Research Report 2018

APAC Flex Market - The fastest growing region in the world

Expanded Edition

Instant
RETHINKING WORKSPACE

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Introduction

The Asia-Pacific region is host to some of the most expensive markets for office space in the world – but co-working and flex workspace is flourishing in these competitive markets, allowing start-ups and companies new to its cities a path to market.

Supply of flex space has increased at over 50% in some of the markets across Asia-Pacific over the past 12 months. This rate of growth has been driven by a dynamic mix of established, local operators, and international entrants - now landlords and developers keen to cater for a surge in demand.

> **Instant has been selling flex space in the region for more than 10 years and was one of the first in our sector to do so. This report uses our proprietary data to present the first comprehensive review of the supply and demand dynamics of Asia-Pacific's flex workspace market.**

The regional market has grown at a faster rate than any other destination across the globe in recent years. An influx of capital, alongside ever-increasing levels of demand from clients for flexible offices, has enabled rapid expansion in a short period of time.

> **There are several factors from a socio-economic point of view that mean flex workspace is well-suited to the driven, entrepreneurial business cultures of the region's powerhouse cities. But it is also now increasingly attractive for international firms looking to explore the fantastic opportunities and diverse urban environments across Asia-Pacific.**

This report will explore the drivers behind the growth of flex space, a review of supply/demand in the key markets, and our data-led view as to its future direction.

The Headline Numbers

The supply of new centres to the region increased by 16% over the past year – this means that there are now approximately 8,600 centres providing flex office solutions in the region.

Growth levels well above 50% have been seen in many localised markets during that time, even among the larger city markets in the region.

Of the 10 largest global markets for flexible office space, six fell within Asia-Pacific with a further four in the top 20 based on our most recent figures.

> **In short, this market is seeing the most exciting growth of any global region and has done so consistently over the past five years.**

In our view the market is quite substantially larger than our own records, but the sheer rate of growth in many of China's cities, and a market which has incorporated many small, niche, co-working environments make it extremely hard to track.

> **As investments in more traditional real estate elements are providing lower returns across APAC, investors are increasingly looking towards niche, fast-growing areas to maintain higher levels of return.**

A recent survey of investors found that of these specialised areas in real estate, 14% plan to invest in flexible office businesses, an indication of the interest within this market at present and a key driver in the flex space revolution across the region.

THE SUPPLY OF NEW CENTRES HAS INCREASED BY 16% OVER THE PAST YEAR

AN ESTIMATED 8,600 CENTRES NOW PROVIDE FLEXIBLE OFFICE SPACE ACROSS THE REGION

TOP 20 APAC CITIES

CITY	CENTRE COUNT 2017	GROWTH 2017	FORECASTED CENTRE COUNT 2018	FORECASTED GROWTH 2018
Hong Kong	340	19%	383	13%
Tokyo	282	14%	299	6%
Shanghai	275	12%	320	16%
Singapore	265	19%	288	9%
Melbourne	228	19%	252	11%
Sydney	221	12%	250	13%
Bangalore	188	20%	243	29%
Mumbai	158	8%	187	18%
Jakarta	146	16%	169	16%
Bangkok	139	10%	155	11%
Kuala Lumpur	122	36%	138	13%
Gurugram	109	34%	128	18%
Brisbane	96	27%	111	16%
Beijing	211	18%	236	12%
New Delhi	94	8%	113	20%
Seoul	86	9%	90	4%
Taipei	82	4%	85	4%
Pune	67	21%	80	19%
Hyderabad	70	21%	87	25%
Chennai	54	31%	69	27%

Asia-Pacific Region

The past 12 months saw mixed results across the key Asia-Pacific markets within the flexible office industry. Some of the larger markets continued to experience steady growth in the low-teens while markets in high growth cities such as Singapore & Melbourne saw centre numbers increase by 19%.

> **Of the 2,504 centres identified by Instant across the top 12 Asia-Pacific flexible cities, Hong Kong continues to remain at the top with 340 centres identified.**

This is a similar number as can be found in New York and is unsurprising given its maturity and the financial and service sectors located within the city.

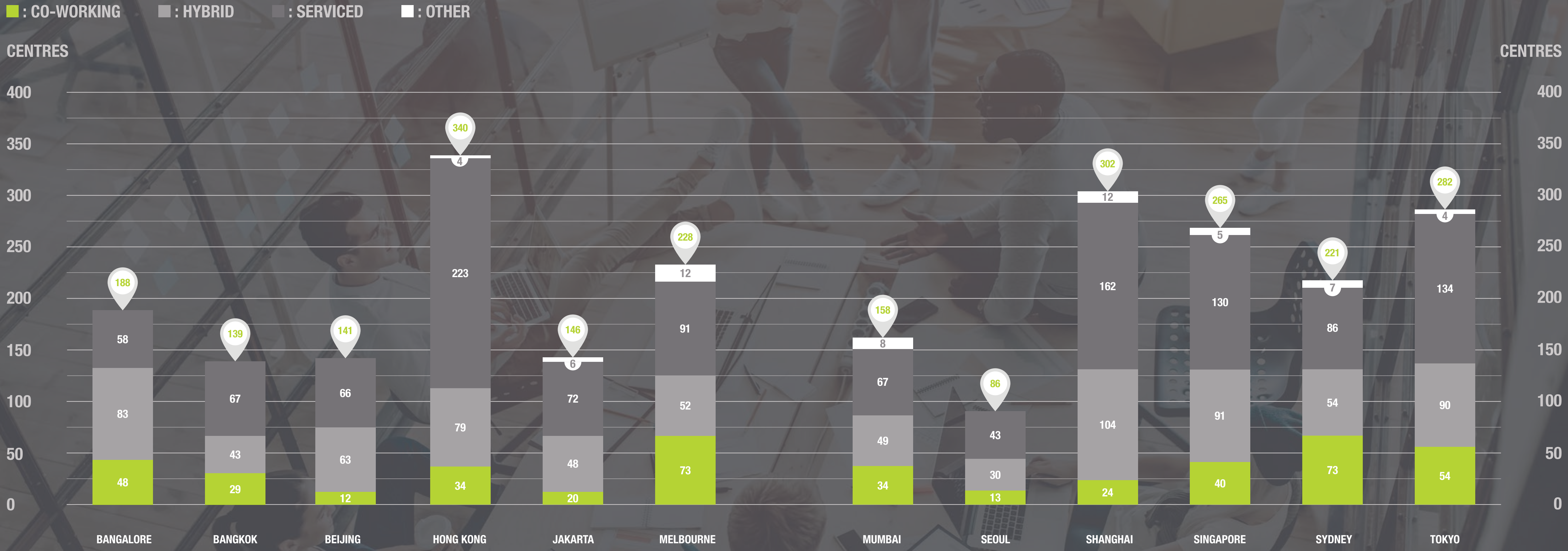
Despite being an established market, the growth levels in Hong Kong remain some of the highest of our leading cities with an increase of 19% in 2017/18.

