

# Flex Office Market Report

New Work  
2022





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# 1. Introduction

It's the 3rd year where we are doing a market survey on flexible workspace solutions and how the office industry is adjusting to flex.

Over the time the most frequent question has changed.

While in 2019 the market still discussed "Is flex is here to stay?", in 2020 the question was rather "Which flex formats will best suit clients?"

During the course of 2021 it became more and more clear that the importance of flex changed from "nice to have" to a "must have" for every landlord.

So, today's question might be rather **"How much flex do I need to add on my portfolio to stay competitive?"**

While in 2019 we still perceived 5 % of flex space in a building as a healthy share, today we have passed the 10 % already, and it is developing further towards 20 %.

The trend towards flex office solutions started a long time ago when shared economy and digitization infiltrated our lives.

Therefore, the market grew 30 % year by year over the last 10 years until 2020 when the pandemic set a stop to it. Fair enough we started from a very low level but still today the market share of flex offices out of the entire office market in CEE is between 3-4 % only, while **according to JLL it will grow towards 25 – 30 %.**







The demand accelerates, and not only because of uncertain planning horizons for tenants in today's fast changing business environment.

Once the dust about the work from home policies has settled and we realize that the new way of work has become an integrative part of our lives already, the flex industry will participate from new workplace strategies of corporations as well.

With all these changes in place the flex office industry is becoming the fastest growing segment in real estate besides logistics.

The **implementation of digital tools for marketing and sales purposes trigger the infiltration of flex** even more as this product is predestined for such applications.

Worth to have a look at it and learn more about the insights, which players have already adapted to the change, and what the future might bring.

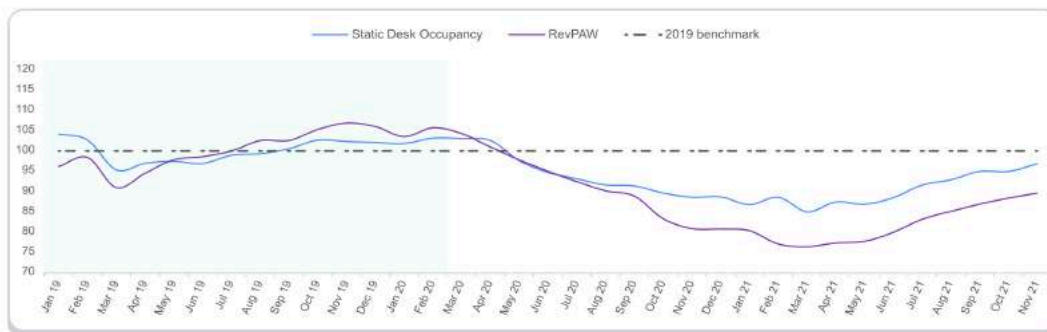
Budapest 4th of January 2022

**Hubert Abt**  
CEO and Founder

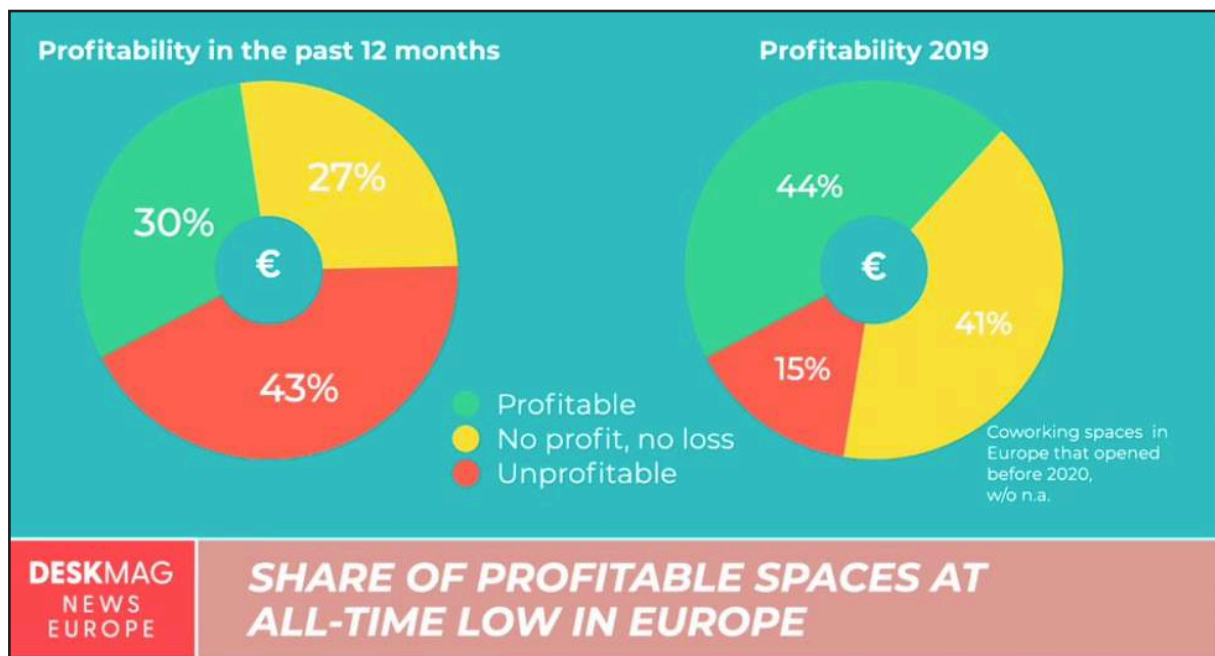
## 2. A brief look into 2021's - Flex Index

The upward trend after the global lockdowns has still not fully recovered and as of November 2021, the market is below the 2019 benchmark by 14%.

