

HOW MUCH IS A FLEX OFFICE WORTH?

The 2010s was a decade of transformation in the UK’s flexible office market. Rising demand among tenants for shorter lease terms and lower upfront commitments created a market for new office products. As a result, a wave of operators emerged throughout the decade. Clockwise was part of that trend, launching in 2017 alongside other operators vying for a piece of the growing sector.

Figure 1: Selected flexible office operators founded in the 2010s

2010	wework	
2012	 INDUSTRIOUS	
2014	RUNWAY EAST	HUCKLETREE
2016	FORA	UNCOMMON
2017	CLOCKWISE	S T O R E Y
2018	x+why	
2019	M Y O	SPACEMADE
2020	Cubo MORE THAN WORK	

Since then, flexible offices have become an increasingly relevant option for occupiers, with flex operators offering both coworking and managed office products that account for growing shares of take up in office markets. Yet despite this growth, there has been a persistent issue regarding how landlords and investors value income from flexible office operators. This gap in valuation leaves operators that rent space from landlords exposed to leases that might be overpriced.

To understand the system that made this possible, it helps to start with some background. Serviced and flexible offices have existed at least since the 1960s, yet markets and regulators have never settled on a consistent method for valuing them. RICS explored the issue in its [2019 report *Insights into the Valuation of Flexible Workspace*](#), noting that valuers face a limited pool of comparable transactions and a set of revenue streams that differ across coworking areas, private offices, dedicated desks, and ancillary services such as cafes and gyms. That mix adds layers of complexity that make fair and consistent valuation difficult.¹

It would certainly help if the market could at least agree on how durable flex income is. In our report [Only the Paranoid \(Office Investors\) Survive](#), we discussed how well-managed flexible office spaces can provide stable income by reducing void costs when tenants move and spreading capex commitments over the duration of the lease, resulting in a tighter “economic cap rate”. This is especially relevant for vulnerable assets that are no longer competitive as traditional offices, such as buildings with smaller floorplates. While a 15,000 sq ft floorplate in an older building may be too small to attract a large corporate occupier in today’s market (many tenants want larger spaces to keep teams on a single

¹ RICS is a UK-based professional body that sets standards for the valuation of property. Its guidance on valuation methodologies are important reference points for the broader market. The 2019 report was re-issued as practice information in 2023.

floor), a flexible office operator might be able to generate more income by splitting the area into smaller private suites and coworking spaces. Indeed, Green Street [estimated](#) that such pivots could boost office values by around 10%.

RICS, however, adopts a more cautious line when considering leases to flexible office operators. The issue is not the valuation of the flexible workspace operation as a going concern, but the perceived quality and durability of the tenant covenant relative to a conventional corporate occupier. Income from a lease to a flex operator is often viewed as more vulnerable to factors such as brand strength, operating discipline, and amenity spend, particularly if revenues are volatile or costs are poorly controlled. In that context, RICS' guidance states that "a premium above the market office rate (or to cover initial investment), or conversely a negative adjustment to yields, cannot be assumed purely because a property is to be used as flexible workspace". In practice, valuers often interpret this as grounds for applying a softer capital value – through a higher yield – to leases where the occupier is a coworking or flexible space operator, on the basis that the covenant is perceived as weaker than that of a typical corporate tenant, whether or not that perception is fully justified.

The result, from the flex operator's perspective, is that they are being asked to pay more expensive rents relative to a traditional occupier in the same space to meet these elevated yields. As a consequence, they take on higher operational leverage as operating leases cut deeper into income than they otherwise should and contribute to tenant failure in periods of market stress. This is partly what led to the downfall of WeWork, which we wrote about back [in 2024](#). While the company's eccentric leadership attracted most of the attention at the time, a more fundamental problem was its heavy operational gearing. It had committed to top-of-market rents on 15-year terms in CBD locations around the world without enough allowance for periods of reduced occupancy. When the occupier market thinned out, WeWork lacked the breathing room it needed to stay afloat.

