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The Third Way: Don't Let Growth Hold You Back

Phil Sugden, director at flexible workspace solutions provider, Portal Group, discusses how the Managed Office Solutions concept has reduced the risk of capital expenditure for fast-growing companies when relocating offices.

In a rapidly evolving market place, businesses are often growing at an entirely unpredictable rate. While growth is one of the most highly valued characteristics of any successful organisation, it often causes logistical and financial challenges when relocating to a larger workspace under the traditional office lease and the serviced model.

Powerful economic and behavioural shifts are driving the change in demand away from traditional to managed office space. Businesses today are far less attracted to the financial burden and inflexibility of a lengthy traditional lease and more drawn to offices that can facilitate their future growth plans.

The unprecedented growth of creative and technological organisations also triggered a change in working styles and office culture. According to research, 50% of the UK workforce are expected to work remotely by 2020[1]. The upsurge in remote working at companies operating in even the most traditional industries means that tenants' space requirements are decreasing.

In the modern workforce, which is significantly populated by millennials, flexible working is now viewed as the new standard, with 67% of employees looking to be offered flexible working[2]. Since flexible workspaces are becoming an expectation among prospective employees, businesses can no longer commit to investing substantial capital expenditure in workstations that are not being used.

In addition to these particular changes affecting the way we work, the geography of UK office demand is also fluctuating due to demographic, economic and technological changes. Due to high rental costs in capital cities, more small to medium sized businesses are choosing to relocate their operations out of city centres.

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[1] https://www.hso.co.uk/leased-lines/technology-news/homeworking-news/50-of-uk-workforce-to-work-remotely-by-2020
[2] https://www.powwownow.co.uk/smarter-working/flexible-working-statistics-2017

According to Savills research, UK serviced office take-up outside of London is set to reach 500,000 sq ft in 2018, a 14% increase on 2017. Businesses opting for cost-effective locations will no longer invest significant capital expenditure on upfront costs, but wish to utilise business funds on operational costs for the property itself.

Businesses that opt for the traditional lease model are highly restricted in terms of flexibility, fit out and capital expenditure, thus limiting future developments and changes. While the serviced model offers more flexibility, businesses still face limitations on how they can use the office environment to reflect their brand.

Selecting an integrated service offering, such as Managed Office Solutions (MOS), offers a 'third way' for businesses to relocate to larger premises. Using MOS, offices are tailored to the client's exact needs with the added advantages of risk mitigation, the removal of capex requirements and contract terms to meet business planning horizons.

The typical challenge for a small business that has outgrown its existing premises is finding and setting up an alternative location with access to high-calibre talent in a short space of time. In addition, extensive lease lengths can restrict SMEs from finding a new workspace that is wholly suited to their growth strategy.

Historically, companies opting for the traditional lease model have committed to the security of lengthy 10, 15 or even 20 year leases. As business plans often change several times over lengthy lease terms, this certainty has come at a critical price of flexibility in an often volatile economic climate.

The contract lengths for MOS, however, typically range from 3-5 years and therefore enable companies that require a high number of workstations, to more closely align their accommodation requirements with their actual business needs, allowing them to expand or downsize as required.

When expanding under the traditional office lease, businesses are required to self-source and invest substantial capital expenditure in what would be a large, 'from-scratch' project. Outsourcing fit-out and facilities management providers when relocating offices can be a costly and time-consuming process.

In addition, exit fees and dilapidation costs can present even the most well-established businesses with a weighty unnecessary expenditure at the end of a lease. More flexible models, such as MOS, present an all-inclusive fixed operation charge with no exit fees, ensuring that budgetary forecasting and profitability are sustained.

As a result, small to medium sized businesses are now viewing their office space requirements as a strategic component of their business plan, and thus opting for more flexible leasing options at a fixed price, with no additional costs.

Leases are rapidly becoming an outdated concept, and under more flexible workspace contracts such as Managed Office Solutions (MOS), agreements can be negotiated so they are based on inclusive managed contracts that are priced on a per workstation basis with no capital expenditure or risk.

By having a single cost for the property, facilities management, fit out and ongoing management, flexible methods like MOS remove what can be considerable associated upfront capital expenditure costs.

Simply put, the new wave of shared offices options are allowing SMEs to not only access all the services they need at a cost-certain price, but to work within a flexible financial model that actively encourages their individual development and culture.