While we expect the recovery trend to continue the market is under a major disruption.



The fight for increasing occupancy came with a price of lower revenues per workstation. According to the latest survey of DESKMAG, from December 2021, **70 % of the operations are not profitable.**



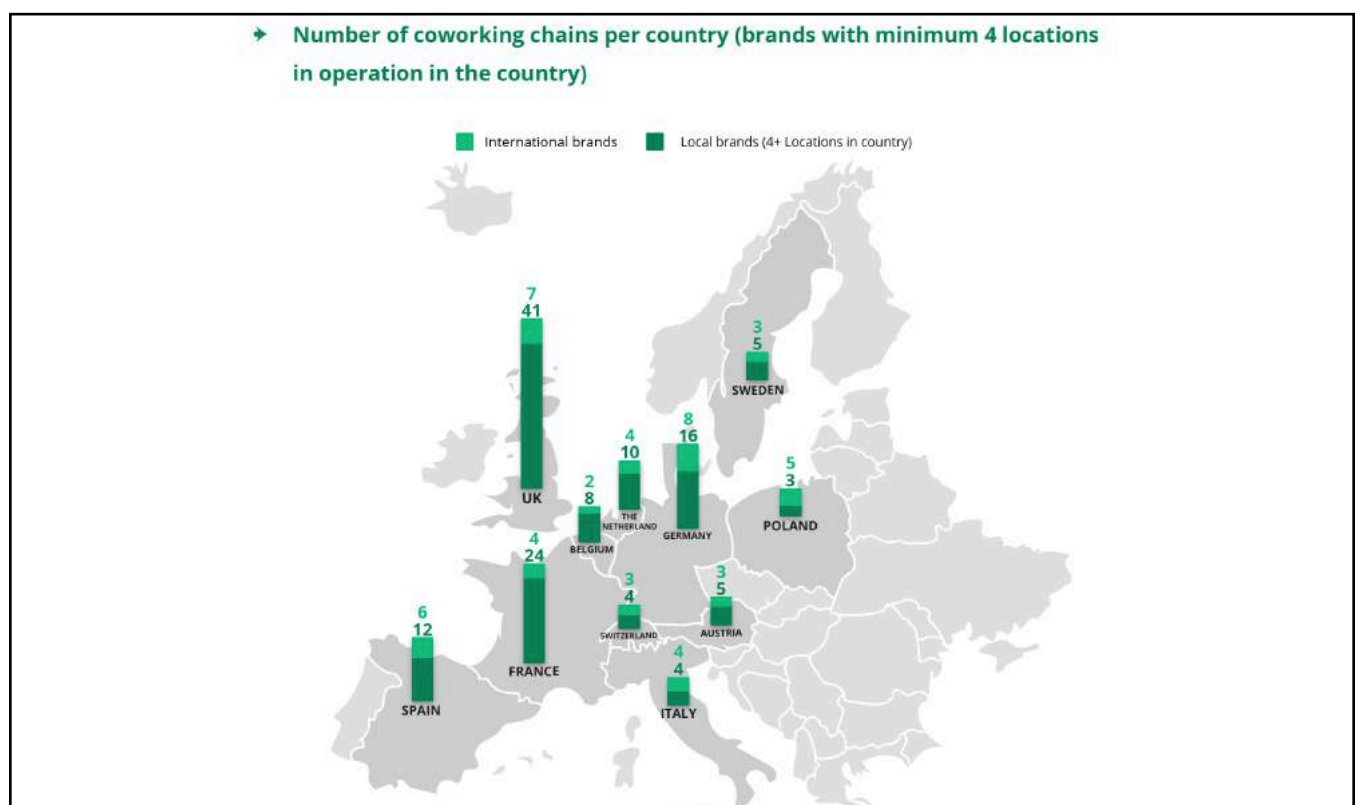
This picture is true for all players, by 30th of September 2021 **IWC reported that they opened 109 new locations while they closed 114 less profitable ones.**

While bigger players have access to capital markets and bridge the gap for a certain time period, smaller operators are suffering and some of them are already out of business or soon will be.

Disrupting markets with high potential for growth are the stories investors like very much.

- o **IWG**, the biggest operator worldwide, **raised 320 Million GBP** already in May 2020 and another 350 Million GBP in December 2020.
- o **Workspace Group plc.**, a London-based flexible office owner and operator, **raised 300 Million GBP** in March 2021 via a Green Bond.
- o In June 2021, **CBRE** gave up on their idea to create their own brand with Hana and rather **invested 400 Million USD to take over 40 % of Industrios**, which by the time was number 2 in US.
- o In September 2021 the north American partner of **Knight Frank took over Knotel**, the number 3 operator in US **for 100 Million USD**, and are now supposed to bring the brand to Europe.
- o In October 2021 **WeWork made IPO** at the New York stock exchange, on a valuation of approx. **9 Billion USD**.
- o In November 2021 **Mindspace announced a 72 Million USD investment** in their company by their current investors and Tel Aviv based funds.

As a result, the European landscape of flex operators will soon not be the same anymore. Disruption is on its way, while today still about 50 % of the market is in the hands of smaller operators, this will soon change.