HONG KONG REMAIN
MARKET LEADERS
WITH AN INCREASE OF
19% IN 2017/18

2017/18 MARKET FIGURES

AVERAGE DESK PRICE (USD)

NUMBER OF CENTRES 2017/18



Why Does the Flexible Approach Work?

The rapid growth of Asia-Pacific's key cities has created issues for those seeking office space - flexible workspace provides a sustainable solution.

With rents in conventional space among the highest in the world, constrained supply of new space coming to market, and transport congestion, these are the perfect conditions to drive a more agile approach to workspace for companies of all sizes. Flex workspace allows workers to operate from more cost-effective space in locations of their choosing that do not rely upon an arduous, expensive trip to the central business district.

This combined with the vibrant start-up culture in these markets means that co-working and flex workspace provides a robust alternative to office markets that can be prohibitively expensive to all but the most well-established corporate firms.

- POPULATION GROWTH FORECAST TO EXCEED 5% YEAR ON YEAR
- 6 OF THE WORLD'S TOP 10 MOST CONGESTED CITIES ARE IN ASIA
- 5 OF THE WORLD'S TOP 10 COUNTRIES FOR LONGEST COMMUTE TIMES FALL WITHIN ASIA
- LARGE AND DIVERSE TARGET MARKETS, OFTEN HARD TO ACCESS QUICKLY IF OFFERING A PHYSICAL PRODUCT
- OFFICE SPACE IS AT A PREMIUM
- INCREASING FOCUS ON SERVICE SECTOR JOBS
- ASIA-PACIFIC START-UPS ARE FINALLY STARTING TO RAISE SERIOUS INVESTMENT ALLOWING FOR EXPANSION - FUNDING IN CHINA AND SOUTHEAST ASIA REACHED RECORD LEVELS IN 2017
- $19.3 BILLION WAS RAISED ACROSS THE REGION IN THE FIRST HALF OF 2017 ALONE - THAT'S MORE THAN WAS RAISED BY FIRMS IN SILICON VALLEY

Flex Appeal

In Japan senior managers, who are often older, expect private offices as this represents seniority within a company. In the same sense many junior individuals still feel they must be seen in the office at all times to represent dedication even if this limits productivity.

In China and Korea individuals still expect to have their own desk within an office environment. Only very young companies and individuals who have experienced more western culture feel comfortable with hot desking type environments.

In certain Asia-Pacific markets leasing terms are already short, often between 3-5 years, making the need for large scale flexible space less relevant for larger companies who may still be looking for some security. They are now looking at more flexible solutions that free up CAPEX, reduce head count and the risk of signing a lease.

Flexible workspace – and its culture of collaborative, community-based working – seems well placed to overcome some of the significant issues that are impacting business in the region's major cities.

In these markets, the options that flex space provide have allowed companies to select a number of different locations and provide their employees with agile solutions nearer their home.

It is changes to real estate strategy such as reduction in commuting times that significantly assists staff productivity and also retention of key employees.

SEAN LYNCH
MANAGING DIRECTOR
INSTANT ASIA-PACIFIC

The introduction of flexible workspace into the region gives employees more options of working environment and removes an over-dependence on a single, central corporate HQ.

In turn this injects more agility into workplace strategy simply by giving workers more choice as to where they base themselves, and at a lower cost. For start-ups or foreign companies entering the city markets of the Asia-Pacific region, this is critical as the high rates for conventional space and low availability in the central business districts of those markets are very prohibitive.

For businesses entering the region for the first time or even those expanding operations into different countries, flex space is becoming a preferred route to market in Asia-Pacific.

Finding a few desks that allow businesses to sample the local market via the abundant choice of the local flex operators is relatively low cost in some of Asia's expensive cities but also low risk.

But the growth of flex space is not just a story for foreign companies, the local business community has embraced the move to more agile space solutions as it encapsulates the entrepreneurial feel of many of the city markets.

It is an exciting time to be operating in the region as there has been so much growth and there is a palpable sense of dynamism across its cities. Larger firms are now also looking at more options in occupying space that do not require signing a lease, even for larger headcounts.

A recent deal with AMEX in Kuala Lumpur with Instant was for a 1,000 headcount office space but rather than go down the lease route, it made sense to work with a third party to source and operate the workspace on their behalf.

Many international firms are more comfortable with flex solutions as it reduces the risk of exposure in foreign markets while also providing a rapid route to growth.

SEAN LYNCH
MANAGING DIRECTOR
INSTANT ASIA-PACIFIC

The Operator View

The growth in demand across the region has encouraged many operators to expand rapidly. Many businesses expand across Asia-Pacific in part because of its sheer scale and realising how difficult it can be to service client requirements from one location.

Flex space provides an excellent option as it allows client-facing teams to be positioned where they need to be at relatively low cost and with minimal risk.

