

Asia Pacific Occupier Markets

# The Rise of Co-working Space in Asia Pacific: Boon or bane?



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Co-working space has enjoyed tremendous growth in recent years supported by the start-up boom; demand for greater flexibility among both employees and corporates; and advances in technology allowing people to work anywhere at any time.

To date, Asia Pacific has lagged behind major cities in Europe and North America. However, the past year has seen the proliferation of co-working space, with several large overseas and domestic operators expanding to major cities including Hong Kong, Singapore, Shanghai, Tokyo, Sydney and Melbourne.

## What is co-working space?

Co-working space is a shared work environment providing a range of workspaces to a number of small occupiers, often from a variety of different industries. Workspace types generally include private offices, fixed desks, flexible desks and communal space on a shared floor. Freelancers, solopreneurs, start-ups and mini-companies are among the typical users of co-working space.

Unlike renting space in a traditional office, tenants in co-working space are not required to pay high fixed costs and deposits; take out long leases; or make a large capital outlay for the fit-out. By simply subscribing to a membership, they receive the right to use the co-working space and access shared facilities such as cafes, conference rooms and Wi-Fi. Members generally bring their own devices to work. The most common type of membership is monthly, but some operators provide day

passes or even offer an hourly rate. The membership contract also allows end-users to move in, out, upgrade or downgrade at short notice.

As well as offering lower costs and more flexibility, co-working space fosters knowledge-sharing and collaboration by accommodating people from various industries, backgrounds and levels of experience in a single open-plan workspace. This is an ideal environment for startups and freelancers as it provides them with opportunities to interact with and leverage on the experience of professionals they may otherwise find it difficult to meet when working separately.

Collaboration often does not occur automatically. Co-working space operators therefore seek to proactively foster interaction and create a sense of community for their users by providing the following:

- 1) **Communal spaces:** Creative examples include lounges, roof gardens, terrace cafes, sandbag corners and bars with free drinks.
- 2) **Programmes and events:** These can include classes, lectures, mentorships, business services and networking activities (at extra cost).
- 3) **On-site community managers:** Staff play an important role to initiate and help members interact.

A dynamic, interactive and collaborative working environment is what distinguishes co-working spaces from traditional serviced offices, as both formats provide similar hardware. However, the line between the two is becoming increasingly blurred as serviced office operators become more aware of the importance of enhancing the work experience for end-users.

### The standard co-working space offering

The standard offering in a co-working space usually includes private offices, fixed desks and flexible desks. The following is a description of the membership benefits, format and cost of the typical co-working space in a core area (between Sheung Wan and Causeway Bay) in Hong Kong (Table 1).

**Private Offices:** Renting a private office in a co-working space costs around US\$1,000-2,000 per person per month. The membership fee includes 24/7 access, a fully furnished work environment, filing cabinets, locker storage, access to lounge and drinks, mail box service, meeting rooms (sometimes at extra cost) and a monthly printing and photocopying quota. The fee also includes IT support such as an IP phone with a direct line, call forwarding, a LAN connection and high speed Wi-Fi. The building management fee, air-conditioning, other utilities and maintenance fee are also included.

**Fixed Desks:** Renting a fixed desk in a co-working space costs around US\$500-1,000 per person per month. The fee covers most of the features listed above when renting a private office, except there is no lockable room or IP phone.

**Flexible Desks:** Renting a flexible / non-assigned desk (hot-desking) in a co-working space costs around US\$320 – 750 per person per month. The fee covers most of the features listed above when renting a fixed desk.

Local and international co-working operators generally provide a similar offering, but global operators often allow users to access facilities in multiple locations with a small additional payment. For example, WeWork charges its users US\$25 per day to work from a different location.

