Colliers INTERNATIONAL

# THE FLEXIBLE WORKSPACE OUTLOOK REPORT 2019

## APAC

# FOREWORD

2019 will see the flexible workspace sector evolve with new iterations that will continue to disrupt traditional views of what the sector is, and what it can offer building owners and occupiers on a corporate scale as it cements its place as a mainstream real estate asset class, here to stay.

Flexible workspace operators will blur the lines between workspace and amenities, creating value for building owners; lean toward premium workspace design; and continue to pioneer new products to benefit occupiers and, critically, their workforces.

As the shape of occupier demand continues to shift building owners must react and, as part of this, will have to decide whether to self-perform flexible workspace and amenity spaces, or; acquire, invest in or partner with an operator. This decision will hinge on whether a building owner wishes to switch from a transactional business to a service and hospitality business. Real estate will become more experience driven, and the arms-length, light-touch, transactional era is coming to an end. 2019 will be a pivotal year in this respect, where the user experience of the individual employee will drive commercial real estate decision making.

While building owners must react, operators must focus on delivering a product which solves a problem for a building owner and not simply look at partnerships as a way of validating their own concept or mitigating their own risk. Operators must view building owners as strategic partners in order to unlock growth and guard against becoming disrupted themselves.

Over 2018 we saw the highest rate of growth in the sector across the region as a whole, with total space occupied by flexible workspace operators increasing by 35% in Hong Kong, over 40% in Shanghai and continuing its growth in Singapore which has now tripled since 2015. We expect take-up from operators to continue over 2019, though at a slower growth rate as the sector matures and becomes more focused on specific corporate demand rather than speculative growth in the mid-tier of the sector. We also forecast significant M&A activity as the sector matures and consolidates.

**JONATHAN WRIGHT**

Head of Flexible Workspace Services | Asia
+852 9020 9200
Jonathan.Wright@colliers.com

# KEY TRENDS FOR 2019

## AMENITISATION

Commercial office buildings will begin to layer up with occupier-focused amenities that elevate the experience of the end user and allow for greater flexibility and choice.

## PREMIUM DESIGN

The flexible workspace sector will create a better product to align with the demands of the multinational corporation.

## LANDLORD PARTNERSHIPS

Building owners will increasingly become participants in the sector as a way of reacting to shifting demand trends.

## NEW PRODUCTS

New products will be pioneered to satisfy increased demand for flexible workspace from corporate occupiers and continue to change the way real estate is transacted.

## M&A

In the short-term M&A will be driven by smaller local and regional players coming together to create greater coverage, and by operators from the US and EMEA entering the market through local partners.

# AMENITISATION

Amenitisation is a trend we forecast in 2018 – when we suggested the lines between workspace and amenities would blur, and flexible workspace operators would no longer exist in a silo but become part of the building fabric – and we believe this will become mainstream across Asia Pacific in 2019.

### DEVELOPING A VISION

It is key to develop a vision based on elevating tenant experience

### EXECUTING EFFECTIVELY

Determine how best to deliver the vision – self-perform, partner, lease

### ONGOING EVOLUTION

Allow flexibility to evolve the offering as space needs change, set KPIs

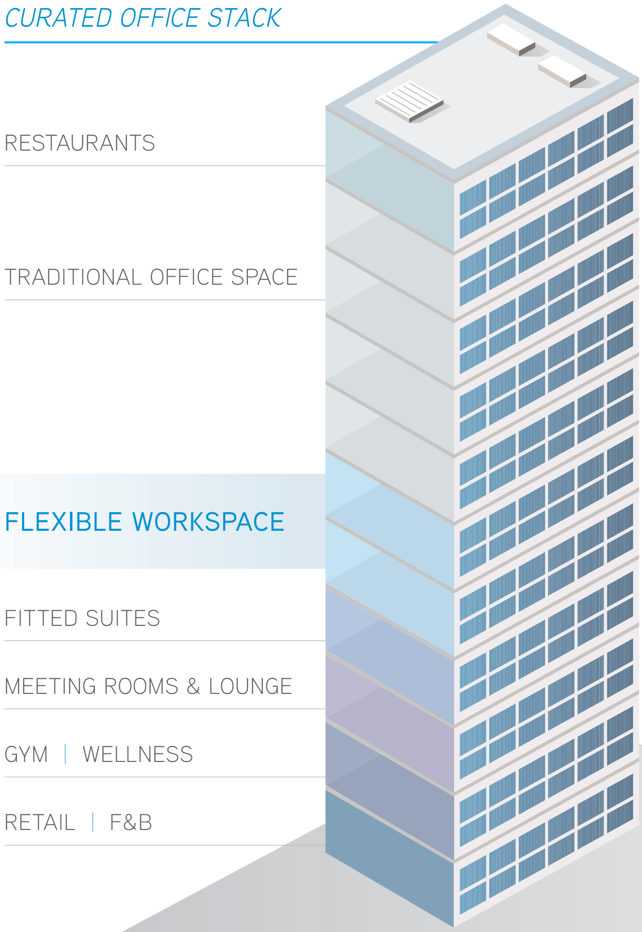
Building owners in Australia have been creating lounge spaces or 'third spaces' in their buildings for several years and we expect these to evolve – with the addition of event spaces, suites of meeting rooms, wellness facilities and F&B – and to be adopted by building owners in Asia.

Building owners will either self-perform or leverage the flexible workspace sector to create a range of amenities to better serve their occupiers and their workforce. The Work Project will be delivering amenity spaces across CapitaLand's portfolio, together with flexible workspace. Hongkong Land is set to launch an owner-operated space with added amenities for occupiers, and Swire Properties has run its own space, Blueprint, for several years.

Operators should continue to build out their offerings and deal structures as this trend could see operators disrupted as providers of these services, as we observe that few can deliver a full range of amenities at this stage. This leaves an opportunity for hotel/hospitality operators to step in to fill the market opportunity given the model is essentially akin to transferring hotel concierge services into commercial real estate.

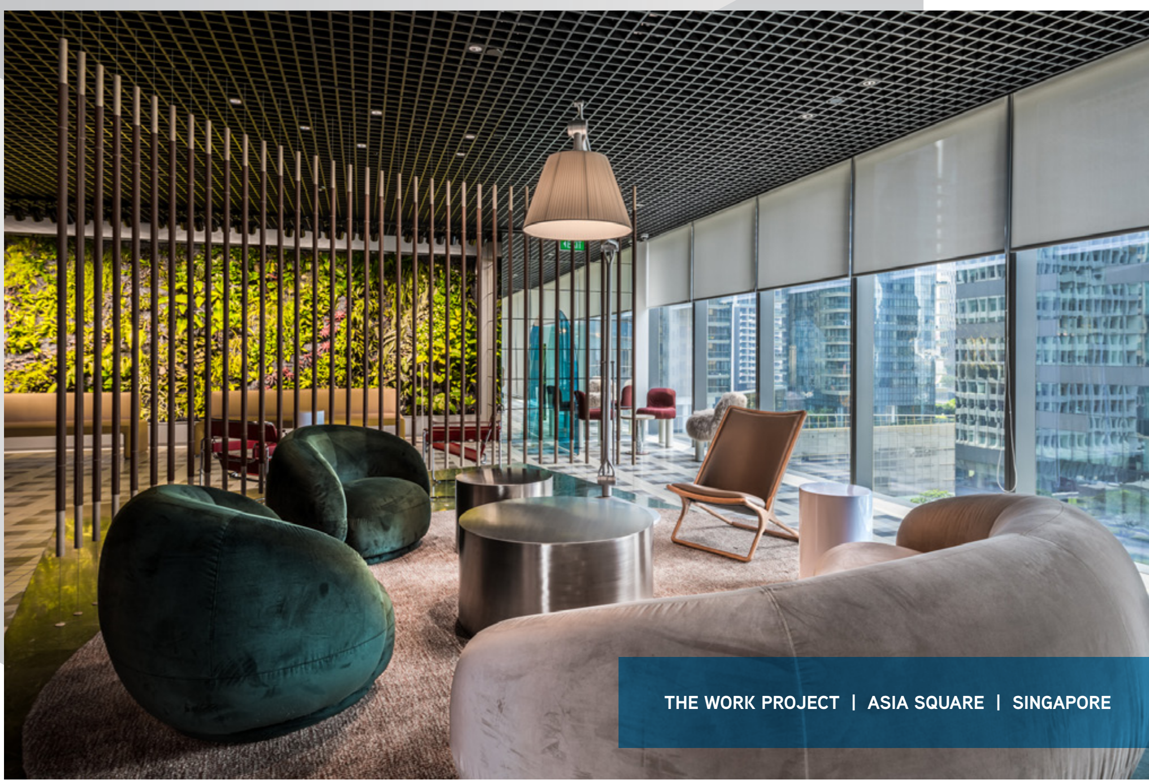
We believe that the amenitisation of office buildings to elevate tenant experience will be a key real estate driver over 2019 and beyond. Folding hospitality elements into the office environment and creating a technology-enabled, amenity-rich outsourcing platform for occupiers will feature heavily in the strategies of building owners.

Building owners will likely lean toward partnerships with operators who can demonstrate a genuine value-add to what the building owner wishes to deliver to occupiers. There is little value in partnering with an operator who is simply in lease arbitrage. Instead the building owner should determine the vision for an asset on a case-by-case basis. Rarely does a portfolio-wide approach work, as every asset has nuances that set it apart. Once the vision has been determined, the building owner should seek the most suitable partner to deliver that vision.




As a portfolio landlord, we take a long term view on placemaking in all of our locations and a crucial part of this is the provision of amenities to support the office stock. Whether operated by us or outsourced to third parties, we always aim to curate a fully integrated mix of these amenities which can respond to our occupiers' lifestyle wants and needs, and therefore enhance the overall tenant experience.

**Henry Bott** | Swire Properties



THE WORK PROJECT | ASIA SQUARE | SINGAPORE

Our focus has always been to provide fully serviced high-end workspaces to professional corporates. Whether large or small, our members demand a quality environment. At The Executive Centre we spend a lot of time developing design and product to meet and exceed the workplace standards of corporate occupiers, and deliver a suite of services to ensure that they can get on with their core business and leave their real estate needs to us.