Supply of flex space has risen in response to the market demand for project-orientated, location-specific requirements and, as it has done so, clients have begun to relish their exposure to the added benefits of flex space environments.

This includes access to wider business communities, exceptional amenities and proximity to city centre locations.

This expectation of “value-add” amenities and services to the flex space environment has put pressure on operators across the sector to significantly improve the customer experience. This includes direct introductions or creating spaces where individuals can meet and discuss business development or collaboration in a more relaxed environment.

To facilitate these experiences, operators are using technology more than ever before.

WeWork and others have created dedicated Member Apps to both list the companies operating within a certain space but also to facilitate interaction both locally and further afield.

How much value these interactions truly create is hard to measure, but clearly for some companies the opportunity to easily engage with like-minded people and potentially share knowledge is a feature that they value and are willing to pay a premium for.

OPERATORS ARE USING TECHNOLOGY TO FACILITATE EXPERIENCE AND ENVIRONMENT

Centre numbers are our focus, to ensure we have a good variety of locations, price points and sizes. Occupiers are increasingly demanding added value beyond the space.

We are seeing far more interaction between clients, more service exchanges / barter agreements. As the provider we are the conduit to marking these connections. I think this is how we stand out as a service focused business. It is important to understand your clients and areas they might need support.

LUC DELAUZUN
ARCC SPACES

Operator Insight:
Corporate Demand

"Flexible workspace is now mainstream. Over 40% of our membership work for large corporates. We have seen an increase both in demand for a number of offices from single corporates around our network as well as from corporates seeking large enterprise deals in key markets.

Deals with Fortune 500 companies have driven our recent expansion to new centres in Singapore, Hong Kong, Tokyo, Beijing, Mumbai, and Sri Lanka."

TODD LIIPFERT
SENIOR DEVELOPMENT DIRECTOR
THE EXECUTIVE CENTRE

"No matter which market you look to across APAC, there is a clear increase in demand from large corporates who appreciate access to flexible terms, scalable workstation provisioning to reflect staffing changes, savings on CAPEX for fit-out and make-good and reduced risk."

ANNA CHAVEZ
SENIOR MANAGER – CHINA & SINGAPORE
SERVCORP

Market Consolidation

"Market consolidation is great for those seeking space. It means larger networks with access to more offices in more locations. This also helps with economies of scale on supply costs and allows larger companies to pass on savings to their members."

TODD LIIPFERT
SENIOR DEVELOPMENT DIRECTOR
THE EXECUTIVE CENTRE

"Many landlords are looking to joint ventures and profit share models with operators who supply design and technology for a management fee.

Some widely known examples in the region include WeWork-Embassy Group (India), UCommune-CapitaLand (Singapore), Ucommune-Vanke (China)."

ANNA CHAVEZ
SENIOR MANAGER, CHINA & SINGAPORE
SERVCORP

Operator Insight:

Space as a Service

As corporates come with larger and larger requirements, the ability to modify and create the perfect blend of co-working, community spaces, meeting rooms, and private offices is essential.

Our job is to empower our members to succeed. Creating the perfect office helps us do just that.

TODD LIIPFERT
SENIOR DEVELOPMENT DIRECTOR
THE EXECUTIVE CENTRE

'The services that do seem of value are personalisation of space/fit out, premium end of trip facilities and a range of workspace solutions people can rotate through to suit their mood and project.

In addition to this, as more sole traders and small business operators enter the market and the need for cost-effective marketing efforts are ever-increasing, such as peer to peer marketing, word of mouth etc., there is an even bigger emphasis on community platforms and network marketing.'

ANNA CHAVEZ
SENIOR MANAGER, CHINA & SINGAPORE
SERVCORP

Leasing Large

Having operated in Asia since 1994, we are able to leverage our accumulated market data and expertise to identify opportunities for growth. Fundamental to this is speaking with our members to identify where they need space and then to secure and create that space in the market.

Over the past five years, the amount of space we target in new locations has increased from approximately 1,100 sq m to 1,800 sq m per centre.

TODD LIIPFERT
SENIOR DEVELOPMENT DIRECTOR
THE EXECUTIVE CENTRE

2019 and Beyond

We are now in 30 markets and have over 125 committed locations. We have grown by 30% per annum for the past three years and plan to continue to grow within our existing footprint as our members need us.

This means we are targeting to add more than 30 locations to the network in 2019 across our existing markets and into new locations.

TODD LIIPFERT
SENIOR DEVELOPMENT DIRECTOR
THE EXECUTIVE CENTRE

Who is Driving the Growth of Flexible Space?

The flexible industry in Asia-Pacific remains heavily weighted towards independent and localised providers, however the last 12 months saw some larger operators either expand quickly within the region or make bold statements about future expansion plans.

This positive sentiment has been supported by an increasing number of corporate customers, who have experienced the advantages of flexible space and have moved often quite large teams into either dedicated areas or shared space across the region.

> **Spaces (part of global flex operator IWG) which counts Alibaba, Booking.com, Uber and Paypal among its customers has indicated plans to increase its 80 global centres to 250 during the next year.**

A number of new locations have opened across Southeast Asia as countries such as Malaysia, Indonesia, the Philippines and Vietnam all experienced an increase in demand.

In addition to this, WeWork has expanded quickly within the region during 2017 and has indicated that its growth is not likely to slow during 2018 as companies like Microsoft and Facebook have taken large numbers of desks within its centres across the region.

PERCENTAGE SPLIT OF LARGE OPERATORS VERSUS INDEPENDENTS

	LARGE OPERATORS	INDEPENDENTS	TOTAL
APAC	31%	69%	2,199
Hong Kong	25%	75%	157
Melbourne	11%	89%	148
Sydney	13%	87%	121
Singapore	20%	80%	115
Bangkok	11%	89%	88
Bangalore	27%	73%	82
Tokyo	38%	62%	77
Mumbai	20%	80%	75
Jakarta	27%	73%	73
Shanghai	42%	58%	69
Taipei	23%	77%	43
Seoul	26%	74%	35
Beijing	46%	54%	28

Expanding Into the City Markets

The rapid ascent of flex workspace has been driven by the largest cities in the region. Two of Australia's largest cities, two from India, and rapid expansion in the Chinese markets of Hong Kong, Beijing and Shanghai mean that 7 of the 10 largest fastest growing global markets are based in Asia-Pacific.