The irony is that by treating flex income as inherently risky, landlords raise the likelihood that their tenants will default – which then confirms the assumption they started with. It is a self-fulfilling prophecy, and an unnecessary one. The property industry has already solved comparable valuation problems in asset classes with far shorter tenancy periods: student housing runs on ten-to-twelve-month university terms, self-storage on monthly contracts, and hotels on daily rates.

The lesson for flex office operators is to seriously consider the alternatives to leasing – either by owning assets outright or by taking on management and franchise agreements. IWG, the world's largest coworking company, pivoted to a capital-light expansion model in 2021 and has grown primarily under that strategy since. Until the market reaches a consensus on what flex income is worth, the operators most likely to succeed are those at either end of the capital structure: owning the asset or managing it for someone else.

REVISITING THE WINNING POCKETS OF RETAIL REAL ESTATE

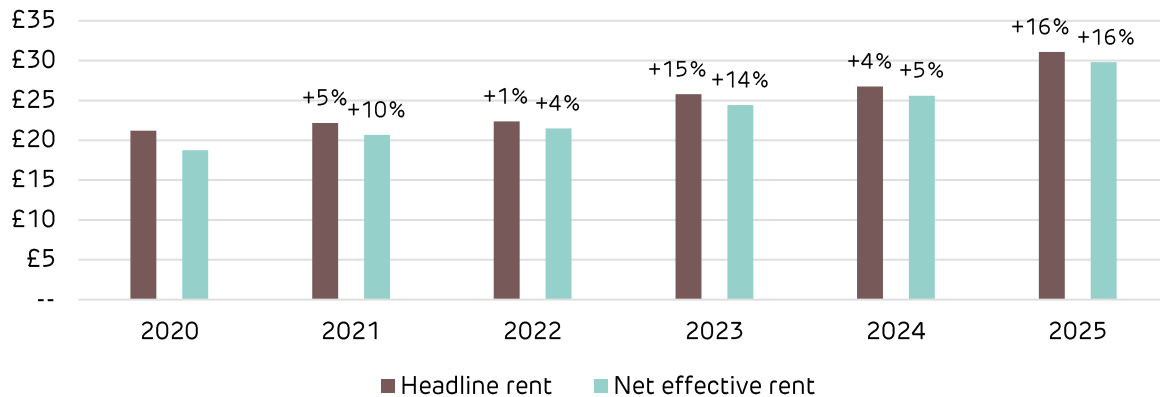
When we published [The Winning Pockets of Retail Real Estate](#) in 2023, the mood around the sector was one of cautious optimism. Retail had long underperformed other commercial real estate sectors as shops never seemed to fully recover from the sting of the e-commerce revolution. The sector's weak overall performance led to the phrase "brick-and-mortar" becoming synonymous with "dinosaur". Subsequent pandemic lockdowns didn't help either.

Yet as social distancing requirements were eased, we began to wonder whether this narrative was entirely fair. Lockdowns had acted as a filter, forcing out businesses that lacked the resilience to withstand a collapse in footfall. That experience led us to argue that the sectors that had weathered

the worst might be well positioned to succeed in the years ahead. The sector wasn't broken, as suggested; it was sorting itself out.

Since our last letter, the market has done plenty of sorting and seems to have found its groove – at least if returns are anything to go by. As stronger occupiers have persisted, retail posted the highest total returns in 2025 among the traditional asset classes at 9.6%, with the shopping centre and supermarket subcategories returning 10.2% each.² This is driven in part by strong rental growth, with headline rents for high street and shopping centre assets growing over 16% over the past year, according to Savills.

