



Flexible Workspaces in Spain

2019





Editorial Comment

Growth and potential for flexible workspaces in Spain

We are facing a period of profound social change. The economic climate, different ways of working and their interaction with our lives, preferences and values, and even our behaviour as customers have changed radically from what was true only a few years ago.

Regardless of their size and status, organisations are adapting to these new circumstances and to new fundamental challenges. They are seeking out elements such as the ability to attract and retain talent, as well as the creation of business opportunities based on digital technologies and sustainability.

Within this new context, a new industry has emerged aimed at revolutionising the workspace market.

The growth in the supply of flexible office spaces has been exponential in recent years, as evidenced by this second study undertaken by Cushman & Wakefield in conjunction with ProWorkSpaces, the association which brings together flexible workspace operators in Spain.

The success of this formula rests upon a number of factors, particularly notable among which are flexibility - delivering large-scale offerings to small-scale demand, the advantages of the outsourcing of infrastructure management and formulas to connect flexible solutions with major companies. As in many other fields driven by the sharing economy, use takes precedence over possession. One determining factor stands out - flexible offices are centred around people.

Even with such rapid growth, flexible offices continue to represent only a small percentage of office stock. We can consequently predict that the industry will continue to grow vigorously in coming years. In other words, we are still far from witnessing a mature market.

Within this rapid development, diversification and specialisation will very probably represent the beginning of a new stage. We invite you to experience this together with us, beginning with the study of the ideas and discoveries in this report.

Floorspace demand on the part of operators

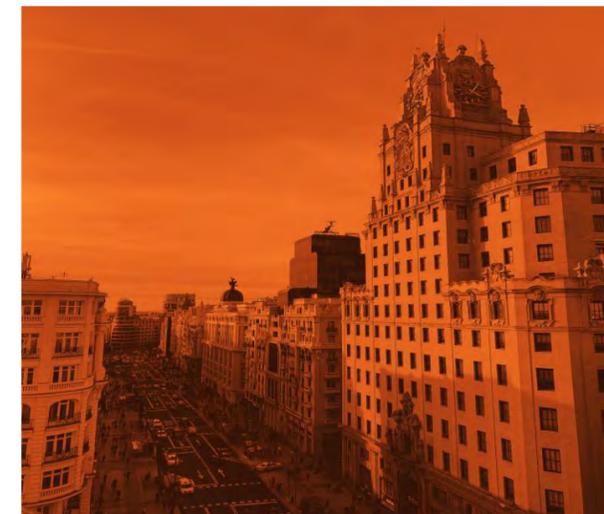
OWNERS WHO ARE ALSO OPERATORS AND OPERATORS THAT BECOME OWNERS

The rapid change in space usage methods may clearly be observed in market parameters such as the take-up of office space. The exponential growth of the share of flexible workspaces within take-up points towards a drastic change in the structure of office usage over the medium term. We may even venture to say that landlords, operators and users will see the first decades of the 21st-century as a remote and strange marketplace.

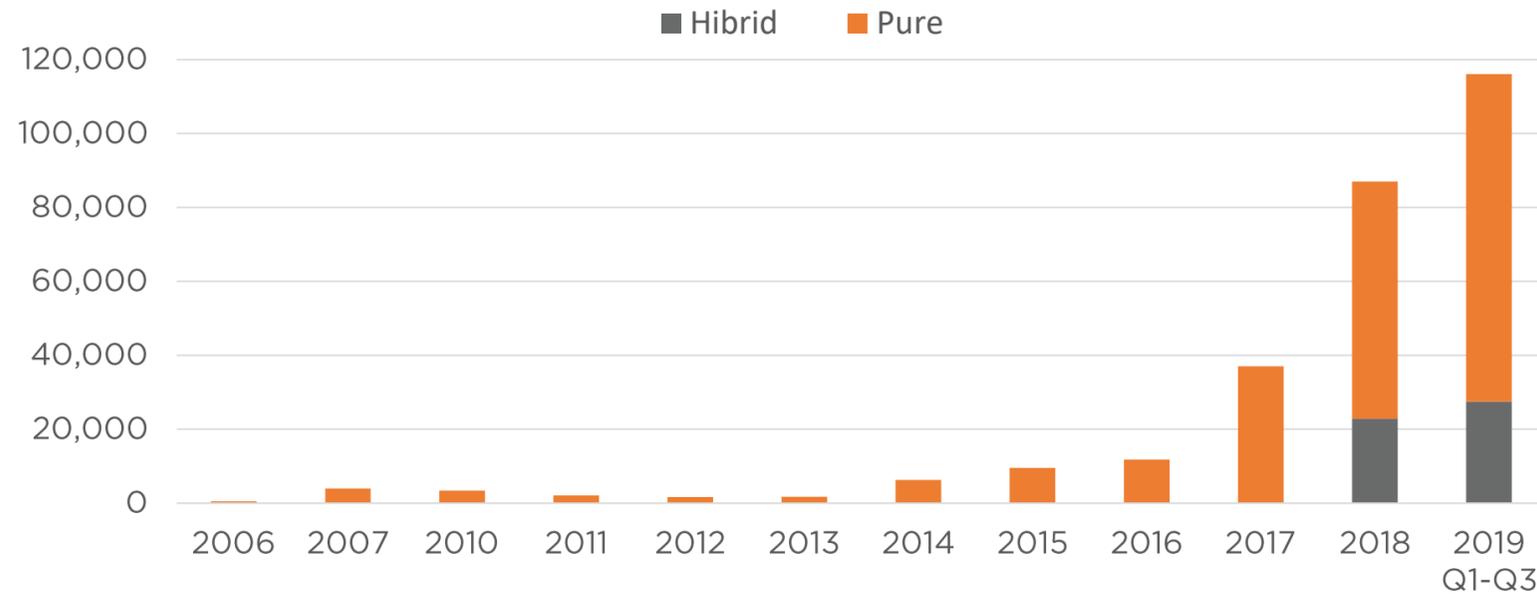
Rapid change also leads to added uncertainties, particularly with regard to whether the shock is transitory or permanent. Within this context and in order to keep their options open, landlords are expanding their space, from traditional lease contracts to flexible workspace formulas.

This duality differentiates them from pure operators who do not own the property and simply attend to the provision of the flexible offering.

Flexible space operators are expanding their floorspace and occupying ever more buildings on an exclusive basis. Nevertheless, in Spain there is still no evidence that these types of operators will become owners. Up to now, flexible workspace operators are maintaining their purely service-based vision of real estate.



Distribution of take-up between hybrid and pure operators - Madrid & Barcelona (sq m)



The appearance of hybrid operators in Spain has been out of step with respect to pure operators. Nevertheless, these may reach market shares similar to those of pure operators within the short term.

The hybrid operator enjoys a number of clear advantages, such as controlling the entire gamut of direct occupiers/parties with a traditional lease contract, as well as final users of flexible workspaces.

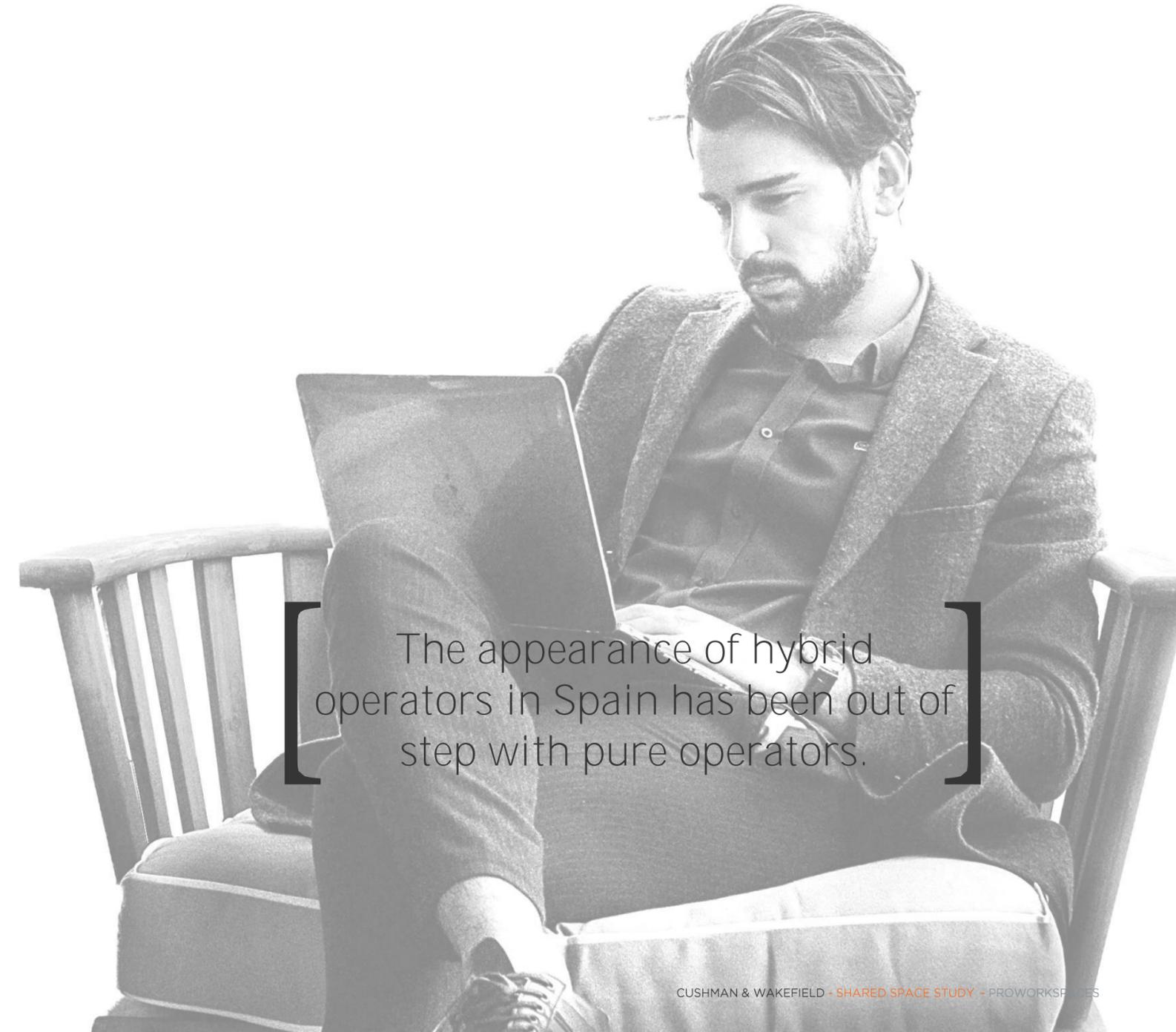
Within this context, actions regarding the property are supervised by the same agent, whilst management, maintenance and value are optimised. The hybrid operator has to operate and understand two markets that are related, though not identical: that of space for lease and that of workspaces. As a result, there could be a trade-off between control and complexity.