**Table 1: Costs and Services of Co-working Spaces in Hong Kong’s Core Areas**

		International Operator			Local Operator		
Types of membership (*) & Standard offering		Private Office	Fixed Desk	Hot Desking	Private Office	Fixed Desk	Hot Desking
Price range (HK\$ per person per month)		7,800+ ~ 7,000			8,000 - 14,500	4,500 - 7,200	2,500- 5,800
Offering features	Event	✓	✓	✓	✓	✓	✓
	Global access	✓	✓	✓		N/A	
	Fully-furnished environment	✓	✓	✓	✓	✓	✓
	Filing cabinet	✓	on request		✓	on request	
	Locker storage	✓	✓	✓	✓	✓	✓
	24-hour access	✓	✓	✓	✓	✓	✓
	communal space & perks (free water, coffee, etc)	✓	✓	✓	✓	✓	✓
	Mail box	✓	✓	✓	✓	✓	✓
	meeting room (quota)	yes, hourly rate			depending on operator		
IT Support	IP Phone with direct line	✓	N/A		✓	✓	N/A
	Call forwarding	✓	N/A		✓	N/A	
	LAN connectivity	✓	✓	N/A	✓	N/A	
	High speed WiFi	✓	✓	✓	✓	✓	✓
	Printing and photocopy (quota)	✓	✓	✓	✓	✓	✓
Admin	Building management fee, A/C during office hours, utilities and maintenance	✓	✓	✓	✓	✓	✓
	Concierge	✓	✓	✓	✓	✓	✓

\*Few co-working space operators have membership options of day passes and hourly rates. For the typical standard offering, we list private offices, fixed desks and hot desking.

Source: CBRE Research, August 2016.

## Demand drivers of co-working space

The growing demand for co-working space in Asia Pacific is being driven by a number of key factors. These include:

- **The start-up boom** As discussed above, start-ups are among the major users of co-working space. In Singapore, the period between 2005-2013 saw an average of 2,000 start-ups launched every year<sup>1</sup>, while in Hong Kong, the number of start-ups increased by 46% y-o-y to 1,558 in 2015<sup>2</sup>. By 2020, India is estimated to have 11,000 start-ups<sup>3</sup>.
- **Agility** Start-ups often find it challenging to predict future business growth. This makes traditional long-term office leases unappealing as they do not provide flexibility for such companies to respond to short term changes in the business environment. Co-working spaces offer users the freedom to expand or contract at short notice according to the ebb and flow of their business and market.
- **Advances in technology** New technology is improving communications and enabling people to work independently from any location and at any time. Co-working space is attuned to the changing nature of work and can serve the needs of freelancers and business travelers.
- **Affordability** Start-ups, smaller companies and freelancers need to minimise cost overheads. Co-working space provides them with a cost effective alternative to traditional offices, along with access to a diverse range of amenities, all while retaining an address in a prime location.
- **Community and collaboration** Individuals and start-ups can benefit from the environment provided by co-working space as it provides them with the opportunity to collaborate and share knowledge with a diverse range of likeminded professionals from similar or different industries.

1. Source: SPRING Singapore, Prime Minister Lee Hsien Loong opens JTC Launchpad@One-North – The heart of Singapore's entrepreneurship action (2015, January 23).

2. Source: Invest HK – Hong Kong A Promising Startup Ecosystem (<http://www.startmeup.hk/en/one-stop-hong-kong/start-up-ecosystem-survey/>)

3. Source: [http://www.ptinews.com/pressrelease/18655\\_press-subCoworking-Unconference-India-is-Set-to-Boost-Support-for-the-World-s-Fastest-Growing-Start-up-Nation](http://www.ptinews.com/pressrelease/18655_press-subCoworking-Unconference-India-is-Set-to-Boost-Support-for-the-World-s-Fastest-Growing-Start-up-Nation)

