INTRODUCTION
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The world of business is changing at a faster pace than ever before. Organisations need to be more adept at responding to change to gain a competitive advantage, or even just to stay relevant. Along with this, a greater focus on portfolio optimisation, cost control and optimising space utilization has led occupiers to apply greater scrutiny when evaluating their corporate real estate (CRE) requirements.

Globalisation, technological advancements and a changing workforce have also significantly impacted how, when and where business is done, demanding a greater level of flexibility from organisations so that they can attract the top talent, innovate faster and quicker, and ultimately maximise opportunities for revenue growth whilst still containing costs. Increasing emphasis is also being placed on employee flexibility. All these factors combined have created the perfect storm for greater demand for the quantity and quality of flexible workspace solutions on offer in the market.

The past few years have seen a rapid acceleration in the rise of flexible workspace solutions in office markets, particularly in the coworking sector. Coworking has been increasingly evolving beyond just an offering for the start-up industry, with corporate occupiers now representing an increasing proportion of the membership base. Flexible workspace solutions for occupiers cover the spectrum from turnkey and enterprise solutions, through to coworking space (Figure 1). CBRE’s Pacific Corporate Coworking Survey takes the pulse on corporate occupier demand for flexible space solutions, particularly coworking.

The coworking movement is believed to have been started in San Francisco in 2005 by Brad Neuberg, who’s aim it was to “…combine the independence of freelancing with the structure and community of an office space.”

Coworking centres have expanded swiftly in recent years and provide alternative office solutions for entrepreneurs and start-ups, by offering daily rates for shared office facilities and total flexibility with no up-front capital costs. Coworking space operators emphasise the opportunities for collaboration with like-minded entrepreneurs in their centres.

FIGURE 1: THE SPECTRUM OF FLEXIBLE SPACE SOLUTIONS

Source: CBRE Research, October 2018
According to Statista.com, the number of coworking spaces worldwide in 2018 was projected to be 18,900; by 2022 this is forecast to grow to 30,432 spaces, an annual average growth rate of 24.2%.

CBRE research estimates the total allocation of flexible space in Asia Pacific in 2018 to be 3.5 million square metres; this is an increase of circa 27% from 2017, after increasing 56% in the 12 months prior to that. In Australia the industry occupies approximately 193,200sqm of space in the six major capital cities, which accounts for roughly 0.7% of office stock. It is estimated that the combined size of the flexible office space market in Auckland and Wellington is currently around 60,000sqm.

According to coworker.com, Australia has the seventh largest presence of coworking operators globally at 253 operators, while New Zealand comes in at 35th with 62 listed operators. APAC is forecast to continue to grow rapidly over the next five years, with China becoming the world’s largest coworking market and India emerging as one of the world’s largest coworking markets by 2022.

The face of coworking space is also changing. New spaces are tending to be larger, existing spaces are continuing to expand by adding new space and members, and operators are continually working out ways to serve more members per square metre of space.

Working methods are also being revolutionised by advances in technology, which have entirely altered employees’ relationship to work, encouraging interaction between people’s private and professional lives. Technology has also aided the progress of an increasingly itinerant working style. In response to these changing demands of the contemporary workforce, flexible workspaces are becoming the point of reference for companies reassessing their CRE requirements.

There is an increasing importance being placed on employee satisfaction to attract and retain the best talent, and this focus has resulted in new organisation methods as well as consideration to the fitting and layout quality of spaces offered. From a management perspective, flexible workspaces are a way for occupiers to secure space as needed and optimise their CRE objectives.

Corporate occupiers’ views on flexible workspace solutions are changing; initially seen as space exclusively for entrepreneurs and start-ups, more and more corporates are realising the growing need for greater workplace flexibility, leading more corporations to use coworking spaces for some, or all, of their space needs. This trend is anticipated to accelerate, with many corporations seeking to decrease their exposure to long-term leases, and staff insisting on more flexible workplace options.

The imminent IFRS 16 new leases accounting standard, which will come into effect from January 2019, may also lead to increased demand for coworking space as organisations look for ways to take leases off their balance sheet.