Another advantage enjoyed by hybrid operators in the current growth climate is that they may be able to choose their area of specialisation according to the consolidation of the flexible workspace market.

They likewise gain lessons on how to get the maximum yield out of the end users (workers) of traditional space by means of direct contact with the customers or associates of the flexible space.

Other owners are adding value to their portfolio by providing to occupants under traditional contracts access to flexible spaces located in other buildings or even cities.

The graph shows how owners in Spain are becoming increasingly more active in terms of flexible offerings, a trend shared with the rest of Europe and also the United States.



The appearance of hybrid operators in Spain has been out of step with pure operators.

NEW OPERATORS IN THE MARKET

Although expansion plans are increasingly taking into consideration secondary locations, **Madrid** and **Barcelona** represent the main markets in which flexible workspace operators are carrying out their activities.

Barcelona is particularly attractive for these types of operators given the technology focus of office space demand in recent years, the favourable context for start-ups and the capacity to attract talent worldwide. New operators have recently entered the Barcelona office market, arriving either from Madrid or abroad.

Talent Garden now manages flexible workspaces in Madrid and in Barcelona had one office of just 300 sq m. They have finally decided to extend their commitment to Barcelona and are currently refurbishing an entire building of 3,600 sq m in the 22@ business district.

Another new entry in the Barcelona market is that of the French coworking group **Wojo**, with the pre-letting of a complete building of 7,600 sq m, also in 22@.

This comprehensive refurbishment is anticipated for the close of 2019. It is worth mentioning that Wojo belongs to the hotel chain **Accor**. This is unsurprising given that flexible workspaces and the hospitality business converge with respect to the temporary use of space. The voices announcing the future of business space as a reflection of hospitality have likewise been numerous.

Through its brand Loom, the real estate giant **Merlin Properties** has recently appeared in Barcelona with three spaces amounting to 5,000 sq m, strengthening its dual commitment as landlord and operator.

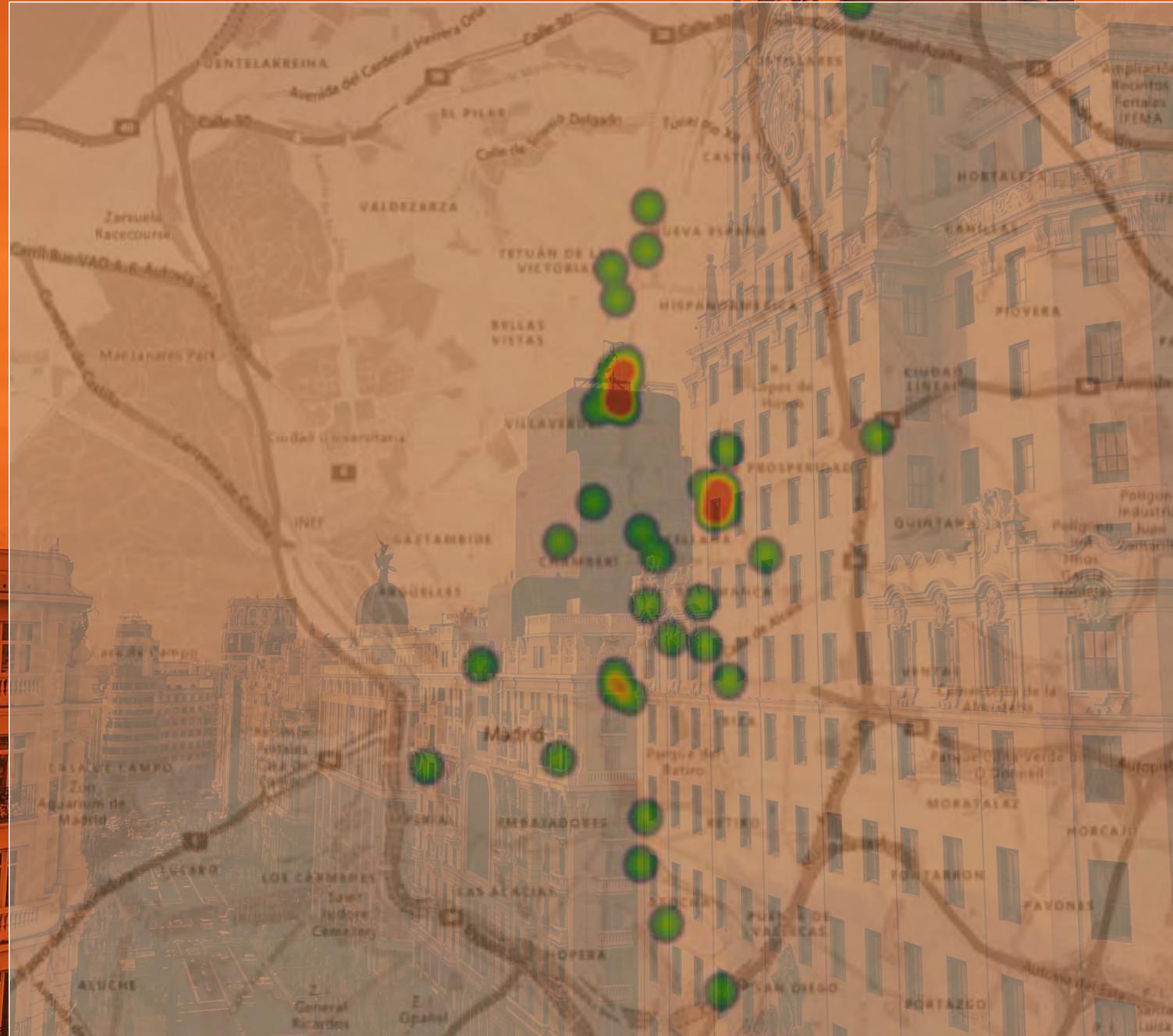
In the same vein, **First workplaces** (formally Busining workspaces), which had been operating for years in the capital, has also arrived in Barcelona in 2019 with the opening of 6,120 sq m of flexible office spaces in two high quality buildings.



New flexible workspace operators arrive in Barcelona

Intensity of flexible workspaces take-up

Letting deals Madrid 2009-2019



DEALS | TAKE-UP ANALYSIS

Madrid

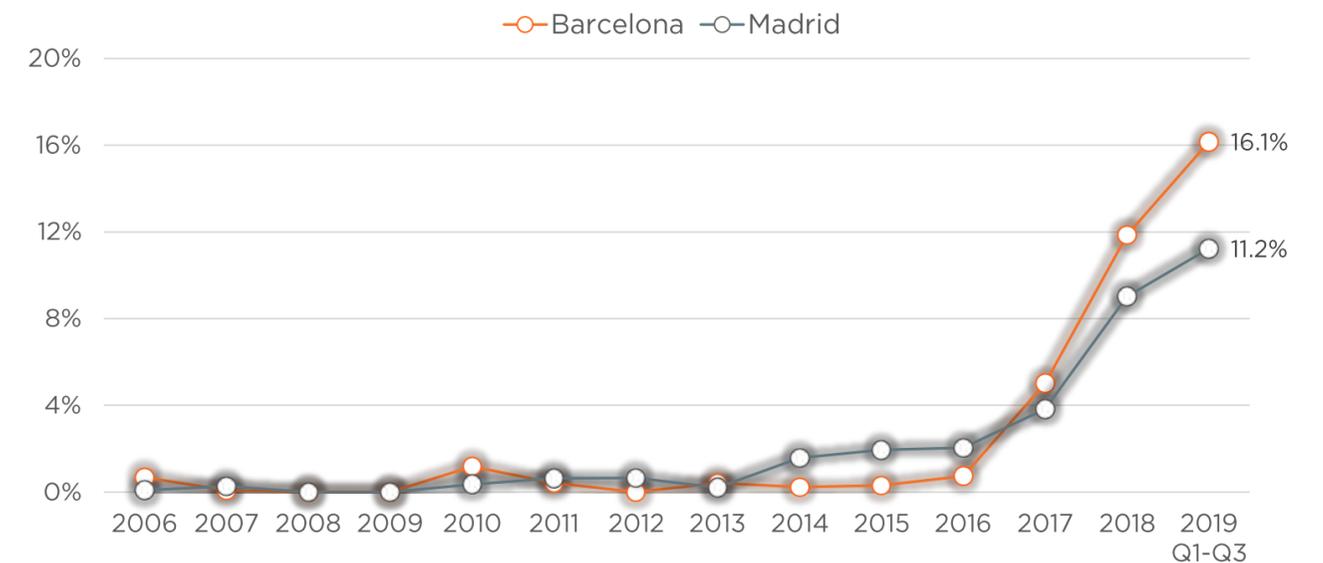
Over the first nine months of 2019 flexible workspace operators have leased **56,200** sq m of office floorspace, representing **11.2%** of the total take-up of office space in Madrid. With one quarter left till the close of year, these **56,200** sq m exceed by some 21% the **44,540** sq m transacted during the whole of 2018.

The preferred locations for this type of operators are those with good transport connectivity and the amenities in the surrounding area.

