

Retail landlords look to flexible workspace to meet changing office needs

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Experts generally agree that the way business is conducted in South Africa has shifted permanently and that the working work - at least in office jobs - will never return to the pre-Covid nine-to-five model of in-office employment.



Landlords with retail spaces have a new option when it comes to tenants, and with the help of IWG and Regus, it could allow them to see an even greater return on their commercial real estate investment.

International Workplace Group (IWG), the world's largest provider of flexible workspace solutions with more than 3,500 locations in over 123 countries worldwide, is poised to capitalise on a global flexible workspace industry projected to nearly double in size by 2025. With the increase in remote and hybrid work, accelerated by the pandemic, IWG plans to open 1,000 locations per year,

Part of this plan includes targeting retail space conversions.

"Just as the Covid-19 pandemic greatly accelerated companies and individuals to embrace hybrid working, it also greatly accelerated the shift to e-commerce," said Joanne Bushell, MD of IWG, South Africa. "There's much empty retail space now in play because of this movement towards online retail. Many retailers recognise that their brick-and-mortar can shrink because they now have this omnichannel approach, leaving open real estate in which flex space can come in and take over."

The need for more flexible workspaces

Historically, IWG's flagship brand, Regus, has been anchored by flexible workspaces in each city's most desirable buildings — the top floors with the most beautiful views. The brand was built on the image and prestige of world-class workspaces. That is still true today, and those locations still exist.

However, the demand for flexible workspaces is growing beyond the executive suites and shifting toward more urban, practical locations.



According to Jones Lang LaSalle (JLL), the amount of commercial office space utilised as flexible workspace is projected to rise from 4% to 30% by 2030 — a giant leap that presents a significant opportunity for all IWG properties. This trend coincides with the rise in remote work, as remote options rose from under 4% of all high-paying jobs before the pandemic to about 9% at the end of 2020 and grew by 25% by the end of 2022

Regus is targeting various commercial real estate options to house flexible workspaces, including retail, to cater to this overwhelming demand.

"We're adding a number of flexible workspace locations in what would have been traditional retail environments," said Bushell. "We've recently signed agreements with Attacq and Redefine through which we'll build and operate locations in some of their top malls across South Africa, such as Waterfall and other mixed-use environments. There's a convergence globally where spaces that landlords would normally use as retail spaces are now becoming workspaces."

Why retail spaces make great conversions for flexible workspaces

For starters, it's the availability of retail space. With the rise of Amazon and other eCommerce platforms, paired with the demand for expedited or same-day retail delivery, many traditional retailers are either shutting down brick-and-mortar operations or downsizing their footprints. The availability of these large retail spaces presents an opportunity for Regus to take largely high-square-footage blank slates and convert them into dynamic, fully furnished, I.T.-enabled flexible workspaces.

But what makes these retail spaces even more appealing to Regus is the most important thing in real estate.

Location, location, location.

"Where people choose to live is impacting how and where they're going to work moving forward," said Bushell. "The 15-minute city concept is becoming closer to being a reality in cities and neighbourhoods globally. Suddenly, small towns, rural areas, suburban locations, traditionally tertiary markets — each one needs great flexible workspace options because people no longer want to travel to a central city location. The workspace needs to meet workers where they are, not the

other way around.”

These areas — centrally located, near most amenities — are generally where retail spaces are located. This means they are typically located near other desirable amenities, such as restaurants, transit locations, coffee shops, highways, and main thruways for easy access. Grocery stores, department stores and strip malls are usually centrally located where the highest volume of customers (workers) will have easy access.

All these traits make retail spaces ideal for flexible workspaces.

How Regus gives retail landlords flexibility

Landlords with open retail space can seamlessly convert their real estate into a flexible workspace by partnering with Regus and the team at IWG. Landlords with retail tenants looking to downsize their brick-and-mortar footprint can also benefit from the Regus model, as they can convert a portion of their retail space to flexible workspace, allowing them to keep their current tenants while turning the excess space into a revenue-generating asset.

Regus also presents an opportunity for landlords to drive a higher return on a net asset versus a traditional capital lease.

"Landlords cannot just mitigate potential losses due to vacant retail space but generate more operating income with flexible workspace than with a long-term tenant," said Bushell. "No, you don't have the guarantee of a long-term tenant. But what you have is the guaranteed operating income of short-term tenants, much like a residential property used as an Airbnb can achieve a higher return than a traditional long-term lease."

When a landlord signs a partnership agreement with Regus, they are required to invest the capital necessary to convert their current space into a Regus flexible workspace, and they can do so easily with access to IWG's preferred vendors and contractors. From there, Regus takes over. Regus will aggressively pre-sell the location, so landlords have short-term tenants from Day One — and from there, Regus will operate the site, including staffing and deploying their proven strategies and technologies, leveraging the world's largest global network for flexible workspace leasing that drives 1.1 million inquiries every single year.

By helping retail landlords build efficient, flexible workspaces in key markets and keeping them occupied with an employer network that includes 83% of all Fortune 500 companies, Regus and IWG present a viable option for retail landlords that did not exist in the past.

"The world in which we live and how people work is changing rapidly, " Bushell adds. "By converting retail space into flexible workspaces, we can meet workers where they are and where they want to be. The demand is too significant to ignore, as is the opportunity for landlords to convert their retail spaces and maximise their return."

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