

A CUSHMAN & WAKEFIELD
RESEARCH PUBLICATION

ASIA PACIFIC COWORKING TRENDS

SPACE IS NOW A
BUSINESS SOLUTION

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Coworking: Top trends to watch out for

While it may have been once considered a fad, coworking spaces that provide businesses and individuals with a shared working environment, are proving to be a lasting trend and demonstrating one of the biggest changes in the workplace today. With memberships growing at higher than a global average of 40%¹, coworking operators have been an important demand catalyst across Asia Pacific. Coworking has taken the region by storm, leasing more than 8.0 million square feet (sf)² over the last two years. Places like Ucommune, WeWork, Spaces, Awfis, and CoWrks etc. have accounted for nearly two-thirds of the space leased by coworking operators during 2016-17.

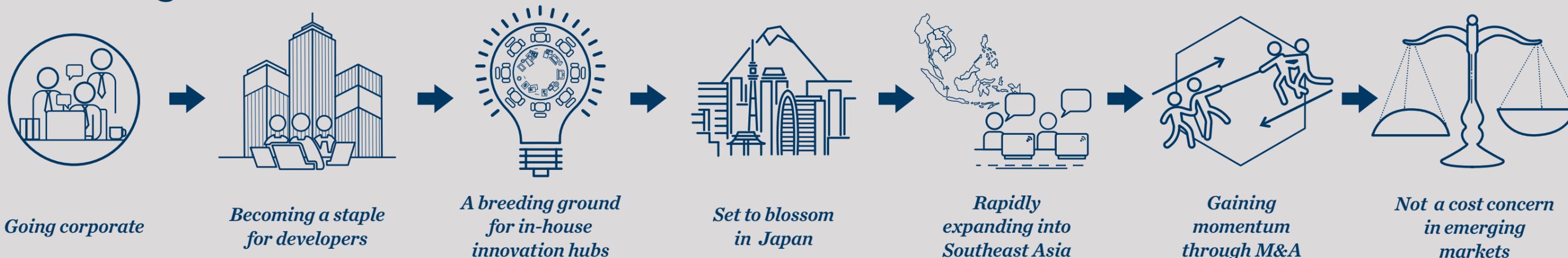
1. 2017 Global Coworking Survey, deskmag
2. C&W Research

We at C&W are closely tracking its evolution across Asia Pacific. We released our first report "Coworking: Understanding the Ongoing Evolution" earlier in 2017 to discuss how coworking, as a cost containment and flexible workplace strategy, fits into the corporate realm. And now, we are pleased to share another report that highlights emerging trends in the coworking landscape that have transformed it to become a business solution, not just a real estate alternative. This report comes against a backdrop of its rapid growth to disrupt the traditional office market across cities.

*Coworking has
taken the region
by storm*



Coworking is ...



Coworking is going corporate



The fast-rising demand for coworking spaces is not surprising. Many countries are encouraging start-ups and small businesses in a bid to offset slowing growth at traditional industries.

Coworking is an attractive option for start-ups, freelancers and even large corporates seeking an alternative, activity-based workplace to nurture employee talent and further business growth. It offers negligible capex requirements, efficient space usage, and flexibility to expand or contract at a short notice.

Demand from corporates has been one of the biggest expansion drivers of coworking in several Asian cities over the last two years. Growing demand for flexibility, collaboration and culture that a shared working environment could bring in are encouraging corporate occupiers to actively consider it. After all, they have an option to scale up anytime, anywhere. As such, memberships of enterprise clients (companies with workforce higher than 500) have more than doubled over the last 12 months. The share of freelancers and independent workers has dropped by nearly 15% over the last 3 years³.

Even small and medium sized companies (workforce less than 100 employees) are adopting it as landlords and coworking operators are luring them to expand their customer base. Occupiers have the flexibility to customize as needed. They can begin with hot/dedicated

desks, private offices and can expand to occupy one or more floors, or even a full building where/when required. In fact, some operators are also ready to build and operate a shared workspace on a property that is owned by another company. For example, a corporate campus or a headquarters can bring in a coworking operator to implement shared working practices.