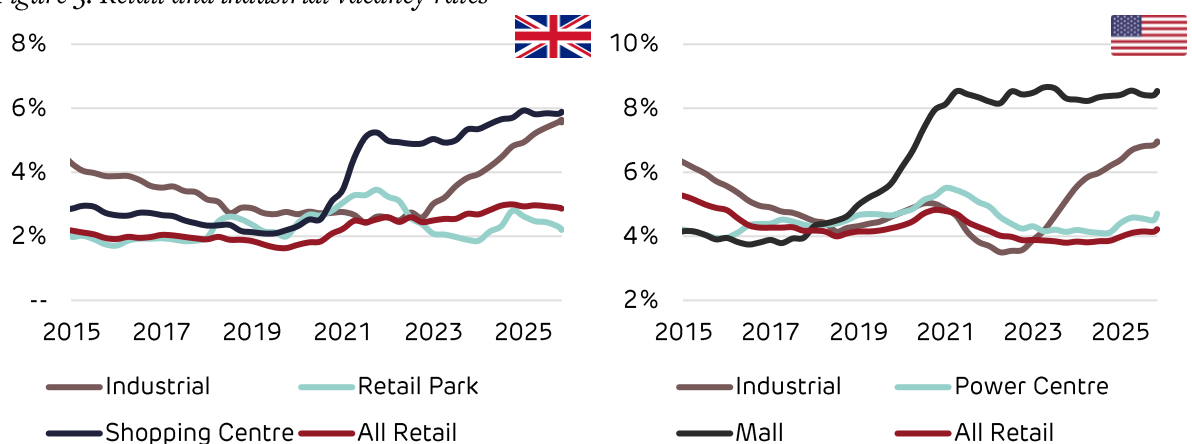
Figure 2: Prime high street and shopping centre rents and annual change since 2020³



This strong rental performance over the past year was the result of a relatively stable year for occupier demand and a lack of new supply. This is reflected in stable vacancy rates for the retail sector, which have hovered around 3% in the UK and 4% in the US.

In our 2023 letter, we used the industrial sector as a comparator to illustrate the relatively poor performance of some retail submarkets. We defended retail by arguing that the *best* retail subclasses had vacancy rates similar to industrial real estate. Now, we see that headline industrial performance has declined, with vacancy rates approaching the *worst* retail subclasses, according to CoStar.