Corporate users fall on a scale between early-stage and advanced when it comes to their existing and future use of flexible workspaces. There is opportunity here for landlords to adapt their existing office products to meet occupiers’ evolving needs.

Larger coworking space operators such as WeWork dominate the market and garner the most attention; however, the amount of smaller niche offerings continues to experience rapid growth. These specialised offerings range from industry-specific spaces, to workspaces for mothers and biolabs, and have appeal to groups who may not be interested in traditional coworking space offerings.
02/ COWORKING IN AUSTRALIA AND NEW ZEALAND – STATE OF THE MARKETS
CBRE estimates there are currently more than 160 flexible office space centres within Greater Sydney. In excess of 60 of these are located in Sydney’s CBD with a total estimated net lettable area greater than 100,000sqm, representing approximately 2% of the CBD office stock. Regus currently has the largest number of centres and footprint in the CBD, but the coworking sector is gaining ground.

Like most major cities, Sydney is seeing rapid growth in the prominence of coworking spaces. Tight vacancy (and high rents) around the CBD have driven demand for coworking services. Companies are able to use coworking services to meet short-term surges in office demand without signing longer leases. Increasingly, we expect to see more CBD tenants reduce their occupancy and rely on coworking providers to accommodate ebbs and flows in workload.

WeWork has aggressively expanded into the Sydney CBD with an emphasis on locations around major corporates. 5 Martin Place, for example, is in the heart of the CBD Core precinct, 100 metres from the Reserve Bank of Australia and Channel Seven’s Martin Place studio. A few hundred metres down the road, WeWork has multiple floors and signage rights on 333 George Street, also in the city’s financial core.

Coworking providers have focussed on having smaller offices scattered around the city to provide variety in location and expand catchment areas. There is increasing evidence of appetite for larger flagship offices. WeWork has committed to occupying the entire 10,000sqm of Daramu House in Barangaroo (to complete in 2020). This places them close to the Barangaroo towers – again, near some of Australia’s largest companies in some of Australia’s most expensive office real estate.

Outside of the CBD, competition is centred around the more traditional coworking strengths: the ability to provide a creative space for small business, start-ups and entrepreneurs. These areas have superior access to residential areas and rents are lower, particularly when compared to the CBD.
Over the past five years Melbourne has seen exponential growth in the number of sites offering shared office space. Greater Melbourne is estimated to have over 190 shared working spaces with circa 45 centres located in the CBD, representing approximately 1.5% of CBD office stock. The availability of flexible working is highest in the CBD and surrounding fringe suburbs, with approximately 60% of Greater Melbourne’s spaces found in these locations.

Demand for flexible working spaces is being driven by the start-up sector; however, large corporates are increasingly leasing desk space in coworking hubs to expose their employees to new ideas and an entrepreneurial culture. Several of Australia’s major banks, for example, have taken up permanent residency in coworking hubs with the stated objective to benefit from engaging with start-ups and find opportunities to partner with or buy their ideas.

In its early stages, the Melbourne coworking scene was primarily dominated by smaller, local based operators. The last 12-24 months, however, has seen larger international operators expand their footprints, most notably Regus and WeWork. WeWork currently has two sites in the Melbourne CBD at 401 Collins Street and 152 Elizabeth Street, with a third location set to open at 222 Exhibition Street.
Flexible workspace in the Brisbane office market has experienced significant growth and demand over the past 18 months and is increasingly being recognised as a third dimension of corporate real estate.

There is currently circa 40,000sqm of flexible office space in the Brisbane CBD and Near City markets across over 40 operators. The majority of flexible workspace activity (circa 80%) is concentrated in the Brisbane CBD.

2018 has been a strong year for flexible workspace activity in the Brisbane office market. New entrants via coworking continue to drive both demand and transactions. Following an aggressive expansion on the eastern seaboard, HUB Australia absorbed 4,000sqm of space at 200 Adelaide Street, and WeWork concluded its first transaction in the Brisbane CBD of 7,358 sqm at 310 Edward Street. These two transactions comprise more than half of the direct coworking space in the Brisbane office market.

