

The Flex Evolution: L&G's Response to a Shifting Office Landscape

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The shift toward flexibility in the office space market, particularly in London, became evident around 2015 with the rise of operators like WeWork. During this period, traditional office investors faced challenges leasing smaller spaces under 5,000 sq ft, creating a critical decision point: exit this segment of the market or adapt and compete. L&G chose the latter, aiming to create a range of leasing products to cater to a broad range of customers, from start-ups to small and medium-sized enterprises (SMEs) to larger corporate customers, which could be delivered at different pricing points throughout the UK.

One of the key trends influencing L&G's decision was the growing demand for shorter leases. For many potential customers, the main barrier to flexible office space was not rent, but the upfront cost of fit-out, which made shorter-term commitments financially challenging. To address this, L&G developed Capsule in 2018 a fully fitted workspace product to ease the financial burden on customers, enhance flexibility and reduce the barriers to entry for customers leasing their offices.

Andrew Mercer, Office Sector Lead at Legal & General adds: "But we didn't stop there. It became increasingly clear that offering a great space wasn't enough. Customers were still expected to manage their own facilities operations, such as, cleaning, risk assessments and M&E maintenance. Given our scale, in-house expertise and existing infrastructure, it made sense for us to offer a fully Managed solution which resulted in us launching Capsule Managed. This allowed customers to focus on their business while we handled the operational side of their office, leveraging our supply chain, property managers, and facilities teams to deliver a seamless experience".

Initially, L&G explored the possibility of partnering with an external operator to offer their Capsule Managed model but ultimately chose to deliver the solution in-house. This decision was driven by cost considerations for its customers - eliminating additional profit layers - and the desire for greater operational efficiency and direct contact with its customers. By managing the buildings directly, L&G could provide services like cleaning and maintenance more effectively and at scale, using teams already active across its portfolio.

The expansion into flexible workspace also aligned with L&G's broader reassessment of building management. In 2019, the company revamped its facilities management model by partnering with Bellrock and elevating the role of Facilities Managers to adopt a more customer-focused, experience-driven approach.

In summary, L&G's entry into the flexible workspace market was both a strategic response to market changes and a commitment to enhance customer experience. The company's move was designed to deliver superior, customer-centric services that supported SME's, resulting in

shorter voids, increased customer retention and more stable returns for investors. Andrew Mercer comments ‘we recognized the importance of customer satisfaction in office Asset Management and were delighted to see our model recognized at the UK Customer Experience Awards in 2023’

Managing Risk Across Markets

The primary challenge in transitioning to a flexible workspace model was not financial, but managing risk—particularly in regional markets where rents are significantly lower than in London. In these areas, a more tailored approach was needed.

Andrew Mercer notes: “One of the key operational shifts in the Capsule Managed model is that we take on the risk of fixed costs. We’re effectively capping many of those costs for customers. Naturally, that raised concerns internally, particularly around cost inflation for things like utilities. However, in practice, those risks have been manageable, and we’ve found that our pricing remains robust and sustainable”. Ultimately, the challenge was striking the right balance between creating an exceptional experience to attract and retain customers and managing cost exposure to provide our investors with a return, especially across diverse regional markets.

Designing for Longevity and Sustainability

L&G’s approach to designing flexible spaces is highly adaptable, reflecting the diverse range of building types and locations in their portfolio across the UK. Rather than applying a uniform aesthetic or layout, each project is tailored to its specific market. This often involves close collaboration with local agents, contractors, and sometimes architects.

What remains consistent across all locations is the commitment to quality. L&G maintains a strict internal specification for every asset, including features like sound attenuation, performance sensors, and durable finishes. These elements are essential for the long-term performance of the spaces. Given that the costs of their spaces are amortised over approximately 10 years, it is crucial that both the functionality and aesthetics hold up over time and require minimal refurbishment.

Andrew Mercer explains: “One of the consistent challenges in fit-out is getting the density right for each building. That depends heavily on the existing layout, number of WCs, fire exit capacity, and its M&E design for fresh air, heating and cooling. Another key challenge is balancing the budget and ensuring we’re not overengineering, but also not cutting corners. We focus spending on features that add real value, flexibility and longevity, not just aesthetic impact on day one.