**Todd Liipfert** | The Executive Centre

# PREMIUM DESIGN

While there is certainly a place for the rough and ready 'coworking' space and the executive serviced office of old, we believe that genuine premium product will rise to prominence in the flexible workspace sector in 2019. Again, this is a trend we also forecast in 2018, but it will become even more relevant and in demand this year as multinational corporations further incorporate flexible workspace into their occupational real estate strategies.

WORK CLUB | BARANGAROO | SYDNEY

FUNCTION OVER FORM
Deliver functionality and comfort

WORK WITH END USERS
Tailor to their space needs and create a balance

Cramming an end user in to a small glass box with cheap furniture is no one's idea of an inspiring workspace and in no way is this conducive to productivity or wellness, only offering a cheap office space to satisfy bottom lines. Occupiers will begin to look at less-tangible metrics such as wellness, staff retention and productivity, rather than the obvious financial benefits of squeezing space densities.

Well-designed space that offers the end user a range of work settings – activity-based working – will become common in newer flexible workspace locations hitting the market and, as occupiers take larger spaces as part of their real estate strategies, this will drive a raising of the bar in workspace design.

The Executive Centre, established for 25 years and one of Asia's more premium operators, has opened 42 new locations in the past two years, while The Work Project is in acquisition mode following its investment from CapitaLand. There are also other premium operators growing in certain markets, such as The Great Room in Singapore and Work Club in Australia, supporting our forecast of growth at the top end of the sector driven by multinational corporations who seek premium product.

Deal structures are slowly changing through deeper landlord partnerships and this should lead to positive steps in 2019, helping building owners and operators convert demand from multinationals as workspace design reaches parity or above against their own leased offices.

# NEW PRODUCTS

We forecast a significant upswing in take up of flexible workspace by multinational corporations in 2018 and this turned out to be an understatement.

WeWork state that 'Enterprise Members' (occupiers with 1,000 employees or more) make up 45% of their member base, while according to The Executive Centre 70% of members across their portfolio are multinational corporations.

Nearly every major occupier is including an element of flexible workspace in their real estate strategy, and how operators choose to tap into and service this demand will determine growth in the sector.

An ever-increasing range of products will make flexible workspace even more accessible and reach greater parts of the commercial real estate industry in 2019. In addition to the usual hot desk, fixed desk and private office options, there are more products coming to market such as those pioneered by WeWork, including WeWork GO, which allows users to pay-as-you-go; Powered by We, which is a standalone design and build concept; and HQ by We, which delivers bespoke solutions.

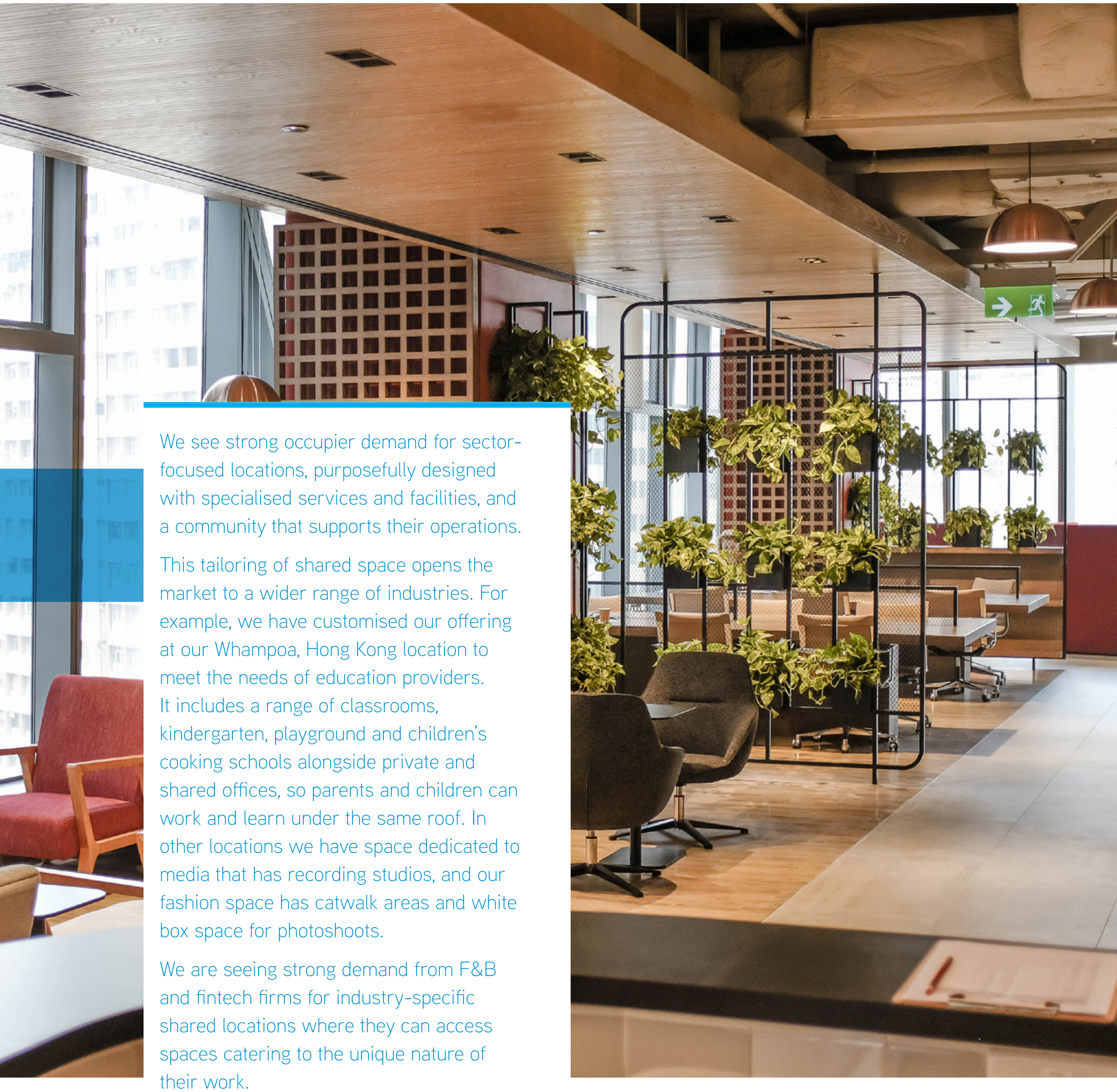
Other operators are offering similar concepts. The Executive Centre has had success with their Enterprise Solutions and Customised Suites products. Building owners have also evolved their products, with Lendlease launching csuites, which offer fully furnished spaces on flexible terms, and Dexus are now offering Suite X. We expect an even greater range of products to hit the market in 2019, driven in part by yet more new entrants to the Asia market from the UK, Europe and the US.

This shift in products is allowing the real estate procurement process to be further streamlined and enabling occupiers to outsource various elements of their real estate portfolio.

There is clear potential for technology to improve the sector, but progress hasn't been as fast as we forecast. Some of the technology being used is basic in nature, with most operators paying only lip service to it and implementation limited. However, we have seen apps for booking meeting rooms and social interactions increase, with some portfolio landlords taking this forward at a broader scale. In Hong Kong, Swire Properties and Hongkong Land are launching apps to connect occupiers in their portfolios, and provide access to services and shared amenities.

## INDUSTRY-CENTRIC SPACE

As the sector matures we foresee industry-specific offerings emerging to offer greater diversity and service differing needs. Campfire has been the leader in this regard to date, with spaces specific to fashion, media, fintech, hospitality and design. We expect to see further locations catering to specific industries going forward, and we may see this model further adopted by landlords looking to create destination assets in their portfolios.



We see strong occupier demand for sector-focused locations, purposefully designed with specialised services and facilities, and a community that supports their operations.

This tailoring of shared space opens the market to a wider range of industries. For example, we have customised our offering at our Whampoa, Hong Kong location to meet the needs of education providers. It includes a range of classrooms, kindergarten, playground and children's cooking schools alongside private and shared offices, so parents and children can work and learn under the same roof. In other locations we have space dedicated to media that has recording studios, and our fashion space has catwalk areas and white box space for photoshoots.

We are seeing strong demand from F&B and fintech firms for industry-specific shared locations where they can access spaces catering to the unique nature of their work.

**Wang Tse** | Campfire

# MERGERS AND ACQUISITIONS

We expect M&A to make headlines in the market throughout the year ahead. 2018 saw WeWork acquire naked Hub, while Ucommune swallowed up seven operators across Mainland China.

In the short term (i.e. the next 24 months) we expect a high level of activity driven by three separate factors – firstly, new entrants from the UK, Europe and the US entering Asia Pacific by way of M&A; secondly, operators in Asia coming together to create higher marriage values and form robust regional offerings; and finally, some operators which are not profitable due to poor unit economics possibly failing and falling out of the picture entirely.

Longer term we expect the sector to consist of four to five global operators, some with multi-brand strategies to capture specific market segments, together with a range of smaller local and regional players. Currently IWG is the only truly global operator; WeWork is heading in this direction and we expect two to three others to emerge, most likely operators that target multinational corporations as their client base, provide a holistic amenity-rich offering, and have operating models that put the building owner at the core of the deal.

M&A in the flexible workspace sector can take many forms – reciprocal membership agreements, strategic partnerships, equity swaps, investment, and true mergers and acquisitions.

Given the unique nature and nuances across many Asia Pacific markets it makes sense for an operator entering the market to leverage operators who already have a strong presence in the region rather than try to forge ahead and import cultures and models that are not accepted locally. Additionally, it makes sense for some smaller operators to create larger offerings by merging.

**WEWORK | ARK HILLS SOUTH | TOKYO**

Asia is the largest market in the world, and across this market there are many nuances that exist country to country and even city to city. It would be ignorant to believe that one business could impose its culture and concept across such a diverse a continent as Asia. At Ucommune we believe strongly in the power of local market knowledge, and that the ability to execute efficiently on a city-by-city basis can be enhanced greatly by the learnings of businesses ingrained in those markets. This is why Ucommune has sought to create strategic partnerships in cities where there is value created by the strong local connections of others.

**Robin Huang** | Ucommune

**UCOMMUNE | DAJIANG HUTONG | BEIJING**

## RECOGNISE MARKET NUANCES

Operators should work together to leverage local knowledge

## SIZE MATTERS

Operators with smaller platforms can create better market coverage through partnerships

## STICK TO WHAT YOU KNOW

Some operators have strengths in certain aspects; sometimes it makes more sense to partner with someone who has these strengths rather than reinvent the wheel independently

## GET READY FOR GLOBAL PLAYERS

Long-term the market will consolidate and be dominated by four to five global operators

# OPERATOR INSIGHTS

We sat down with three operators active in APAC as they reflected on the sector in 2018 and shared their insights in to how 2019 and beyond will shape up.