And, in fact, Jakarta, Tokyo, Seoul, Bangkok and Singapore are not far behind. These top 12 APAC locations host 30% of the region's flex workspace, a higher mix than the equivalent markets in the US or Europe.

> **The profile of the flex space industry has changed dramatically over the last 5 years. In 2012, more than 50% of locations now found within these major cities did not exist.**

The size of the shift away from these locations gives us an impression of how quickly the industry is spreading across the region as supply of space has been boosted by both local entrepreneurs and multinational companies.

But the fact that so much of the market is derived from these key cities leads us to conclude that in the coming five years we should anticipate significant growth in secondary cities across the region.

THE ASIA PACIFIC MARKET SAW SUPPLY INCREASE BY 16% IN 2017/18

POPULATION GROWTH IS FORECAST TO EXCEED 5% YEAR ON YEAR

THERE ARE AN ESTIMATED 8,600 CENTRES PROVIDING FLEXIBLE SPACE

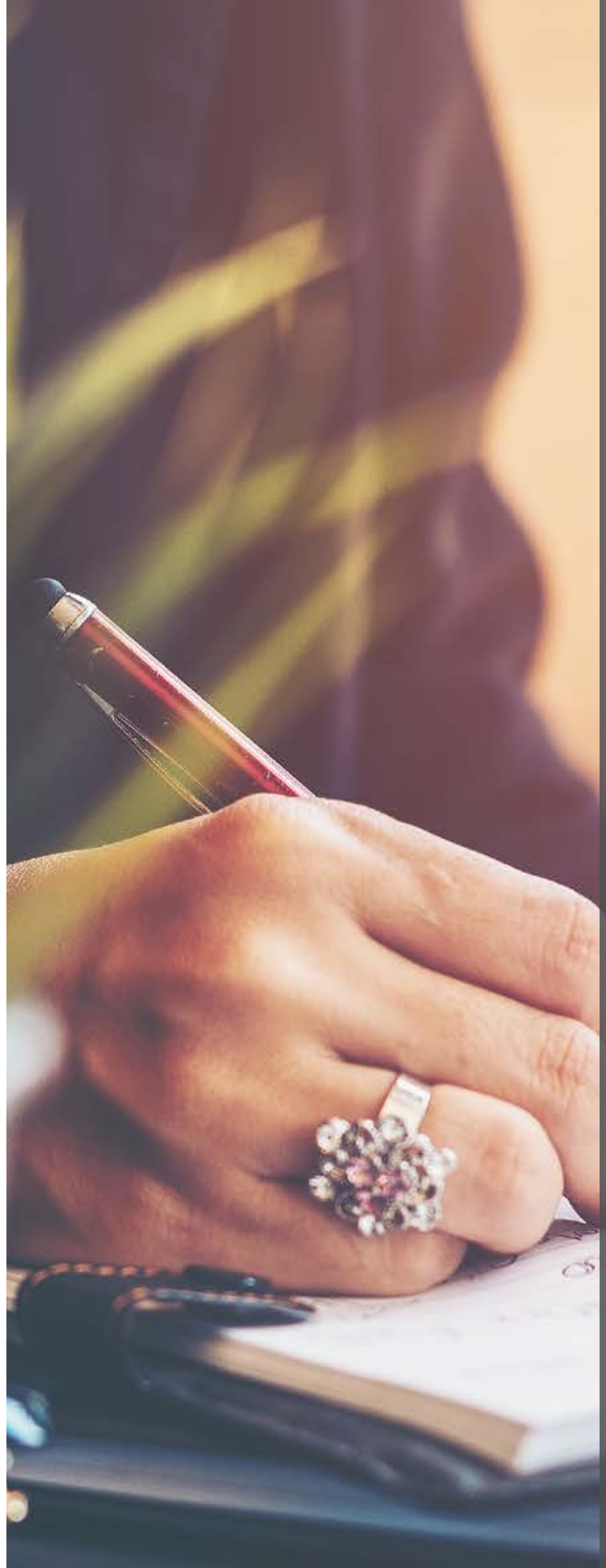
Can These Rates of Growth be Maintained?

Growth in supply to the top APAC locations has been around 15%+ over the past year, while markets in high growth cities such as Bangalore saw centre numbers increase by more than 20% over the same period.

From our data, we are seeing enough occupier demand, thus far, to more than match this additional supply of space, despite the rapid rate of growth.

> **2017/18 saw the number of individuals placed into flexible locations increase by over 40% compared to the previous year.**

This increased demand is coming from a wide variety of businesses, from small enterprises to large corporate organisations – reinforcing the importance of flex to all companies.



> **“The growth rates for supply of flex space across Asia-Pacific are among the highest in the world, and have been so for the past five years – for investors, it provides some of the most enticing opportunities to take advantage of the move towards flexible workspace solutions.**
>
> **What we are seeing however, is that the lack of space coming to market in the central business districts of those key cities is now beginning to hamper the growth of market supply of flex space, as there simply isn’t the space available for flex operators to cater for demand.”**

KIERAN GARTSHORE
DIRECTOR
THE INSTANT GROUP

Where Next for Regional Growth?

Our prediction is that flex space will develop in new, high growth markets as it seeks to expand beyond the region's key financial hubs.

Ho Chi Minh in particular has come into focus over the last 6 months with more than 50 flexible workspace locations springing up within the city and supply growing by more than 30% over the past 12 months.