Due to the rapid expansion of the coworking sector, traditional serviced operators such as Regus and Christie Spaces are revisiting their offering to include coworking space in addition to the traditional serviced office spaces usually associated with these brands. Christie Spaces launched Common Ground at 320 Adelaide Street in October 2018.

Whilst start-ups and small operators remain key users of coworking space, larger companies are looking for alternative workspaces to accommodate project space and ultimately encourage collaboration. Suncorp’s new headquarters under construction at 80 Ann Street will incorporate 20% of flexible space in the total net lettable area.

From a landlord perspective, coworking is increasingly viewed as a strategic tool to deliver tenants access to flexible lease arrangements in an office tower. By outsourcing this function to a coworking provider who typically enters into a long-term traditional lease arrangement, landlords can provide customers access to flexible space solutions without compromising asset value or taking business risk by directly providing the service. However, there are concerns regarding the sustainability of the sector due to increased pressure from shared occupancy in assets, the quantum of space coming to market and concerns around the strength of underlying lease covenants.

Over the next 12 months, CBRE anticipates continued expansion and demand of flexible workspace via the arrival of new providers from Asia and the United States. Over the longer term outlook period, we expect consolidation within the industry.
Whilst the uptake of shared working spaces in Perth has been slower than in other states, the movement is rapidly gaining momentum. There are currently 30 coworking space offerings in the Perth metropolitan region, most of which have opened and/or expanded in the past 12 months. A point of difference in the Perth coworking market in comparison to the other states is that a large amount of the spaces are located in suburban markets; currently just 37% of existing coworking spaces are in the CBD. The next largest concentration of coworking spaces is found in West Perth (10%), Crawley (7%) and Subiaco (7%).

Demand for flexible working spaces in Perth is still largely being driven by the start-up sector. Large corporates have not yet adopted the movement to the extent observed in larger, more mature markets; however, it is anticipated that this will be a natural progression as the market develops. This may begin to change with the planned inclusion of a Dexus Place at 240 St Georges Terrace, which will encourage corporate tenants in the building to utilise the space and its offerings.

Coworking space in Perth has so far been dominated by one central player: Spacecubed. Spacecubed currently operates four centres in the CBD: Riff, Flux, Core and Combine. These spaces range from generic, all-round coworking environments to industry-specific spaces such as resources (Core) and agriculture (Combine). While Spacecubed has not indicated an intention to expand outside of Perth, their internal expansion plans are aggressive.

As the coworking movement gains momentum, landlords in Perth are increasingly seeking to incorporate a coworking aspect into their buildings. These spaces have been seen to improve vibrancy and a sense of place, and are seen to be having positive capital impacts on building valuations. We anticipate that the next 12-24 months will see some larger national and international operators expand into the Perth market, the most notable of which is WeWork who is rumoured to be quietly scouting the market for space.
The Auckland flexible office space market has gone through significant changes over the past few years. The sector’s footprint increased from less than 10,000sqm in 2015 to well over 40,000sqm in 2018, and the composition of stock changed from being dominated by serviced offices to be about 85% coworking space.

The Auckland flexible office space market is currently dominated by three major operators: IWG, with its Regus, Spaces and BizDojo brands; Generator, a local operator with an Auckland focus; and Smales Farm, which developed and manages an 11,000sqm coworking office building in Takapuna on the North Shore.

As far as the impact of the sector’s growth on the traditional leasing market is concerned, we are seeing a clear drop in the take-up activity of small occupiers. In the second half of last year, the traditional take-up activity of businesses requiring 50-200sqm office space decreased by around 50% when compared with their average bi-annual take-up activity over the previous two years.

In line with global and regional trends, corporate occupiers in the Auckland market are increasingly using coworking space as part of their office portfolio. Large corporates that have recently committed to coworking space (predominantly using private offices rather than just open plan workstations) include ASB, ANZ, Deloitte, Xero and Hays.

