

Flexible Workspace

New office space supply – between hype and disruption

The creation of the new economic culture, widely known as the Sharing Economy, has reached the real estate industry and the suppliers of office spaces. Companies like WeWork, Spaces, Mindspace, Rent24 and Design Office create an entirely new perspective on office space use and the traditional long-term approach to paying rent for office space.

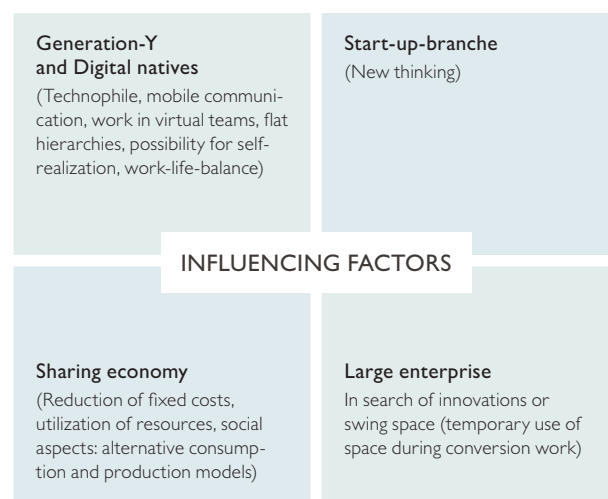
Flexible workspace concepts are becoming more important, the first measurable effect of this is the widespread emergence of so-called satellite offices in the past years – especially in the large, internationally active companies. The disturbance of the classic, long-term office rental contract has not yet structurally reached the European office markets. However, the large potential of this development is based on both of the relevant attributes of the post-modern society; pay-per-use and flexible forms of working. This dynamic can be characterized with “only pay what you use and, in ever changing markets and societies, retain the possibility to be able to act flexibly”.

Flexible workspaces embrace this development and create a new form of working, which is largely influenced by a spatially flexible working concept. In a spatially open concept, infrastructure (internet, printer, telephone, beamer, conference rooms and kitchenette) as well as workstations are provided by the suppliers of flexible workspaces, optionally in different service packages. The use is for a limited period of time and can include participation in workshops or common events, next to the mentioned services. Currently, this form of working is often called co-working, though working in open spaces, as associated with this term, is only a part of the flexible working environment, as seen when taking a closer look. Next to this, there are shared offices and business centers, the predecessors of coworking, as well as a hybrid model, which connects both forms.

Social development – the basis of new office market trends

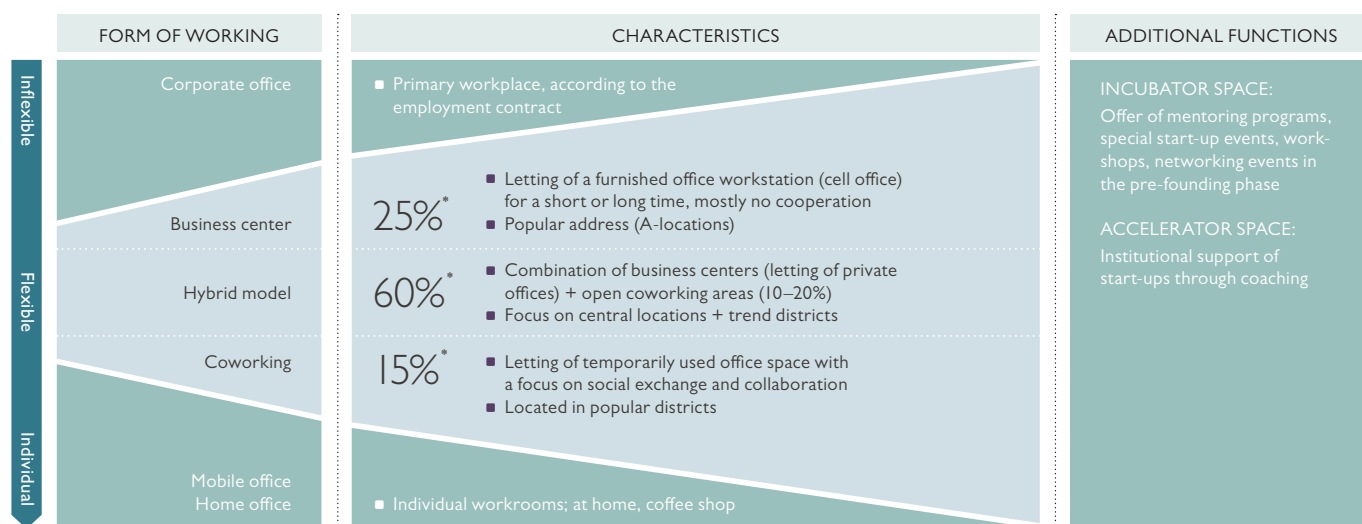
More and more employees regard classical work models as in corporate offices as not flexible and incompatible with the desire for a healthy work-life-balance and achieving goals. Sustainability, collaboration and the search for an increased sense of community define their perception of the modern working environment. A dynamically increasing part of this is the so-called GIG-Economy (gig = performance), a part of the modern performance establishment in the labor market, where smaller contracts are given to independent freelancers or minor employees. An online platform mostly acts as a mediator between the customer and contractor, which sets the framework and whose operators receives a commission.