> **Conventional office rents in the city are expected to rise by over 6% in 2018 as demand outstrips supply of space and, as we have seen elsewhere in the region, flexible providers will try to keep up with demand from companies of all sizes that are looking for other options aside from taking a lease.**

The expansion of leading operators into Tier 2 cities in the region will become a dominant theme for the next five years - in many Asia-Pacific markets these secondary cities are still dominated by manufacturing or industrial hubs within fast-growth service sectors, which are dominated by domestic companies.

However, vacancy rates are far higher, and conventional real estate pricing far lower in these locations meaning flexible providers face much more competition from landlords marketing leased space and flex providers will have to work hard to attract companies used to procuring space in a conventional manner.

> **However, the number of entrepreneurs based in these secondary cities is growing. In India Prime Minster Modi indicated that 44% of start-ups are already in Tier 2 and Tier 3 cities*, and, in our experience, this invariably creates demand for flexible and communal space, in turn helping to change market perception in favour of flexible workspace operators.**

For example, India already has several large city markets for flexible working but the government has reduced restrictions on companies being foreign-owned and there has been an increase in outside investment and a growing number of professional service sector organisations setting up there, presenting a prime opportunity for flexible workspace providers.

* https://inc42.com/buzz/startup-india-now-44-of-all-startups-are-found-in-tier-ii-and-tier-iii-cities-says-pm-modi/

OVER THE PAST 12 MONTHS
HO CHI MINH
HAS SEEN SUPPLY GROW
BY OVER **30%**

WITHIN ASIA
THE AVERAGE PROFIT
FOR A FLEXIBLE OFFICE
LOCATION WAS
8.8%

IN SINGAPORE
WEWORK
HAS OPENED
EIGHT NEW CENTRES
IN JUST 9 MONTHS

The Landlord Response

In other global markets, landlords have been slow to recognise the threat posed by flex workspace and how best to cater to this demand. The buzz generated in the region has seen APAC's landlords react the fastest.

In a market such as Singapore, where WeWork opened eight new centres in just nine months and provided rates for corporates and enterprise clients (for 50 to 150 PAX) that were at a significant discount to conventional workspace, landlords have had to sit up and take notice.

> **CapitaLand seems to be embracing the concept aggressively - it saw what was happening in the global market and partnered with Singapore-based operator 'Collective Works' in 2016, followed in 2017 with the launch of a number of schemes under the 'Collective Works' brand name.**

This is a great example of a progressive landlord that has embraced the rise of flex and recognised that they can be part of the opportunity to increase rental yield and building valuations across their portfolio. In Hong Kong, landlords appear to have been slower to adapt, due to tight market conditions but 'Swire' has adopted this model and is the first landlord on the island to lease space to WeWork.

In Australia, we have seen landlords such as GPT and Dexus open their own flex space with Space and Co and Suite X respectively. In Singapore, Lendlease's new Paya Lebar Quarter will devote more than 15% of its total workspace to co-working.

Tokyo also has unique market conditions, where landlords typically provide an end-to-end solution for corporate occupiers taking traditional leased space.

> **Servcorp was one of the first operators to recognise a gap in the Japanese market in terms of offering serviced office space and is one of the largest providers.**

IWG and WeWork are expanding fast and Japanese corporations are also offering space, with Matsui the latest to offer collaborative spaces.

"Centre numbers is our focus, to ensure we have a good variety of locations, price points and sizes. Occupiers are increasingly demanding added value beyond the space. We are seeing far more interaction between clients, more service exchanges / barter agreements.

As the provider we are the conduit to making these connections. I think this is how we stand out as a service focused business. It is important to understand your clients and areas they might need support."

LUC DELAUZUN
ARCC SPACES

“This is a strategy that worked for both the landlord and our clients, giving both an innovative turnkey and totally bespoke workspace, delivered on time and on budget, with costs rentalised over the term of the lease.

I anticipate that more corporate occupiers will look to solutions such as this in the Asia-Pacific market in the coming years; they are perfect for firms that are looking to occupy bespoke space quickly and efficiently.”

SEAN LYNCH
MANAGING DIRECTOR
INSTANT ASIA-PACIFIC

A New Approach to Sourcing and Occupying Workspace

The Instant Group has delivered two innovative workspaces in Kuala Lumpur in the last few months for AMEX and IT services company Datacom.

The Instant Group has delivered an innovative 90,000 sq ft workspace in the ‘Menara Prestige’ building, opposite the famous Petronas Towers for more than 1,100 American Express employees.

In July 2018, Instant completed the APAC regional HQ for Datacom, a global IT company with offices across Australia, New Zealand, Asia, Europe and the Americas, in the ‘Sentral District’ of Kuala Lumpur.

The move has seen both AMEX and Datacom take a “managed office”, whereby Instant leases and runs the space on behalf of the client under a tripartite agreement between the landlord, occupier and Instant.

Instant has been delivering similar flexible office solutions for clients in Europe and the US for more than 10 years - delivering over 4 million sq ft of space in the UK, US and EMEA - but these are the first projects of their kind in Asia-Pacific.

AMERICAN EXPRESS

DATACOM

THE INSTANT GROUP HAS DELIVERED 90,000 SQ FT WORKSPACE OPPOSITE THE FAMOUS PETRONAS TOWERS

AMEX AND DATACOM OPERATE FROM A MANAGED OFFICE WHICH INSTANT LEASES AND RUNS

The Market Challenge

The regional market is still relatively immature compared to its global counterparts and it is proving tough at times for both established and new operators. Recent research by DeskMag highlighted that less than 50% of centres operating in Asia were profitable at the time of research, though this figure has increased since last year.

This is likely both due to the level of competition within the area but also the number of centres that are less than 2 years old and therefore have high levels of debt. The same report indicated that of those that are profitable, the profit margins were thin.

> **Within Asia the average profit after tax for a flexible office location was just 8.8%. The same research indicated that while Asia has the highest percentage of unprofitable centres it also has the highest percentage of profitable centres compared to other global regions.**

In Europe and South America over 35% of centres indicated that they break even at present while in Asia this figure is far lower at just 25%. This relates directly to the young age of many locations within the region who are still working at building their customer base and reducing vacancy rates.