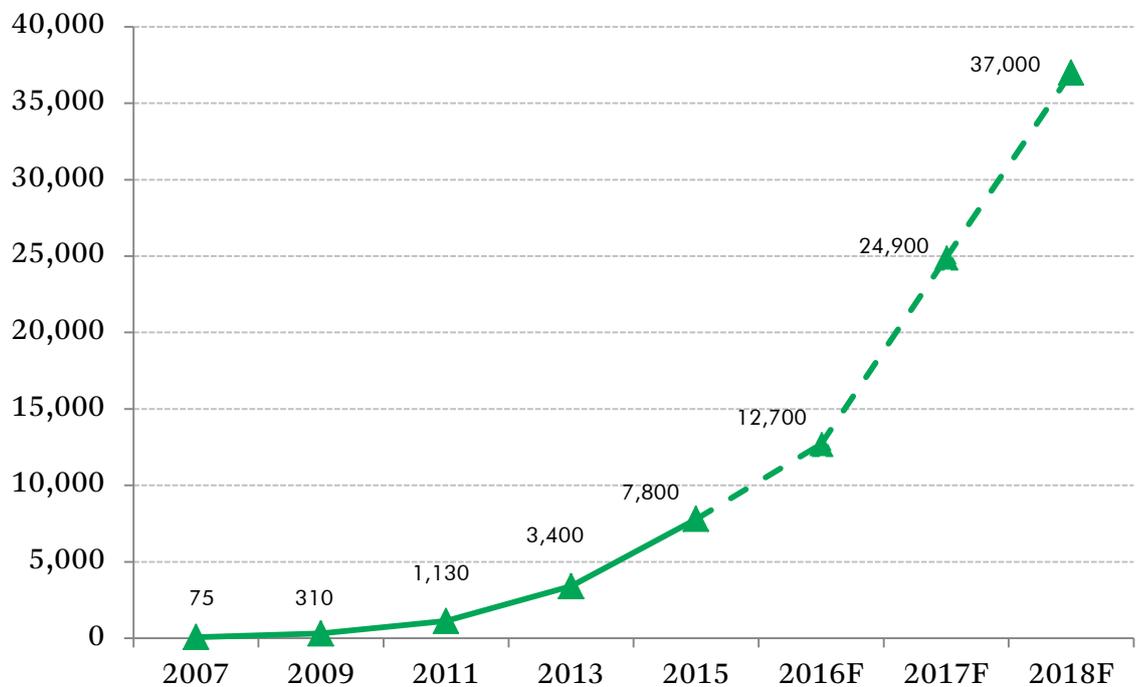
**The proliferation of co-working space in Asia Pacific**

The number of co-working spaces worldwide surged from just 75 in 2007 to more than 7,800 in 2015, representing a compound annual growth rate (CAGR) of 71%, according to Deskmag’s Global Co-working Survey 2016, published in January 2016. Deskmag forecasts that there will be more than 37,000 co-working spaces worldwide by 2018, implying a CAGR of 68% over the next three years.

Most co-working spaces in Asia Pacific are located in gateway cities such as Hong Kong, Singapore, Shanghai, Tokyo, Sydney and Melbourne. CBRE Research estimates that there are a total of 300 co-working spaces in these locations.

Cities in Asia Pacific lag behind those in the west such as New York and London, which each host at least 120 co-working spaces. Tokyo is home to roughly 100, while Hong Kong, Singapore and Shanghai host 40-60 each. The average size of each co-working space in this region tends to be smaller than those in major cities elsewhere. In several new office developments in the United States, large co-working centres are major anchor tenants, leasing spaces as large as 100,000 sq. ft. to 200,000 sq. ft..