INFLUENCING FACTORS IN THE NEW WORKING ENVIRONMENT



Source: Catella Research 2018

Postmodern form of working – categorisation of flexible workspaces



*Share in the flexible workspace market

Source: Catella Research 2018

Advantages and disadvantages of flexible workspaces

STRENGTHS <ul style="list-style-type: none"> Flexible rental of workspaces Communication, networking, teamwork Synergy effects Innovative and energising environment For companies: increased flexibility and cost savings Lower driving distances 	WEAKNESSES <ul style="list-style-type: none"> No familiar environment, insecurity Difficulties for providers: lack of space Lack of data security Background noise Expected interaction between companies is not always available to the desired extent
OPPORTUNITIES <ul style="list-style-type: none"> Rising demand due to the inner city office shortage Increased well-being through a better work-life balance and a better working atmosphere location based work opportunities 	THREATS <ul style="list-style-type: none"> Expansive growth of coworking operators/competitive pressure Short-term nature of the "hip" factor

Source: Catella Research 2018

Target groups

The majority of the flexible workspace users are young adults with an average age of 34 years. Mostly, they stem from creative, technology-oriented branches and are searching for alternatives for corporate offices, as seen with GIG Economy, freelancer. More and more larger companies are finding the interaction with innovative start-ups useful and therefore outsource single departments into flexible workspaces.

FREELANCERS (without employees)

41%

FOUNDERS (with employees)

16%

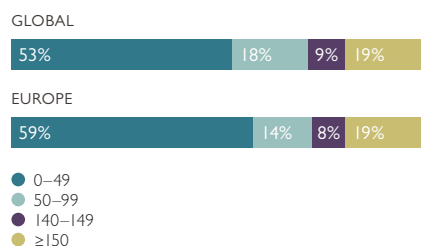
EMPLOYEES (of enterprises)

36%

Expansion in Europe

At the beginning of the year 2018, there were approximately 14,500 flexible workspaces worldwide, of which around 20% in Europe. Through the last years, there was a strong expansion of spaces related to flexible forms of working. Both at European and international level, the majority of all flexible workspaces counts less than 49 members. However, we are seeing a trend towards workspaces with a higher number of members (>150). As an example, the two planned objects of the provider Unicorn. Berlin can be mentioned, whose spaces could accommodate more than 200 people.

NUMBER OF MEMBERS IN FLEXIBLE WORKSPACES

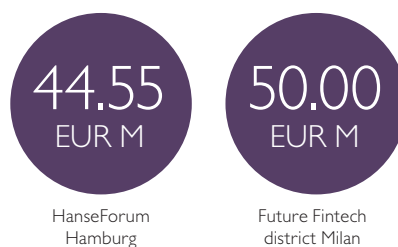


Source: Deskmag

Transactions

In Europe (EU28), we estimate the current total stock of flexible workspaces at around 15 million sq. m. The dynamics of the last two years arose from both the increased offer of flexible workspaces and the extension of the respective average spaces. From 2016 to 2017, the average space expanded by 50%. Outside of Europe, the value was only 35%. At European level, the majority of all providers is planning to expand this year.

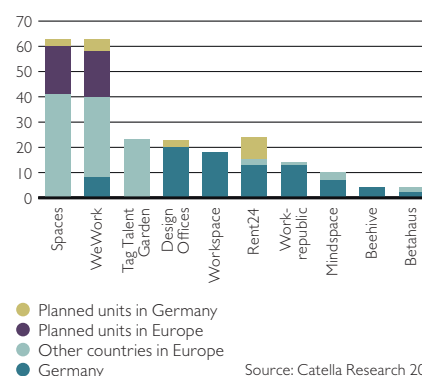
EXEMPLARY TRANSACTIONS



Hybrid-providers

While the typical coworking-providers (SUP46 from Stockholm) make up only a small proportion of the flexible workspace total market, hybrid-providers are pushing into the market. Next to the few small providers, there are primarily large international acting providers like WeWork, Spaces, Design Offices or Rent24 who offer both open spaces and private offices. The strongly demanded private offices have the considerably higher share of spaces, while the share of open spaces only amounts 10-20%.