# 3. Flex Office Today – Change is on its way

Why do clients choose flex in the first place and why is this trend sustainable?

Well, beside its convenience, immediate availability and the flexible terms it offers, with no further Capex needed, the increasing demand is based on the fact that we are used to the advantages of the shared economy already in many areas of our daily life.

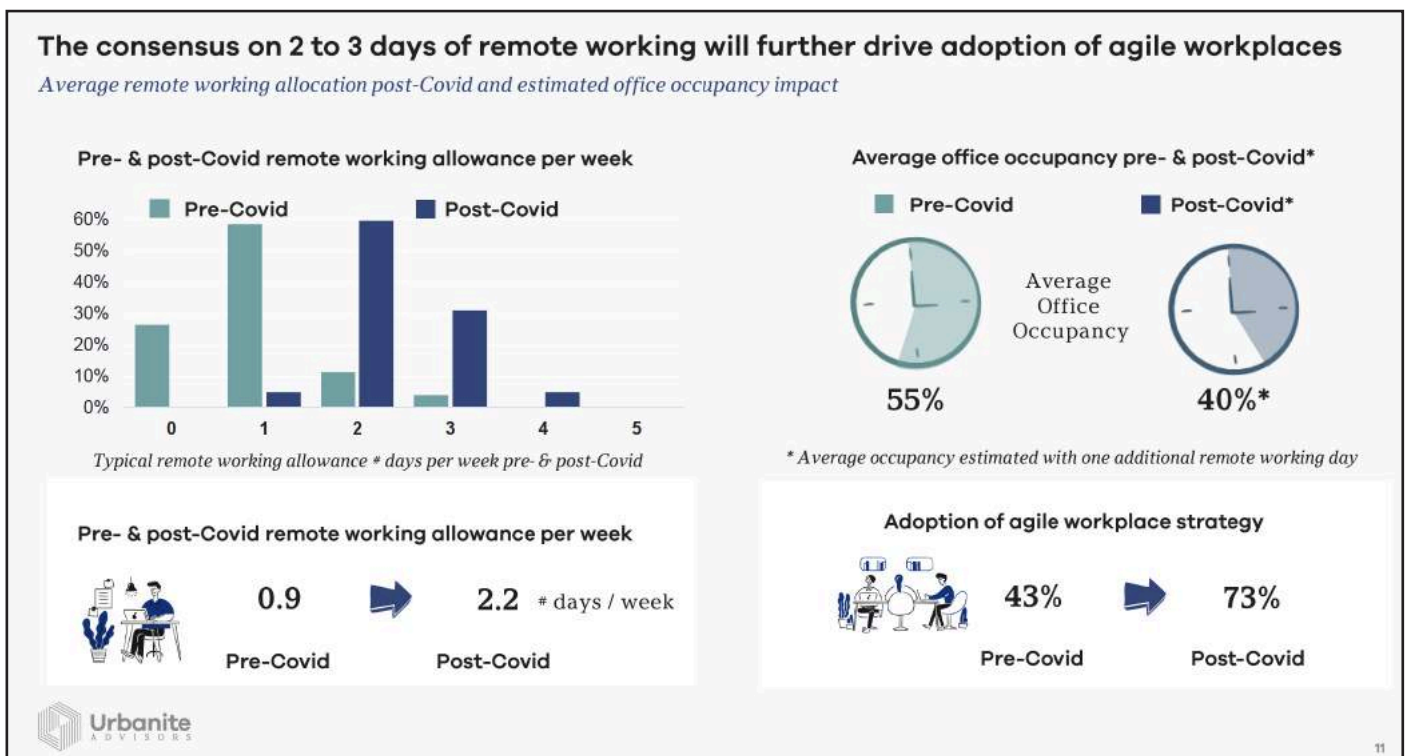
We are used to services like carsharing or software as a service on a rental basis, subscription models or pay as you go on daily basis, without even thinking about it.

We do not even consider spending Capex in these sectors anymore, why shouldn't we get used to the advantages of the shared economy when we choose our daily workplace?

**As soon as the office industry transforms their current product "Space as an Office" and starts to offer "Space as a Service", clients will use these services the same way they use carsharing today.**