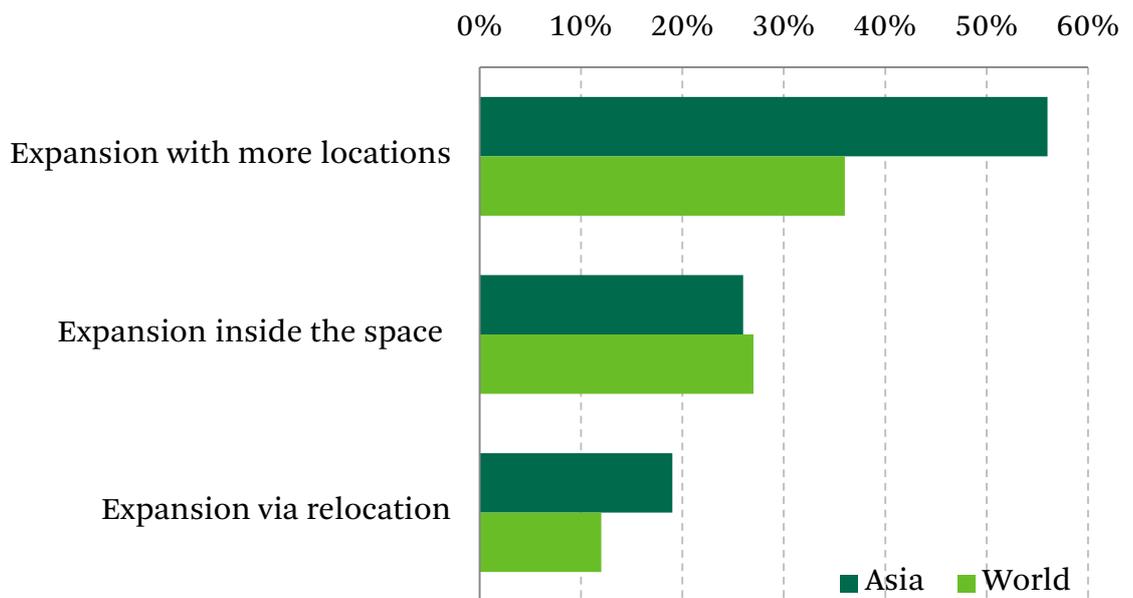
**Chart 1: Number of Co-working Spaces Worldwide**



Source: Deskmag’s Global Coworking Survey 2016.

The co-working industry is expanding rapidly in Asia Pacific. The same survey found 78% of co-working space operators in the region plan to expand this year, compared to 62% worldwide. Most respondents (56%) selected expanding to more locations as their priority for growth, ahead of adding additional desks and space in current locations, or relocating to another location by leasing a larger space.

**Chart 2: Expansion Plans of Co-working Space Providers in Asia**



Source: Deskmag’s Global Coworking Survey 2016.

Local and regional co-working space operators still dominate in Asia Pacific, accounting for 60% of the market. However, several international players are expanding aggressively. The first half of 2016 saw the opening of WeWork’s first co-working spaces in Shanghai and Hong Kong. The entry of international co-working operators to this region has ushered in a new era of competition, as they allow members to access centres and locations globally, thereby providing a much broader platform for members to utilise.

While a broad range of industries are using co-working space, most facilities in Asia Pacific are created with a focus on a specific sector and hence feature customised interiors and fit-outs designed to appeal to certain targeted industries, primarily those in the technology, e-commerce, consulting, media and advertising sectors.