Figure 3: Retail and industrial vacancy rates⁴



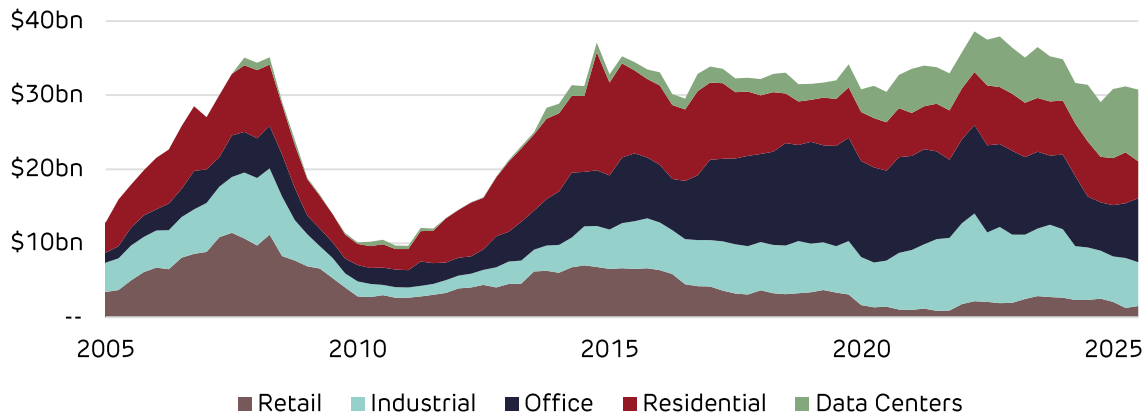
² Knight Frank

³ Savills

⁴ CoStar

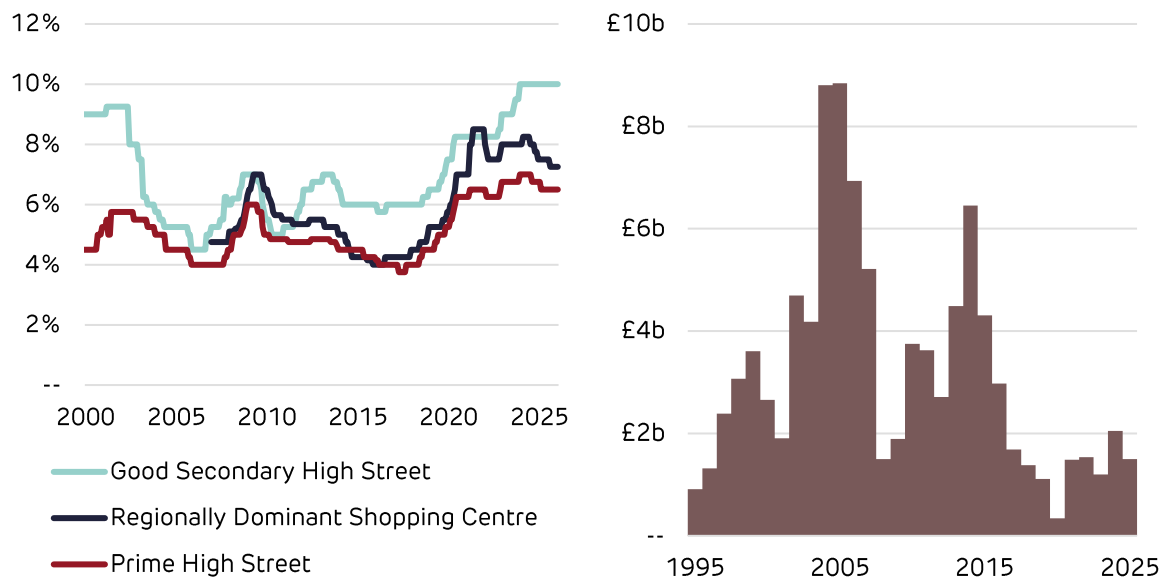
We expect that these low vacancy rates may hold for a while. Due to the sector’s relative underperformance over the past decade, development pipelines have been thin as the sector has failed to attract investment. Using data from the US REIT market, we see the transition away from retail since the mid 2010s as investors moved to higher growth sectors such as industrial and data centres. In Q3 2025, the development pipeline of retail assets was less than a quarter of what it was a decade prior. It may therefore take time for relevant supply to meet current levels of market demand.

Figure 4: US REIT development pipelines by year and asset type⁵



In the UK, we also see that retail yields are showing early signs of improvement. High street cap rates are roughly stable, and the regionally dominant shopping centre segment is starting to see assets reprice as well. While it looks like yields are turning a corner, investment markets don’t seem ready to make a full return to the sector. Despite the tailwinds mentioned so far, UK investment turnover actually fell by around 26% year-on-year. If total returns remain competitive relative to other sectors, however, we might see the sector entering a cyclical upswing once more.

Figure 5: UK retail yields (left) and annual investment turnover (right)⁶



Overall, the data shows that the retail segment seems to be in the process of recovery, with retail parks/power centre assets performing particularly well. This accords well with our earlier calls on the

⁵ Nareit

⁶ Knight Frank (left) and Savills (right)

two “winning pockets” of retail. The first was businesses that could not be replaced with virtual options, such as those where physical services were provided. Hairdressers and medical service providers are key examples here.

The second pocket was anyone who could leverage e-commerce to enhance their offerings. Last time, we discussed Starbucks, which had combined its rewards programme, mobile app, and immense local presence to integrate mobile orders and pickups into its business model. This time, we’d highlight grocers and supermarkets as great examples of businesses that have exploited digitalisation for their own benefit. As the tech and operating principles behind e-commerce have become well understood, traditional brands like Morrison’s and Waitrose have combined their local presence with the playbook of rapid delivery service to create a massive array of fulfilment centres. The result is a slew of grocery delivery options reshaping retail.

Indeed, in a surprising turnaround, we’re seeing tech companies playing catch-up with the dinosaurs. In January, Amazon launched Amazon Now, a 30-minute rapid local delivery service in London to compete with services like Sainsbury’s Chop Chop and even apps like Deliveroo. It’s believed that the e-commerce behemoth has set up a local delivery location in [Southwark](#), which will store and dispatch high-volume items for the nearby area. In other words, Silicon Valley has figured out that the “Tesco Express” model of retail placement is more desirable to many shoppers today than a purely digital world.⁷

The winning pockets of retail real estate – those we identified as structurally resilient rather than merely lucky – seem to be delivering. Vacancy rates are holding, rents are growing, and even the development pipeline is pointing toward continued performance. None of this means the sector is without risk (consumer spending could fall due to economic downturn, for example), but the data from the past year gives reason for optimism.