Interview with

Thomas Sinclair
Group Chief Investment Officer
IWG

**IWG have adopted a multi-brand approach – what were the key drivers to having multiple brands under the one umbrella?**

Fundamentally it's about providing choice for the customer. Over 2.5 million people work in an IWG workspace across 110 countries and we know that flexible workspace is not a one-size-fits-all-solution. Formats and workspaces that work for one company might not necessarily be right for another. Likewise, we see many instances of clients using multiple IWG brands to serve different parts of their organisation.

The multi-brand portfolio also enables IWG to have a broader customer reach and a more precise segmentation, which helps us to stay competitive in the market and solidify our position as the leader in the global workspace industry.

**Which of your brands do you foresee having the greatest growth in APAC?**

We see an opportunity to significantly expand all our brands in the region. In 2018 we grew our total footprint in APAC by c.20% and, over the next 12 months, we already have multiple new openings scoped across five different brands that will increase this a further 20%.

Ultimately, the demand for all types of flexible workspace is still growing as businesses see the opportunity to be more agile, scalable and productive. The recent changes in accounting standards (IFRS 16) also put office space top of mind for CFOs. Finally, one of the most important drivers is the workforce itself. Our own global research shows that employees are now expecting a certain level of workplace flexibility in order to maintain a better work-life balance and avoid unnecessary commuting. It's not just a perk anymore. For example, 82% of our APAC respondents claimed that, when faced with two similar job offers, they would turn down one that didn't offer a flexible working policy. As the demands of the workforce shift, businesses will need to continue to adapt in order to secure the best talent.

**How are IWG positioned to deliver amenities and hospitality elements to office buildings, in addition to just workspace?**

Our core offering is about providing people with workspace that enables a great day at work. What that means really depends on the customer and their specific needs. For some it's a workspace that simply helps them come in and get the job done. Others value additional amenities, like a cafeteria, large coworking areas, community events, or even a health club. We also don't just provide office space 'off the peg.' Many corporate clients work with us to build bespoke workspace solutions within the buildings we occupy.


**Has demand from multinational corporations changed the product IWG delivers?**

Any business of any size wants a workspace that gives employees a great day at work, so that's what we've always tried to deliver.

The key benefits our corporate clients have when working with us are our unrivalled global network, increased financial effectiveness, organisational agility and the ability to have all their workspace needs covered by one consistent and reliable platform.

Besides the workspace itself, over the years we've added a wide range of products and solutions that multinationals have taken advantage of. For instance, our workplace recovery offering enables companies to have a slick, cost-effective way to minimise unforeseen disruption to their business anywhere in the world. This is particularly key in parts of APAC that are prone to large-scale natural disasters and extreme weather.

**Does IWG feel there will be further M&A in the sector over 2019 in APAC?**

There have been a lot of new entrants into the market over the past three to five years, which we think is a very positive sign, but this industry is not one in which it's easy to operate at a high standard and be profitable. That's why we often see a lot of new players struggling – we recently worked with a landlord in China to take on several thousand square metres of space that one competitor had been unable to manage successfully.

At IWG we've made a number of acquisitions over the years and we are resourcing up to make sure we are ready to capitalise on opportunities when we see fit. Our focus in 2019 and for the foreseeable future remains on achieving and sustaining the profitable growth that will allow us to continue investing in the customer experience. To achieve this, we are focusing more closely on partnering deals with property owners and investors.

We are also strongly promoting opportunities for partners to share in the growing success of our network across the world under the franchising model. We recently made headlines by partnering with TKP Corp in Japan to essentially franchise our entire operations in that country. We see this as a very important growth tool for IWG and a fantastic opportunity for investors to share in the success we've built over three decades, and we will be placing even more emphasis on it during 2019 and beyond.

Interview with

## Junny Lee
Founder and CEO
The Work Project

**The Work Project and CapitaLand announced an exciting joint venture partnership in 2018. Can you talk through the drivers from both sides?**

Our joint venture partnership with CapitaLand is the first step towards creating a model that we call the Office of the Future Ecosystem, where together with CapitaLand we can meet the occupier's evolving needs with an integrated offering. Our vision is to offer an office product that is holistic, creates flexibility for occupiers and puts their employees at the centre of the process. Products like core, flex, amenity, enterprise and fitted spaces are being offered in a single package that works well for the occupier commercially and at the same time elevates the experience of their employees.

**How are your product offerings evolving beyond workspace?**

Our product range now includes work, meet and host. Beyond work, there are enormous benefits, both financial and operational, for companies to outsource meeting facilities/services, as well as hosting facilities and services to specialised operators like The Work Project.

The more we deliver this, the more we can also be a major benefit to landlords who seek an operating partner to deliver an improved offering to their occupiers.

**How do you see relationships between landlords and operators changing? How will the lines blur?**

Landlords and operators will collaborate more, and in some cases share in the commercial success of offering flex and core products to occupiers. Today, flex and core are no longer mutually exclusive – many occupiers require a complementary combination of both spaces within their portfolio, and the more we can work in partnership with landlords the more we can integrate the two in to one offering for the benefit of the occupier.

In some cases this requires a mindset shift from landlords, but we feel this is happening. We have a great partner in CapitaLand and are, of course, working with other progressive landlords in the APAC region to support what they offer to occupiers.

**The Work Project has some great multinational corporations as members. How do you see your space being utilised most – for the flex or the core?**

Our mandate is to offer the flex and amenity components, but we are working closely with landlords in order to package these together with their 'core' offerings. We feel it is very important that an integrated product can be offered to occupiers and the two elements do not stand alone.

**The sector moves quickly; what are the key changes you have observed since your launch in 2016?**

There have been two key changes. When we started The Work Project, flexible workspace was considered a siloed standalone product servicing small companies or temporary swing spaces. Today, it is considered a complementary and important piece of any occupier's portfolio.

The second key change is that landlords today are more informed and selective on which operator to partner with for their respective buildings. The flexible workspace operator is no longer just another tenant, it is a partner that is responsible for helping to amenitise an asset, in addition to working with the landlord to develop the placemaking narrative of either an asset or portfolio.

Interview with

## Wang Tse
CEO and Co-Founder
Campfire

## Albert Fung
President and Co-Founder
Campfire

**Campfire are across a number of verticals in the shared economy; how do you see the market for these verticals?**

We see strong occupier demand for sector-focused locations, purposefully designed with specialised services and facilities, and a community that supports their operations.

This tailoring of shared space opens the market to a wider range of industries. For example, we have customised our offering at our Whampoa, Hong Kong location to meet the needs of education providers. It includes a range of classrooms, kindergarten, playground and children's cooking schools alongside private and shared offices, so parents and children can work and learn under the same roof. In other locations we have space dedicated to media that has recording studios, and our fashion space has catwalk areas and white box space for photoshoots.

We are seeing strong demand from F&B and fintech firms for industry-specific shared locations where they can access spaces catering to the unique nature of their business.

**How do you see the flexible workspace sector evolving?**

In the mid to long term, the increased competition between operators will drive innovation and product differentiation. This will lead to improved user experience, making shared space, in general, more attractive and further growing the market.

Equally, occupiers are becoming more sophisticated in their demands and are expecting a more in-depth offering. This is where we feel we can bring value to a landlord to help curate a specific tenant mix.

**How do you balance between creative industries and start-ups on the one hand, and corporate occupiers on the other?**

We've historically pushed the boundaries in our site selection process, often taking space in districts and buildings that are not traditionally considered office locations, such as Wong Chuk Hang (Hong Kong) and Shoreditch (London). This has lent itself naturally to start-ups and the creative industries, while our more traditional office locations, such as Causeway Bay (Hong Kong) and Cecil Street (Singapore) lend themselves to more traditional businesses and larger corporates.

In terms of the balance in any one site, both big and small businesses are attracted to our sector-focused offerings.

**How do Campfire compliment a landlord's offering to their occupiers?**

The cookie cutter approach taken by most of our competitors attracts a wide range of end users, while we have been able to bring a more targeted group of members. This allows the landlord to more accurately shape their tenant mix and building positioning.

All of our landlords have different needs; we work alongside them to ensure our strategies are aligned. Generally, the deeper the landlord partnership, the more successful the space.

**What are your thoughts on the market in terms of consolidation?**

We see this as being inevitable. As users become more sophisticated and demand more, operators can only compete on price or differentiation of offering. In the longer term, it will really come down to user experience – if coming together with another operator enhances that, then everyone wins.

# LANDLORD VIEWS

Two landlords with exposure to the flexible workspace sector share their view on how they leverage the sector to enhance the performance of their assets.

Interview with

Filipe Leung
Assistant General Manager
Asset Management
LinkREIT

**Link REIT, in Hong Kong, has both IWG and WeWork secured as tenants of their assets – what were the drivers to bringing in flexible workspace operators?**

With IWG and WeWork as tenants of our 700 Nathan Road and The Quayside, first of all, they house a variety of businesses and bring desirable/stable foot traffic to our buildings – making it a more vibrant work environment. In addition, flexible workspace nurture future tenants for the office buildings they are in and bring in a constant stream of prospects to the portfolio. Furthermore, flexible workspaces can help a landlord to provide a variety of value added services to the office tenants, including meeting facilities, events management and help building a community within the building.

**Does Link REIT see flexible workspace operators as a value add to an asset?**

Flexible workspace provides a more vibrant work environment by bringing in a much wider spectrum of businesses into the building. Flexible workspace operators help with event programming in the building which creates a solid program for tenants within their spaces and across the wider building – this adds value to our assets, in addition they are a great way for our tenants to outsource certain aspects of their real estate, for example workplace solutions, meeting rooms, conference facilities that will in turn, maximise our tenants' space efficiency, lower their occupancy cost, and lower their barrier to move into the building. These things help make our assets attractive.

**Would Link REIT ever consider partnering more closely with operators rather than simply a landlord/ tenant relationship?**

Flexible workspace operators bring a novel approach to the work environment in turn will help building a community within an asset. Landlords need to adapt and this creates opportunities to potentially develop relationships beyond the traditional landlord/tenant one.