Crucially, we invest in understanding our customers. We conduct regular surveys, embed QR codes around our spaces for real-time feedback, and hold monthly reviews with our supply chain partners. We also do in-person interviews with customers to uncover more qualitative

insights. Sometimes it's the small things, like the placement of more plug sockets in kitchens. that make the biggest difference”.

L&G continuously refines its design and procurement practices to reduce environmental impact across its portfolio. This includes careful material selection and ongoing collaboration with in-house and consultant environmental specialists to ensure buildings perform sustainably over time. Andrew Mercer comments: “A key challenge for us is working in partnership with our customers. Whilst we have dedicated teams of specialists focused solely on environmental factors, many of our customers, especially smaller enterprises, don't have that luxury. For them, prioritising sustainability can be difficult due to limited resources or a lack of specialised expertise. This creates a need for collaboration, and the best solutions come when we can work together to enhance environmental practices”.

Evolving Sales Strategies and Broker Relationships

When L&G first launched its flexible workspace products, it relied heavily on working with traditional agents. Pre-covid, the offering of high-quality fitted space delivered by building owners was in low supply, and demand quickly followed. Spaces were leased almost immediately after completion, with customers often signing longer leases than anticipated, despite expectations of shorter terms as customers no longer need to amortize fit-out costs over lease terms. Andrew Mercer recalls ‘our first 3,000sqft Capsule fitted office let on a 5-year term without break with negligible rent free’.

However, as the fitted market matured, competition increased and Managed agreements brought greater complexity, L&G found that its space became more difficult to sell using traditional agents. To address this challenge in London, L&G adapted its approach by bringing in specialist flexible office brokers, who understood the nuances of Capsule Managed and coworking models.

To build stronger relationships with agents and brokers, L&G invested in roadshows across the UK. These events showcased not just the buildings but also L&G's values, customer philosophy, and the people behind the product, such as concierge, supply chain partners, and customer service staff. Andrew Mercer adds: “We realised that while many people had heard of Capsule, they didn't necessarily know it was backed by L&G, or understand what the brand stood for. So, we've made it a priority to ensure our broker network can confidently sell not just the space, but the trusted brand and ethos behind it. We are giving our agents and brokers the skills to sell us better as an office owner”

Additionally, L&G diversified its marketing channels. Digital platforms such as Valve and Hubble have played a role in promoting Capsule Managed.

Co-working – Foundry UK

L&G doesn't only work in established office locations. Foundry is a dedicated hub for micro-enterprise across the UK, exclusively serving Legal & General. Foundry specialize in designing, delivering, and operating dynamic, flexible, and affordable spaces where customers can grow

and thrive — whether through co-working environments, studios and practitioner spaces, or maker and industry labs.

By reimagining underutilized spaces across the Legal & General platform, Foundry fosters vibrancy and community within Residential neighborhoods, business districts, and town centers. The diverse customer base spans solopreneurs, SMEs, and scale-ups, providing exceptional work spaces that support collaboration and connection in the heart of their communities.

Community remains central to the mission, offering intrinsic value through business support, networking events, industry workshops, and even run clubs. Unlike traditional models, Foundry rely solely on locally focused marketing across digital and organic channels — without the use of external agents or brokers — to cultivate authentic engagement and demand.

In just under three years, Foundry has expanded to four active sites of over 60,000 square feet, with a growing team of 30 professionals and a thriving membership of over 1,250. Looking ahead to 2025, Foundry are set to open an additional four locations.

Marketing

A range of flexible and traditional leasing products in a diverse office portfolio across the UK has led L&G to use a hybrid approach to marketing. This typically includes:

- Traditional agents for larger, Capsule fitted and/or regional offices
- Specialist flex brokers and digital platforms for Capsule Managed spaces
- Digital platforms and social media for Foundry co-working and enterprise spaces

A Service-Led, People-First Approach

At the heart of L&G's flexible workspace operations is a service-led, people-first approach. Andrew Mercer adds: "It's inevitable that things go wrong, so you need a technically capable Facilities team who can also communicate well and engage with customers confidently and empathetically". Front-of-house staff play a critical role as the face of each building and often provide the first daily touchpoint for customers. In Capsule Managed spaces, a dedicated team delivers a more bespoke experience, such as with onboarding. They help with move-ins, install branding, and handle tailored requests.

