



How flexible do I want to be?

Flexible workspaces will change traditional leasing. What are they? Why are they trending? and isn't this just a way to get me out of my office?

Real Estate Update

16 MAY 2019

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No - it's a common mistake to think that flexible workspace is all about open plan and hot desking - which triggers lots of talk about densities, neighborhoods, bump spots and whether open plan actually is more productive. This is not about how you use your premises - but being flexible about what you contract for and how you contract it in the first place.

At a time when innovation is redefining the space and staff that business requires (on both sides of the curve) it makes sense that long term leases of fixed premises are not always fit for purpose. By considering this property owners can embrace flexibility rather than fear being disrupted.

So back to the beginning, what is flexible space?

Flexible space covers co-working, serviced suites, vertical campuses or full buildings with managed services. The core areas (essential areas you need) are contracted on traditional fixed leases (or other medium to long-term agreements), but the additional "flex" or "swing" options are 'bolted on'. These options could be further meeting rooms, project or training space or conference facilities that you can book; joint mail or print rooms; or access to social areas such as internal bars, staff cafés, end of trip or wellness facilities that are shared with other building occupiers.

The flexible options may also be property, facility or business development services provided or facilitated by the landlord direct.

Ok I've heard of co-working and serviced suites, but what are vertical campuses?

Sometimes called city campus arrangements, or "vertically integrated community environments" they are when occupiers take one or two floors of a high-rise office as their core space but then share centralised services, social or support areas outside of their rentable area. The core floors usually have an internal stair, so staff move between the floors like a low-rise campus.

What are the benefits?

Landlords: can gain higher rent and additional revenue streams. It is also a sensible future focused trend to

embrace (or defend against) the rise of the flexible workplace sector while ensuring the building remains as flexible as possible, to as many occupiers as possible. This ensures the landlord gets the highest and best use of the building and builds a more dependent and sustainable relationship with tenants as technology rapidly changes the headcount and area required for some activities.

Tenants: can grow, adapt to change, innovate and collaborate with others. Staff numbers can expand and contract to meet business demands without the feasibility of long-term leases being part of the equation. Businesses can attract and retain the best staff as small operators are able to offer the same perks (gym, bar etc) that were previously reserved for single occupiers. Savings may also be obtained by the "building community" using their (or the landlord's) greater buying power for services (and enable the tenant to lose the related admin that distracts from their core business).

Collaboration is opening up opportunity, so both big and small businesses can gain from sharing informal space or business development opportunities with other occupiers.

Flexibility also recognises that premises may need to adapt to technology, a project or a particular team (or individual!) to ensure optimum productivity. The flex space adapts to the needs of the business as opposed to the business being limited by the fixed space.

No landlord is going to offer me this flexibility - it's co-working or traditional leasing. Isn't it?

True. Auckland CBD in particular has been a landlord's market for A-Grade and Premium premises over the last few years with little incentive on landlords to offer any flexibility when they are operating at 100% occupancy. Despite this the flexible workspace sector has doubled in the last 3 years with around 117 facilities currently identified in New Zealand*. Even on current forecasts it is expected to double again in the next 5 years. If rents or vacancy rates change you would expect this growth to be faster and mirror global trends forcing traditional corporate real estate and leasing to be more innovative.

65% of enterprise companies in the US plan to incorporate coworking into their portfolio offering by 2020[^], the UK predicts that 30% of corporate real estate will be flexible workspace by 2030 with Europe's flexible office space expected to grow 30% year-on-year over the next 5 years+. New Zealand businesses are forecasted to also follow these trends and therefore traditional CBD occupiers may start moving out of the CBD if it's not offered. At a time where everyone is talking about experience retail, we should also be providing experience commercial office. Give me an exciting, collaborative and fun experience at work.

Any other implications?

IFRS16 (international financial reporting standard) brought lease obligations over 12 months onto the balance sheet. Separating lease components from non-lease components (eg bolt on services or truly flexible areas the tenant has no control over) may be more attractive in some instances and again increase demand.

Where can I find it?

The delivery of current projects is likely to prompt a lot of occupiers to move to new premises which will create vacancy. Demand may therefore influence how space will be supplied. Some landlords are starting to offer these arrangements already and are attracting industries that may not have previously considered Premium or A Grade premises, therefore maintaining competitive edge.

There are also no barriers to entry so more and more landlords should consider adapting some space to offer this flexibility either directly, or through third party operators (e.g. Spaces, Generator, WeWork). And it's not just landlords, international hotel company Accor announced its intention to implement 1200 coworking spaces in under 3 years within its hotels^{^^}. Property owners can be pro-active disruptors rather than fear being disrupted.

So, I'm not going to get my office back?

Probably not - but we'll leave the open plan versus office debate to other commentators - for our part the key is to provide flexibility into current developments and contractual arrangements to allow business to access the right space, at the right time.

How can DLA Piper help?

We are very familiar with these arrangements and excited about how they can benefit both parties. We advise landlords and developers on how to develop these facilities (in new or existing buildings). We act for landlords, tenants and operators in structuring and establishing bespoke occupancy agreements, leases and related management and service contracts.

We have extensive experience in New Zealand and can offer insight into this growing market locally and globally. DLA Piper has 83 offices in more than 40 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific, which means we can truly draw upon our international resources and connections and ensure all emerging trends, models and operators are considered. We also work alongside workplace consultants, space monitors and strategic planners to help get you as flexible as you want to be!

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Davida is a Partner based in the Auckland office of global law firm DLA Piper. Davida advises on commercial and mixed-use development, leasing and portfolio management. She has significant experience in commercial office leasing, co-working and property workplace trends and was also General Counsel at NZX listed Precinct Properties, the owner of co-working operator Generator. Davida can be contacted at .

*Colliers 2018 New Zealand Fixed Term and Flexible Workspace Report

^ CBRE Enterprise Survey 2017

+ JLL (November 2018) Disruption and Distraction report

^^ Accor, in its WOJO coworking joint venture with real estate company Bouygues Immobilier plans to open 1200 coworking spaces in under 3 years with a desire to be the leading coworking brand in Europe by 2022.

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