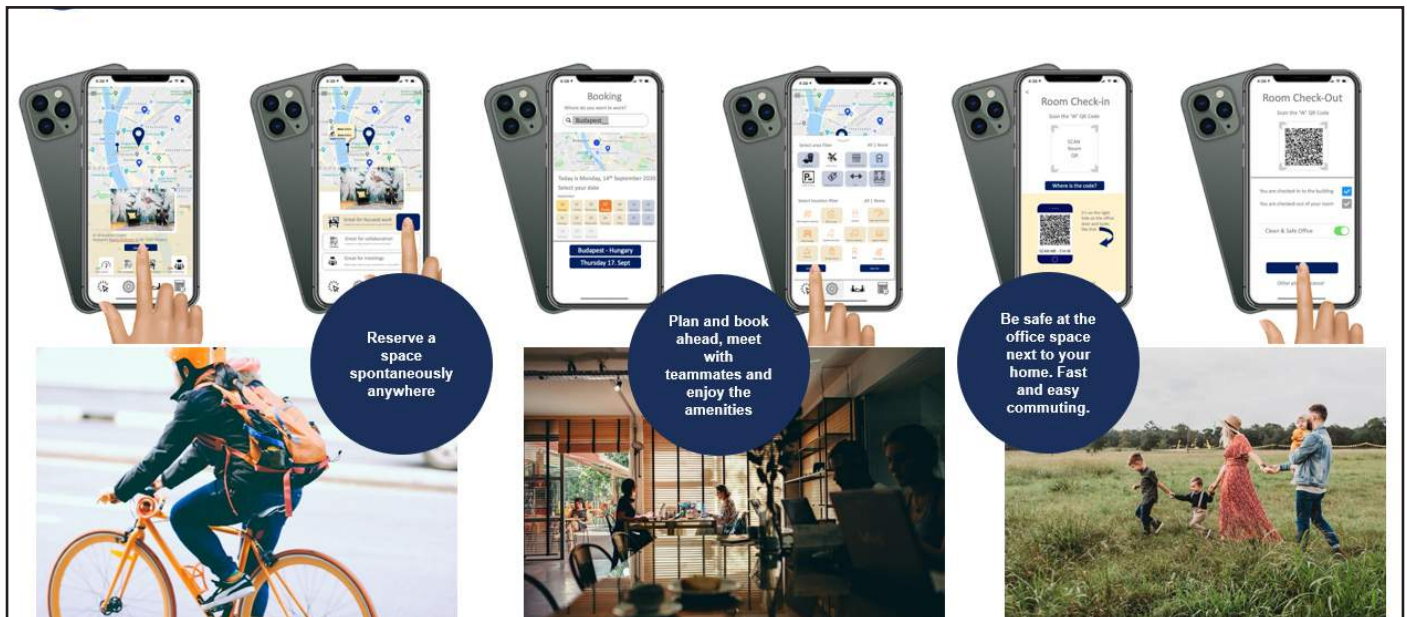
The implementation of strict governmental regulations to curb emissions will lead to further mobility solutions and drive the growth.

And last but not least, there is the change of lifestyle, social values and behaviors due to the latest experience, triggered by work from home policies during the pandemic.





Hybrid work just fits the lifestyle and “Space as a Service” is the future.



Beside these mega-trends, following reasons drive the demand for flex:

- o Uncertainty to forecast business long-term
- o IFRS regulations
- o Shortage on cash for Capex on leased properties
- o ESG regulations

The industry did well in 2021. **In November 2021, 79 % of the operators described their business situation as satisfying** while in 2020 it has been only 50 %





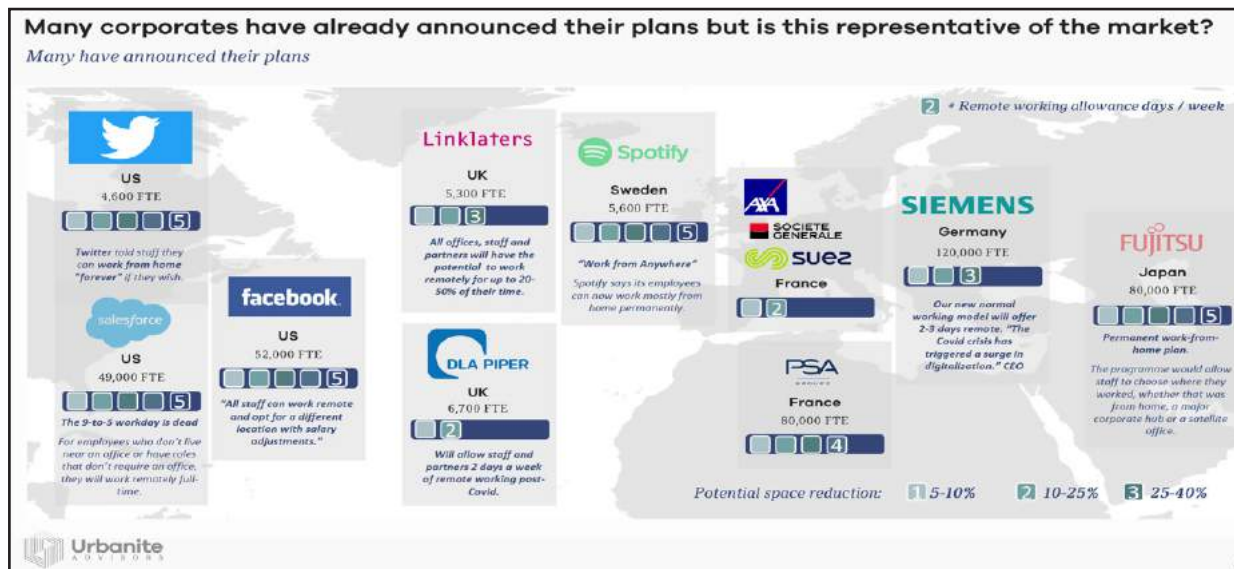
# 4. Flex Office Tomorrow - Clients adapted to the new reality

During the last 10 years of booming real estate markets, innovation was hardly required.