**How have your tenants responded to having operators within your assets?**

The tenants in 700 Nathan Road and The Quayside have welcomed the presence of a flexible workplace operator in the buildings, not least because the operators are top-class in their field. As said above, these operators can help our tenants' workplace issues by providing solutions to their ad-hoc spaces needs, maximizing their space utilization and lower their long-term occupancy cost.

Interview with

## Michael Cook

Group Executive
Investa

### As a landlord, what do you feel is a healthy percentage of your portfolio to dedicate to flexible workspace?

Five to seven percent. We believe that good flexible workspace operators can be the 'lungs' of an office building, providing both temporary space on demand and permanent expansion space to our tenants. We can see a future in which flexible workspace operators will occupy between one and four floors in nearly all our buildings.

### What form do you see flex space taking over the next 24 months: Managed suites, traditional serviced offices, coworking, amenities (lounge space, on-demand meeting and event space, etc.)?

In our portfolio, we see flexible workspace moving towards larger space commitments than the one to two floors that traditional serviced office operators would take up. International operators such as IWG and WeWork tend to take up larger spaces, which is important to capture increasing corporate demand. This said, there is room for a range of operators with different products as the market appears fairly crowded in the middle tier.

Operators that can offer us, as a landlord, a range of amenities will be preferred as that meets the needs of the types of occupiers we have in our portfolio.

### Does Investa see flex space as an essential building amenity?

In larger assets, say over 400,000 sq ft, we see flexible workspace as providing an essential amenity to our tenants. Flexible workspace operators provide on demand expansion or project space and help make our buildings more attractive as they can allow occupiers to take less space, knowing that that extra meeting room or ad-hoc expansion space can be taken for short periods with minimal lead time. However, it is important that the operator matches the building profile and we take great care in ensuring a good fit.

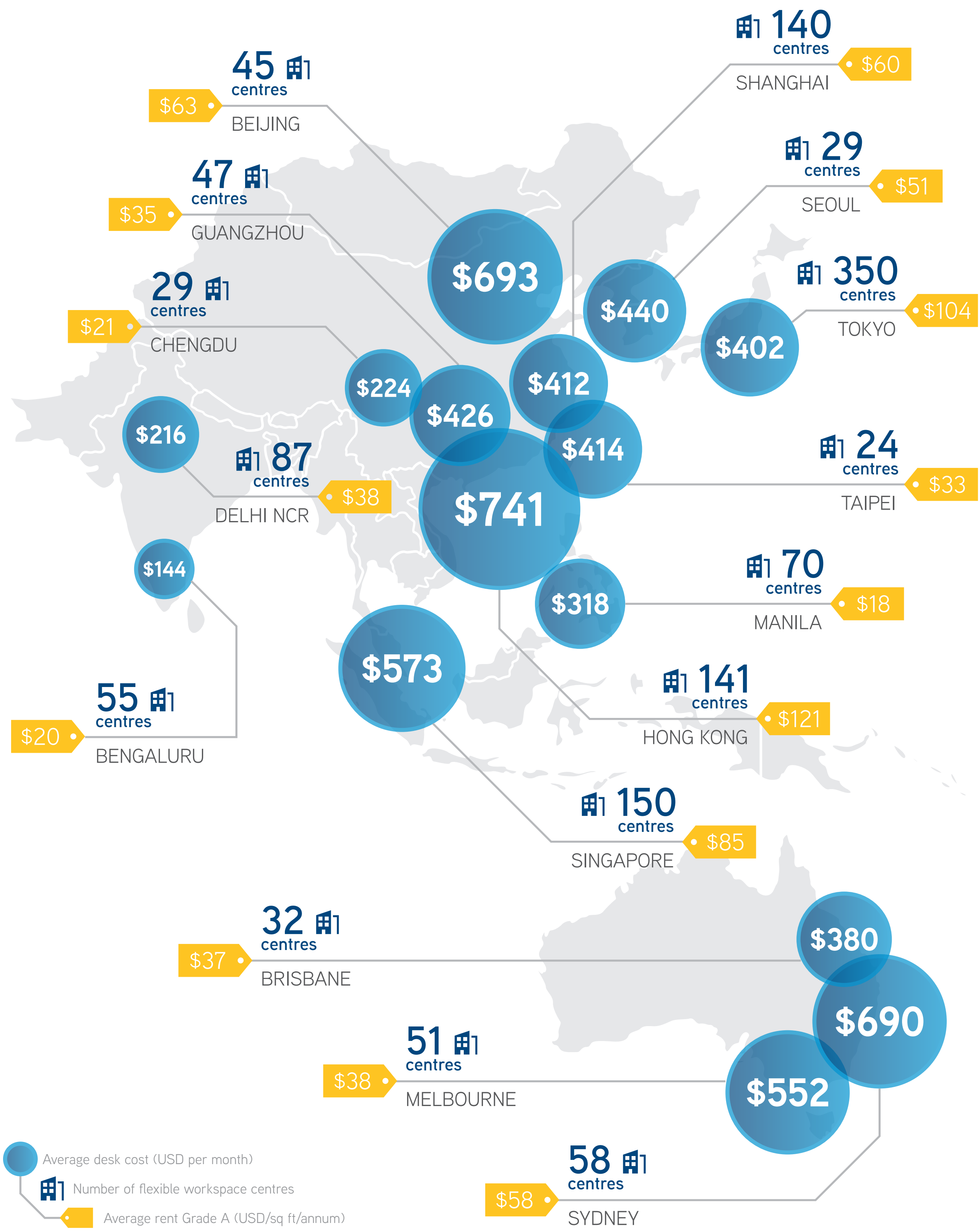
### How have your occupiers reacted to the space you have brought in to your assets?

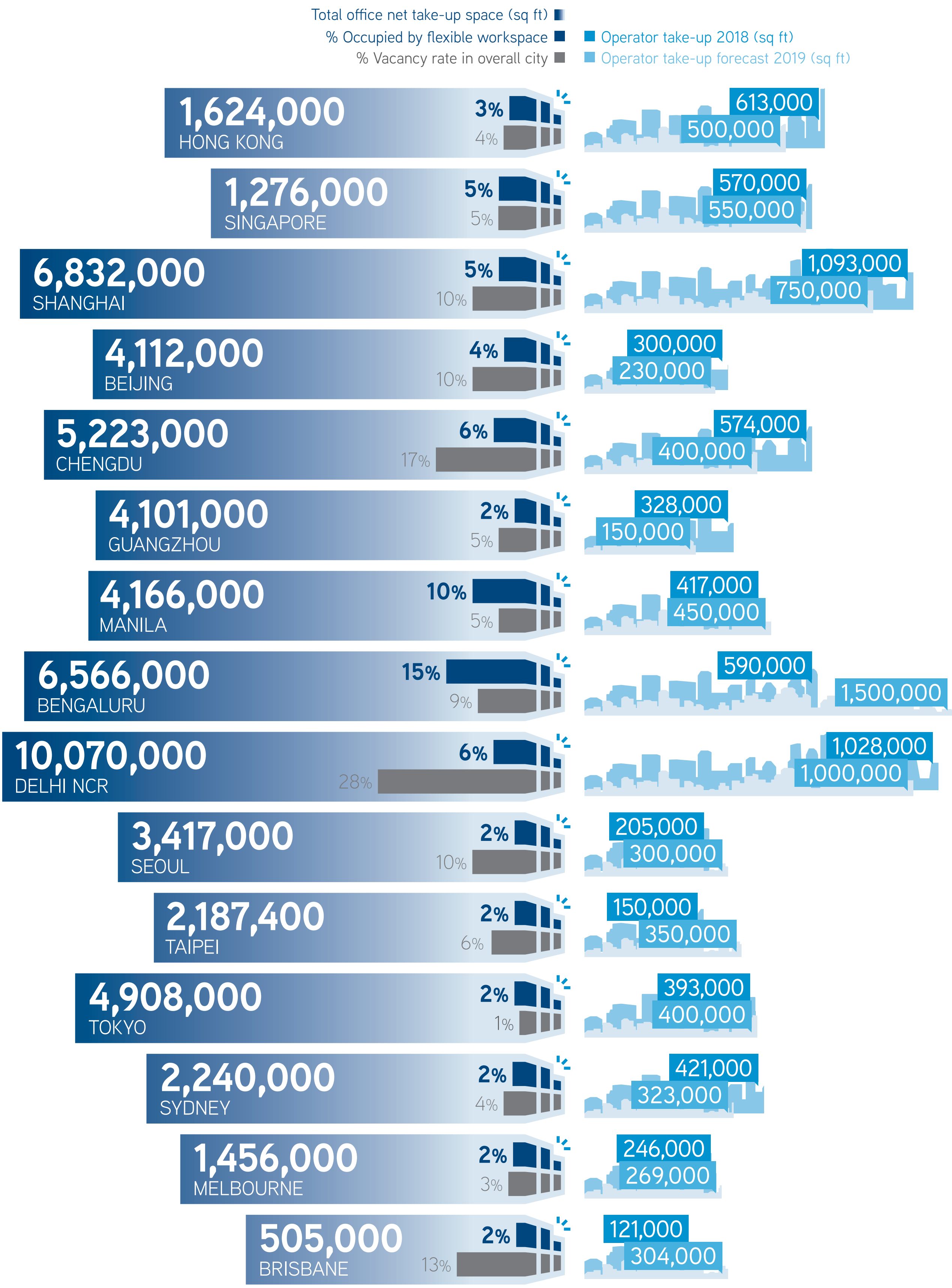
While we have no metrics on this, we have observed that when in negotiations for space in our new 60 Martin Place development in Sydney, a lot of prospective tenants have enquired about the provision of flexible workspace, and it is certainly on most occupiers' minds when selecting a building for their offices.

### What types of deals would you look to do with operators, and what forms your operator selection process?

We will continue to seek operators on a case-by-case basis. Each of our buildings is very different, and attracts different types of tenants and has locational dynamics that set it apart from others in our portfolio. Some flexible workspace operators lend themselves to being located in more prestigious or 'corporate' buildings, while other operators are more 'edgy', requiring buildings and locations which are less mainstream.