As a result, over the past 10 years some **73%** of flexible workspaces have been leased within Madrid's Central Business District (CBD).

During the same period of time and within the M-30 ring road (which demarcates central and decentralised markets) contracts covering a total floor area of **137,100** sq m have been signed, the AZCA sub-market seeing the largest share of this with 18.5%. This is followed, at some distance, by the area of Chamartín, with 12%.

Take-up of flexible workspace as a proportion of the total transacted



DEALS | TAKE-UP ANALYSIS

Barcelona

The figure for take-up of **flexible workspace** began 2019 strongly in Barcelona. The entry of new operators seeking to position themselves in the city, together with the attractiveness of Barcelona for these types of operators, has led the take-up during the first nine months of 2019 to exceed the total sum for the past three years.

The floor area assigned to **shared workspaces** in the Barcelona market went from a **5%** share of total floorspace transacted in 2017 to **12%** in 2018, climbing to **16%** for the aggregate of the first three quarters of 2019.

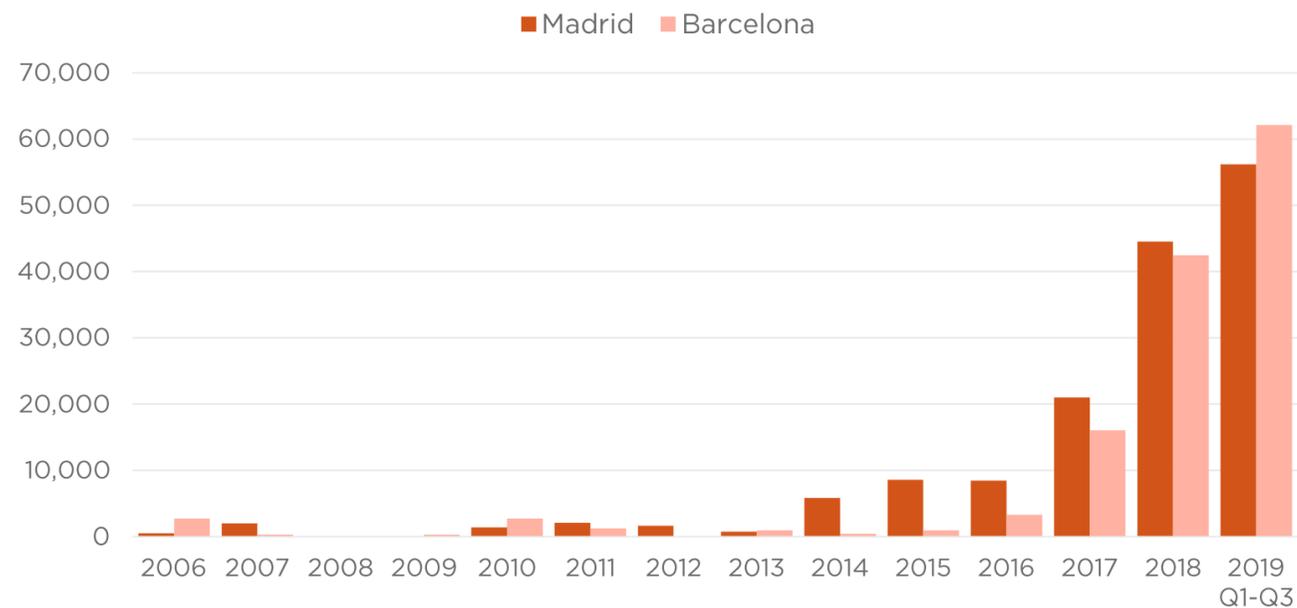
Flexible workspace operators are expanding the floor area that they manage and even leasing entire buildings.

To date, there are 13 complete buildings with floor areas of between 2,000 and 7,600 sq m.

7 of these buildings are located in the 22@ technology district and the Seafront area. The attractiveness of this office zone for all types of users is making it one of the most sought-after on the part of **flexible workspace** operators.

The other 6 buildings are located in Barcelona city centre, which boasts good connections by public and private transport, as well as being the area with highest footfall.

Take-up of offices for flexible workspaces (sq m)



Intensity of flexible workspaces take-up Letting deals Barcelona 2009-2019



MADRID & BARCELONA OFFICE STOCK

SHARE OF OFFICE STOCK AND OUTLOOK

At the close of the third quarter of 2019, **flexible workspace** operators achieved a share of 1.2% and 2.0% of the total stock of offices in Madrid and Barcelona respectively.

Assuming an annual pace of 30,000 sq m of new **flexible workspaces** in the two cities, the share of stock will reach 1.9% in Madrid and 3.4% in Barcelona in 2022. Although it is evident that this share is small, it does however correspond to the initial stages of the sector.

At around 1%, the share is in line with other European capitals, although far below that of Amsterdam (5.9%), the **European leader in terms of shared offices**, and behind London (4.5%).

Using the variable of job creation requiring offices for the performance of activities (office employment), it is possible to predict the level of take-up.

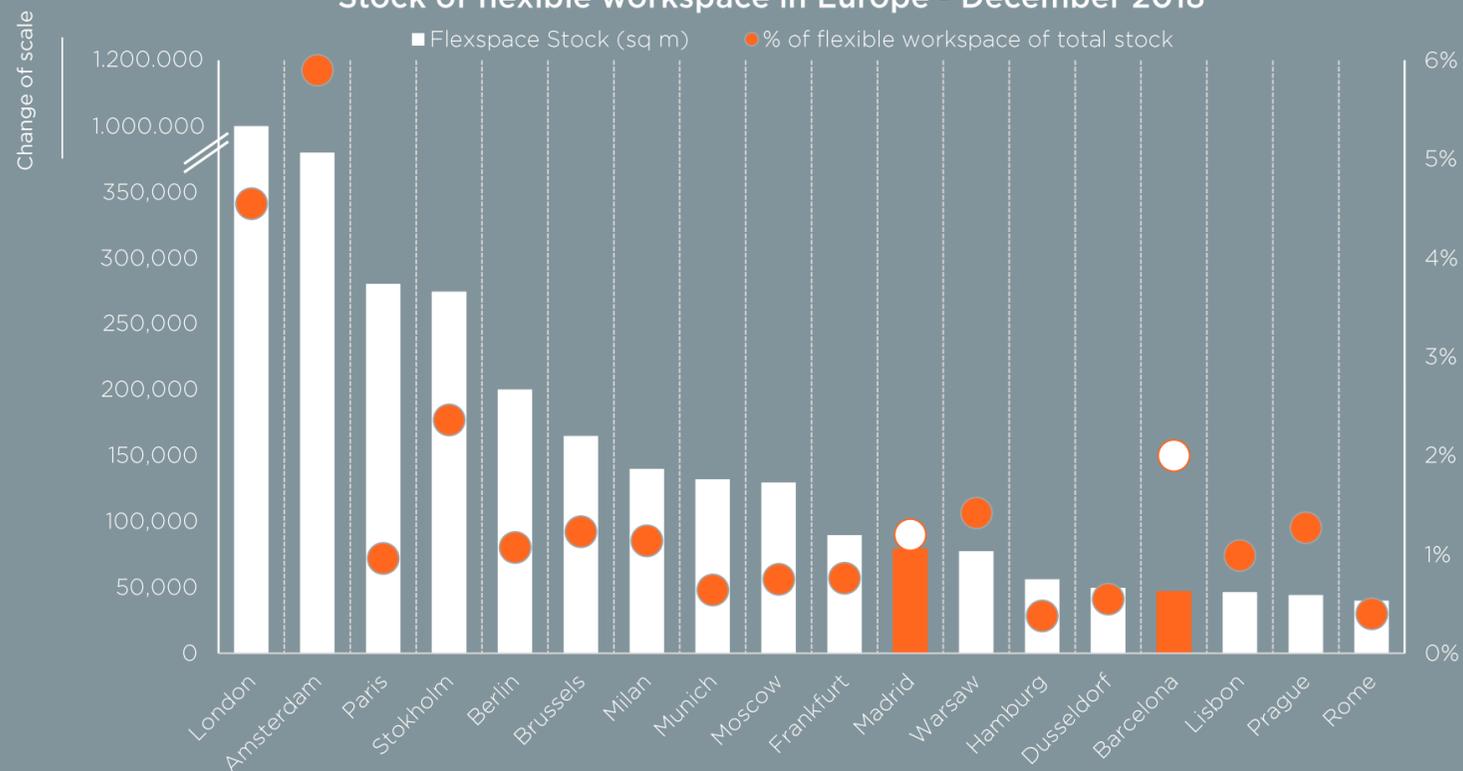
In the case of Madrid, a yearly take-up of between 520,000 sq m and 550,000 sq m is expected over the coming three years.

In the case of Barcelona, office take-up will hover between 350,000 sq m and 370,000 sq m per year.

In this context, in 2022 the floor area corresponding to **flexible workspaces** would reach close to 270,000 sq m in Madrid and 200,000 sq m in Barcelona.

Bearing in mind new developments that will be gradually delivered up to 2022, this will amount to 1.9% of the total stock of offices in Madrid and 3.4% of that in Barcelona.

Stock of flexible workspace in Europe - December 2018



Dynamics and forecast for the share of flexible workspace within total office stock

Barcelona



Madrid



*Forecast



Capital markets faced with the evolution of flexible workspaces

As flexible workspace operators expand the floor area that they occupy, in some cases to the entirety of a property, the offering of office assets in the capital markets is undergoing reconfiguration.

Within the last year and a half the entire floorspace has been transacted on 13 buildings of between 3,000 and 6,700 sq m in the Madrid office market, along with another 13 complete buildings with floor areas of between 3,000 and 7,600 sq m in the city of Barcelona.

For the capital markets an understanding of cash flows and covenants represents a key element when acquiring a property.

In the case of office buildings with flexible spaces, the investor analysis consists of understanding and predicting the behaviour of this type of business over the medium and long term. In other words, the investor must feel comfortable with the characteristics of the flexible model itself, such as wear and tear of the property, varying occupancy, the density of employees per unit of floor area and added values such as the community manager, events and development at a technology level.