Andrew Mercer explains: "We don't just work with the better-known concierge providers. We look for people who are warm, proactive, and adaptable. For example, one of our concierge partners often hires out-of-work actors as they tend to be engaging, high-energy and great with people. We're also mindful of cultural fit depending on the building. In a more relaxed, creative space like the Aircraft Factory in Hammersmith, the tone is informal, but in more corporate environments, the profile of the concierge or front-of-house might be more professional and polished".

Determining the Ideal Customer Profile for L&G's Flex Product

L&G's primary target for their Capsule Managed offering has been SMEs. These are businesses that are more established than those using coworking spaces, but not yet at the point where a traditional lease and full fit-out are viable for them. SMEs benefit from turnkey solutions that eliminate upfront capital expenditures and management complexity. However, larger corporates also occasionally opt for Capsule Managed space when they require speed, flexibility, or satellite offices.

Andrew Mercer notes: "Post-COVID, we've definitely seen a shift across all business sizes toward more flexible arrangements. Many companies, regardless of sector, are still figuring out their long-term workplace strategy - how much space they really need, the role of hybrid work, and how AI might influence operations. In that environment, flexibility is key, and has maintained demand for both Capsule Managed and coworking spaces.

Larger corporates tend to bring their own internal structures, like events teams and workplace managers, which means they typically need less support from us in terms of community or cultural programming. Smaller SMEs, by contrast, really value the ecosystem we've built. That's why we launched our 'Neighbourhood' initiative, which connects clusters of smaller offices across our portfolio. Through shared events like film nights, Earth Day talks, or networking lunches, we help create a sense of community and belonging that smaller teams might struggle to foster alone".

Integrating Flex into the Core Strategy

Flexible workspace now plays a key, adaptive role in L&G's real estate strategy, tailored to the profile and potential of each asset. In larger buildings, flex is typically introduced not as a standalone product but as a value-added amenity - delivered through L&G's own coworking joint venture Foundry UK or partners like Runway East and Work.Life. These operators take up a portion of the building, offering customers the ability to scale up or down without leaving the site. Andrew Mercer explains: "In these cases, flexible space isn't about creating an entirely new business line, it's about enhancing the ecosystem of the building. It supports customer experience and makes the entire asset more resilient and attractive."

This hybrid approach, which combines long-term leases with shorter-term, service-based space creates a diverse income stream that blends predictable returns with agile, operational income. In time, L&G believe that mix will not only increase the asset's capital value but will also broaden its appeal to a wider pool of investors. Andrew Mercer sums it up: "The ideal model is a building that grows with its customers. A company might start in coworking or a Capsule Managed space, move into Capsule fitted as it scales, and eventually take open plan Cat A space they can bespoke fit out themselves. That journey drives loyalty and lets our investors benefit from greater retention and monetisation in multiple ways across a customer's lifecycle."

Lessons Learned and Future Outlook: Embedding Flex for the Long Term

For L&G, entering the flexible workspace market has been a learning curve. The key lesson? It's not just about delivering a quality product, it's also about clearly communicating its value.

“The biggest lesson has been around messaging the flexible workspace product,” says Andrew Mercer. Unlike traditional office space, which benefits from clear benchmarks and data, the flex market lacks transparency. “We tried to sell a building with a serviced office in a smaller town, and we couldn’t find any market data to support pricing and the strength of the flexible market,” Mercer adds. “This ongoing data gap makes valuation, investor confidence, and long-term planning more difficult and will slow the potential growth of the flex market.”

Despite these limitations, the performance of L&G’s flex portfolio has exceeded initial expectations. “We’re facing the unique challenge of having too few void spaces to accommodate our Capsule Managed products,” says Mercer. With voids down and occupancy strong, the flex model is now seen as a core lever in L&G’s broader asset strategy.

Looking ahead, the team anticipates flex and operational income becoming increasingly integrated into L&G’s office investment landscape. The focus now is on embedding flexibility into the foundation of new investments. Andrew Mercer adds: “One of the questions when buying new offices is how Capsule, Capsule Managed and/or Foundry fits with the investment strategy. Flex is no longer an add-on, but a foundational consideration in asset planning”. But for the wider market to mature, Mercer believes one thing remains clear: “Until the industry becomes more transparent with its data, it will be difficult to value and position flex spaces effectively.” For now, L&G is positioning itself ahead of the curve, refining its approach with every building, every customer, and every learning along the way.