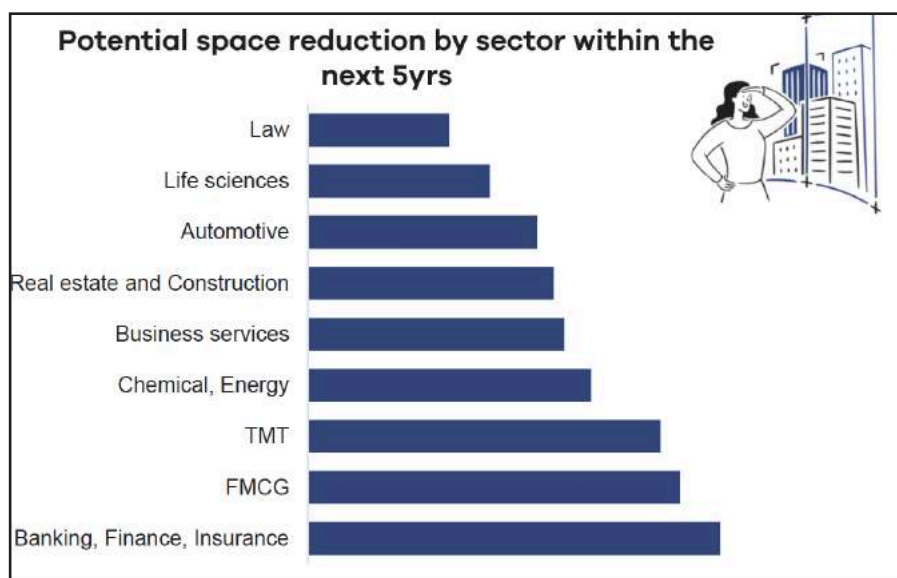
Today innovation is everything!

The office industry needs to adapt to the change in the next 20 months, what has happened to the retail industry over the last 20 years. **We need to start with the customer experience and offer "Space as a Service", this is what they desire** and not try to sell what we want, "Space as an Office".

More and more corporations are switching their work policies already from an office-centric, to a human-centric approach and implementing hybrid workplace strategies.



The headquarter of the company will not be the main place of work anymore, it will be the place for collaboration and meetings. Once the companies have gone through this change of culture, it will lead to a significant reduction in space requirements.



As in every modern economy in real estate we must learn that intangible assets are as important as tangible assets.

**The office as a workplace in the future will be chosen by best-in-class user experience!**

We need to start by telling a story about it.

In the past, WeWork was a great inspiration for the industry, on how to tell a story and create a unique user experience, which led into a unique brand experience.

Their product portfolio gives customers all flexibility they need, to choose Space as a Service.



The challenge comes not only with the smart asset but **much more with the relationship towards the customer.**

While in the past the most important customer might have been the person who signed the lease, today its everyone who uses our space for work. If the landlord is not prepared to maintain such relationships (which in most cases he isn't yet) it will need an operator to interconnect with the customer to maintain the relationship.

**Only the landlords who own the relationships with the customers can read their desires.**

Like Steve Jobs once did with Apple, we need to start from the customer experience and go backwards. What incredible benefits can we give the customer? By the way it's the exact principle which makes Amazon so successful.

1. Focus on customer needs and desires
2. Creating efficient tech enabled smart assets
3. Developing 'end to end' stories and building brands around them
4. Owning and leveraging the customer relationship



# 5. Digital Solutions – Everything goes mobile

The real estate industry is not the first, but one of the last industries adapting to digital products and services and using platform technology to improve user experience.

To understand what difference it makes, we need to check on other industries where software already has eaten entire sectors.

- o Like Uber for the cab industry
- o booking.com for the travel agencies or
- o spotify for the music industry

Why shouldn't we adapt such solutions for the real industry as well?

Because if we do not adapt our business model to the new reality, we will share the destiny like so many others before us.

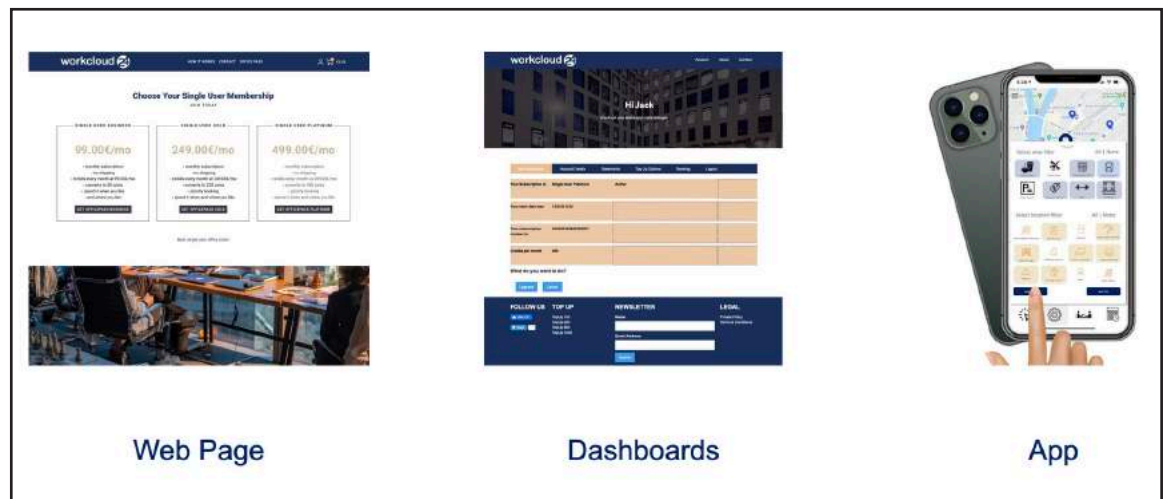


The need for digitization comes from different angles and is irreversible.