Flex workspace has been long seen as the short-term equivalent of conventional space, but for many clients it is now an alternative means of finding and running office space, with a lower risk profile and more transparent pricing than the lease market.

> **As the UK and US markets have matured, we have seen customer occupancy rates increasing over time, and we would anticipate the same in Asia-Pacific.**

In fact, as competition with the broader commercial property market increases in the coming years, we would anticipate that this investment in the operator brands and nurturing of clients will evolve aggressively thereby producing some interesting market innovation and bringing a distinct local flavour to the workspace options available.

It will be fascinating to see how conventional landlords react to local market conditions and the fierce competition as the market heats up.

“For an area where the average age of a centre is still under two years it shows that it takes time to build up a steady lead flow and reach a consistent level of capacity despite growing demand. Companies must be committed to the industry and developing their customer base rather than hoping for quick wins.

As we note in other markets around the globe, more established operators bring to bear their knowledge of lead generation, audience insight and how to develop their brands accordingly. The most successful companies across the flex space market spend time and money developing their client base, working on retention and building their reputation.”

SEAN LYNCH
MANAGING DIRECTOR
INSTANT ASIA-PACIFIC

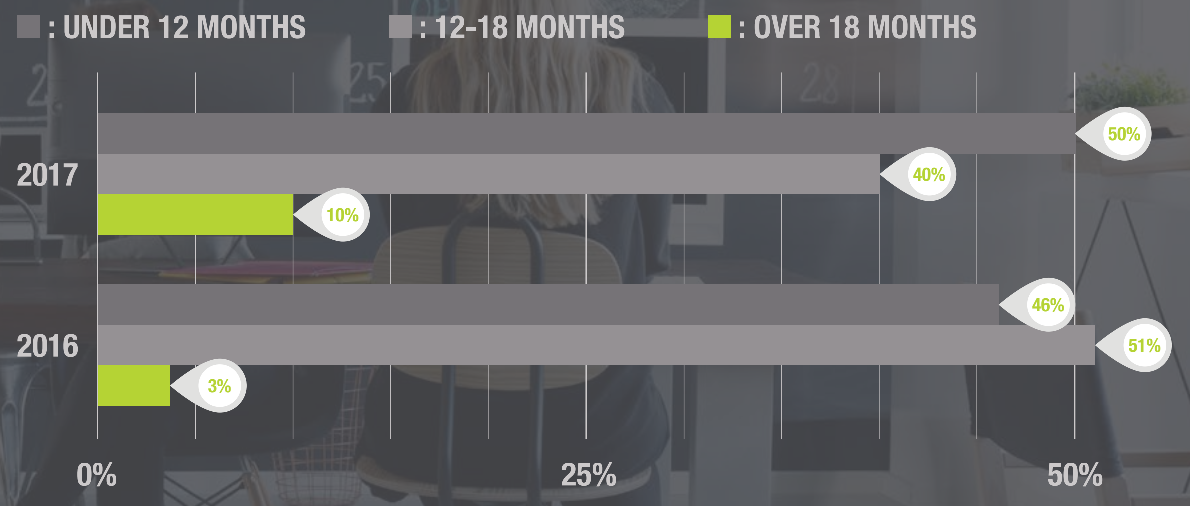
Why are Clients Flexing?

The rationale for using flexible offices is also changing with potential occupiers accepting that flexible office space can be a long-term solution to some of their wider business challenges.

> **Enquiries for terms over a year and also for those looking at between 1 and 3 years are increasing both in real terms and also in proportion to other term periods. While the shortest terms, those less than 3 months, are in decline.**

If this trend continues it could be an indication that companies are viewing the flexible office space sector as a long-term solution to not only allow for flexibility but also to drive profitability and support cultural changes within their businesses.

TERMS BELOW 12 MONTHS AND ABOVE 18 MONTHS



Who is Flexing?

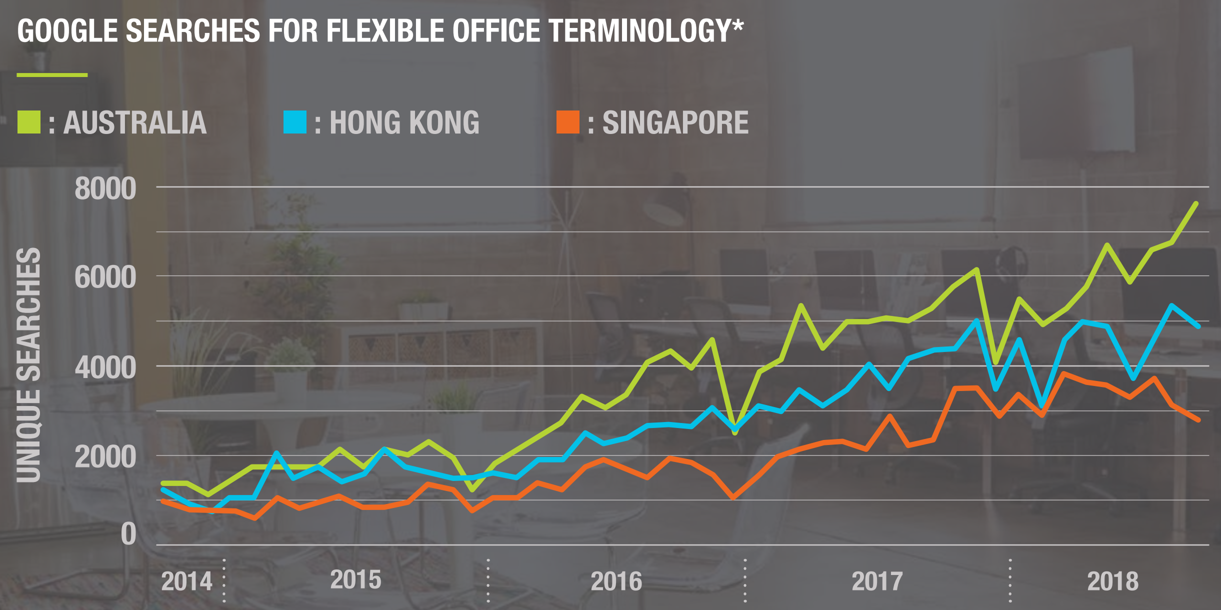
The profile of companies using flexible space is also changing. Start-ups have been commonly associated with the move towards the adoption of more flexible workspace but of equal importance is the expansion into new markets and accommodating project-based teams.