# MARKET SNAPSHOT





Total office net take-up space (sq ft)
% Occupied by flexible workspace
% Vacancy rate in overall city
Operator take-up 2018 (sq ft)
Operator take-up forecast 2019 (sq ft)
1,624,000
HONG KONG
3%
4%
613,000
500,000
1,276,000
SINGAPORE
5%
5%
570,000
550,000
6,832,000
SHANGHAI
5%
10%
1,093,000
750,000
4,112,000
BEIJING
4%
10%
300,000
230,000
5,223,000
CHENGDU
6%
17%
574,000
400,000
4,101,000
GUANGZHOU
2%
5%
328,000
150,000
4,166,000
MANILA
10%
5%
417,000
450,000
6,566,000
BENGALURU
15%
9%
590,000
1,500,000
10,070,000
DELHI NCR
6%
28%
1,028,000
1,000,000
3,417,000
SEOUL
2%
10%
205,000
300,000
2,187,400
TAIPEI
2%
6%
150,000
350,000
4,908,000
TOKYO
2%
1%
393,000
400,000
2,240,000
SYDNEY
2%
4%
421,000
323,000
1,456,000
MELBOURNE
2%
3%
246,000
269,000
505,000
BRISBANE
2%
13%
121,000
304,000

# HONG KONG

**SAYAKA MATSUMOTO**
Associate Director
+852 2822 0745
Sayaka.Matsumoto@colliers.com

## 2018 OVERVIEW

With approximately 900,000 sq ft of new flexible workspace transacted, 2018 was a record year for Hong Kong – increasing the total space in the sector by 35%. The overarching trend was landlord sentiment softening towards flexible workspace. While landlords remain conservative, most major landlords are now open to leasing space to the right operator, with Hysan, Sun Hung Kai and Swire Properties all increasing their exposure to flexible workspace over the year.

Notable in their expansion were WeWork, who secured space in four new locations and added three further locations due to the acquisition of naked Hub – meaning it added 231,066 sq ft of new space to the market and acquired 124,000 sq ft, ending the year with a total of 505,000 sq ft in Hong Kong. Meanwhile, IWG added three new locations for its Spaces brand.

Local operator Campfire continued their expansion by adding two locations in Quarry Bay, expanding in their Wong Chuk Hang location and securing a new multi-purpose space in Hung Hom. Another local operator, Garage Society, added two further locations in Sheung Wan and Wan Chai.

The Executive Centre cemented their position as the leading premium operator in Hong Kong by adding Prosperity Tower and Champion Tower to their portfolio. New entrant The Great Room entered Hong Kong with a lease of one floor in Swire's flagship development One Taikoo Place, while premium PRC operator Atlas opted to set up their first location in West Kowloon, taking up space in Gateway.

## 2019 OUTLOOK

2019 is expected to be slower in terms of operator take-up. However, WeWork are expected to continue expansion with an estimated 650,000 sq ft in their pipeline, and with operators from UK, Europe and the US looking at the market we expect take-up to remain robust.

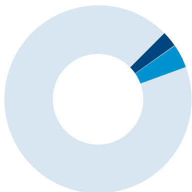
We expect landlords to review their positions on flexible workspace over 2019 and 2020 with the aim of enhancing the attractiveness of their assets, and we should see more creative deal structures being transacted.

In respect of occupiers, with an increased level of space on the market and innovative products being launched we expect demand from multinational corporations to continue to drive occupancy.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | LKF Tower | Central | 84,000 |
| Campfire | Harbourfront Landmark | Hung Hom | 77,000 |
| Campfire | Remex Centre | Wong Chuk Hang | 63,258 |
| WeWork | Lee Garden One | Causeway Bay | 60,200 |
| naked Hub | Two Harbour Square | Kwun Tong | 55,900 |
| WeWork | Cityplaza Three | Taikoo Shing | 54,000 |
| Atlas | Sun Life Tower | Tsim Sha Tsui | 47,211 |
| The Executive Centre | Champion Tower | Central | 34,297 |
| IWG (Spaces) | AXA Southside | Wong Chuk Hang | 34,000 |
| WeWork | Hysan Place | Causeway Bay | 32,866 |

## MARKET DATA (HONG KONG ISLAND ONLY)



3% | Occupied by flexible workspace
4% | Vacancy rate
93% | Others

**Number of flexible workspace centres**
141 centres
Grade A & B

**Average desk cost**
(USD/month)
$741

**Average rent Grade A**
(USD/sq ft/annum)
$121

Total office gross take-up space 2018: 1,624,000 sq ft
Operator take-up 2018: 613,000 sq ft
Operator take-up forecast 2019: 500,000 sq ft

**BASTIAAN VAN BEIJSTERVELDT**
Director
+65 9163 0494
Bastiaan.vb@colliers.com

# SINGAPORE

## 2018 OVERVIEW

Singapore is considered the most mature market in Asia for flexible workspace and in 2018 registered another record year in terms of take-up. WeWork continued to expand in the market and was the most aggressive of the operators. However, several local operators made significant strides – JustCo's investment from Frasers and GIC has accelerated growth, and The Work Project and The Great Room are delivering premium, hospitality-driven product across the market.

The flexible workspace market in Singapore has been largely concentrated in the core CBD within Grade A buildings. However, as the market has grown operators have sought opportunities in fringe locations such as Tanjong Pagar and Orchard Road.

Landlords have increased exposure to flexible workspace over 2018 and in the cases of Ascendas, Frasers, GIC and CapitaLand, have made significant investments as well as leased space in their portfolios.

## 2019 OUTLOOK

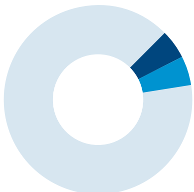
We expect take-up to continue and deeper partnerships to form with landlords. We should see M&A take place, especially with international operators looking at leveraging local market knowledge as a way of entering the market.

Strong demand from multinational corporations taking up space, particularly with large operators, will continue to underpin the sector.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | Raffles Place | MYP Centre | 95,000 |
| Campfire | Tanjong Pagar | 139 Cecil | 85,000 |
| IWG (Signature) | Raffles Place | Asia Square Tower 1 | 71,000 |
| WeWork | City Hall | Funan | 70,000 |
| WeWork | Raffles Place | Manulife Tower | 60,000 |
| IWG (Spaces) | City Fringe | Paya Lebar Quarter | 52,000 |
| The Work Project | Raffles Place | Asia Square Tower 2 | 41,000 |
| IWG (Spaces) | Orchard | TripleOne Somerset | 35,000 |
| JustCo | Raffles Place | China Square Central | 34,000 |
| WeWork | Raffles Place | City House | 34,000 |

## MARKET DATA (MAJOR BUSINESS DISTRICTS ONLY)



5% | Occupied by flexible workspace
5% | Vacancy rate
90% | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 150 centres | (USD/month) $573 | (USD/sq ft/annum) $85 |

Total office net take-up space 2018: 1,276,000 sq ft

Operator take-up 2018: 570,000 sq ft

Operator take-up forecast 2019: 550,000 sq ft

# SHANGHAI


**LEON ZHU**
Senior Director
+86 21 6141 4366
Leon.Zhu@colliers.com


## 2018 OVERVIEW

The flexible workspace market in Shanghai had a rollercoaster year in 2018 – operators slowed down expansion during the second half as the subdued economy and deleveraging policy put pressure on their financing. The city's overall Grade A office net take-up in the CBDs was about 634,000 sq m (6.82 million sq ft), of which total about 16% came from flexible workspace. End-user acquisition and space digesting became the theme of the market towards the end of the year. Corporate occupiers increasingly formed the major demand source, and operators launched new services to catch the trend, including "HQ by We" (WeWork) and "HQ by Atlas" (Atlas).

## 2019 OUTLOOK

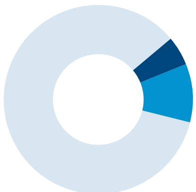
In 2019, as overall economy should stay slow, flexible workspace is likely to have a year of correction and digestion. We foresee that lifting occupation and revenue streams will be the major focuses for operators, and competition over end-users should stay fierce. That said, some leading operators with deep pockets will not stop expanding. Since emerging decentralised office clusters should receive about 2.0 million sq m (21.5 million sq ft) of new office supply, operators are likely to select high quality buildings to be expansion targets.

This upswing in supply should lead to creative partnerships being formed to increase the attractiveness of assets.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | Lujiazui, Pudong | Lujiazui Financial Holdings Plaza | 172,200 |
| WeWork | Jing'an | Yueshang Plaza | 75,350 |
| KrSpace | Huangpu | Ocean Tower | 68,200 |
| Atlas | Hongkou | APP Centre (Magnolia) | 51,700 |
| Distrii | Lujiazui, Pudong | BRICS | 48,400 |
| Funwork | Changning | Global Harbour | 48,400 |
| KrSpace | Huangpu | Raffles City | 37,700 |
| WeWork | Lujiazui, Pudong | HSBC Tower | 24,760 |

## MARKET DATA (CBD ONLY)

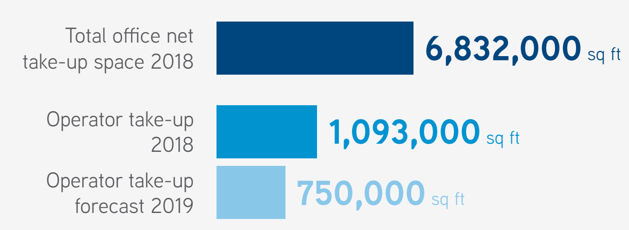


**5%** | Occupied by flexible workspace
**10%** | Vacancy rate
**85%** | Others

**Number of flexible workspace centres**
140 centres

**Average desk cost**
(USD/month)
$412

**Average rent Grade A**
(USD/sq ft/annum)
$60



# BEIJING

**JASON LIU**
Director
+86 10 8518 1633 ext 110
Jason.Liu@colliers.com

## 2018 OVERVIEW

Prior to 2018, flexible workspace operators in Beijing were more active in Grade B office buildings. In 2018, we saw more operators enter Grade A office buildings in prime locations. With a number of large transactions, the rapidly growing flexible workspace sector has become one of the main demand drivers for Beijing's Grade A office market.

Landlords are receptive to operators taking up space in their portfolios and have, in some instances, engaged in partnerships with operators. However, some local landlords have created their own offerings, including COFCO Property's COFCO FANTASY at COFCO Plaza, and China Overseas' Officezip at China Overseas Property Plaza.

Two emerging submarkets, Wangjing and AGV & Olympic Park, were favoured by flexible workspace operators due to competitive rents and ample vacant space. However, several operators were determined to open in the CBD and Financial Street submarkets, where rents are much higher than the city average.