STOCK AND PLANED UNITS OF THE HYBRID-PROVIDERS



Source: Catella Research 2018

Use

Flexible workers are using their workspace intensively for about 9 hours per day. Almost 40% use it five times a week. There are open kitchens and lounges to support the informal exchange, next to the common workspaces. Hence, even by renting only private offices, the possibility of co-working among the users is given. A flexible workspace center has an average of almost 60 desks with about 10.8 sq. m. workspace per desk.

Euro per time vs. Euro per sq. m.

The change of €/sq. m. to €/time unit as the unit for measuring the costs and comparability of workspaces represents a structural change in the world of working with the emergence of flexible workspaces. The users are accommodated with individually compatible package offers. The flexibility in relation to a long-term planning of use shows the dilemma of managing the spaces.

SATISFACTION OF INDIVIDUAL CUSTOMERS' NEEDS

CORPORATE OFFICE

- Pre-contractual transaction costs, costs for furniture and technique
- Monthly fixed costs and renovation
- Constantly decreasing costs by increasing number of jobs
- In case of extension (without reserve area): Removal costs and higher total rent

FLEXIBLE WORKSPACE

- Pre-contractual transaction costs more reasonably (laptop, working materials)
- Higher monthly costs than in a corporate office
- Step-by-step falling costs by increasing number of jobs
- Trouble-free, flexible extension (if not booked up)

EURO PER SQ. M.

EURO PER TIME UNIT

- After three years: More or less the same costs
- After five years: Corporate office is cheaper
- The shorter the duration and the fewer the employees, the more likely the flexible workspace is suitable, vice versa for corporate office

Source: Catella Research 2018

Trends

New services

The providers of flexible workspaces are trying to differentiate themselves from their competitors by offering new services. For example the trend of integrating sport offers should be mentioned.



Large companies with own coworkings spaces

There is an increasing interest of outsourcing employees, or even entire departments, in order to benefit from the advantages of flexibility and collaboration of the modern working world. The promotion of innovation or the search for talents can be in the center of attention. Convinced of their synergy effects, large companies start to integrate their own coworking spaces.



Sector-specific specialization of workspaces

Due to the differentiation of the offered workspaces and the promotion of the collaboration among coworkers, we expect a further sector-specific specialization of workspaces.



Integration of flexible workspaces

Providers like rent24 or WeWork (Welive) have already started to combine the modern way of working and living. Especially, with regard to the already frequent integration of flexible workspaces in serviced apartments, we expect a strong increase of this mixed-use. Furthermore, shopping malls in the sense of placemaking* are being considered for the integration of flexible workspaces more often.

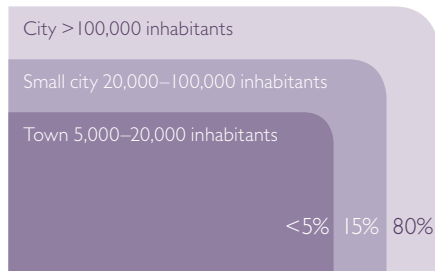
*Process of spatial- or locational-related identity formation