Coworking and Corporate Real Estate (CRE) are stronger together. Going forward, coworking in workplace strategies will continue to gain traction on the back of growing corporate demand. We all know that cost containment remains the primary focus for CREs during periods of volatility and rising rents (across most gateway markets in Asia Pacific). Given this, more corporate occupiers will embrace flexible working arrangements, especially coworking spaces. This has already been the trend in more popular industries such as professional services, technology and banking, financial services and insurance (BFSI), which are major drivers of office activity in the region.

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3. C&W Research



Developers are making coworking spaces a staple

Across the region, some landlords, either by themselves or by partnering with an operator, are embracing coworking concepts to give life to their buildings and help incubate firms that eventually will lease office space at their properties. By offering space in a building or the campus, they can provide coworking players an ecosystem which places members at the heart of the action. Coworking operators get access to a larger campus and client network, as well as access to outdoor event spaces, fitness centers, health clubs, and retail spaces.

Some of the widely known examples include WeWork-Embassy Group (India), Ucommune-CapitaLand (Singapore) and Ucommune-Vanke (China). CapitalLand tied up with Collective Works to form a joint venture. While developers invest in real estate, coworking players, in exchange for management fee and a slice of the profits, provide the design, technology and training. In some cases, developers are tapping the

concept's potential by coming up with their own brands. CoWrks is owned by Indian developer RMZ Corp., while in Singapore, Collision 8 is owned by Aurum Land Private Limited. Soho China is in fact expanding its 3Q brand in China's tier 2 cities. Ayala Land has launched its coworking brand 'Clock In' in Makati City (Manila) earlier in 2017.

The coworking landscape is still evolving following the big merge with CRE over the last few years. Occupiers are adopting practices that work for them and are not shying away from experimenting with multiple options. Developers are also trying to create a social environment that they want, hoping it would be a strong selling factor. They have resources and valuable assets in hand, and are ready to explore opportunities that will transform how occupiers would consume space. As such, growing competition among landlords will intensify proliferation of coworking spaces and eventually make such offerings a standard.



Developers are also trying to create a social environment that occupiers want, hoping it would be a strong selling factor.

Coworking spaces are becoming in-house innovation hubs



The lifespan of large and successful companies, especially those in the Fortune 500 list, is getting shorter every year as only 12% of those companies have survived between 1955 and 2016⁴. Creative destruction and market disruption are driving them out of business as they lack the dynamism and innovation that are crucial for survival in a hyper-competitive global economy. Thankfully, the advent of new economy and consumer-oriented companies and their constant hunger for innovation to come up with new products have got everyone's attention. Partnering with entrepreneurial organizations, networking, sponsoring and supporting innovation has never been more advantageous to bigger companies.

How do coworking facilities fit into this whole scenario? This is where companies are working with techies, entrepreneurs and creatives and are building start-up community connections to come up with new ideas that they can scale up and convert to a business solution. Companies like Google are associating with startup communities/coworking operators across regions. This is mutually beneficial as Google supports members of such coworking spaces by providing technical and business support, and infrastructure while partnering in their success. Successful start-ups can expand their business and create new jobs, eventually growing multifold.

Start-up communities and coworking spaces will positively impact local economies by creating a wider variety of jobs. Interestingly, some corporations are starting their own

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The financial sector has been quick to adopt coworking to drive in-house innovation but other industries, especially tech, professional services and engineering, are slowly catching up.

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coworking facilities to innovate and experiment through in-house collaboration using incubators and accelerator programs for start-ups. Some examples are Unilever's Level 3, a 22,000 sf space located at its regional headquarters in Mapletree Business City, Singapore. Level 3 is not only a space for startups to park their belongings and base their operations, but also for Unilever teams to visit the space easily and connect with companies and ideas they find interesting.

Some examples in the financial sector include the Vault by DBS, a dedicated 5,000 sf open plan and multifunctional facility in Hong Kong, LumenLab, a 7,800 sf innovation center by MetLife in Singapore, and The Open Vault, a 2,400 sf fintech innovation center by OCBC bank, also in Singapore. They function like coworking spaces and work with start-ups besides being incubation hubs themselves. Their proximity to parent organizations is purposely designed to share the energy and buzz of the open and collaborative environment, as well as provide access to more resources, proven processes, and a culture of innovation.

