

Shortage of flexible office space looming in the post-COVID-19 era

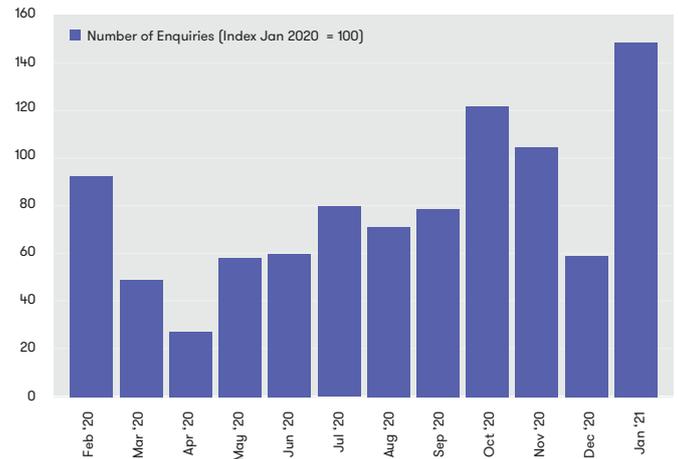
The demand for flexible office space in the Netherlands continues. The number of searches for flexible office space has risen considerably and in October and November of 2020 demand peaked even higher than in the pre-COVID-era.

Companies are less willing to commit to long-term contracts due to the continued economic uncertainty. Many companies are looking for flexible solutions, which is reflected in the number of searches. The number of searches in January 2021 was 50% higher than in January 2020.

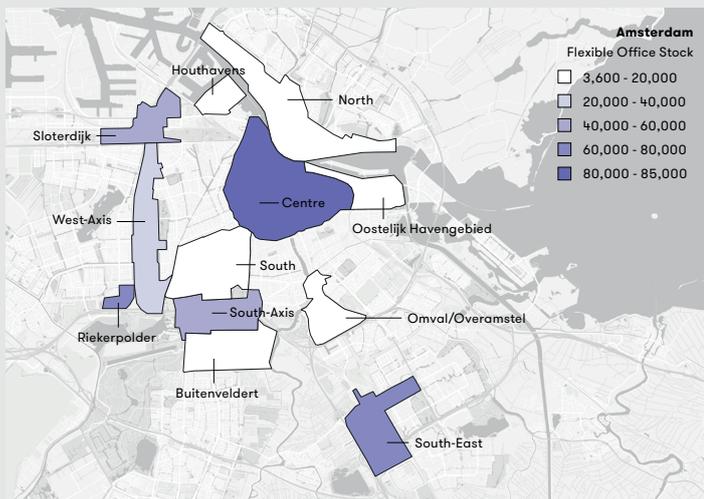
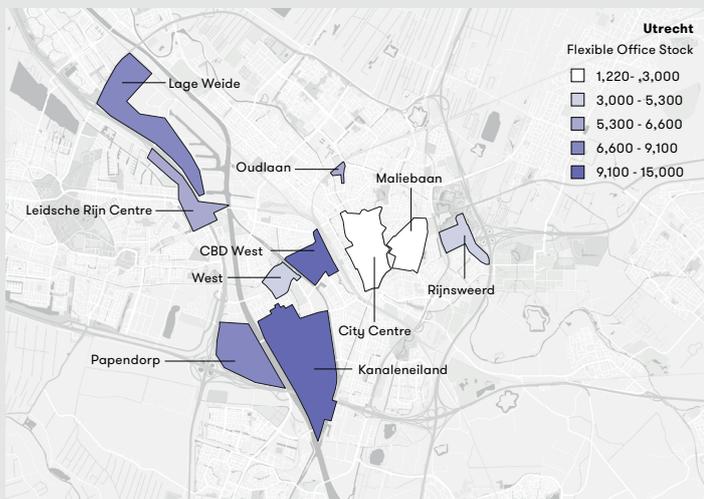
Despite the growing need for flexible office space, the Dutch office market currently only consists of a relatively small percentage of flexible office space. These offices are primarily located in the four major cities (i.e. Amsterdam, Rotterdam, The Hague and Utrecht). Depending on the city, the flexible office stock varies between 2% and 6% of the total office stock. The flexible office stock in Amsterdam, for example, consists of over 380,000 sq. m., which is approximately 6% of the total office stock. Why has this percentage been relatively small until now, and is this relatively small share sufficient to facilitate growing demand?

Graph Growth in the second half of 2020 in the number of requests for flexible office space

Source Savills Research



Map Spread of flexible office space in Amsterdam and Utrecht



Source Savills maps

Plenty of location options for occupiers

The dependence on location of the Dutch workforce is declining every year. This can partially be explained by the strong growth of the number of self-employed workers in our country.

Flexible office providers more often opt to settle outside of the established business centres and closer to public transport hubs. Factors such as a large range of hospitality options and proximity of facilities are important factors for start-ups and scale-ups in the creative, business and tech sectors. Data from Workthere also shows that start-ups and scaleups want to establish a base in prime locations in the cities of Amsterdam and Utrecht, the most mature markets in the Netherlands.