**Table 2: Major Co-working Space Operators in Asia Pacific**

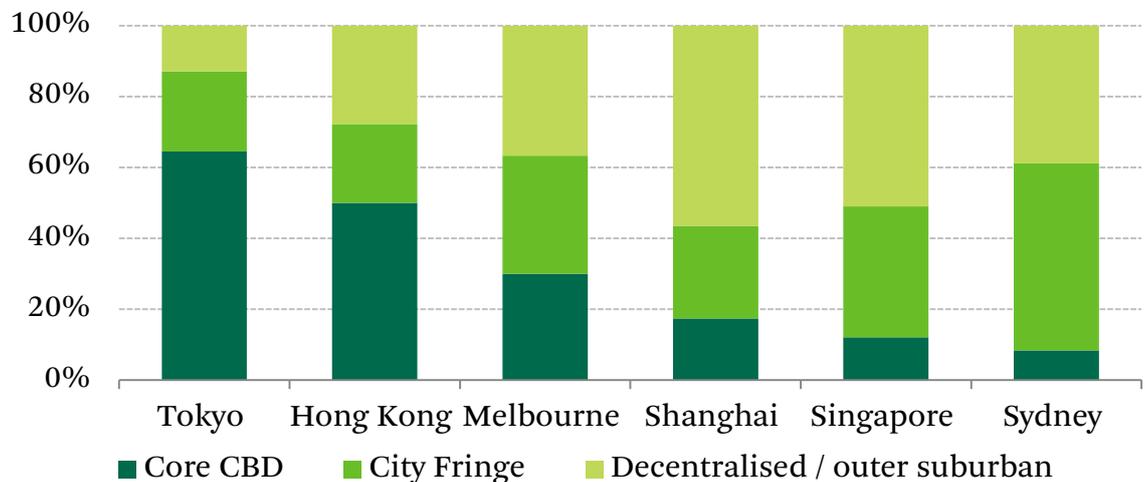
Market	Number of co-working space operators	Major co-working space operators	
		Domestic / Regional	International
Hong Kong	>40	a. Blueprint b. TEC c. The Hives	a. WeWork b. Regus (Spaces)
Shanghai	>45	a. Naked Hub b. SOHO 3Q c. URwork d. Ftown	a. WeWork
Singapore	>60	a. Collective Works b. The Working Capitol c. CoWork@SG d. JustCo.	a. Impact Hub b. Regus (Spaces)
Australia (Sydney and Melbourne)	>60	a. Hub Australia b. Jelly Coworking Meetup c. WOTSO WorkSpace	
Tokyo	>100	a. Hapon b. Hub Tokyo c. PoRTaL	a. Regus (Spaces) b. HABITAT (Compass Offices)

Source: CBRE Research, August 2016.

**Growing competition among operators**

Around 70% of co-working spaces in Asia Pacific gateway cities are in fringe or decentralised areas, where rents are cheaper. Hong Kong and Tokyo are the two exceptions, with over 50% of co-working spaces in each city situated in prime areas, in which the majority are located in older office buildings. Operators in these highly location-sensitive markets are seeking to increase their appeal to users by ensuring they are near core areas with good access to transport.

**Chart 3: Expansion Plans of Co-working Space Operators in Asia Pacific**



Source: CBRE Research, August 2016.

Most co-working space operators in Asia Pacific prefer to lease small spaces<sup>4</sup> in non-Grade A buildings, industrial buildings or business parks. Selected major operators sometimes lease spaces of between 60,000 - 100,000 sq. ft. in core locations. Examples include WeWork leasing 60,000 sq. ft. for its centre in Wan Chai, Hong Kong; another 100,000 sq. ft. for its centre in Causeway Bay, Hong Kong; and SoHo 3Q leasing 64,000 sq. ft. for its centre in Huangpu, Shanghai.

Competition among co-working space operators is intensifying as they open more centres, lease larger spaces and increase their presence in prime areas, trends that are increasing real estate occupancy costs and squeezing profit margins. This is fueling concerns over the longevity and viability of the co-working space industry, especially at its current rate of rapid growth, and particularly as it remains untested in a downward market cycle. CBRE Research therefore advises co-working space operators to plan expansion carefully, keep costs in-check, be aware of the increasing competition and monitor changes in market conditions.

Co-working space operators should conduct a thorough assessment of supply and demand dynamics in specific markets prior to opening new centres. In some markets, traditional office space is available at relatively competitive rents, meaning that the cost benefits of co-working space for small occupiers are minimal.

While portfolio management is crucial, the key to running a successful co-working space is creating an experience; building a community; and facilitating business and learning opportunities for end-users. Co-working space operators should focus on building their brand to recruit new users; improve their provision of amenities, creative shared spaces and value-added services and events; and engage the community in their centres to retain members. Operating a co-working space is not merely straightforward office leasing or providing a space for people to work – it is a unique office format providing an interactive work experience, something which requires clear branding and market positioning.

4. Hong Kong and Singapore – 10,000 sq. ft. or below  
Shanghai – 20,000 sq. ft. or below

## The implications for real estate

The rise of co-working space in Asia Pacific is by no means a disruptive threat to the traditional office format or leasing model. However, it does have a number of implications for occupiers and landlords alike.