- o **Managing and reducing energy consumption** is only possible with sensor technology which requires full digitization of such elements.
- o To **comply with ESG** we need to collect data of all sorts, in an ideal case we need to build a digital twin of the building to analyze its construction and the materials used.
- o Today customers manage their life via smart phones, every information we want to pass to them must be **adaptable on a mobile form**, which is only possible if we have an accurate digital data base.
- o To comply with the needs for hybrid workforce management, **space needs to be digitized** to be displayed and bookable via smart phone or dashboard.

The days when the classic long-term leases were the dominating products are counted.

**Space as a Service, available via digital solutions will take a major share of the market soon and there is no way out.**



Digitization will also overpass supply chains.

For more than 100 years cars have been sold by dealers.

They took care of the customer and provided all services needed on the front-end.

When Tesla started to manufacture cars, they decided to sell their cars directly via internet.

Nobody believed that it is possible because nobody had ever tried it before.

Today we see the results. By selling direct, via a web-based shop, where the customer gets a virtual construction kit which allows him to assemble his tailor-made Tesla car, the company is super successful.

Their profit margin is well above the competition.

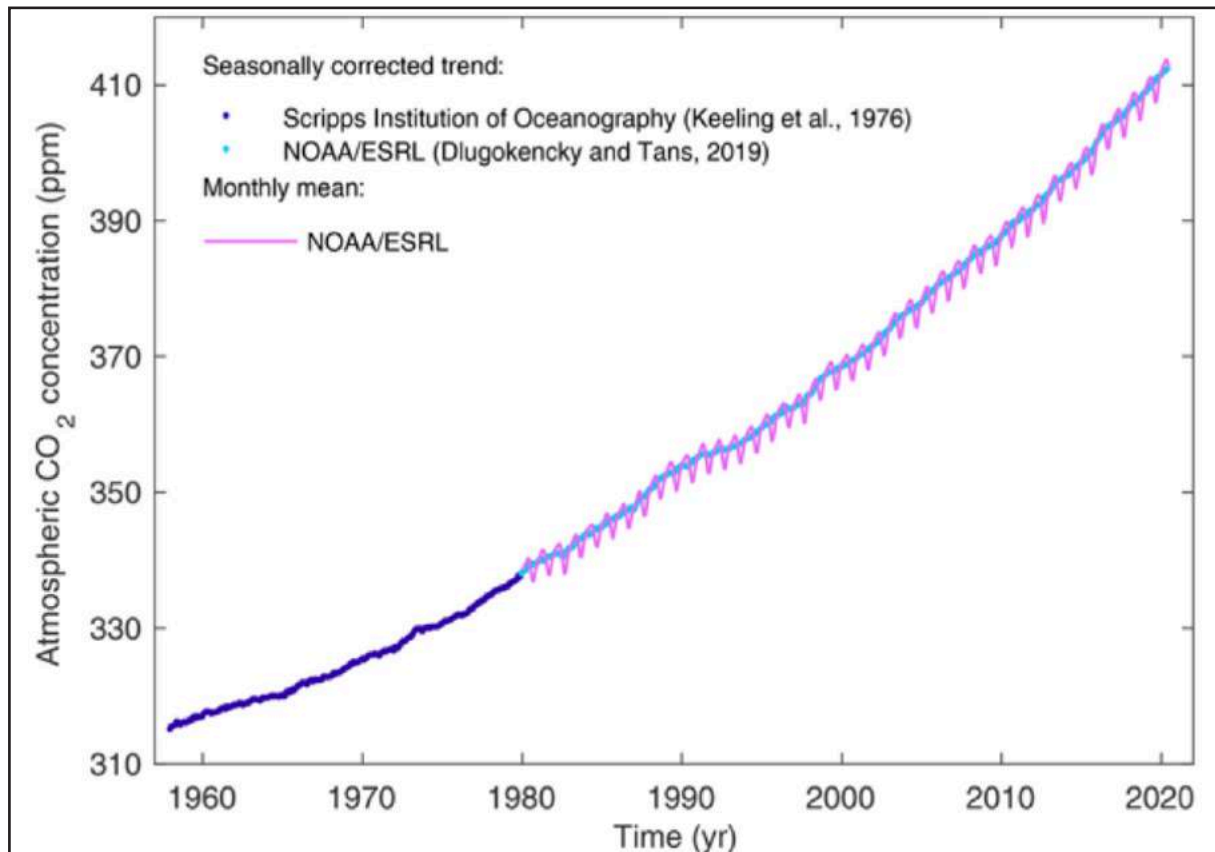
Not only do they best know their clients by owning the relationship (instead of the car dealer) they also create a unique user experience which gives them the most loyal clients in the industry.

All possible due to consequent digitization of all processes.



# 6. ESG – The “new” challenge

Climate change, driven by global warming, caused by carbon emission, is an issue which will influence our future life more than nothing else.



Hence, the facts are known for a long time and some actions have been disclosed but still to less and too little.

- o In 1972 the Club of Rome already published the thesis “The Limits to Growth”, where they predicted that we will run out of time in the next 100 years (since then 50 years have gone by).
- o On 23. June 1988, James Hanson, a NASA scientist disclosed the greenhouse effect and its link to global warming in front of the United States Congress.
- o In 1992 the United Nations set up the Framework Convention on climate change, which 197 states have joined so far. Since then, 26 climate summits have been organized.

In 2018 air pollution, caused by the burning of fossil fuels such as coal and oil, was responsible for 8.7mio deaths globally (to set it in perspective, COVID-19 caused 5mio deaths in total).