The two most popular flexible office locations in the Netherlands are Amsterdam City Centre ((19.1% of the flexible office stock) and Utrecht CBD (20.2 of the flexible office stock). Yet flexible office providers are choosing areas outside of prominent office locations more and more often. Examples include Riekerpolder in Amsterdam and Lage Weide in Utrecht.

Flexible office stock as a percentage of the total office stock

6.3%
Amsterdam

2.5%
Utrecht

Source Savills Research (2020Q3)

Office occupiers prioritise innovative environments with a unique design in combination with excellent facilities, which could also be office buildings of lesser quality or in less prominent locations. This means that flexible offices in areas outside of the traditional locations are also becoming popular. Due to the current change in demand, old buildings can once again serve as offices. One example is the current location of B. Amsterdam at the former IBM offices in Amsterdam Riekerpolder. In part due to the presence of B. Amsterdam, Riekerpolder has now become a popular area for these types of providers. This has resulted in the spread of the flexible office supply.

Widening of the demand for flexible office space

Corporates are increasingly focusing their searches on the flexible office market. In 2020, a large-scale uptake of flexible workspaces by corporates failed to materialise. The average number of workspaces per request dropped from 11.1 to 7.1 (-35%) workspaces in 2020 compared to 2019. This is due to the fact that new requests were mainly submitted by companies with a relatively small number of employees. Although the demand for flexible office space

comes overwhelmingly from small office occupiers, corporates are beginning to join in the search for flexible office space. This widening in the demand is largely driven by the permanent shift to a more remote working culture, in which the changing preferences of office occupiers have gained increased focus. Due to the fact that many corporates are currently focusing on these changes, strategic housing decisions are currently not being made.

Changing preferences of the corporate office occupier

Health and wellbeing Office occupiers are looking for workspaces that promote both health and physical and mental wellbeing.

Flexibility Employees are constantly trying to create a good work-life balance.

Experiences with workspaces A workspace has to be accessible, intuitive and adjustable.

Freedom of choice Productivity increases when employees have the opportunity to decide where, when, and how they work, depending on their needs.

Digitalisation Digital monitoring leads to greater flexibility and improved connectivity.

ESG (Environmental, Social, Governance) Corporate culture should be based on these ESG principles. A company's goals and willingness to adapt are two factors that make a difference in attracting employees.

Hybrid Working

Hybrid offices are the perfect fit for the changing preferences of the corporate office occupier, as these workspaces facilitate both remote and office working. This is because employees have a growing need for being able to work in multiple locations. Hybrid offices operate based on a hub-and-spoke model, in which businesses operate from a central location that serves as a meeting place and that is connected to regional flexible offices. This is a housing strategy that is fitting for the changing wishes of employees, and also offers a reduction

in commuting times. In short, hybrid working is the answer to the changing needs of employees. The scale at which corporates are currently evaluating their housing and considering hybrid working is so high, that an increase in demand for flexible office space is to be expected in the coming years. However, the question is to what extent supply will be able to meet this future demand. After all, flexible office stock is as yet primarily suitable for small occupiers and not corporates, as the latter often require more square footage due to a significantly larger number of employees.

Figure sharp decline in the expansion of operators of flexible office space in the Netherlands

Takeup by flexible office operators

Source Savills Research



Operators of flexible office space are keeping a tight hold on their purse strings in 2020

Before the pandemic hit, the growth of the flexible office supply grew slowly but steadily, as is demonstrated through the take-up of operators of flexible office space. The lockdown in 2020Q2 put an immediate end to this expansionism. On the one hand, the lockdown measures forced millions of people to work from home, while many tenants on the other hand were able to terminate their leases effective immediately, due to the short-term nature of flexible office leases. This dynamic resulted in a historically low occupancy, sometimes even

as low as under 20%. As previously mentioned, demand later continued to surge but mainly among small office occupiers, meaning that, in many cases, occupancy remained below pre-COVID-19 levels. As a result of this dynamic, operators of flexible office space are keeping a tight hold on their purse strings. However, some were able to act on opportunities to meet rising demand for flexibility, hospitality, and service in 2020 although these were exceptions in light of the fact that the take-up of flexible office space declined by 84% compared to 2019. The expectation is that as a result of their low cash flow return in 2020, the majority of the operators of flexible office space are only able to expand on a smaller scale.

Savills Outlook

The flexible office market serves mainly small office occupiers, who generally require less office space than corporates. Demand for flexible office space is expected to expand and widen due to the fact that corporates

are currently evaluating their housing. The wishes and needs of these corporates vary greatly from those of traditional office occupiers, resulting in a wider demand and increasing popularity of offices outside of the CBD. But it remains to be seen how quickly supply is able to catch up to this growth. Due

to the relatively low office occupancy in the last year, many operators of flexible office space can only expand at a slower pace. If corporates collectively decide to embrace the idea of flexible office space as a result of hybrid working, supply will soon prove to be insufficient.

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