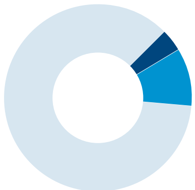
## 2019 OUTLOOK

We believe that the flexible workspace sector will remain an important demand driver for Beijing's office market. However, following the eight mergers of flexible workspace operators in 2018, and taking account of China's deleveraging policies, we also believe that the sector's expansion will slow in 2019.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| Kr Space | Financial Street | Haixia International Centre | 107,640 |
| FUNWORK | AGV & Olympic Park | Pangu Plaza | 86,110 |
| WeWork | Wangjing | NUO Centre | 81,375 |
| Atlas | CBD | CP Centre | 51,670 |
| Anshu Space | Financial Street | ChemSunny World Trade Centre | 35,520 |

## MARKET DATA (MAJOR BUSINESS DISTRICTS ONLY)



**4%** | Occupied by flexible workspace
**10%** | Vacancy rate
**86%** | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 45 centres | (USD/month) $693 | (USD/sq ft/annum) $63 |

| | |
|---|---|
| Total office net take-up space 2018 | 4,112,000 sq ft |
| Operator take-up 2018 | 300,000 sq ft |
| Operator take-up forecast 2019 | 230,000 sq ft |

# CHENGDU


**LIYA YE**
Senior Associate Director
+86 28 8658 6288 ext 5820
Liya.Ye@colliers.com


## 2018 OVERVIEW

Flexible workspace operators continued to expand in Chengdu in 2018, and their presence has significantly changed the landscape for traditional offices. Initially the expansion came from local operators, but starting from 2018, more well-known national and international operators including WeWork, SOHO 3Q and My Dream Plus have entered Chengdu, diversifying the options for occupiers.

Due to the preference of flexible workspace operators for high-quality office buildings, flexible workspace expansion has mostly taken place in Grade A offices and core business districts.

Landlords have generally been receptive to leasing space to operators due to high vacancy rates in the city.

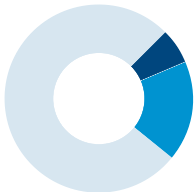
## 2019 OUTLOOK

We expect that the operational risks of flexible workspaces in Chengdu will rise in 2019. Firstly, due to an improved occupancy rate, Grade A office landlords are asking higher rents for flexible workplaces. However, since the higher rental costs of flexible workspaces are hard to transfer into higher sublease rents or membership fees, we expect to see a decrease in demand from cost-sensitive SMEs, which have been the key source of demand for flexible workspace in the Chengdu market. Lower demand will likely compress profit margins for flexible workspace operators. Secondly, after several years of fast expansion, we believe that the Chengdu flexible workspace market is almost saturated. We believe that the expansion and profitability of flexible workspace operators will be compromised in 2019 in light of the limited available space, higher office rental costs and likely greater difficulty in attracting customers.

## MAJOR DEALS

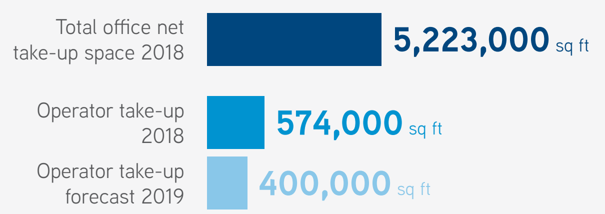
| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| My Dream+ | Hi-tech Zone | OCG International Center | 161,460 |
| WeWork | CBD | Pinnacle One | 64,585 |
| My Dream+ | Hi-tech Zone | World Financial Center | 64,585 |
| WeWork | CBD | Leading Center | 43,055 |

## MARKET DATA (MAJOR BUSINESS DISTRICTS ONLY)



6% | Occupied by flexible workspace
17% | Vacancy rate
77% | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 29 centres | (USD/month) $224 | (USD/sq ft/annum) $21 |



# GUANGZHOU

**ALAN FUNG**
Managing Director
+86 20 3819 3998
Alan.fung@colliers.com

## 2018 OVERVIEW

Being the provincial capital and talent hub of the Pearl River Delta region, Guangzhou has been a popular city for multinational corporations, professionals and start-ups, supporting the demand for flexible workspace. As of end-2018, Guangzhou's flexible workspace market was dominated by three operators: Atlas, Left Nest and IWG's Regus brand, which occupied a combined area of over 545,800 sq ft in the city.

In 2018, new regional and international flexible workspace operators showed rising interest and entered the Guangzhou market. FUNWORK and WeWork took up four locations in CBD and Yuexiu, with a total of 267,600 sq ft. In addition, local landlords started operating their own brands, with Yuexiu and KWG launching Yue Space and Cohesion in 2018 respectively.

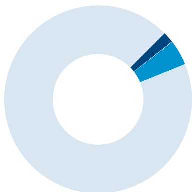
## 2019 OUTLOOK

Looking ahead in 2019, we expect local and international operators to slow their pace of expansion due to increasing occupancy costs and limited leasable space in the Guangzhou office market, with a tight vacancy rate of below 5% across the city (though we expect new supply later in the year). In fact, the flexible workspace market entered an integration stage in late-2018, and we expect flexible workspace operators to take a wait-and-see attitude until global economic uncertainties start to clear and more scheduled new supply enters the office market.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | Yuexiu | Riverside Business Complex Center | 77,500 |
| WeWork | Yuexiu | Dama Station Business Center | 75,350 |
| FUNWORK | PRNC | Top Plaza | 60,278 |
| WeWork | PRNC | Yuexiu Financial Tower | 53,820 |
| TEC | PRNC | CTF Finance Center | 38,750 |
| Kr Space | PRNC | Top Plaza | 29,065 |

## MARKET DATA (MAJOR BUSINESS DISTRICTS ONLY)



**2%** | Occupied by flexible workspace
**5%** | Vacancy rate
**93%** | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 47 centres | (USD/month) $426 | (USD/sq ft/annum) $35 |

Total office net take-up space 2018: **4,101,000** sq ft

Operator take-up 2018: **328,000** sq ft

Operator take-up forecast 2019: **150,000** sq ft

**MARICRIS SARINO-JOSON**
Director
+63 2 858 9015
Maricris.Sarino@colliers.com

# MANILA

## 2018 OVERVIEW

The tight Metro Manila office market, coupled with the emergence of a mobile workforce and multinational corporations looking to bring down operating costs and provide flexibility to their employees, has given rise to another office sub-segment – flexible workspace. The segment's growth has been supported by the improvement of the country's IT infrastructure, especially after the entry of a third telecommunications company committed to improving nationwide broadband connectivity.

In 2018, Colliers recorded flexible workspace supply of about 3.8 million sq ft, up 14% from 3.2 million sq ft in 2017. This accounts for about 3.2% of the total Metro Manila office supply. Among the foreign players already in Manila are Common Ground and WeWork. Meanwhile, among the Philippine developers that have ventured into the flexible workspace business are Ayala Land and Robinsons Land.

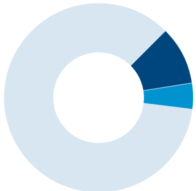
## 2019 OUTLOOK

We see Manila's flexible workspace area expanding by at least 10% per annum over the next three years due to the continued rise of micro, small and medium enterprises; the influx of multinational corporations and outsourcing firms looking for plug-and-play offices; and the implementation of a set of policy reforms likely to improve the business climate.

## MAJOR DEALS

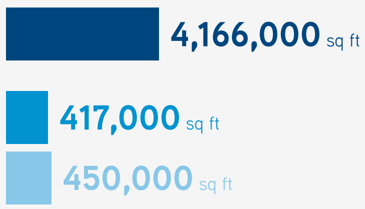
| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| Figari | BGC | The Curve | 86,112 |
| WeWork | North Bonifacio | Uptown Place Tower Three | 44,132 |
| KMC Solutions | BGC | Ore Central | 35,520 |
| KMC Solutions | Alabang | One Griffinstone | 35,520 |
| Common Ground | Makati Fringe | 8 Rockwell | 19,375 |
| Launchpad | Alabang | One Griffinstone | 8,610 |

## MARKET DATA (CBD ONLY)



10% | Occupied by flexible workspace
5% | Vacancy rate
85% | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 70 centres | (USD/month) $318 | (USD/sq ft/annum) $18 |



# SYDNEY


**ROWAN HUMPHREYS**
Director
+61 2 9257 0358
Rowan.Humphreys@colliers.com


## 2018 OVERVIEW

Despite near record-low vacancy and limited availability, 2018 saw an explosion of deals in the Sydney CBD with some 420,000 sq ft of transactions concluded (including several pre-commitments for buildings yet to be completed), representing a 47% increase in the size of the flexible workspace market.

WeWork continued their aggressive expansion, completing five significant CBD transactions (accounting for 75% of the space secured by operators) which included the acquisition of naked Hub, who had only just committed to lease the whole of 66 King Street from the Potter George Group. WorkClub opened two new centres and IWG (Regus) opened one new centre. On the landlord side ISPT expanded their Dialogue/Flex offering into the recently refurbished George Place and Charter Hall opened their FlexiSpace brand in 1 Martin Place.

This strong demand from operators has been matched by appetite from multinational corporations to take up desks in centres for larger customised suites. 2018 also saw the first major occupier brief hit the market, for media giant Fairfax, seeking a flex and core type deal arrangement.

## 2019 OUTLOOK

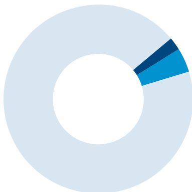
2019 is set to be another big year for the flexible workspace sector. However, even tighter vacancy and limited new supply may ultimately limit deal flow, which may lead to some operators having a closer look at the North Sydney, City Fringe and Metro markets. Notwithstanding this, already to date in 2019 JustCo has completed two deals in the CBD, IWG has secured a major site at 60 Martin Place for their flagship Spaces centre, Campfire have secured a centre in Pyrmont and The Hub will be opening in Customs House.

We expect the demand from multinational corporations for customised suites to continue to gain momentum and there have already been reports of several large deals for 100+ desks. IWG (Regus) reported 100% occupancy at their new 680 George Street centre, which opened in January 2019, and WeWork reports low vacancy across their portfolio.