For occupiers who wish to be prudent on costs and are committed to flexible working practices over a long term, implementing coworking in-house makes perfect sense. Though branded as start-up hubs or accelerators, they provide parent companies and start-ups access to state of the art facilities, meeting rooms, break-out areas and networking events that are common at regular coworking facilities. They can also be a great source of talent when companies are hiring.

The financial sector has been quick to adopt this but other industries, especially tech, professional services and engineering, are slowly catching up. Many are experimenting with such plans on a smaller scale and the trend is likely to gain momentum as companies realize the true potential of working with innovative and product-ready start-ups in a shared working environment. Nurturing new ideas and experimenting with multiple start-up communities and entrepreneurs have become critical for companies that are willing to break down silos and are ready to target innovation-led longevity and sustainability.

4. Fortune 500 firms 1955 v. 2016, Mark J. Perry, AEIDEAS, Dec 13, 2016

Coworking in Japan: Better late than never

Coworking is still nascent in Tokyo with the smallest number of operators among developed markets in the region. This is not really a surprise as the norm in Japanese culture has been to seek corporate employment rather than embark on entrepreneurial pursuits. But times are changing. The number of entrepreneurs, freelancers, and other workers pursuing independent income now exceeds 11.0 million⁵ people in Japan. This is up by a quarter from just two years earlier and totals nearly one-fifth of the total workforce.

The growth of freelancing is much quicker in Japan as compared to other developed markets such as the USA, UK and Germany. Freelancers tend to survive longer and make up for more than half of all coworking members in the country. A majority of coworking members are also from the tech and services industries where collaboration is critical and shared workspace adoption rates are relatively higher.

Coworking is not new to Tokyo's office market. There are several

small-scale, local operators but none of them have gotten the brand recognition to scale up and attract larger corporate occupiers; mostly serving workers and freelancers that are extremely cost-conscious. However, the entry of WeWork will certainly turbocharge the coworking sector as corporates are now increasingly embracing its use.

While Japanese companies are very cautious around new concepts, they are recognizing that there is latent demand for coworking. Local developers seem to have realized its potential too. Mitsui Fudosan's 31 Ventures, Mitsubishi Estate's FinoLabs and Mori Building's Ignition Lab MIRAI are some examples where developers are trying to make a mark. As such, competition is likely to intensify with global players entering the market. 2018 will be transformational for the coworking landscape in Tokyo, where we can see some reputable entrants that are well established in other markets. Watch this space as it can only get better in 2018.

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2018 will be
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Tokyo.

5. Can Japan, land of lifetime employment, handle the rise of freelancers? *The Japan Times*, May 14, 2017

Aggregation: M&A is gaining momentum

Coworking operators are merging with each other and scouting for investors in a bid to strengthen their foothold in growing markets. These partnerships have been popular in accelerating entry and expansion, as companies are able to learn from mature operating models and provide extensive services to tenants.

Mergers and raising funds have become a common practice in the region as operators are gearing up to enter new markets, fend off competition and trying to thwart WeWork's aggressive expansion plans in the region. Some of the notable mergers include EV Hive with Calpham Collective and Ucommune with New Space. At more than US\$ 300 million⁶, equity financing in coworking startups is already at a record high in 2017. Ucommune has raised funds from Aikang group in China, Catcha Group has backed Common Ground in Malaysia, Sequoia Capital invested in Awfis in

India, amongst others. Meanwhile, WeWork has acquired Singapore's Spacemob to support its aggressive expansion plans in Southeast Asia while also working with Softbank to expand in Japan. It also bought Meetup, a social networking service recently to further strengthen service offerings and target new customers.

We expect mergers and acquisition (M&A) deals and funding rounds to pick up pace in 2018 as competition heats up in the region. Local players are eager to expand their reach and in some cases, are struggling hard to stay afloat. They are in desperate need of financial and operational backup from bigger operators. The coworking vertical is getting crowded every year and only a handful of players with bigger reach and financial wherewithal can survive in the longer run.

AT MORE
THAN

US\$
300
million

equity financings in
coworking startups
are already at a
record high in 2017



6. Co-working space operators in Asia chase alliances, funding as WeWork expands, *Deal Street Asia*, July 26, 2017

Coworking expands into Southeast Asia



The new battleground for coworking clout is now in Southeast Asia, which is among the world's fastest growing economies, and boasts a very tech-savvy population.