For investors, the broader lesson may be the more enduring one: narratives about sectors tend to lag reality, hardening into consensus just as the underlying dynamics are shifting. Retail spent years being written off as a category, which is precisely what kept capital away and allowed supply to tighten. Those who looked past the headlines found an asset class quietly sorting itself out.

WAR OF THE DRONES

Speaking in a meeting to Congress members after the 9/11 Terror Attacks in New York, President George W. Bush is reported to have said, “When I take action, I’m not going to fire a \$2 million missile at a \$10 empty tent and hit a camel in the butt. It’s going to be decisive.” The Bush-ism was a throwaway line, but in some ways it seems prescient.

Recent wars have been defined by the newfound usage of drones and interceptor missiles, and with them they have brought about shifting wartime economics. Instead of projecting force with human operators to seize territory as quickly as possible, wars today can be fought more remotely.

While this shift in norms of warfare can reduce the number of direct battlefield confrontations, it may raise the odds that conflicts turn into wars of attrition, as a lack of direct territorial advancement makes it harder to force one party to concede as long as supplies of weapons and defence systems exist. As such, wartime economies are increasingly reliant on building stocks of drones and

⁷ See also: [“Britain’s Tesco turns rapid-delivery threat into competitive edge”](#), *Reuters*, Feb. 2026.

interceptors. The ongoing Russia-Ukraine War, sometimes called [the world's first drone war](#), is a case in point. Any chance at negotiation will be limited as long as either side is able to send out equipment.

We're seeing this play out even more clearly across the Middle East, where conflict across the Gulf is illuminating the shifting economics of war. Attack drones being used today by Iranian forces cost between [\\$20,000 and \\$50,000](#) per unit, while the interceptors used to shoot them down can cost millions of dollars per missile (to say nothing of the advanced targeting systems that must be set up beforehand). This ultimately creates a paradigm where attackers are incentivised to engage in policies of continuous harassment while defenders try to reduce losses as cheaply as possible, but still at a cost multiple orders of magnitude larger. So long as cheap munitions can be produced at scale, the calculus strongly favours attrition over decisive resolution.

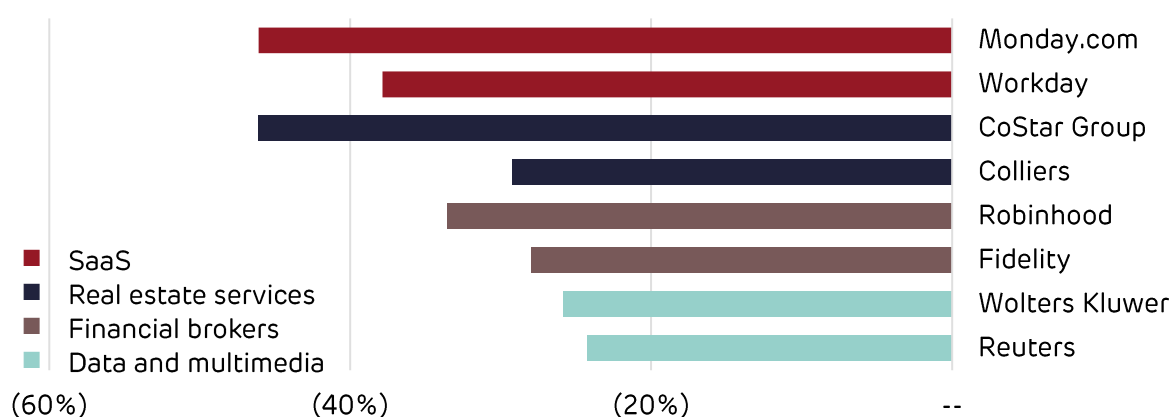
The war involving Iran is one pressure among several pushing European governments to take defence spending seriously again. Chronic underinvestment since the Cold War, the return of large-scale conflict to the continent's east, and growing uncertainty about American commitment to NATO have all made the case that Europe can no longer outsource its security. Defence manufacturing has historically been slow-moving – shaped by long procurement cycles, entrenched contractors, and little appetite for rapid iteration. The same technological disruption that made cheap attack drones possible is now lowering barriers to entry across the sector, from autonomous systems to advanced manufacturing that compresses production timelines. For European firms willing to adapt, this may be less a rebuilding exercise than a chance to leapfrog legacy approaches and compete globally in ways that would have seemed unlikely a decade ago.