In terms of future growth, we estimate that the total size of the Auckland flexible space market can easily double in the coming years. WeWork, the US-based coworking operator known for its recent aggressive expansion, is planning to open its first centre in Auckland in 2019, and the three current dominant operators all have plans to expand.
The Wellington flexible office space market is currently dominated by IWG. The global network offers serviced office space in three different locations through its Regus brand and, following the acquisition of BizDojo, runs two coworking centres as well.

In the serviced office market, Servcorp and Office Suites are other sizeable operators from the two ends of the market’s quality spectrum, while in the coworking segment there are various local businesses running smaller centres such as Digital Nomad, The Settlement and SubUrban.

At the same time, most of these centres target start-ups, entrepreneurs and small businesses as tenants and would struggle to accommodate a corporate or government requirement of a private suite for 20 people and the additional communal space.

Following the recent seismic activity, there was a sharp vacancy decline in the city, and an ongoing increase in market rental rates. Many major occupiers have used this to review their current operating model, assessing flexible working practices and their business resilience. Flexible workspaces are likely to see increased demand in Wellington in the future as more businesses shift their operating platform towards styles which can leverage the benefits offered by flexible space.

The Wellington coworking market is vibrant and there is strong demand from the sector’s traditional client base of individuals and small teams, but noticeable corporate/government presence is yet to materialise. Given current market dynamics, we would not be surprised if operators soon provide more opportunities for this growing demand.
PARTICIPANT PROFILE – BY INDUSTRY & SIZE

60 occupiers across Australia and New Zealand

Large 30,000sqm+
Medium 10,000 – 30,000sqm
Small 1,000 – 10,000sqm
04/
FLEXIBLE SPACE – CURRENT AND FUTURE USE
CURRENT FLEXIBLE SPACE USE

INDUSTRY BREAKDOWNS – AUS & NZ

40% of Australian occupiers surveyed are currently using flexible workspace solutions as part of their office portfolio, versus just 23% in New Zealand. While 32% of Australian occupiers said they are considering flexible workspace solutions for the future, 28% have no plans to use them in the future. New Zealand had a greater proportion of occupiers considering flexible solutions for the future, reflecting the emerging growth in this market, but also a higher proportion not intending to use it at 39% apiece.

Technology is the industry currently using flexible workspace solutions the most, followed closely by the Public Sector. The Legal industry is the least active user currently of flexible workspace, with none of the law firms surveyed currently using it. At the same time, however, there appears to be a polarised view amongst law firms between those with a more progressive outlook versus the traditional firms: on one hand they are the industry group most likely to be considering it for future use (57%), but also the industry group most likely to have no plans to use it in the future (43%).

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When it comes to flexible workspace solutions on offer, Australian corporates are more likely to be using coworking (47%), followed by serviced offices at 33%. Only 13% of corporates surveyed are currently using meeting/event space and just 7% are using turnkey solutions.

In New Zealand the result is reversed with New Zealand occupiers favouring the more traditional serviced offices (57%), followed by coworking (43%). None of the New Zealand respondents were currently accessing meeting/event space or turnkey solutions.

These results reflect the more mature nature of the Australian market with additional flexible offerings emerging.
Thinking about your space requirements in two years’ time, how is your use of office space likely to change…

The majority of occupier respondents across Australia and New Zealand (52%) said they plan to reduce their footprint of traditional leased office space over the next two years. At the same time, a similar amount (50%) plan to increase their footprint in coworking space. A significant 45% also plan to increase their use of meeting/event space whilst 30% intend to increase their use of serviced office space. Very few respondents plan to decrease their use of flexible workspace solutions in the future.

In the more mature Australian market, more participants think that traditional space will further decrease and use of coworking will increase, reflecting satisfaction with use of current flexible options.