Consequently, investors may respond differently when faced with transactions for comparable buildings with or without flex solutions.

The following points are thus analysed in detail in any deal:



LEASE CONTRACT GUARANTEES. Due to the type of businesses that take on spaces to let to third parties, the risk of the loss of the end tenant means that the landlord requires additional collateral, such as bank guarantees or other types of bond.



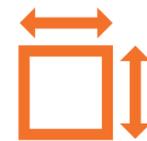
SOLVENCY AND REPUTATION OF THE FLEXIBLE WORKSPACE FIRM. Landlords also take into account the solvency of the firm administering the flexible space in order to analyse how, and for how long, a loss of the end user may be handled. At the same time, the reputation as a brand serves to improve the probability of once again finding tenants in the short-term.



EFFECTIVE RENT TAKEN ON BY FLEXIBLE WORKSPACE FIRMS. A headline rent above market level is sometimes explained by initial free-rent periods or deployment and fit-out assistance in the form of loans. The gap between the headline and effective rent will have an impact on the internal rate of return (IRR) of the investment.



DURATION OF THE FREE-RENT PERIOD. Those buildings in which the free-rent period expires will have better cash flow than comparable buildings in their area, improving their profile in capital markets.



PERCENTAGE FLOOR AREA OCCUPIED BY SPACES ASSIGNED TO COWORKING. For now, the perception of risk with regard to a building which is 100% occupied is greater than that of a coworking building occupied at 50% or 15%, for example.



RATE OF DEPRECIATION OF FURNISHINGS. The greater crowding and turnover of people in flexible spaces reduces the lifespan of furnishings, likely requiring earlier refurbishment expenditure in comparison with a traditional tenant.



The Spanish real estate sector is still lacking sufficient comparable investment deals for tenant-occupied buildings with flexible spaces.

Nevertheless, it is possible to draw an outline of the behaviour of the capital markets with regard to flexible workspaces from buyer intentions in Spain and the evidence from other markets such as the United States and the UK, where a sufficient number of transactions of this type have been recorded.

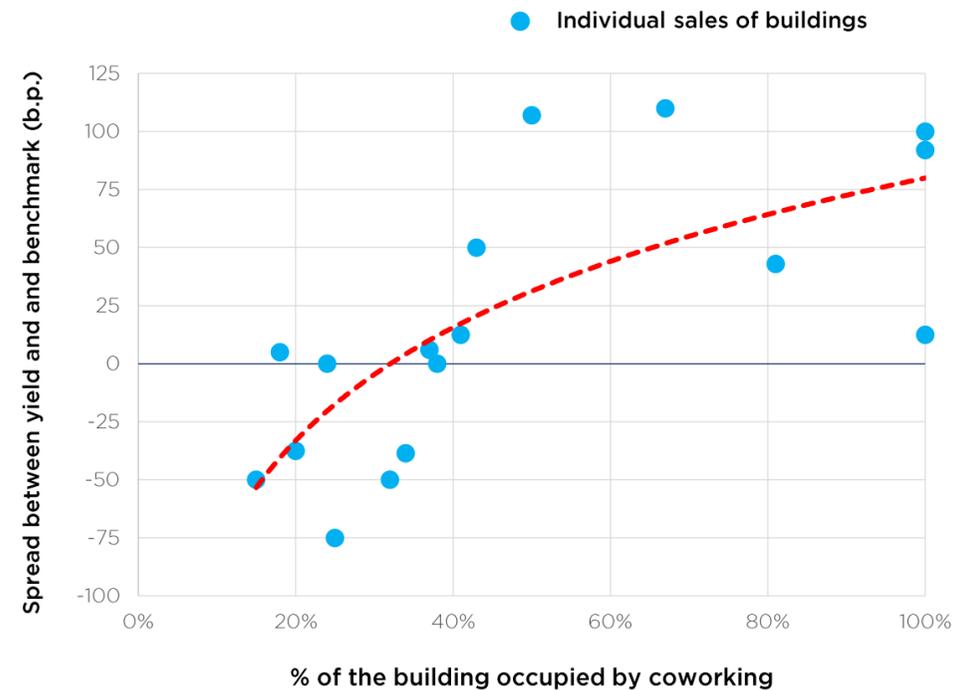
Taking US investment activity regarding co-working or similar assets (flexible workspaces)

as a reference, it is possible to draw valuable conclusions that may serve as a benchmark for markets with lower liquidity in these types of deals.

In the Cushman & Wakefield report “Co-working and flexible office space. Additive or disruptive to the office market?”, 17 acquisition deals involving buildings that house operators of flexible workspaces from the first quarter of 2016 and up to the final quarter of 2018 were analysed.



The results are shown in the following graph:



Source: Cushman & Wakefield

The graph shows the relationship between the percentage occupied by flexible space and the initial yield of the deal. The latter is the spread between the deal under study and a benchmark in a similar building with a traditional tenant. Three cases appeared:

- If the spread is positive, the risk of the deal with flexible workspaces is perceived as greater than that relating to the traditional market.
- If there is no spread, the risk is perceived as being the same.
- In cases where the spread is negative, the perceived risk regarding a building with shared office spaces is lower.

Faced with the evidence from the US market and given that the spread is zero or even negative, it can be stated that investors feel comfortable with an asset occupancy on the

part of flexible workspace operators of between 15% and 35%.

Properties within the sample with a flexible workspace proportion exceeding 40% reported positive spreads, suggesting a greater perception of risk on the part of investors.

Nevertheless, risk perceptions will change as investors gain experience of the relationship with these types of tenants, whilst the model, though still young, is demonstrating its solvency and value within the real estate market.

Poorer quality buildings usually increase their market value with the entry of a flexible workspace operator due to the fact that these will perform improvement works in order to attract clients.

The European *coworking* and *flexible workspace* context

By Emma Swinnerton, International Partner, Head of Flexible Leasing Solutions – EMEA in Cushman & Wakefield

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The flexible workspace sector is an outstanding place to be. With a substantial amount of space still to mature, it will continue growing and evolving rapidly over the coming 5 years.

The vast majority of office markets at a continental level will continue to expand rapidly. The ‘panoramic’ vision of Cushman & Wakefield helps us to reveal a common pattern among the main European markets in terms of the supply and demand for *flexible workspace*. Within this setting, the growth trend over the coming years will be governed by:

- Significant differentiation between the major global operators and those local operators with specific know-how regarding the dynamics of the micro-market. The major operators will be IWG (Regus, Spaces, N°18) WeWork and, very probably, Servcorp.
- The emergence and consolidation of medium-sized operators with a portfolio of between 30 and 50 locations.
- Some 20% of the flexible workspace market will correspond to major operators. The remaining 80% will be occupied by smaller operators, some of whom will remain independent with between 1 and 10 centres.

The trend towards owners/investors entering into the direct operation of flexible workspace is clear at a European level. Notable within continental Europe are HB Reavis, with its Hub Hub brand, alongside Colonial and Merlin Properties. In the UK, we find British Land with Storey, Landsec with Myo and The Crown Estate has One Heddon St. A clear example in the United States would be Tishman Speyer with its Studio brand.

There are operators with mixed portfolios and others seeking to acquire properties prior to letting. Examples of operators with centres under ownership include Workspace, Flora (in association with Brockon Capital), Uncommon (backed by the Carlyle Group) and others such as The Office Group (Blackstone), The Argyll Club and Be.

Based on the foregoing, we inevitably see merger and acquisition activity as well as operators seeking new product differentiation strategies and a commercial offering to ensure that they stand out from the crowd.



The demand for flexible workspaces

Results of the Proworkspaces survey 2019

Following the success of last year's survey of the affiliates of the flexible workspaces association, Proworkspaces, the study has been repeated this year in order to go into greater depth regarding the use of these types of spaces and to understand their recent evolution in Spain.

In 2019, and continuing the trend recorded the previous year, some 70% of the flexible workspace managers surveyed enjoyed occupancies exceeding 75%.

Given that this was stated by 66% of the respondents, the overall view for the coming 12 months is that occupancy will increase.

In terms of the types of users of shared offices, some 60% of the groups surveyed revealed that half of the businesses seeking their spaces consisted of start-ups and the self-employed, in equal measure.

Another significant user of these types of workspaces, SMEs, represent demand of between 25% and 50%.

Three quarters of operators currently dedicate less than 25% of their space to meeting rooms. This figure could change over the short term in that the proportion has been at a minimum over the past 12 months.

Over the coming 12 months, 66% of the affiliates surveyed anticipate an increase in occupancy.



Operators have continued expanding spaces whilst the demand for flexible workspaces on the part of corporates and the self-employed has remained dynamic.

During the past year, solely 8% of the respondents saw occupancy levels below 50%.

Almost 70% of operators have reported occupancy levels exceeding 75%. This figure is good, particularly if we take into consideration that the past year has seen an increase in the openings of new centres of this type.

These figures are explained by the common practices used by the operators of collaborative spaces on opening or expanding new floorspace. Due to the fact that the main cost item of shared workplaces is the leasing itself, they aim to have the greatest number of workstations pre-let prior to opening

Average occupancy of workstations during the past year

■ Less than 50% ■ Between 50-75% ■ Between 75-90% ■ More than 90%



In terms of the internal structuring of these workspaces, some 30% of the floor area is assigned to fixed posts (workstations that have a dedicated table within an open plan space), without having any flexible posts.

