

# Co-working Understanding the Ongoing Evolution

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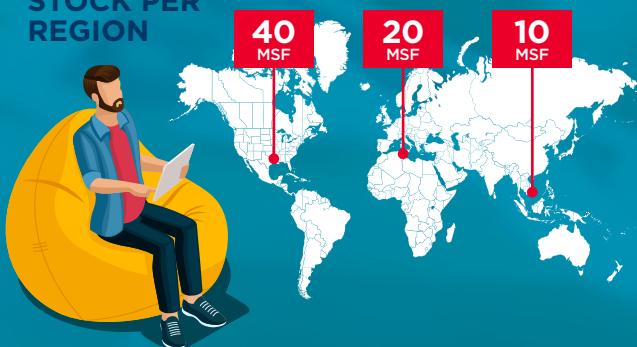


# Co-working: Understanding the Ongoing Evolution

Co-working was selected as a survey topic (by CoreNet Global and Cushman & Wakefield) because it has been the most transformational practice in the workplace in recent years. Demand for Co-working spaces is growing at an average of 10-15% per annum across all regions as corporate cultures embrace the concepts of shared work spaces and collaboration. In Washington D.C., the size of Co-working space has doubled in the last five to six years. Last year alone, Co-working operators leased about 5 million square feet (msf) in Asia Pacific. The size of Co-working stock is estimated to be highest, in the range of 40 msf in the United States (US) followed by Europe (20 msf), and Asia Pacific (10 msf). As the trend gains momentum, developers are incorporating flexible working environments into building design.

Corporate Co-working is going mainstream in gateway markets across regions as prime rents continue to soar. For example, HSBC is estimated to have achieved cost savings of about US \$ 1 million by renting 300 hot desks at a WeWork facility in Hong Kong. WeWork is the largest independent player in the field following its global expansion in recent years and has become the largest occupier of corporate real estate in New York City. Betting big on Asia, WeWork is planning to expand in India after opening several facilities in Seoul, Hong Kong, and Shanghai last year.

## ESTIMATED CO-WORKING STOCK PER REGION





**61%**

of CRE leaders indicate property costs are **extremely important**

## REAL ESTATE COSTS CONTINUE TO REMAIN A MAJOR FACTOR

When comparing results from the current survey with those of the Cushman & Wakefield/CoreNet global surveys conducted last year, it was quite clear that Corporate Real Estate (CRE) leaders everywhere are more concerned about property costs than ever before. More than 90% of them find total property costs an important consideration in decision making.

Among the business sectors surveyed, the Banking, Financial Services, and Insurance (BFSI) sector is the most sensitive, reiterating the trend that was highlighted in one of our recent reports\* - banks have put costs under the microscope as competition and stringent regulations are shrinking their profits substantially in all regions. Nearly half of the BFSI respondents prefer short term leases (one to three years) because of the uncertain operating environment. This concern was equally high-

lighted by the Technology sector. Still, a sizeable proportion of respondents will let circumstances dictate lease tenures.

Other factors impacting CRE decisions are the leadership and policy changes in recent years. More than three-fourths of the Technology sector occupiers expressed concerns about regulations impacting their location preferences. In sync with an industry that is still evolving, structural changes are hitting baseline profits while policy changes present an additional challenge. Interestingly, sustainability and larger floor areas are not considered important. For most multi-national corporations (MNCs), Asia Pacific remains a top destination for growth opportunities after North America. Maintaining or building a presence in gateway cities/regional financial centers across all regions remains critical.

*\*Winds of Change: BFSI Outlook 2017, Cushman & Wakefield*

## #1 CRE AGENDA: COST CONTAINING REAL ESTATE STRATEGY

The next step was to correlate their preference towards cost containment with their real estate agenda this year. When it comes to rising costs, it was evident that CRE managers are cautious no matter where they are based. With rents hovering at record highs in most markets and revenue growth shrinking across sectors, most CRE managers are mindful about real estate costs. In fact, more than half of these respondents have already begun forming solutions to tackle

rising rents. As such, it appears that costs hold sway over strategic priorities. With slower profit growth, BFSI players are more sensitive to rising rents, in line with some of the previous findings in this survey. In contrast, more than half of the respondents from the Professional Services sector did not have any plans to address this. To a certain extent, this explains why only a small portion (12%) is focusing on cost control in their outlook.