‘Scale-ups’ are another type of organisation who have been adopting flex space, allowing greater agility, lower risk, and more flexibility to add additional desks when required.

From a sector perspective, enquiries come from Financial, Technology, Consulting and Professional service companies in equal measure with their sizes and requirements also highly varied.

Sole traders and small companies (head count less than 100) have traditionally made up a large proportion of the industry but already we are seeing large companies (head count above 1000) making more inroads over the last year, a trend that is likely to continue.

Looking at Google Trends there is clearly a growing interest in flexible and co-working office space across Australia, Singapore and Hong Kong. Searches for “co-working” have doubled during the year with a gradual upwards trend month on month.



*Search terms include Flexible Office, Co-Working Space, Co-Working, Shared Office Space, Shared Office, Serviced Office

What Does the Future Hold for Flex?

The forecast for Asia-Pacific's flex market looks positive with pricing and enquiry numbers increasing and it does not appear that over-supply has outpaced customer demand.

Companies like WeWork are expected to double their presence across the region within the next 18 months (though its acquisition of Naked Hub may result in a change in strategy).

> **The Executive Centre is also expected to expand by up to 40% year on year during 2018; and Chinese-owned companies are also looking to gain market share with expansion outside of China.**

The projected increase in conventional office rents across Asia-Pacific's key cities (as seen in the graph overleaf) will create an interesting challenge for flexible spaces.

As with many other cities in the world, it will lead to even more customers turning to flex solutions to try and mitigate the effects of rapidly rising lease costs particularly in the short-term.

But it will also have a negative impact as it will inhibit the supply of new flex centres as the costs of occupancy increase for operators and their margins in prestigious locations are impacted.

> **This is already the case in the Sydney CBD. For example, where vacancy rates are at all time lows and supply of space so constrained that there is simply not enough availability to meet demand, particularly from corporate clients with larger space requirements.**

WEWORK IS EXPECTED TO DOUBLE ITS PRESENCE ACROSS ASIA-PACIFIC WITHIN THE NEXT 18 MONTHS

CONVENTIONAL OFFICE RENT GROWTH FORECAST 2017 - 2019

SOURCE:
https://www.bloomberg.com/news/articles/2018-01-21/singapore-office-rents-seen-rising-twice-as-fast-as-hong-kong

Bangalore

Bangalore proved to be one of the strongest cities within the flexible industry during 2017. Demand has been coming from a number of large organisations focused around the successful Technology and Banking sectors, supported by wider growth in the city.

The city saw some of the strongest growth figures during the past 12 months with an uplift of 20% in the number of centres now open.

This growth comes off the back of 3 years of strong double-digit growth and with large multinationals securing entire floors with flex providers during 2017-18.

The take up figures indicate a doubling of flexible office space over the last two years in the city. Many centres across Bangalore are less than two years old, it is therefore not surprising that we see nearly 50% of the centres offering hybrid solutions. The operators have responded to the demand from larger organisations looking to adopt flexible space within the city both as a short-term solutions but also as part of their longer-term strategy.

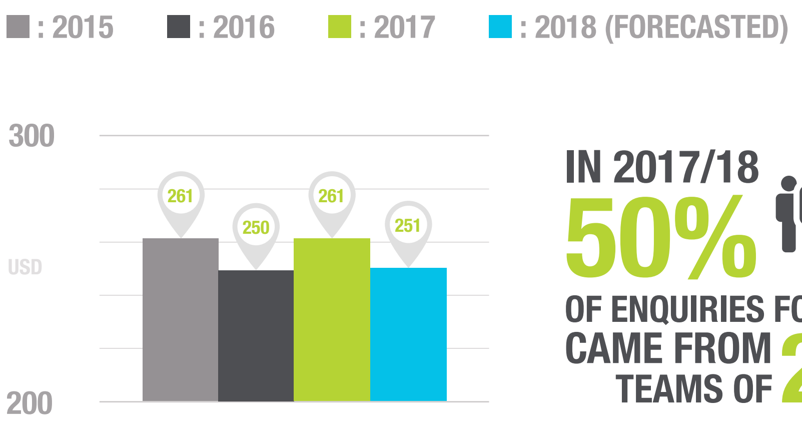
Another trait of this young and fast-growing market is that we don't see the dominance from more established operators such as Regus and Servcorp within the city.

While Regus do operate 6% of centres and have the largest presence by number of locations, there is an even distribution of new operators hosting between 4 and 7 locations within the city.

