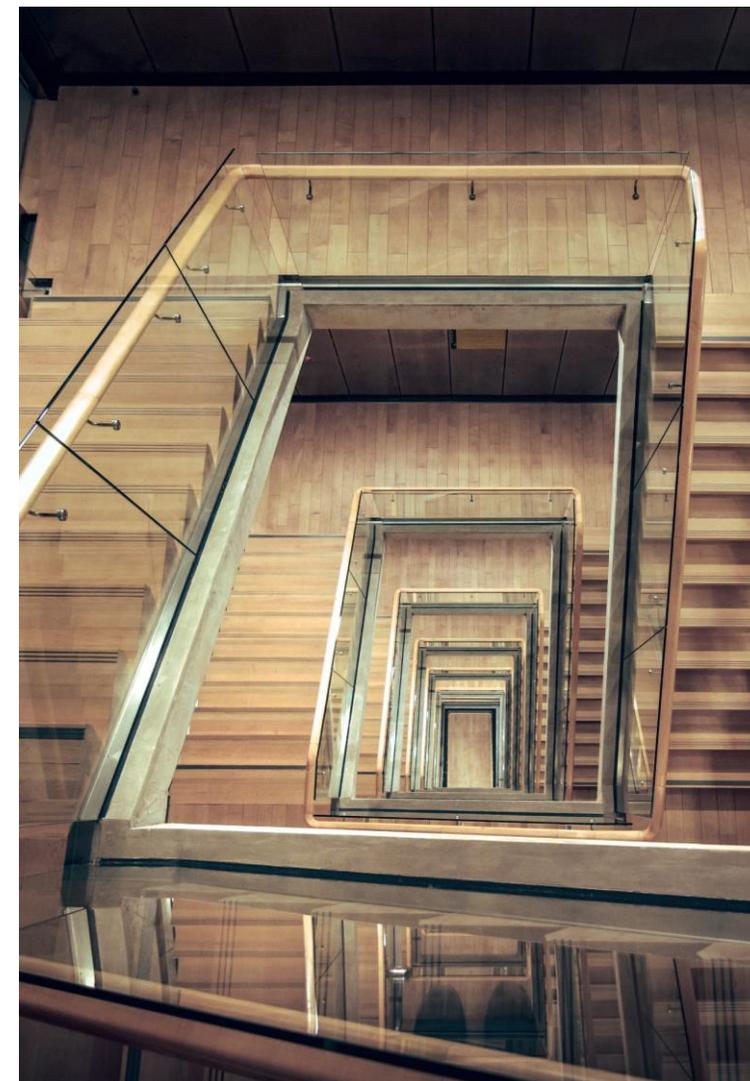
MSD/Organon

A CBRE Life Science client wanted to instigate a new area of business. With timing, capital and HS&E requirements it would be challenging to deliver 4,000 sq.m. of traditional office space in a tight market.

CBRE had targeted a building for the client, although the level of CapEx required was a limiting factor and due to long-term headcount projections, taking a 10 year lease didn’t give the flexibility required to manage future uncertainty. CBRE and the client were able to leverage their global relationship with WeWork and persuaded them to enter a new market to take on the targeted building. CBRE created a tri-partite deal with the building landlord and WeWork that delivered the client’s requirements.

The flexible solution generated 22% savings and a 33% space reduction over traditional leasing, with much more efficient exit opportunities over the hold period than if they had taken a traditional lease.

This deal highlights the development of innovative solutions, by both occupier and operator and the ability to embed a flex strategy into strategic space.

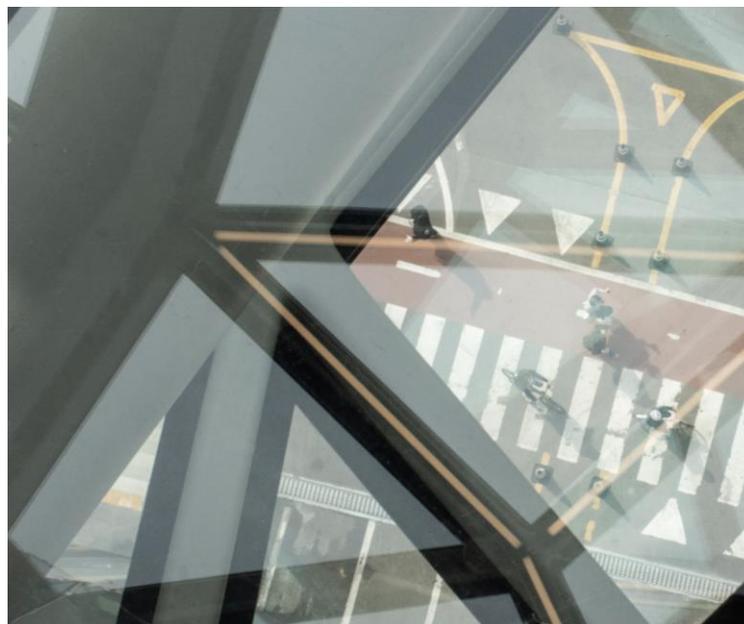


Operator focus

- In our [2021 EMEA Flex Report](#), we forecast the rise in the use of management agreements as a way for operators to instigate growth strategies for their networks without balance sheet encumbrance
- While these deals continued to grow in number, in many European markets landlords are still reluctant to adopt this model over a traditional lease, albeit hybrid models are now emerging to address some of these concerns. In addition to these deals, we are now observing operators exploring another route to growth through M&A activity
- In March 2022, The Office Group (TOG) and Fora announced that they had agreed to merge; two months later, Industrious acquired The Great Room in Asia and Welkin & Meraki in Europe. While the acquisitions are separate, the motives behind are similar – rapid business expansion through gaining access to other operators’ networks and portfolios

More operator growth on the way

- Operators’ expansion plans are resuming and, with penetration rates still relatively low across most of Europe, coupled with corporate ongoing demand for flex products, this creates an opportunity for network penetration into new and emerging markets
- Currently, the main uncertainty is whether apprehension in the financial markets and a potential energy crisis in Europe will stall demand or whether this will provide further appetite for flex products over traditional leasing



APPENDIX TABLE

| City | Take-up | Pricing | Penetration Rate (%) |
|-----------|---------|---------------|----------------------|
| Amsterdam | 5,787 | €450 - €850 | 4.6 |
| Barcelona | 7,155 | €370 - €530 | 2.9 |
| Berlin | 2,300 | €500 - €900 | 1.5 |
| Brussels | 0 | €400 - €770 | 3.3 |
| Dublin | 816 | €500 - €800 | 2.4 |
| London | 3,830 | €800 - €1,300 | 5.9 |
| Madrid | 9,468 | €400 - €650 | 1.7 |
| Milan | 4,531 | €630 - €850 | 1.4 |
| Munich | 2,900 | €650 - €1,000 | 1.0 |
| Paris | 22,200 | €700 - €1,000 | 1.2 |
| Warsaw | 0 | €300 - €450 | 3.0 |

Footnote: Leasing figures, penetration rates and pricing per desk, per month as of Q1 2022.

Source: CBRE Research



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