In terms of CRE strategies, most

want to remain where they are as relocation costs are still high in most markets. Only a small portion (4%) wants to move to a lower cost space, suggesting all options will be carefully weighed. Relocating to more efficient and flexible workspaces is also being considered by most CRE managers. Besides cost savings, it also gives room to experiment with shared office settings. Most respondents (73%) and all three major sectors are carefully planning for headcount growth.

## CO-WORKING CONCEPT AS A COST CONTAINMENT STRATEGY

Most respondents have indicated that the need for major changes in their current footprint is not particularly exigent, but will consider adopting flexible workplace strategies to utilize existing space more efficiently. They are also willing to invest in technologies to enable flexible working environments. Several respondents are open to leasing short term overflow space and even consolidating their footprints.

More than half of the CRE managers are also interested in incorporating Co-working solutions into their CRE strategies. Co-working spaces are 10-30% cheaper as compared to traditional office spaces in many markets. In some locations where they have expanded, they are willing to offer tenant incentives in order to fill up spaces. For those willing to explore Co-working spaces, pursuing opportunistic growth over the next 12 months serves as the most important motivation (63%). At the same time, more than half of all respondents are also expecting some potential cost savings in high cost locations.

Nuances exist across geographies that are most likely to embrace the Co-working concept. Those based in the Asia Pacific (70%) are most likely to use Co-working space as it gives them the flexibility to explore growth opportunities without being encumbered by long-term space commitments. The Technology, Media/Entertainment, and Professional Services sectors, which usually emphasize teamwork and collaboration in the workspace, are the most willing to adopt this practice.



Among the business sectors surveyed, the Banking, Financial Services, and Insurance (BFSI) sector is the most sensitive to real estate costs

## WHAT MAKES CO-WORKING SPACE POPULAR

Co-working space appeals most to occupiers as they tend to provide designer work environments with several amenities that are attractive to the millennial workforce. Most CRE managers prefer these flexible work settings over other factors such as cost, privacy/security, and scalability. Startups tend to prefer Co-working spaces as these keep costs low, provide networking opportunities, and at the same time give them an option to scale up quickly.

Most respondents indicate the variety of work settings (89%) offered and the open concept (70%) as features that they would most like to adopt. This is in line with some of the previous findings where most decision makers are willing to use existing space more efficiently and opt for flexible work settings when relocating. This again reiterates the fact that companies are increasingly supportive of the idea of collaboration, teamwork, agility,

networking, and openness in the workplace.

A location in a Central Business District is most preferred, but a sizeable portion remain open to city fringe and suburban areas, suggesting their willingness to consider all locations based on market fundamentals. Preference for flexibility means leases of six months or lower are largely favored although about one third of respondents are also open to six to twelve-month leases.





## KEY TAKEAWAYS

The prominent trends are manifested in the responses. Real estate costs and containment remain a top priority for CRE leaders this year as they are mindful of the uncertainties in the macro environment, expecting conditions to remain challenging in the short term. Against this backdrop, most CRE managers from the Professional Services, Technology, and BFSI sectors are willing to adopt flexible work settings and embrace the Co-working practice or at least implement some of its features in their organizations.

Enthusiastic about its prospects, the demand for shared offices is growing and entrepreneurs have shown openness to Co-working space. The environment, amenities, cost savings, and flexibility that Co-working space offers make it a great case for all kinds of occupiers including small businesses, start-ups, and larger companies. However, their viability in the longer term is yet to be tested.

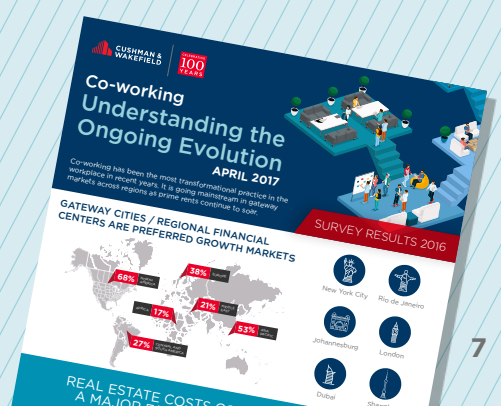
## METHODOLOGY

The information on which this report is based has been obtained from surveys conducted by CoreNet Global during H2 2016.

The 176 respondents are mostly end users and service providers, comprising 91% of the group. They cover a wide range of business sectors although Professional Services, Technology, and BFSI comprised the majority (57%) of the sectors. CRE leaders at all levels are well represented. For the analysis, outliers such as responses from policy makers, consultants, and those from academia among others are excluded. Responses are analyzed globally, regionally, and by business sector.

### THE 2016 CO-WORKING SURVEY RESULTS

Click this link to view the infographic ▶



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