A more pronounced result was elicited in Australia with 58% of occupiers planning to reduce their traditional leased office footprint (versus 47% in NZ) and 55% planning to increase their use of coworking space (versus 47% in NZ). While meeting/event space is not currently prevalent in New Zealand, there was a stronger preference to increase this type of space (47% versus just 40% in Australia). What these findings clearly reveal is a shift towards an office portfolio with a greater proportion of flexible space options.
When looking at future space requirements by portfolio size, it was revealed that large users (30,000sqm+ portfolio) plan to reduce their traditional leased office footprint more than smaller occupiers, with 75% intending to reduce their footprint. Large users value coworking space: 100% of those surveyed intend to increase their use over the next two years.
Medium-sized occupiers (10,000sqm to 30,000sqm portfolio) also plan to reduce their traditional leased office footprint (56%), although not as many as in the large user group. Another interesting difference is that medium users are more inclined to want meeting/event space (50%) compared to 38% of large users, while just 38% plan to increase their use of coworking space versus 100% of large user respondents.

This dynamic is also reflected amongst the small portfolio user group, potentially indicating a greater focus on space utilisation in their leased premises and the questionable need for large boardrooms and multiple, superfluous meeting rooms. The opportunity to be able to save on some of this space and be able to access it and pay for it on an “as needed” basis, as well as having access to premium meeting/event facilities and catering/concierge services is a benefit that many small to medium sized users would find beneficial.
FUTURE USE BY SIZE: SMALL USERS – AUS & NZ

Small users want more meeting/event space. They are also more interested in turnkey solutions.

**DECREASE**
- LEASE/OWNED SPACE: Decrease 40%
- MEETING/EVENT SPACE: Decrease 40%
- TURNKEY: Decrease 20%
- SERVICED OFFICE: Decrease 20%
- COWORKING SPACE: Decrease 20%

**INCREASE**
- LEASE/OWNED SPACE: Increase 50%
- MEETING/EVENT SPACE: Increase 25%
- TURNKEY: Increase 20%
- SERVICED OFFICE: Increase 20%
- COWORKING SPACE: Increase 20%
FUTURE USE BY SECTOR
AUS&NZ

Over the next two years…
% of occupier respondents:

- **Government**: 60% plan to reduce their traditional leased office footprint the most (60% expect to decrease) followed by IMT (57%).
- **Government & Finance/Insurance**: 67% plan to increase their use of coworking space the most.
- **Government**: 67% plan to increase their use of meeting/event space the most.
- **Professional Services**: 50% plan to increase their use of meeting/event space the most.
05/ DRIVERS FOR USING FLEXIBLE SPACE
Main drivers for using flexi space are to enable greater flexibility.

### FLEXIBILITY

- **Workplace Flexibility**
- **Flexibility to increase/decrease portfolio**
- **Support off-site workers**
- **Offset economic uncertainty**
- **Adapt to changes in business processes**
- **Reduce overall costs**
The survey revealed that different industry groups place different values on drivers for using coworking. For instance, Finance & Insurance gave a high score to the driver of portfolio flexibility as a key reason for using coworking, whereas accessing a collaborative environment was given a much lower score.

For Legal the top driver was the ability to access meeting/event space and concierge services. Portfolio flexibility was not identified as a key driver for law firms when it comes to flexible space solutions. Government, however, placed higher emphasis on the ability to access a collaborative environment through using coworking space whilst access to meeting/event space was not as important.

Finally, for technology companies the key driver for using coworking is to be able to adapt to changes in business processes with a collaborative environment of lesser importance.

For occupiers not planning on using coworking in the future, key reasons include: 1) security concerns 2) inability to establish corporate brand and identity 3) organisation doesn’t need it, and 4) coworking spaces in practice do not produce meaningful exchanges. In Australia the number one reason for not using coworking space is the inability for corporates to establish their corporate brand identity within the coworking centre.