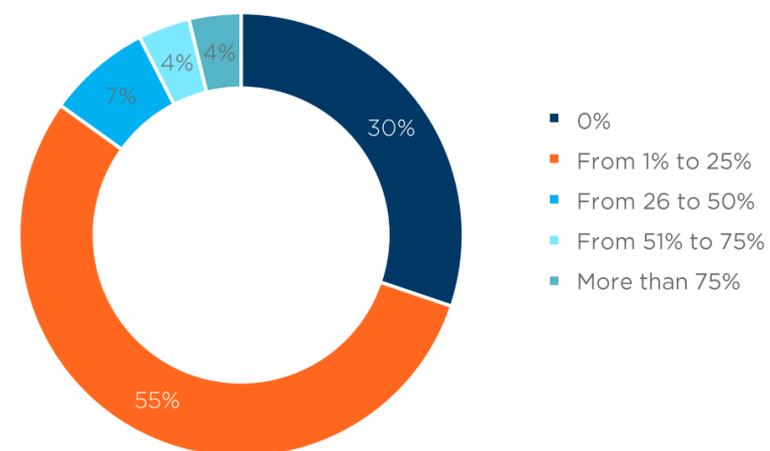
55% of respondents have up to 25% of their space assigned to flexible posts (workstations with no dedicated table).

Only 4% dedicate more than 75% of their spaces to flexible spaces.

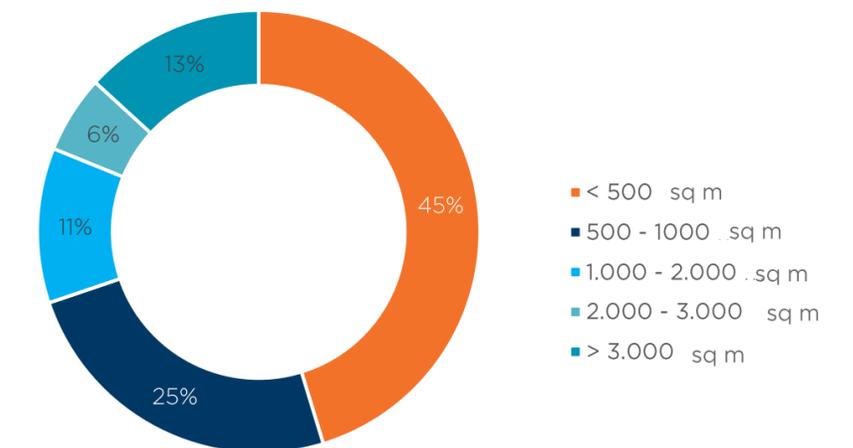
The size of flexible workspace operations runs from reduced floor areas in residential buildings up to complete buildings solely for office use and located in prime zones.

Some 45% of these operators have spaces of up to 500 sq m and only 13% manage floor areas exceeding 3,000 sq m.

How much flexible workspace out of the total?



Size of the space*



* Or the average of all of the spaces of the affiliate



Demographics of centres in Spain

The majority of these operators, i.e. 98%, offer Internet professionals (Internet service designed to satisfy business needs). Along the same lines, and in order that clients are able to take advantage of smart web traffic management with advanced security and reliability, almost half of the operators, some 47%, additionally offer access to in-house servers and VPNs (Virtual Private Networks).

Another of the services provided by the majority of flexible workspace operators, i.e. 70%, and which is undoubtedly the most appreciated by users, consists of the planning of events and networking. This is aimed at creating synergies between clients in the first place, in order to achieve the creation of a community in the second.

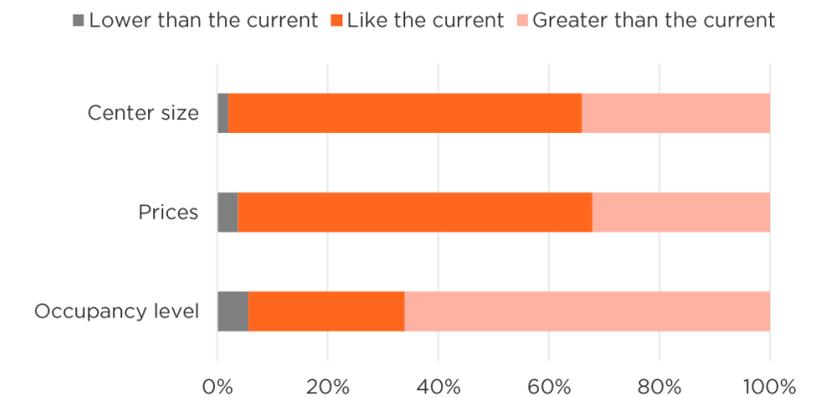
In terms of the degree of internationalisation of this type of shared space, operators were asked regarding the nationality of their clients and 55% confirmed that between 25% and 75% of their clients originated in the home country.

The future consists of the consolidation and expansion of these work centres. The survey shows that 38% of the respondents envisage increasing the floor area that they occupy over the coming 12 months, whereas only 2% are contemplating the possibility of reducing the floorspace that they manage. The remaining 60% envisage maintaining their current business sizes.

Expectations for the behaviour of the prices that flexible workspace operators are willing to charge in return for their services show a positive trend for the coming quarters, in that 32% of the respondents consider increasing the prices for their services.

The remaining 64% will maintain the same rates as the previous year.

Medium-term plans





Flex Potential Index - FPI

At a regional level, which factors underlie the expansion of flexible workspaces and what will be the coming steps in Spain?
The Flex Potential Index of Cushman & Wakefield and Proworkspaces (FPI) probes those **elements that favour the activity of flexible offices in Spain's 52 provincial capitals.**

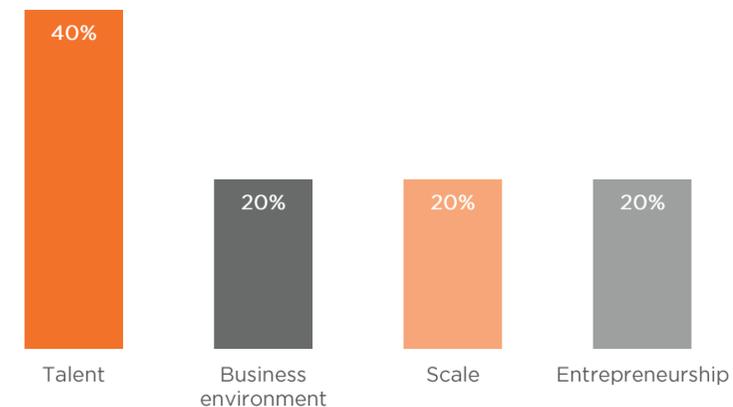
The FPI enables an evaluation of the main parameters under which the flexible model operates both in absolute and comparative terms with regard to other regions.

In order to obtain this, performance metrics enabling the quantification of market drivers at city level have been chosen, and new parameters contributed in order

to assist in decision-making on the part of operators, businesses, entrepreneurs and owners.

The FPI weights four parameters relevant to flexible workspaces which, in turn, bring together 13 variables that quantify the potential of the coworking market in the provincial capitals of Spain.

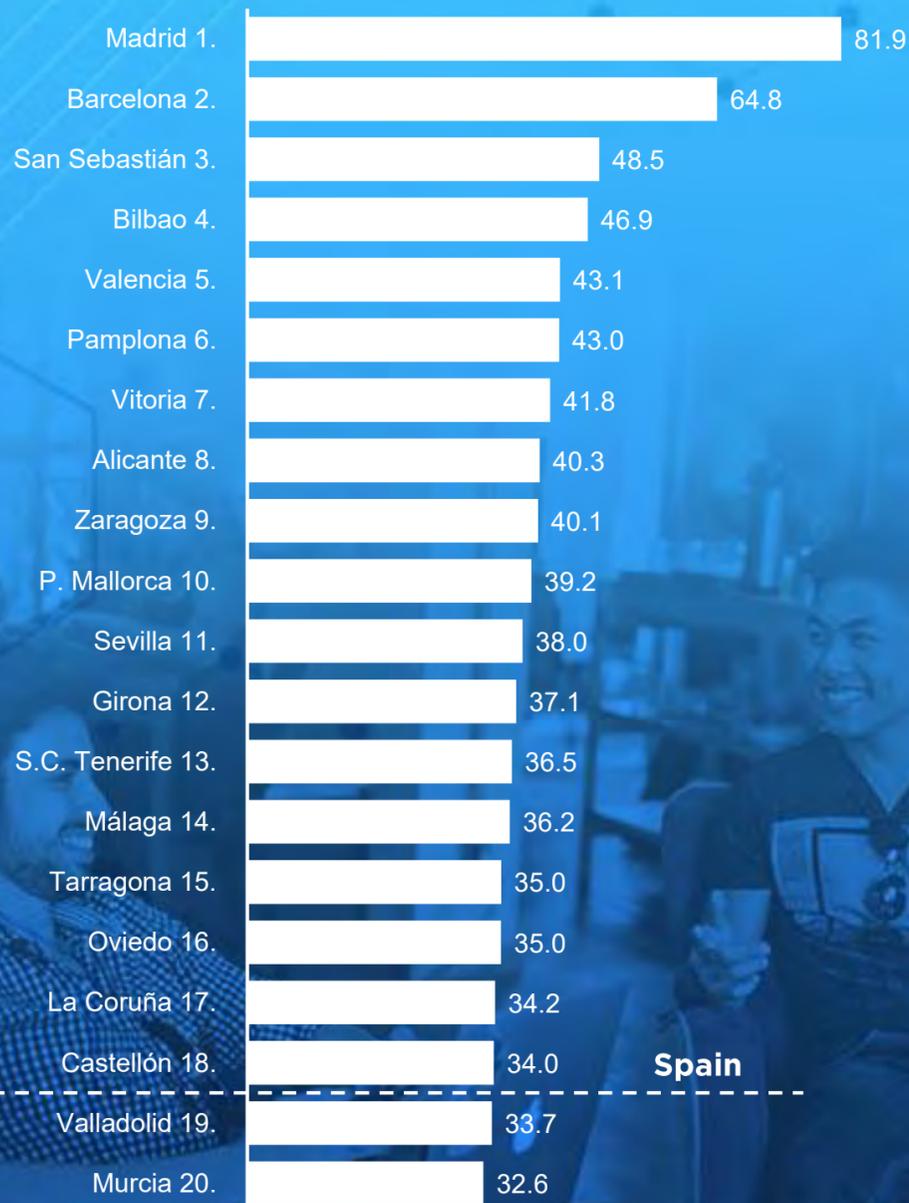
Measurement parameters for the flex potential at a regional level
Weightings to calculate the index



* In turn, the four parameters bring together 13 numeric indicators, each of which is weighted according to its relevance regarding flex potential.