### *Occupiers: Rethink the traditional use of office space*

The proliferation of co-working space not only reflects growing demand among small companies and start-ups, but also points to the need for a new approach towards office design. Such an approach must provide an inspiring and fun space to facilitate better collaboration and interaction between people, which can boost employee productivity and innovation and ultimately benefit companies of all sizes. The functionality and flexibility of the working environment, a sense of community, and overall health and wellbeing are of paramount importance to today's workforce.

Multinational companies are already using or considering co-working space as an extension to their existing traditional office portfolio. Large companies are leveraging co-working space to house temporary staff such as project teams without disrupting existing business operations. Firms seeking to improve collaboration and foster an entrepreneurial culture, particularly companies from the technology sector, are leasing desks in co-working centres as well as installing more creative space in-house. Large global corporates are also utilising co-working as a strategy to embrace innovation to ensure access to new ideas and help attract and retain talent. Other large firms see significant business opportunities in building networks and relationships with smaller businesses by placing their staff in co-working centres. Indeed, multinationals already account for 50% of the total users of several co-working space operators in the U.S., and Asia Pacific is expected to follow suit.

### *Landlords: Partner with co-working space operators or develop their own brand*

CBRE Research advises landlords to consider whether to lease space to co-working operators or develop their own co-working platform.

Leasing space to co-working operators has numerous benefits for landlords. Co-working spaces provide tenants with a variety of different office sizes to choose from, meaning that landlords do not need to sub-divide or customise vacant floors for individual tenants. This is particularly attractive for landlords with underperforming, underutilised and lower efficiency office buildings. Instead of negotiating rental discounts with individual tenants, landlords can lease the space to co-working space operators under a profit-sharing model, thereby improving occupancy.

Landlords can also leverage on the expertise of co-working space operators to improve their offering to other tenants, such as by providing a wider range of amenities or building a sense of community within their buildings. This could help them retain tenants and enhance asset value in the longer term.

However, these benefits come at a cost. Leasing offices to co-working space operators means landlords lose control over end-users, which raises security concerns. CBRE Research recommends landlords be selective towards the operators they work with to ensure harmony with other tenants, particularly in buildings which are occupied by large corporations. Landlords may consider utilising separate elevators for co-working space users and blue chip tenants to manage the flow of people, as well as increase building security.

**Table 3: Pros and Cons for Landlords Leasing to Co-working Space Operators**

Pros	Cons
<ul style="list-style-type: none"> <li><input type="checkbox"/> Improve occupancy rate</li> <li><input type="checkbox"/> Bring a diversity of workplaces into buildings</li> <li><input type="checkbox"/> Lower fit-out costs and tenant improvement</li> <li><input type="checkbox"/> Improve provision of amenities to existing tenants</li> <li><input type="checkbox"/> Enhance tenant experience</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Lack of control over end-users</li> <li><input type="checkbox"/> Security issues</li> <li><input type="checkbox"/> Impact on tenant mix</li> <li><input type="checkbox"/> Impact on brand image</li> </ul>

Source: CBRE Research, August 2016.

The alternative option for landlords is to establish their own co-working platforms under a separate brand name. Some landlords are pursuing this approach as they seek to enhance their brand image and meet growing demand for short-term and flexible leases. Examples include Swire Properties’ Blueprint, CapitaLand’s Collective Works, Keppel Land’s Workspace and Soho’s SoHo 3Q.

By setting up their own co-working spaces, landlords can build a long-term relationship with a company as it develops from a start-up to a fully-fledged corporate. Once start-ups grow beyond a certain size, they will require more space and privacy, meaning they may eventually commit to long-term leases for traditional large spaces. At the same time, there will also be opportunities for landlords to provide co-working spaces to existing larger tenants seeking to launch new business lines; improve collaboration; and lease more flexible office space. Should landlords’ co-working platforms prove successful, they could be packaged as a REIT to raise capital.

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