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<thead>
<tr>
<th>Industry</th>
<th>High Score</th>
<th>Low Score</th>
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<tr>
<td>Finance &amp; Insurance</td>
<td>Portfolio Flexibility</td>
<td>Collaborative environment</td>
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<tr>
<td>Legal</td>
<td>Access to meeting/event space and concierge</td>
<td>Collaborative environment</td>
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<tr>
<td>Government</td>
<td>Collaborative environment</td>
<td>Access to meeting/event space and concierge</td>
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<tr>
<td>Technology</td>
<td>Adapt to change in business processes</td>
<td>Collaborative environment</td>
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We posed a series of questions for our occupiers, asking them: if they had an active space requirement, and had two exactly comparable buildings under consideration, with the exception that one had a coworking operator in situ, which building would they choose? Interestingly, only 32% of Australian occupiers would choose to locate in the building with the coworking operator, with 26% actively choosing not to be in the building with a coworking operator. The balance had no preference. For New Zealand occupiers, the view was different with the majority (54%) preferring to be in the building that had a coworking centre. Concerns for occupiers around building tenant profile, covenant and existing experience of colocating with a coworking centre could be a factor contributing to the lower result amongst Australian occupiers. For New Zealanders, with coworking less evolved in the market, there may be greater interest to colocate with a coworking centre and experience the benefits.

We then asked the same question, but for meeting/event space, and saw markedly different results with an overwhelming 89% of Australian occupiers saying they would prefer to be located in a building with meeting/event space. This sentiment was echoed by New Zealand occupiers, with 81% having a preference for meeting/event space in the building they would choose to occupy.

Clearly, the desire for “on demand” meeting and event function space with concierge/catering services of a more premium quality than what they could provide in their own tenancy is viewed as a benefit by the majority of occupiers.
EXPECTATIONS OF LANDLORDS

In Australia 68% expect greater expansion/contraction rights and 42% expect shorter lease terms

Most occupiers in Australia (44%) say landlords are not changing their response to occupiers’ changing space requirements.

17% of Australian occupiers think landlords are responding very poorly.

17% of Australian occupiers think landlords are responding very poorly.

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CBRE PACIFIC CORPORATE COWORKING SURVEY | CBRE RESEARCH
WHAT WILL HAPPEN TO COWORKING IF THERE’S A DOWNTURN...?

88% of occupiers are not concerned or haven’t considered the impact on their business if the co-working sector starts to shrink in response to an economic downturn.
CONCLUSION
The findings from the CBRE Pacific Corporate Coworking Survey have clearly revealed an imminent shift in the portfolio space mix of some of Australia and New Zealand’s largest occupiers. The future is flexible, with office portfolios expected to have a greater proportion of flexible workspace solutions.

More than half of corporates surveyed (52%) said they expect to reduce their footprint of traditional leased space in just two years’ time. But this doesn’t necessarily imply they are planning to reduce their portfolio size, with an almost equal amount at 50% saying they expect to increase their footprint in coworking space.

There is also a strong appetite for meeting/event space with 84% of occupiers saying they would choose to occupy a building that offered this, versus one that did not. Despite 100% of large corporate occupiers saying they intend to increase their use of coworking space in the next two years, only 32% of respondents in Australia would choose to be in a building with a coworking space provider in situ. So while demand for coworking is high, there are certain issues that may be affecting occupiers’ demand for the specific offering they are seeking and where it is located.

This was particularly highlighted by the differing drivers amongst industry sectors for using coworking. There is an opportunity here for more differentiated service offerings in the coworking space to suit these bespoke industry requirements.

While for many corporate occupiers, coworking may have been at first trial an opportunity to reduce costs, access some additional space or gain exposure to a more entrepreneurial culture, the offering is now evolving to provide a myriad of benefits, many of which highlight the increasing need for flexibility and ability to adapt to change in an increasingly high-speed world.

CONCLUSION
CBRE PACIFIC CORPORATE COWORKING SURVEY

KEY MESSAGES:

In the next two years...
% of occupier respondents:

- **LEASED OFFICE SPACE**: 52% plan to decrease
- **COWORKING SPACE**: 50% plan to increase
- **MEETING/EVENT SPACE**: 84% plan to increase

% of occupiers that would prefer to locate in a building with meeting/event space:

- **COWORKING MAIN DRIVER**: Enable greater flexibility
- **OPPORTUNITY**: For differentiated coworking offerings