## MAJOR DEALS

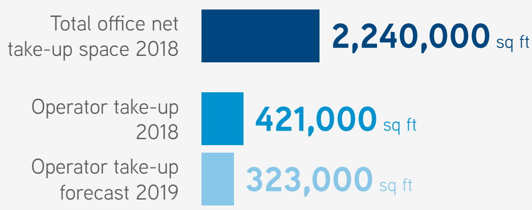
| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | Walsh Bay | Barangaroo C1, 9 Sussex Street | 118,404 |
| WeWork | Midtown | 66 King Street | 69,966 |
| WeWork | Midtown | 383 George Street | 56,091 |
| WeWork | Midtown | 64 York Street | 43,056 |
| WeWork | Midtown | 161 Castlereagh Street | 43,056 |
| WorkClub | Western | 201 Kent Street | 21,528 |
| IWG (Regus) | Core | 680 George Street | 19,677 |

## MARKET DATA (CBD ONLY)



**2%** | Occupied by flexible workspace
**4%** | Vacancy rate
**94%** | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| **58** centres | (USD/month) **$690** | (USD/sq ft/annum) **$58** |



# MELBOURNE

**JUSTIN LAM**
Associate Director
+61 3 9612 8855
Justin.Lam@colliers.com

## 2018 OVERVIEW

Despite the low vacancy levels and limited new supply available in the Melbourne CBD, 2018 saw a number of flexible workspace operators both expand and make their first forays into the market. Notably, international operators moved into the Melbourne market. Brands originating from Asia were a large contributor to this increased activity, with JustCo (Singapore), Campfire (Hong Kong) and The Hive (Hong Kong) all securing locations. In addition, IWG secured 75,000 sq ft of space within Lendlease's new Melbourne Quarter development and WeWork continued their growth by securing two new sites at 120 Spencer Street and 222 Exhibition Street of approximately 92,500 sq ft and 56,500 sq ft respectively.

On a local scale, there was also increased appetite from Australian based operators. Hub secured space within 1 Nicholson Street at the edge of the CBD and VSCO maintained momentum, securing sites in St Kilda and Dandenong.

We are seeing more occupiers identifying buildings with access to flexible workspace as a preference to allow for flexibility should they grow beyond their core office space, or for ad hoc projects. As a result, more landlords are developing their own concepts to allow occupiers to flex within their portfolio; for example, GPT continue to open their Space and Co concept across Australia.

## 2019 OUTLOOK

Melbourne is currently in a new development supply cycle with many major developments due to open late 2019 and early 2020, albeit with the majority of this upcoming availability already 80% committed. Given the current tight vacancy rate of 3.2%, operators will remain on the lookout for new sites although options for existing buildings may be limited.

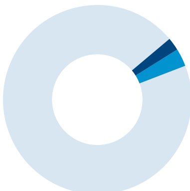
We have seen demand from larger occupiers taking 50–100+ desks of flexible workspace as a short-term bridging solution until their new offices have completed construction. In addition, the growth in infrastructure investment across Victoria has led to many engineering and consulting firms seeking 'project space' which typically could last anywhere between 12 to 24 months – many of these occupiers are considering flexible workspace as a solution.

Many of the larger brands are continuing their growth and expansion plans throughout Melbourne. We expect a trend of consolidation to occur by way of mergers and acquisitions, with WeWork beginning this trend with the acquisition of naked Hub and Gravity in 2018.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | CBD | 120 Spencer Street | 92,570 |
| JustCo | CBD | 15 William Street | 88,814 |
| IWG (Spaces) | Docklands | Melbourne Quarter Tower 1 & 2 | 75,348 |
| WeWork | CBD | 222 Exhibition Street | 56,511 |
| JustCo | CBD | 276 Flinders Street | 45,209 |
| Hub Australia | CBD | 162 Collins Street | 37,674 |
| Hub Australia | CBD | 1 Nicholson Street | 29,063 |
| VSCO | CBD | 990 Whitehorse Road | 26,910 |
| JustCo | CBD | 447 Collins Street | 21,528 |

## MARKET DATA (CBD ONLY)



2% | Occupied by flexible workspace
3% | Vacancy rate
95% | Others

**Number of flexible workspace centres**
51 centres

**Average desk cost**
(USD/month)
$552

**Average rent Grade A**
(USD/sq ft/annum)
$38

Total office net take-up space 2018: 1,456,000 sq ft
Operator take-up 2018: 246,000 sq ft
Operator take-up forecast 2019: 269,000 sq ft

# BRISBANE

**NICK DAVIES**
Manager
+61 7 3026 3337
Nick.Davies@colliers.com

## 2018 OVERVIEW

Brisbane has reached its lowest vacancy percentage (13%) in five years and flexible workspace operators, including WeWork and Hub Australia, have been among the larger contributors to the fall in vacancy.

We estimate that Brisbane is the Australian capital city with the largest percentage of flexible workspace occupancy of CBD stock at 2.8%. Hub Australia finalised a deal for 37,674 sq ft in 200 Adelaide Street in November and WeWork followed suit by securing 83,000 sq ft at 192 Ann Street, contributing the largest flexible workspace deal of 2018 in Brisbane. @Workplaces also further expanded their footprint in 324 Queen Street. Flexible workspace transactions have a significant impact on the reported vacancy rate as they account for pure absorption and are not leaving behind any vacant backfill. However, this does mean space is still available as requires re-letting once the operator is open.

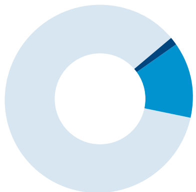
## 2019 OUTLOOK

With a limited amount of large contiguous floors throughout the CBD, flexible workspace operators are also considering the fringe for new opportunities. Fortitude Valley has several new projects that are seeking pre-commitment and landlords who are willing to provide highly favourable deal terms to secure long-term tenants. The Brisbane office market remains an attractive location for flexible workspace operators given the large number of small businesses operating in Queensland. There are reports of further new flexible workspace locations that are in the process of being negotiated across both the CBD and the fringe markets which will further contribute to the absorption of existing and newly developed stock.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | CBD | 192 Ann Street | 82,689 |
| Hub Australia | CBD | 200 Adelaide Street | 38,083 |

## MARKET DATA (CBD ONLY)



**2%** | Occupied by flexible workspace
**13%** | Vacancy rate
**85%** | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| **32** centres | (USD/month) **$380** | (USD/sq ft/annum) **$37** |

| | |
|---|---|
| Total office net take-up space 2018 | **505,000** sq ft |
| Operator take-up 2018 | **121,000** sq ft |
| Operator take-up forecast 2019 | **304,000** sq ft |

# BENGALURU

**ARPIT MEHROTRA**
Senior Director
+91 99 6603 0144
Arpit.Mehrotra@colliers.com

## 2018 OVERVIEW

In 2018, flexible workspace was the third biggest source of Grade A office space gross absorption in Bengaluru (Bangalore). Flexible workspace operators leased 2.3 million sq ft of office space in 2018, registering a two-fold increase from 2017. Last year witnessed active participation from both local and international operators.

Interestingly, whereas the CBD has seen significant leasing activity by flexible workspace operators for several years, in 2018 there was a noticeable increase in micromarkets such as the Secondary Business District (SBD) and Outer Ring Road (ORR). Together the SBD and ORR micromarkets accounted for around 60% of the total space leased by flexible workspace operators.

2018 also witnessed increasing demand for managed workspaces by both local and international operators, where occupiers achieve flexibility whilst maintaining the essence of security and control, as offered in traditional office spaces. Local operators such as TableSpace, PurpleYo and Workspace leased managed workspaces to technology companies such as AMD, Rakuten and One Plus, among many others.

## 2019 OUTLOOK

Early 2019 witnessed developers such as Ascendas and Brigade Group making forays into the flexible workspace market. With flexible workspace likely to continue to expand owing to the need for workspace efficiency and the desire for collaborative and networking environments, we expect more developers to venture into this market.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| Smartworks | ORR | Global Technology Park | 278,000 |
| WeWork | CBD | Prestige Central | 200,000 |
| WeWork | ORR | Embassy Tech Village | 200,000 |
| IndiQube Coworking Space | North | VSPL | 150,000 |
| WeWork | SBD | Salarpuria Symbiosis | 145,000 |

Note: CBD includes MG Road and, Richmond Road, Infantry Road, Cunningham Road, Sankey Road, Palace Road, Vittal Mallaya Road and others.
SBD includes Indiranagar, Koramangala and CV Raman Nagar and others.
North includes Hebbal, Thanisandra Road, Yelahanka.

## MARKET DATA (CBD & SBD ONLY)

15% | Occupied by flexible workspace
9% | Vacancy rate
76% | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 55 centres | (USD/month) $144 | (USD/sq ft/annum) $20 |

Total office gross take-up space 2018: 6,566,000 sq ft
Operator take-up 2018: 590,000 sq ft
Operator take-up forecast 2019: 1,500,000 sq ft

# DELHI NCR

**VINEET ANAND**
Senior Director
+91 88 2626 8716
Vineet.Anand@colliers.com

## 2018 OVERVIEW

Flexible workspace operators leased about 1 million sq ft of office space during 2018, which accounted for 12% of the overall gross absorption. Gross absorption in 2018 was the highest for the last five years. In 2018, flexible workspace operators in Delhi-NCR preferred Gurgaon. Consequently, Gurgaon represented 64% of total new leasing by the flexible workspace sector, while Noida represented 30% and Delhi just 6%.

So far in 2019, flexible workspace operators like WeWork, Smartworks, CoWrks, Gohive and Innov8 have expanded by increasing their number of centres. Interestingly, we have also witnessed some acquisitions in this space, e.g. One Co.Work's acquisition of Isharespace and AltF's take-over of Daftar India, signalling consolidation and greater maturity of the sector from now on.

## 2019 OUTLOOK

Over the next three years, we expect the flexible workspace market to grow rapidly with the rise in demand from large companies and start-ups alike. Many domestic operators like Powerstation by OYO and Atelier by Bharti Realty are also planning to venture into the attractive flexible workspace business. We expect occupiers from the information technology-business process management; banking, financial services and investments; and fast-moving consumer goods (FMCG) sectors to continue taking up space in flexible workspace centres due to the innovative, cost-effective and fully serviced attributes of alternative workspace solutions, thus increasing the overall demand for flexible workspace centres across the region.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | DLF Cyber City | DLF Forum | 225,000 |
| WeWork | Golf Course Road | Two Horizon Centre | 120,000 |
| Insta Office | NOIDA Commercial Sector | Individual Building | 85,000 |
| 91 Springboard | Udhyog Vihar | Micromax building | 75,000 |

## MARKET DATA (PRIME OFFICE LOCATIONS ONLY)

6% | Occupied by flexible workspace
28% | Vacancy rate
66% | Others

**Number of flexible workspace centres**
87 centres

**Average desk cost**
(USD/month)
$216

**Average rent Grade A**
(USD/sq ft/annum)
$38

Total office gross take-up space 2018: 10,070,000 sq ft
Operator take-up 2018: 1,028,000 sq ft
Operator take-up forecast 2019: 1,000,000 sq ft

# SEOUL

**JAY CHO**
Director
+82 2 6325 1905
Jay.Cho@colliers.com

## 2018 OVERVIEW

Demand from flexible workspace operators continues to increase. WeWork in particular has opened 19 locations in Seoul since its entry into Korea in 2018, demonstrating the appetite for expansion in this sector. WeWork has had a significant impact on lowering office vacancy rates by leasing 10 or more floors in major buildings that had a significant quantity of vacant space.