The start-up ecosystem in the sub-region is fairly young and the markets are diverse. As such, freelancers and entrepreneurs are in dire need of partnerships and networking opportunities that coworking spaces can provide. From Kuala Lumpur (KL) to Manila, Ho Chi Minh City and Jakarta, innovation hubs and start-up incubators are growing with government support and funding activity. A flourishing start-up ecosystem across these markets is accelerating the evolution of the shared working environment in Southeast Asia.

Local operators that are still in the early stages dominate the coworking landscape. They are small, mostly confined to their home country and are heavily dependent on external sources. They are on the constant lookout for funding opportunities to expand reach. Catcha Group backed Common Ground has expanded to five facilities to become the largest coworking operator in KL. Worq, another coworking space in KL has also raised funds from multiple investors in 2017.

The battle for coworking dominance will get serious in 2018

The start-up boom and enormous business potential are attracting some established coworking operators to Southeast Asia.

In Vietnam, private equity firm Indochina Capital has invested in Toong, which is associated with CapitalLand, to develop coworking spaces in Ho Chi Minh City. Indonesia's Rework has received funding from ATM Capital and Convergence ventures recently. EV Hive, one of the major coworking players in Jakarta has merged with Clapham Collective to expand its reach.

The start-up boom and enormous business potential are attracting some established coworking operators to the region. WeWork has already signaled its plans by acquiring Spacemob. JustCo, a popular Singapore coworking operator has recently secured funds (of about US\$ 12 million?) to support its expansion plans in Southeast Asia. Impact Hub, another major global operator, is already stationed in Jakarta, Manila and Kuala Lumpur. Ucommune, a major Chinese coworking player is also eyeing Southeast Asia. As such, the battle for coworking dominance will further intensify in 2018.

7. Co-working startup JustCo raises \$12m from Thai property developer, Deal Street Asia, October 13, 2017



Coworking Costs: Not a factor in emerging markets



Coworking offers cost arbitrage in some markets. It is a cheaper solution compared to traditional office space in several gateway cities.

For example, coworking is a viable option in high cost locations such as Singapore, Hong Kong, Sydney, Tokyo, and Beijing. In the case of India and emerging markets in Southeast Asia, coworking options are pricier compared to traditional office spaces, as majority of them are located in expensive locations and in several cases, office vacancies are tight. Moreover, coworking operators can get away with providing smaller spaces (about 50-60 sf per person) by creatively adopting workplace strategies and offering greater

flexibility. However, surprisingly, the take-up levels are quite encouraging.

In markets like Bengaluru, Mumbai, Gurgaon, Hyderabad and Manila etc., corporates such as Accenture, Amazon, GE, Boeing, Alibaba, Ikea, HSBC, PayPal, Verizon and Microsoft etc. are occupying a major share of coworking space. For most corporate occupiers, coworking has become a business solution, not just a real estate alternative.

Many are using such facilities as “swing spaces” to deal with relocations, expansions and/or consolidations. Short-term flexible leases are gaining popularity among occupiers in emerging markets where construction delays are a routine. For all short-term requirements, companies are increasingly using coworking facilities rather than shared service offices/business centers. As such, we expect the trend to gain momentum, as coworking operators expand and enter into new markets in 2018.

Corporate occupiers are using coworking facilities as “swing spaces” to deal with business requirements.

Conclusion

By successfully commercializing the concept of the shared office workspace, coworking has revolutionized the commercial real estate market. Its flexibility, negligible capex costs and promises of increased collaboration and networking benefits have firmly etched the concept into corporate real estate strategy. While it is not expected to entirely displace conventional office spaces as we know it, generation shifts and the changing nature of work will continue to sustain this proliferation that we are now witnessing. Arguably, the biggest challenge to occupiers now is how to incorporate this concept into their overall workplace strategies and define their use so that it sits seamlessly within the company’s DNA. Coworking spaces are also increasingly perceived as a strategic necessity by landlords and investors, which can be bundled as a sweetener in leases and an invaluable element in value-add or asset repositioning strategies.

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