**In a nutshell there is nothing new about it, but what has changed is that we are running out of time!**

Out of the **51.000.000.000** tons of mankind produced pollution per year

- o 31 % are caused by construction and real estate
- o 7 % are caused by heating and cooling

**As a matter of fact, with a total of 38 %, the real estate industry is the most important industry on earth to help with the fight against climate change.**

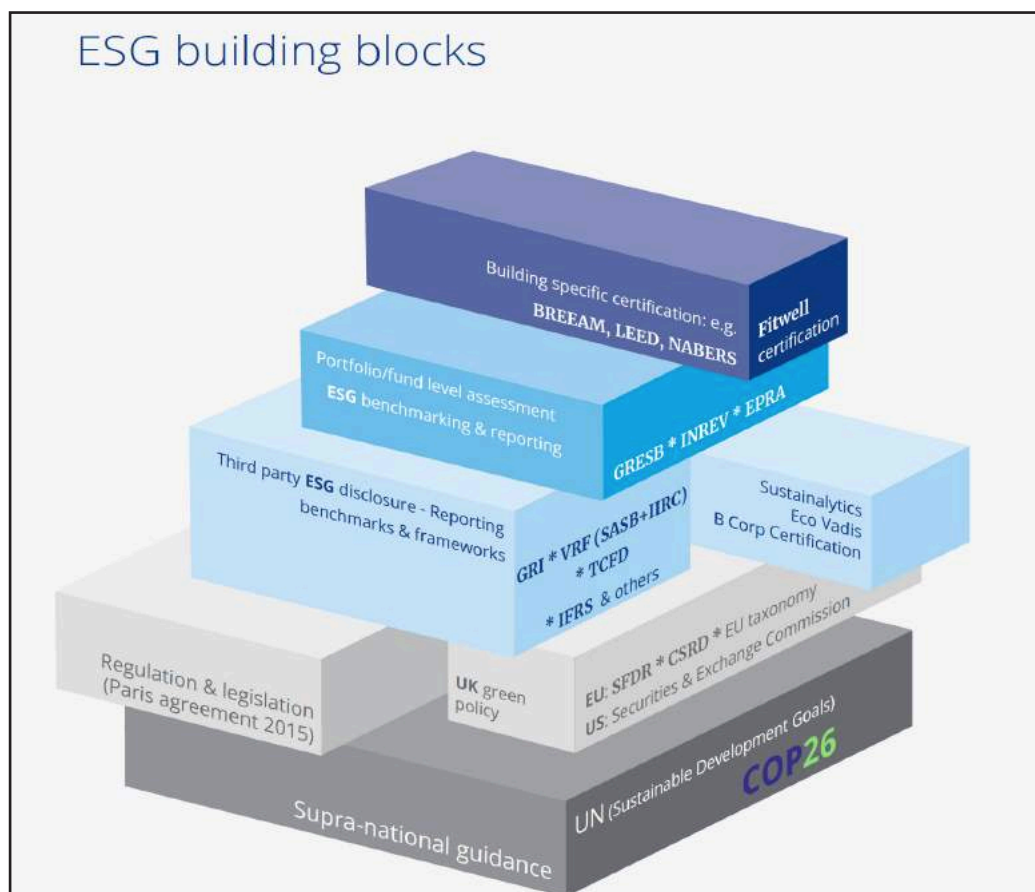
Beside the environmental aspects we also must keep an eye on the KPI´s of social and governance.

It may appear as something which only becomes important in the future but it´s not, it´s already important today and it will change the real estate industry more than we can imagine.

Up to date, many industries require only voluntary reporting on most ESG issues, but as a matter-of-fact **mandatory reporting will become state of the art**. Already in 2015 the Global Reporting Initiative (GRI) established the Global Sustainability Standards Board to define the Sustainability Reporting Standards.

However, a general holistic approach specifically for the real estate industry, is still missing and there are a lot of initiatives on the way.

Today the main pressure comes from the capital markets and banks.





Already in 2006, a group of investors established the Principles for Responsible Investment (PRI), supported by the United Nations, to aid investors in integrating ESG factors into investment processes.

The PRI currently has 2.300 signatories representing nearly \$ 90 trillion in assets under management.

Due to this pressure also tenants for office space are asking for compliance reports and much more importantly, they will immediately feel and experience if we comply by heart and if we are honest and are taking the matter seriously.

- Players who try to get away with green washing will get punished immediately.
- Big cooperation's will be the first to refuse to sign a lease with landlords who do not comply with the Taxonomy, as they will be forced from their shareholders and stakeholders to do so. Smaller tenants will follow, because it ´s becoming the mindset of the time to do something good for Mother Earth and the next generations to come.
- On the investment markets only ESG compliant buildings will make it to the shortlist, as investors and banks will only lend money for sustainable and green buildings and developments.

As a result, investors and operators need to adapt to the standards for impact **investments which are defined as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.**



Or, to say it in the words of Robert Bosch:

**“The integrity of my promises, the belief in the value of my products and of my word of honor have always had a higher priority to me than a transitory profit.”**

The good news is that there are already some developments which qualify to these standards, like:

- The Bullitt Center in Seattle, built in 2013 and still holds up the title as the greenest commercial building in the world.
- Hudson Yards in Manhattan, with 28 Billion USD the biggest and most expensive private development in the US, where 110.000 sqm of a freight depot are overbuilt (during operation of the railway) with a new, mixed used, self-contained city quarter.
- Erste Campus in Vienna, a multi-functional office building with 54.000 sqm, without private offices, which was constructed for 4.500 employees and today is used by more than 7.000 employees.