The Index of Flex Potential enables quantification of the main parameters of the flexible model in the Spanish context

Flex Potential Index
Positions and scores (values 0 to 100)



Source: Cushman & Wakefield - Research & Insight

FPI Methodology

13 indicators directly or indirectly affecting office demand have been chosen, particularly with regard to the need for flexible workspaces. These are classified under the categories of Talent, Business Environment, Entrepreneurship and Scale.

Each of the indicators studied has been homogenised (due to differences in measurement sizes) and rescaled (characteristic standardisation method). A score was later calculated, with a maximum of 100 points.

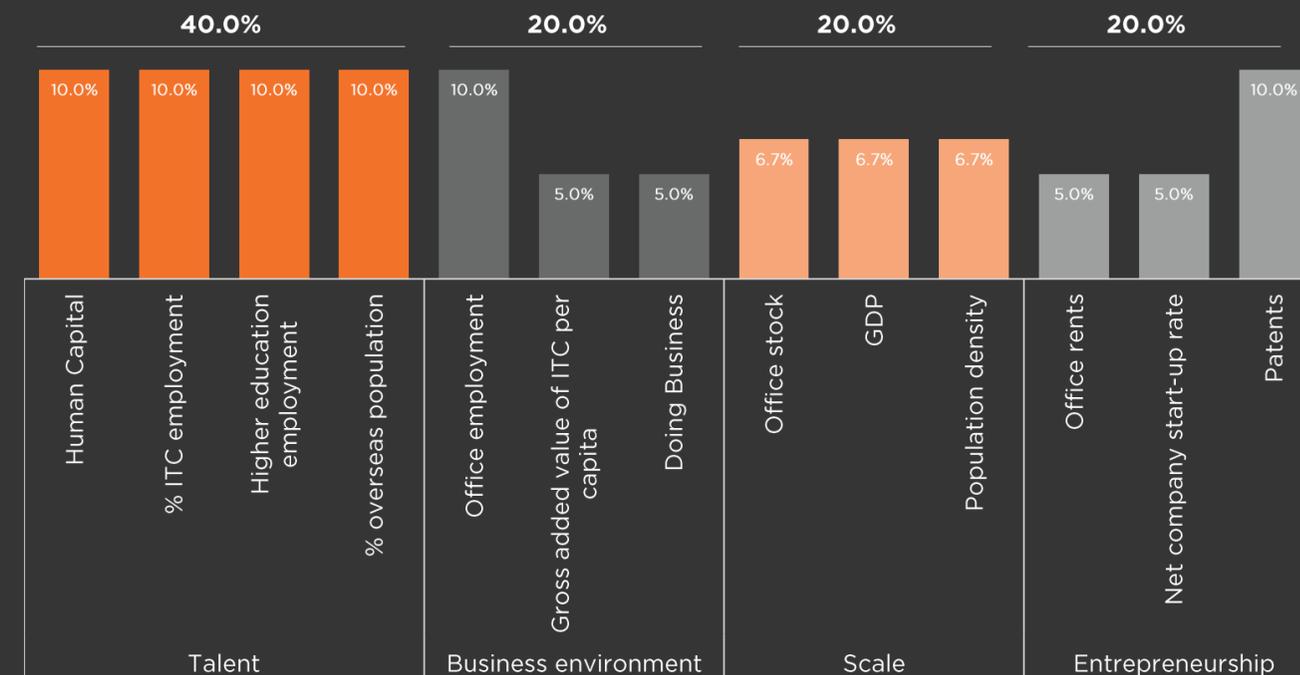
The group of indicators enjoying greatest weighting was **Talent**, in that this forms the basis for collaborative working, coworking and flexible workspaces. The four indicators of this contribute 40% to the final score.

The **Business environment** and **Entrepreneurship** indicators each contribute 22.5% to the score of each city. The first gives an idea of the ease and efficiency of carrying out productive activities within each city. The second indicates how efficient each city is in enabling entrepreneurship and new businesses.

The **Scale** indicators are those contributing least to the final score (17.5%), though give an idea of the *efficiency of the infrastructure supporting flexible workspaces*. The fact that they have a lower weighting is based on their relationship to all businesses rather than just flexible workspaces.

The indices presented here bring together information at a provincial level and down to neighbourhood or census district levels. That is why **big data** management methods have been used here, in that databases consisting of more than 40 million records have been used.

Weightings of indicators in the FPI



FPI Methodology

Category analysis



Talent

Flexible workspaces provide entrepreneurs and the self-employed with a social environment, interaction and community oriented surroundings. They consequently represent an alternative to a home-based office. They have also shown themselves to be particularly attractive for employees in technology, media and communications - industries that typically employ a younger, more dynamic workforce.

In addition, fast-growing companies tend to be start-ups and/or in the technology sector and, in both cases, often have younger staff. The cities skewed towards these three features are able to rapidly adopt flexible workspaces and coworking.

Both the employees of major corporations and start-ups may be entrepreneurs. The former can use this capacity in a plug-and-play style within their workplace, in order to develop projects, teams and staff. The latter can use flexible spaces in their initial, high-growth phases. It is crucial to have a workplace that is rich in both cultural and training terms. As a result, the measures of ITC employment, human capital, the proportion of workers with training and the overseas population are key elements in measuring the contribution of talent to the potential of the flex model.

Indicator	Size	Weighting	Reference year	Source
Human Capital	Untrained or inexperienced workers necessary to replace those who are trained and/or experienced. (workers)	High	2014	IVIE
% ITC employment	Workers in the ITC sector as a % of total employees	High	2018	Oxford Economics
Higher education employment	Workers with university studies, masters degrees or doctorates, as a proportion of total employees (%)	High	Q2-2019	INE (Microdata from the EPA)
% overseas population	Overseas population as a proportion of total (%)	High	2018	INE (Census microdata)

FPI Methodology

Category analysis

Business surroundings

The business climate is another key consideration. Businesses want the adaptability of the flex model and coworking, particularly where the traditional model uses long-term or costly leases. In situations where business conditions and, consequently, staffing levels, change rapidly, the flexibility of coworking and similar formulas may help to maintain agility and competitiveness. Office users will be more open to the flex model in cities with environments favouring business,

an active job market and, in particular, one which favours the demand for workspaces.

A strong value for ITC productive activity will likewise help operators and business people to activate their business. In addition, the *Doing Business* index indicates the ease of starting and running a business. These three indicators reflect three needs for flexible workspaces.

Indicator	Size	Weighting	Reference year	Source
Office employment	Average yearly growth of employment in managerial and administrative posts and in professional services. (%)	High	Q2-2019	INE (Microdata from the EPA)
Gross added value of ITC per capita	Nominal value of production of the ITC sector divided up among the population (€)	Medium-low	2018	Oxford Economics
<i>Doing Business</i> indicator	Compound index that weights the ease of: 1) Starting a business, 2) Construction permits, 3) Acquiring electricity, 4) Property register (index)	Medium-low	2015	World Bank

FPI Methodology

Category analysis

Entrepreneurship

Even a city of sufficient scale, with a proper business climate and persons with talent, needs a proper platform for entrepreneurship to act as a catalyst for the growth of the flexible workspace model. The net start-up rate of companies, numbers of patents and rental prices for business spaces represent clear signals for entrepreneurship.

Unfortunately, the classic indicators of entrepreneurship, such as the number of technology start-ups, online collaboration and business accelerators, are not available at a regional level in Spain. In any event, we can get an appreciation of entrepreneurship using variables that reveal the start-up businesses in the form of new companies and new ideas.

Indicator	Size	Weighting	Reference year	Source
Net company start-up rate	Compound annual growth rate (CAGR) of the number of businesses created minus those closing over the past five years (%)	Average	2014--2018	National Statistics Institute
Patents	Patents per million inhabitants	Average	2018	Ministry of Industry, Tourism and Commerce - Spanish patent and trademark office
Office rents	Average rent for high-quality offices in the city centre (€/sq m/month)	Average	Q3 -2019	Cushman & Wakefield and Idealista

FPI Methodology

Category analysis

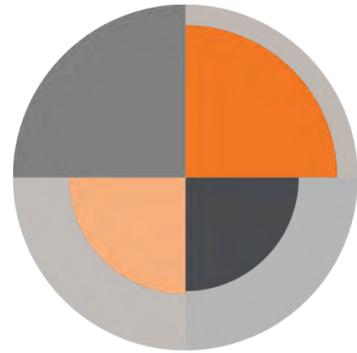
Scale

The scale of infrastructure is highly relevant. If we know the office stock, the level of economic production and demographic pressures, it is possible to evaluate the potential size for the coworking and flexible working space market for a city. It is also possible to determine the critical mass necessary for the sustainable adoption of this model. Madrid and Barcelona are significantly larger than the remaining cities in Spain and,

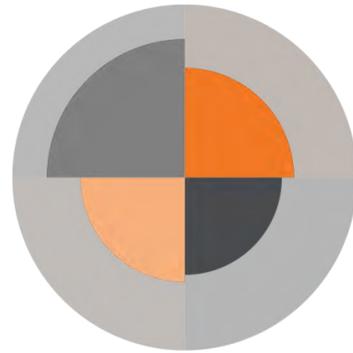
with this in mind, it is to be expected that coworking and flexible workspace operators will focus on these two markets. Cities with considerable office stock and a significant gross domestic product with respect to the average offer an interesting market to operators in terms of the flex model, enabling them to find niches.