Not only are international flexible workspace operators increasingly competitive; so too are local operators. Local operator FastFive launched services in March 2015 and is now operating in 17 locations nationwide.

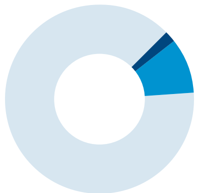
## 2019 OUTLOOK

Occupier demand for flexible workspace has expanded beyond the IT-dominated Gangnam submarket to the Gangbuk area. Since both local and major owner-operators are entering the flexible workspace market simultaneously, competition for space is likely to become intense.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | CBD | Jongro Tower | 137,000 |
| Fastfive | CBD | Signature Tower | 98,000 |
| Justco | CBD | Ferum Tower | 35,500 |

## MARKET DATA (CBD, GBD & YBD ONLY)



2% | Occupied by flexible workspace
10% | Vacancy rate
88% | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 29 centres | (USD/month) $440 | (USD/sq ft/annum) $51 |

| | |
|---|---|
| Total office net take-up space 2018 | 3,417,000 sq ft |
| Operator take-up 2018 | 205,000 sq ft |
| Operator take-up forecast 2019 | 300,000 sq ft |

# TAIPEI


**AMANDA YANG**
Senior Executive Director
+886 2 8722 8620
Amanda.Yang@colliers.com


## 2018 OVERVIEW

2018 was an important year for flexible workspace operators. Previously, the main flexible workspace players were TEC and IWG, which focused on serviced offices, but in 2018 true flexible workspace operators aggressively entered the market. For example, Kafnu leased an en bloc building on Ming Sheng East Road, while Space leased around 4,200 sq m (45,210 sq ft) in Hung Sheng International Center. The leased area of flexible workspace expanded by over 14,000 sq m (150,000 sq ft).

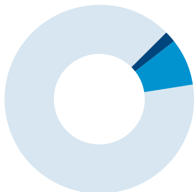
## 2019 OUTLOOK

Flexible workspace operators have expanded significantly since 2018, and we expect the trend will continue through 2019. This sector is poised to be one of the demand drivers for Grade A offices, supported by requirements from multinational corporations and technology firms increasingly looking for flexibility. Driven by the strong demand from flexible workspace operators, we expect that rental affordability and space expansion will increase significantly. We therefore suggest that landlords consider more flexibility in leasing strategies.

## MAJOR DEALS

| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| JUSTCO | MS-TN | Hung Tai Financial Center | 60,440 |
| IWG (Spaces) | NK-SC | Hung Sheng International Center | 45,850 |
| Kafnu | MS-TN | Minsheng East Road en-bloc building | 30,250 |

## MARKET DATA (CBD ONLY)



**2%** | Occupied by flexible workspace
**6%** | Vacancy rate
**92%** | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 24 centres | (USD/month) $414 | (USD/sq ft/annum) $33 |

| | |
|---|---|
| Total office net take-up space 2018 | 2,187,400 sq ft |
| Operator take-up 2018 | 150,000 sq ft |
| Operator take-up forecast 2019 | 350,000 sq ft |

# TOKYO

**AI NAKAGAWA**
Associate Director
+81 3 4572 1027
Ai.Nakagawa@colliers.com

## 2018 OVERVIEW

Tokyo's tight market conditions have forced flexible workspace operators to search hard for the limited available opportunities. This has pushed the sector's net take-up in 2018 to above 8% as a proportion of the total, on a par with other developed cities. WeWork has accelerated its local market expansion, already securing various prominent new sites for as late as the end of 2020.

However, the overall market remains fragmented, limiting the overall flexible workspace inventory to about 1.5% of total office space, a level comparable to European cities such as Berlin and Paris based on Colliers' data. With few policy incentives before 2010 to support venture industries, the flexible workspace sector's late start in Tokyo also means the market's size remains less than half that of Asian peers such as Hong Kong and Singapore. It is also behind most developing cities such as Bangalore and Manila. Growing demand to support more flexible workplace arrangements has been seen elsewhere with less profitable space. For example, numerous smaller operators have been accumulating portfolios of downmarket office buildings, notably in Western Tokyo, which has more affluent residents.

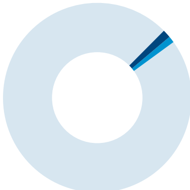
## 2019 OUTLOOK

In our view, rising interest from larger landlords in flexible workspace will define the future market landscape in Tokyo. Japan's market dynamics continue to favour local landlords and developers as they are better positioned than global operators to aggregate unused commercial office supply. More enhanced service offerings customised to each tenant could provide a rationale for increasing rents progressively for low-risk tenants with higher capacity to pay. With their tenant profile continuing to pivot toward mature corporations, local landlords are already expanding their service offerings to accommodate both new and existing tenants. We still expect that the net absorption from independent flexible workspace operators will remain strong at around 10% of the total, since WeWork is taking large upfront supply.

## MAJOR DEALS

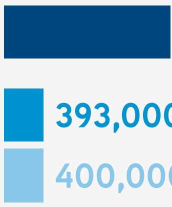
| Name | District | Buildings | Size (sq ft) |
|---|---|---|---|
| WeWork | Shibuya | Shibuya Scramble Square | 155,000 |
| WeWork | Hamamatsucho | Takeshiba Area Redevelopment | 92,000 |
| WeWork | Shinjuku | Shinjuku South | 80,000 |

## MARKET DATA (CBD 5 WARDS ONLY)



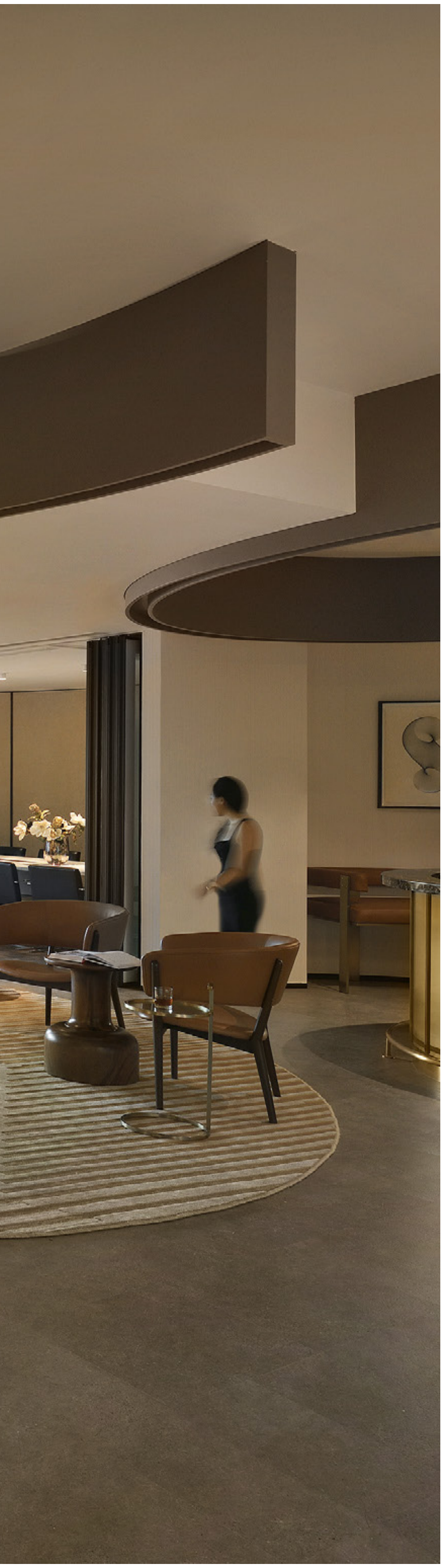
**2%** | Occupied by flexible workspace
**1%** | Vacancy rate
**97%** | Others

| Number of flexible workspace centres | Average desk cost | Average rent Grade A |
|---|---|---|
| 350 centres | (USD/month) $402 | (USD/sq ft/annum) $104 |



Total office net take-up space 2018 — 4,908,000 sq ft
Operator take-up 2018 — 393,000 sq ft
Operator take-up forecast 2019 — 400,000 sq ft


THE GREAT ROOM | ONE TAIKOO PLACE | HONG KONG



# FLEXIBLE WORKSPACE SERVICES

Colliers International were the first global real estate service provider to launch an integrated flexible workspace business line that sits across all aspects of the sector. Led by Jonathan Wright in Hong Kong, the flexible workspace services team offers advisory, consultancy and transaction services for operators, occupiers and building owners.

### OPERATOR

- Expansion
- Merger & Acquisition
- Fundraising

### OCCUPIER

- Strategy
- Transaction Advisory

### BUILDING OWNER

- Consultancy
- Transaction Advisory

## ABOUT COLLIERS INTERNATIONAL

Colliers International (NASDAQ, TSX: CIGI) is a leading global real estate services and investment management company. With operations in 68 countries, our 14,000 enterprising people work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 20 years, our experienced leadership team, owning more than 40% of our equity, have delivered industry-leading investment returns for shareholders. In 2018, corporate revenues were $2.8 billion ($3.3 billion including affiliates), with more than $26 billion of assets under management.

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# Our Specialists
## in the Region

**JONATHAN WRIGHT**
Head of Flexible Workspace Services | Asia
+852 9020 9200
Jonathan.Wright@colliers.com

**SAM HARVEY-JONES**
Managing Director | Occupier Services | Asia
+852 2822 0509
Sam.Harvey-Jones@colliers.com

**ANDREW HASKINS**
Executive Director | Research | Asia
+852 2822 0511
Andrew.Haskins@colliers.com