Studying those projects, we are realizing that we need to re-think our approach on how we plan, design, develop and operate buildings.

Again, here comes Steve Jobs into the game, **“think it from the customer experience backwards”**.

It is visible already that we are talking about a new asset class.

Used as a freight yard for decades, Hudson Yards New York, the self-containing city quarter development, is suspended over 30 functional train tracks.





# 7. Post Pandemic Conclusions – The future starts today

I have been working in the industry now for 35 years, but I can't remember to have been so excited about the future like I am today.

Even so Omicron and further mutations will cause some headache in the future, we will adapt to it, and we will get back to business as the world did after the SARS pandemic in 2002/2003.

**The pandemic teaches us what is possible with the use of digital tools and how we can organize our lives in balance with work.**

Companies now must adapt their work cultures **from office-centric to human-centric** and instead of time-based presence evaluation change to trust-based performance evaluation.

This will have an impact on how we organize our life, use workspace and how much of it we need and where we need it.



Landlords who want to succeed will need to implement not only leasing departments, which are acting proactively by consulting the future clients with their workplace strategy, but also need to maintain customer oriented, after sales services where clients experience a unique treatment by taking care of their daily needs.

Apple and Amazon have one thing in common, they proved that once we think the process from the customer experience backwards, we will make the difference.

If we have a look at logistics, we understand that their growth is driven by e-commerce and digitization, but the success of single players like Panattoni is only possible because they understood this approach a long time ago and clients follow them all over Europe, because they know exactly what their customers need.



**"It always seems impossible until it's done." Nelson Mandela**



It may sound futuristic, but if we look back in 10 years from now, we will realize that **today is the time when the real change in the office industry started.**

- Headquarters will get downsized, first gradually and then suddenly. The space will be used for collaboration, socializing and meetings instead of private offices. Work itself will be conducted in third places. Nobody commutes 2 hours a day to the office to read e-mails anymore.
- Landlords who are not able to provide flexible terms and conditions on a plug- and-play standard will **leave out 30 % of the market potential.**
- When planning, designing and operating a space it is essential to **think from customer experience backwards** to the product and not the other way around, **to make sure that clients' needs are satisfied.**
- To get the input for this process, landlords need to make sure to own the relationship with the clients to be able to adjust the services related with the product, according to the changing needs of clients.



- **Digitization will take over** and will impact not only how we manage buildings to ensure maximum efficiency of energy consumption and air supply, but much more it will impact leasing activities by using space management software and allow the usage of space via cloud services to ensure better results due to hybrid workplace management.
- To match with ESG standards it will be necessary to build a digital twin of every existing and new commercial building in order to measure the embedded carbon and find out **how ESG compliant adjustments and modernization can be executed most efficiently**.
- **Best-in-class developments will be classified as impact investment and will create a new asset class in real estate**. In those properties premium income not only can be achieved through services but also by sustainable way of planning, design and operation. The same time so called B-Class properties will need heavy investments to keep up with new standards.
- Core & flex agreements will be accomplished with service contracts against regular leases, as customers will require Space as a Service, including fit-out, furniture, maintenance and procurement management physically and as cloud services.
- **The 15-minute office will be the future**, places to work will be found everywhere and they will be available via mobile application, the choice for the place of work will be made by the supporting amenities not by the office anymore.

# 8.

## About New Work

New Work Offices was founded in 2012 in Budapest and today is set as # 2 operator in CEE behind IWG. Today the company is managing 15 locations with almost 45.000 sqm in Hungary, Poland and Czech Republic.

While the company is set up as a company on shares, until today the majority of the ownership remains with the Founder and CEO.

We combine international experience and access to capital markets with local needs from our partners. This gives us a unique profile towards our competitors. Entrepreneurship defines our DNA and we are acting local while we think global.

**Our mission is to create tomorrow's workspace today**, and we are driven by a quote from Lucius Seneca, to overcome difficult projects and start innovations.

**"It is not because things are difficult that we do not dare,  
it is because we do not dare that they are difficult."**







The company's achievements were recognized multiple times, as for example we have received awards as The Served Office Provider of the Year 2019, 2020, 2021 or being recognized as the Fastest Growing Operator in CEE 2017, 2018, 2019 (90 % yty) when we outperformed the market 3 times.



Served Office Provider of the year 2019, 2020 & 2021



Professional Service Provider of the year 2020



Office Project of the Year: coworking 2019



Best All Inclusive Offices competition by BIURO NA MIARĘ



Poland Prestige Awards 2020/21 PRIZE (UK)

In 2021 New Work was the first operator adapting handicap friendly access and certified in Czech Republic by Access4you.

**In 2022 the company wants to open 10 new locations** together with local partners in 5 different countries and expects further growth via its franchise network in shopping malls and big condominium developments.

As a major challenge New Work sees the digitization in the industry as well the transformation from “Space as an Office” towards “Space as a Service” as a product, to extend the flexibility on how to use workspace for customers.

Further, the **company is dedicated to keep up with ESG standards** and plays a front-runner role when it comes to providing content to the market.

Another field of business is covered by workcloud24, a spin-off of New Work.

workcloud24 develops digital systems for hybrid workforces and space management as The Toolbox and a digital Office Pass and addresses digital tools for carbon calculation and management.

For further questions please contact.



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