Indicator	Size	Weighting	Reference year	Source
Office stock	Gross floor area in sq m for office use. For Madrid and Barcelona, this refers to the gross lettable areas of relevant buildings on the market. For the remainder, it refers to the total area of office buildings (sq m)	Medium-low	2018 and Q3-2019 for Madrid and Barcelona	Cushman & Wakefield and property tax register
GDP	Nominal value of regional production (Euros)	Medium-low	2018	National Statistics Institute
Population density	Population divided between (persons/km ²)	High	2018	National Statistics Institute

MADRID



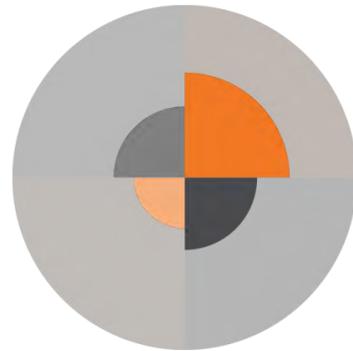
BARCELONA



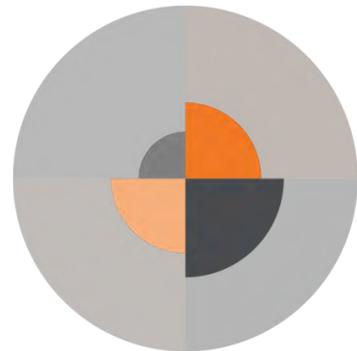
SAN SEBASTIÁN



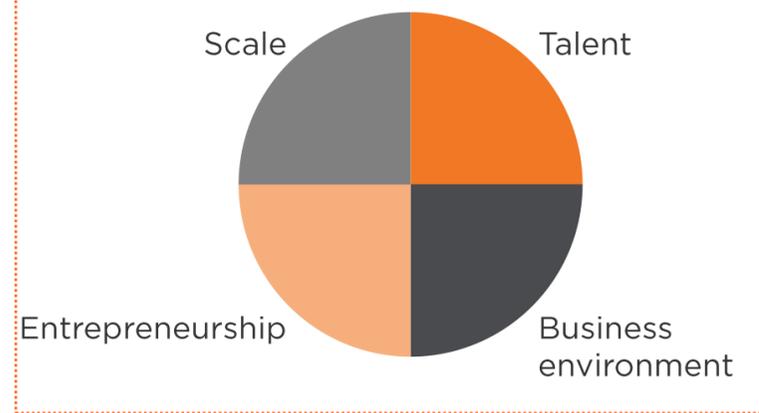
BILBAO



VALENCIA



MEJOR RENDIMIENTO



Category analysis

The best positioned cities in the FPI are Madrid, Barcelona, San Sebastian, Bilbao and Valencia. In relative terms, Madrid and Barcelona are far ahead of the third-placed city, thanks to their contribution to all of the indicators in both per capita terms and with respect to total volume.

Madrid offers the greatest potential for shared spaces, mainly due to variables representing scale and talent. The former are the highest for Spain and the latter perform strongly as a result of its human capital index.

Barcelona occupies second place in terms of the potential for flexible working spaces due to the fact that variables representing scale (office stock, GDP and population density) and entrepreneurship are higher than the average for Spain. It is also noteworthy for measures representing talent and entrepreneurship.

The third city in the ranking, **San Sebastian/Donostia**, shows significant potential for flexible workspace businesses. Among the conditions that it offers, talent and the business climate are amongst the best in Spain. Its figures for scale reduce the relative gap between it and the leaders.

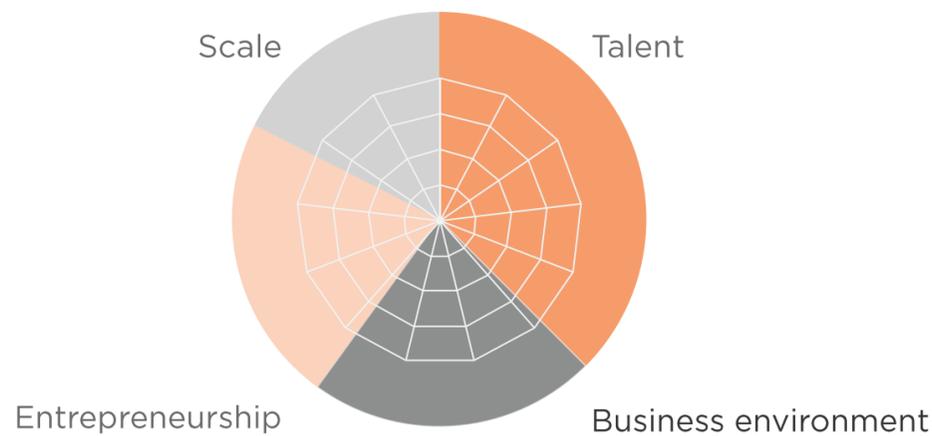
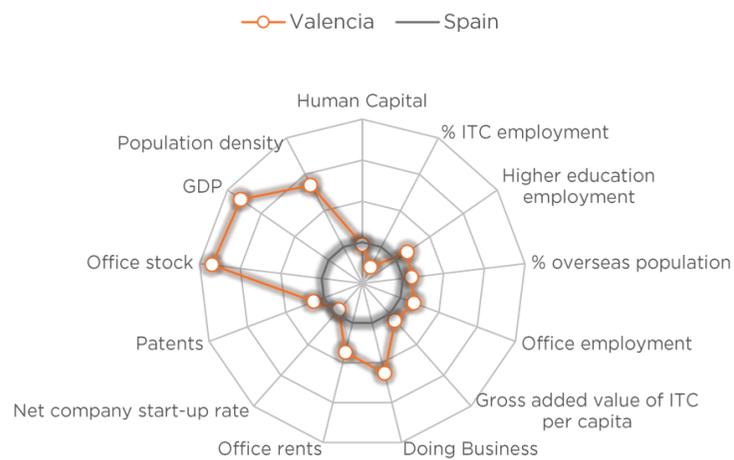
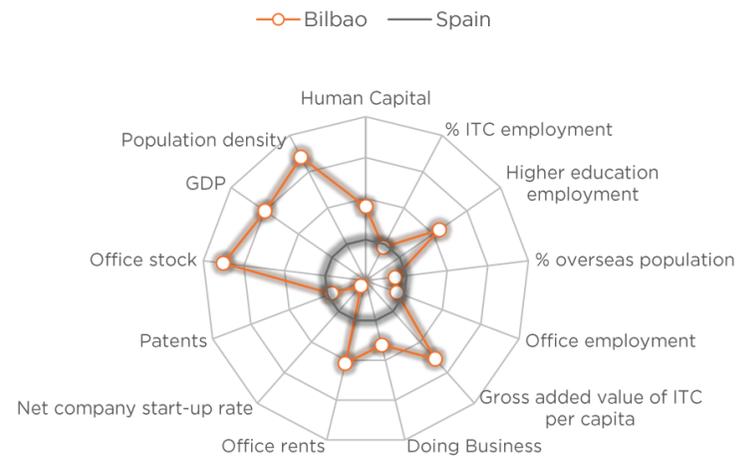
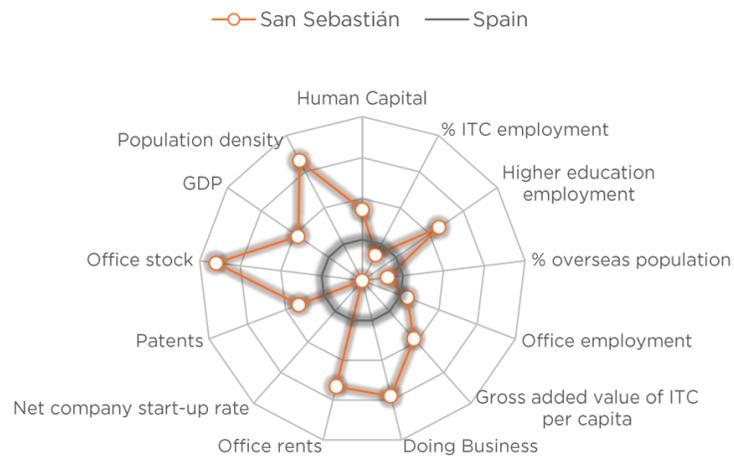
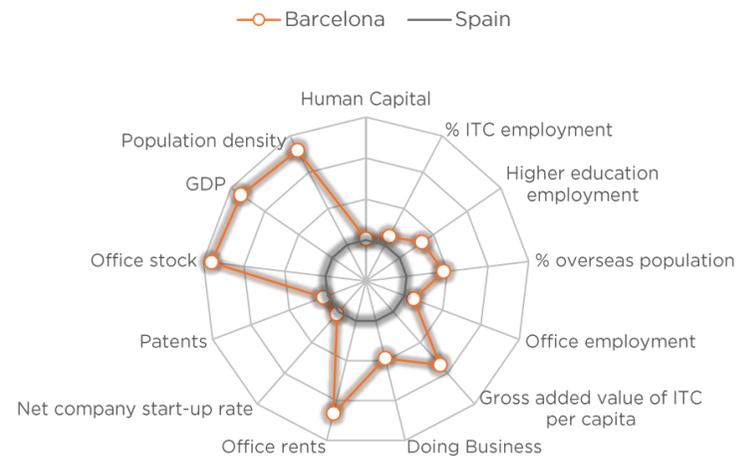
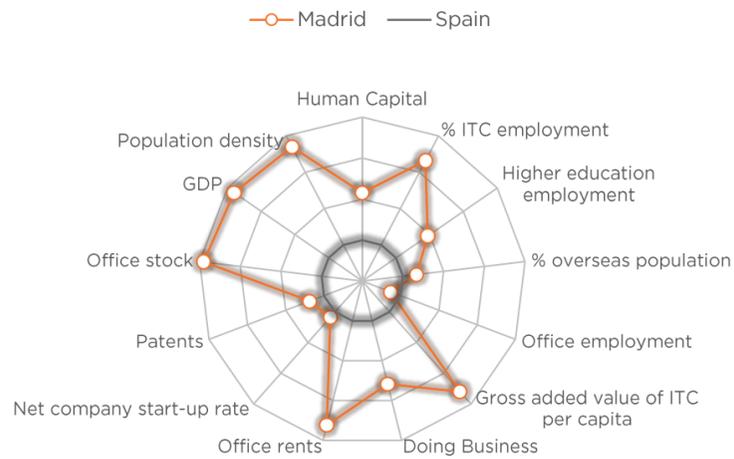
As in the case of San Sebastian, **Bilbao** performs strongly in terms of business climate. Its figures in this category are among the best in Spain. It additionally has better provision than San Sebastian in terms of scale.