Source: Catella Research 2018

European flexible workspace market

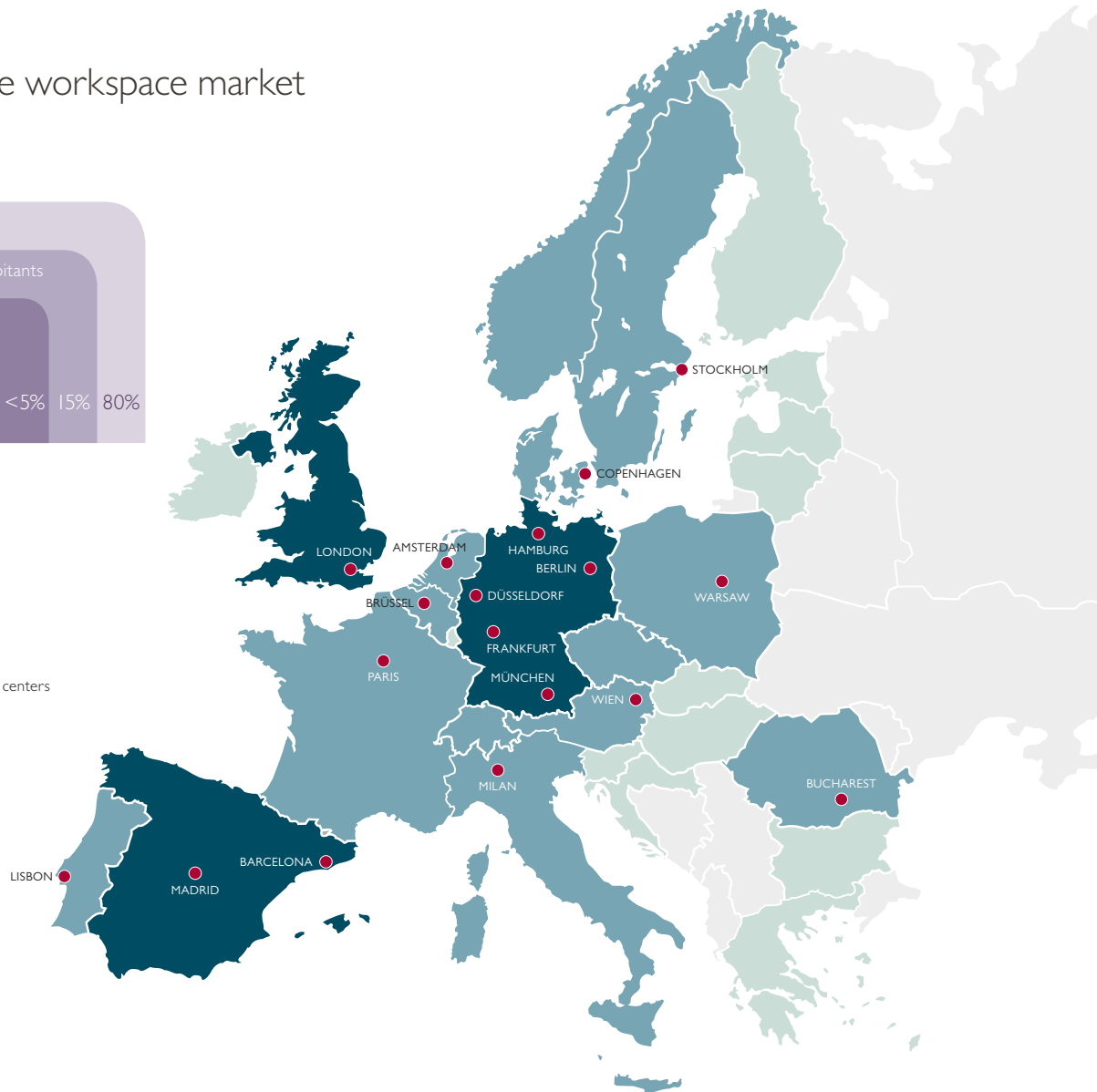
SPATIAL DISTRIBUTION



SHARE IN THE EUROPEAN MARKET



Source: Catella Research 2018



Forecast

Doubtlessly, flexible workspaces are an obvious trend in European city centers, as well as at strategic locations such as airports, train stations and in combination with urban housing and retail concepts. Meanwhile, we register a strong trickle-down effect into the classic office space offers and models in the combination of locations or submarkets. In addition, B- and C-locations are increasingly becoming the focus of the providers. The new forms of work promise a high degree of flexibility, the possibility of being mobile and they are a promising alternative to home offices or coffee shops. This makes them fit in with the requirements of the new generations of workers. Furthermore, sharing economy and the therewith associated reduction in fixed costs as well as the development of new pricing models (pay-per-use, flatrates) and social connectivity play a major role for internationally operating companies. In 2018, we estimate the share of flexible work space in Europe (EU 28) to be at around 2.1 million sq. m. Compared to the total European office market of around 275 million sq. m., flexible workspace only amounts to 0.76%. Based on the change processes and driven by steadily rising investor demand, we expect a strong increase of flexible workplace centers. With regards to the profitability, we see about 2,000 sq. m. as a minimum area size. A high number of the expansion processes are contested by the biggest internationally operating companies. Within these processes, the focus lies on the hybrid model.

Source: Catella Research 2018 / Deskmag / JLL / Thomas Daily / AllOfficeCenters / RCA / Coworkit / Institut für Wirtschaftsinformatik – Universität St. Gallen

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