WAR OF THE SUBSTACKS

It's a busy time here at Castleforge as the London office market heats up, which is why Mike decided now is the perfect moment to try and build an AI model. In the moments when he's not being pulled into meetings, he's been trying out the latest low-code and no-code solutions to put together his own LLM. We're affectionately calling the results of his tinkering "MikeGPT", and it has the intelligence of a small child.

Developing an AI model is especially interesting given the effects of the technology on markets right now. 2026 so far has been a year of AI "scare trades". Just this year, the reaper of AI has threatened firms in sectors such as logistics, legal information, and financial brokerage with obsolescence. Real estate consultancies were hit too, with firms like CBRE and JLL seeing serious revaluations in mid-February as markets started to believe that AI could replace much of the specialised knowledge work these firms had spent decades building up.

Figure 6: YTD share price performance of AI “scare trade” stocks⁸



Another reason for the drop in real estate stocks might be because AI could one day make office workers (and by extension the offices they inhabit) obsolete. We’re naturally interested in that possibility, and the team has been exchanging plenty of essays on the subject as of late.

One that stood out early on was Andrew Yang’s [blog post](#) on “The End of the Office”, where he predicts an upcoming AI-induced carnage for white-collar workers. His forecasts include a widespread destruction of information work, the emptying of offices and urban cores, and society fracturing on already strained faultlines. Our take on Yang’s work was that it reads a little more like sci-fi than informed speculation, but nonetheless raises important questions about how intense AI’s impact on the economy could be if unmanaged. It did not, however, move markets. The same can’t be said about the “The 2028 Global Intelligence Crisis”, by [Citrini Research](#), which inspired a market selloff.

Yet for every paper claiming that AI will bring about widespread, painful economic disruption, there are also those that argue the opposite. [David Oks](#), for example, cautions that humans will probably be augmented, rather than replaced by AI – at least for the short term. A paper by [Zanna Iscencko and Fabien Curto Millet](#), meanwhile, takes aim at the idea that AI has displaced entry-level jobs over the past year. Iscencko and Millet provide evidence that the current job market might be better explained by cyclical factors like borrowing costs and excess hiring during the pandemic than digital replacement of entry-level workers.

In the middle of this war of Substack posts, it’s more important than ever to think about the fundamentals. Even if AI is genuinely capable of displacing large swathes of knowledge work, the speed at which it can do so is constrained by systems that move far more slowly than software update cycles. Legal frameworks, regulatory regimes, and social norms do not iterate on quarterly release schedules. However capable an AI underwriter becomes, it will take time before society allows it to authorise insurance policies. We expect that financial analysts, doctors, and civil engineers will be the same. Marc Levinson’s *The Box*, a history of the shipping container, is instructive here: a straightforward innovation whose transformative effects on global trade took decades to materialise, because ports, trucking networks, and ship designs all had to catch up around it. A technology can be proven and ready long before the world is.

We can’t say with certainty where AI will take us in the near term. White-collar workers (and the offices they occupy) could become obsolete by this time next year, or perhaps a rogue AI agent could

⁸ LSEG, Refinitiv. Data to 04 May 2026.

wipe out all of humanity. Maybe MikeGPT's intelligence could ascend to the level of a slightly bigger child.

Predicting such black swan events isn't in our wheelhouse, so we aren't going to try. What we can do for now is look at the fundamentals for offices that are right in front of us: rising replacement costs and low supply of relevant space in cities like London are leading to low vacancy, longer lease terms, and rising rental rates, and we see those trends holding.

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