Valencia places strongly in terms of the business climate index, taking it to fourth place in the ranking. The performance of Valencia is very close to that of Pamplona, which places sixth in terms of the ranking by category.



Top Performance

The five most dynamic markets for flexible workspaces display individual characteristics that are outlined below. The figures indicate the performance of each of the 13 indicators used for each region and set the context for the average performance in Spain.



Madrid offers the greatest potential for shared working spaces, mainly due to its scale and the contribution of the ITC sector to the measurements of employment and added value. The only variables that are noted regarding the average for Spain are the percentage of overseas population, patents per million inhabitants and the business start-up rate.

Barcelona occupies second place in terms of the potential for flexible working spaces due to the fact that variables representing scale (office stock, GDP and population density) and entrepreneurship are higher than the average for Spain. It is also notable for its proportion of overseas population and strong ranking in the *Doing Business index*.

The third city in the ranking, **San Sebastian/Donostia**, shows significant potential for flexible workspace businesses. It has some of the best positioning in Spain among the Entrepreneurship and Scale conditions and is only below average in terms of the business start-up rate (the number of companies has fallen in recent years) and the proportion of overseas population.

Bilbao positions strongly in terms of the added value of ITC per capita, as well as in terms of a major stock of offices. It ranks third in Spain in the human capital index, positioning it strongly in terms of talent.

Results

Flex Potential Index

		Talent				Business environment			Entrepreneurship			Scale			
		Human Capital	% ITC empl.	Higher education empl.	% overseas population	Office empl.	GAV of ITC per capita	Doing Business	Office rents	Net comp. start-up rate	Patents	Office stock	GDP	Population density	Weighted Scoring
1	Madrid	Greater	Greater	Greater	Middle	Middle	Greater	Greater	Greater	Middle	Greater	Greater	Greater	Greater	Greater
2	Barcelona	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Greater	Middle	Middle	Greater	Greater	Greater	Greater
3	San Sebastián	Middle	Middle	Greater	Middle	Middle	Greater	Middle	Middle	Lower	Middle	Middle	Middle	Middle	Middle
4	Bilbao	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Middle	Lower	Middle	Middle	Middle	Middle	Middle
5	Valencia	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
6	Pamplona	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
7	Alicante	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
8	Vitoria	Greater	Middle	Greater	Middle	Middle	Middle	Middle	Middle	Lower	Middle	Middle	Middle	Middle	Middle
9	Zaragoza	Middle	Middle	Middle	Middle	Middle	Middle	Lower	Middle	Greater	Greater	Middle	Middle	Middle	Middle
10	Sevilla	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
11	P. Mallorca	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
12	Girona	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
13	Málaga	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Middle
14	S.C. Tenerife	Middle	Lower	Middle	Middle	Greater	Middle	Middle	Middle	Greater	Lower	Middle	Middle	Middle	Middle
15	Oviedo	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
16	Tarragona	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Middle	Middle	Lower	Middle	Middle	Middle
17	Logroño	Middle	Middle	Middle	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Middle	Middle	Middle
18	Valladolid	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
19	La Coruña	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
20	Castellón	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
Spain		Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
21	Murcia	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
22	Las Palmas G.C.	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Middle
23	Santander	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
24	Lleida	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
25	Melilla	Middle	Lower	Middle	Greater	Middle	Lower	Middle	Middle	Greater	Lower	Lower	Lower	Lower	Middle
26	Burgos	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
27	Granada	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
28	Vigo	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
29	Huesca	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
30	León	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
31	Segovia	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
32	Guadalajara	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
33	Palencia	Middle	Middle	Middle	Middle	Greater	Middle	Middle	Middle	Middle	Lower	Middle	Middle	Middle	Middle
34	Soria	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
35	Albacete	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
36	Ciudad Real	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
37	Córdoba	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
38	Salamanca	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
39	Teruel	Middle	Middle	Middle	Middle	Greater	Middle	Lower	Middle	Middle	Middle	Middle	Middle	Middle	Middle
40	Cuenca	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
41	Cádiz	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
42	Toledo	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
43	Badajoz	Middle	Middle	Middle	Middle	Middle	Middle	Greater	Lower	Middle	Middle	Middle	Middle	Middle	Middle
44	Ourense	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
45	Ceuta	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
46	Jaén	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
47	Cáceres	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
48	Lugo	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
49	Ávila	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
50	Almería	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
51	Zamora	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle
52	Huelva	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle	Middle

Greater observation

Middle observation

Lower observation

In each column

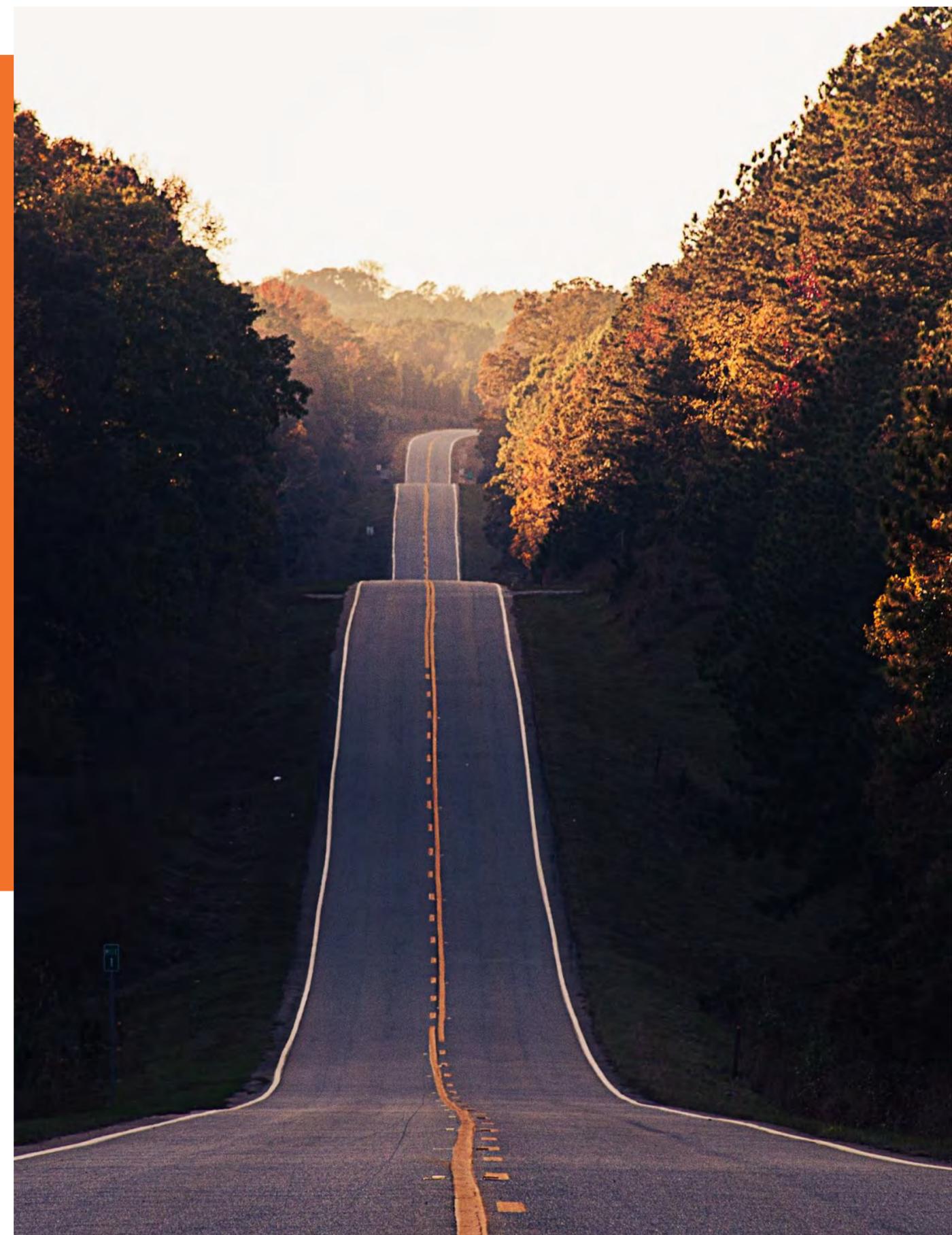
What's next?

The potential of the sector remains indisputable. This report has indicated the dynamics regarding owners, operators and investors that are leading to rapid evolution and the exploitation of this potential. The best sites in Spain have also been revealed and the most developed European markets visited. We can sum up by saying that the 'flex' share of stock will continue to grow, more operators will become landlords and more landlords will become operators. Investors will likewise increasingly accept a greater share of coworking and flexible workspace assets in their portfolios without worrying about the added risk.

The Proworkspaces 2019 survey has revealed that levels of occupancy remain high and that, in general, it is anticipated that this will increase over the short term. Nevertheless, growth expectations regarding prices have moderated and, whereas in 2018 some 44% expected to raise prices, the corresponding figure in 2019 is down to 32%.

The future of workspace, shaped both by flexible and traditional concepts, will come about through:

- **Efficiencies** in space use. This entails less space per employee, whether in traditional offices or coworking and flexible workspaces.
- A trend towards increasing **spaces for socialisation, recreation, concentration and networking**
- **The collection and analysis of Big Data** from connected smart buildings (by means of the Internet of Things) will become increasingly valuable for users, operators and landlords.
- **With greater uncertainties regarding the future workforce size** due to increased automation the demand for flexible workspaces will be strengthened.
- Services for end users, whether provided by operators or landlords, will be reinforced under the concept of **User Experience**, improving the well-being of office employees.





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