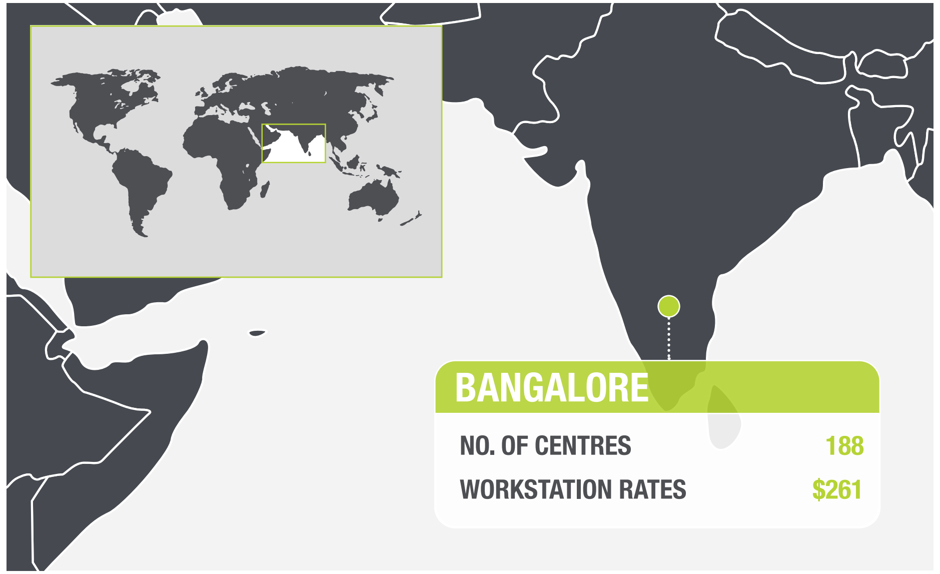
These operators have the backing of investment funds and are able to quickly expand into new locations as demand increases and we expect to see further activity during 2018 from many of them in Bangalore.

One somewhat unique aspect to the Bangalore flexible market is the high level of corporate and large companies taking on flexible space. In the last 12 months, 50% of enquiries for space within Bangalore came from teams of 25 or larger with the average number of workstations being 69 across the year. In response to this higher-scale demand, operators are taking on ever larger floor plates, of 100,000 sq ft or more.

AVERAGE DESK PRICE



IN 2017/18 **50%** OF ENQUIRIES FOR SPACE CAME FROM TEAMS OF **25+**



36% OF OCCUPIERS HAVE SIGNED TERMS FOR AT LEAST 2 YEARS WITHIN FLEXIBLE SPACE

TERMS OF 3 MONTHS OR LESS ARE SHOWING GROWTH

50% OF ENQUIRIES CAME FROM TEAMS OF 25 OR LARGER

Bangalore

Similar to other markets we see increasing term-length as companies want longer-term security but also aim to achieve more attractive rates through economies of scale.

Bangalore sees the highest percentage of term over 24 months with our data showing 36% of occupiers in the city have signed terms for at least 2 years within flexible space.

The flexible market appears to be fairly polarised within the city with our data showing that growth is happening at both ends of the market but very little activity in the middle.

Short term leases of less than 3 months are equally popular within the city with a growing number of start-ups and individuals looking for highly flexible terms.

The pipeline over the next 3 years is strong in Bangalore with a large volume of new office space expected to come onto the market. While the majority of this will be traditional space, we expect to see some of the larger international flex operators take on significant amounts of new space to help secure their position within the city.

This will likely mean pricing will remain stable with the possibility of increased short-term competition putting pressure on average rates.

Bangkok

Bangkok has traditionally suffered from a limited supply of Grade A office space within central locations, a factor that flexible office providers have been quick to capitalise on. While the market is not the largest in Asia Pacific, there are nearly 140 centres spread across the city.

Growing rental costs and limited premium locations have meant that some companies are in limbo as they wait for new space to be built and have been attracted to flexible locations.

Over 40% of available office space is located within the CBD, and organisations looking to achieve lower rates and are willing to compromise on location have been able to take advantage of the slow proliferation of flexible space within Bangkok's outer districts.

> **As we see across many Asia Pacific cities, Regus hold the largest presence within the city with 20 centres.**

Unlike many other markets within the region other large operators have a limited presence within the city with over 80% of locations run by independent and mostly local providers.

While larger players such as Servcorp and IW Office have a presence within the city it appears unlikely that we will see the large-scale development and consolidation from multinational operators within Bangkok in the short term, which is expected in some of the other cities across Asia-Pac.

> **Demand and pricing figures indicate a more competitive flexible market in Bangkok through 2017/18 than previously seen.**

Despite relatively high occupancy rates within the traditional sector, many landlords have been offering highly attractive rates to maintain current occupiers and attract new clients.

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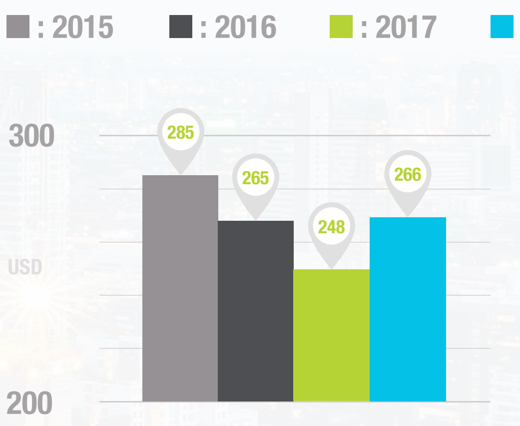

OVER 80% OF LOCATIONS ARE RUN BY LOCAL INDEPENDENT PROVIDERS

There was only a double-digit increase in demand for 0-2 workstations. This segment of the industry saw demand increase by 15% throughout 2017/18 and was offset by falling demand for large scale flexible space throughout the year.

Alongside this, after a number of years of very high centre growth and with limited Enterprise adoption within the city, reports indicate that many centres have occupancy figures lower than they would wish, particularly those operating co-working space.

> **In line with these reports we have seen rates for flexible space in Bangkok drop over the last two years with the average workstation rate in 2017 falling by 6% to $248.**

Many operators are looking to generate profits from providing additional services such as start-up funding and are not able to rely on providing space alone to secure long-term profitability at present.

JUSTCO AT AIA SATHORN TOWER
BANGKOK, THAILAND

"Thailand is one of the key business hubs in the region and its favourable geographical location coupled with infrastructure readiness makes the country a key market for JustCo.

Co-working space goes beyond the physical environment and facilities as it has become a symbol of community, connectivity, efficiency, and networking. We are here to create a powerful ecosystem where individuals and businesses of all sizes can harness the benefits of the network effect through meaningful interactions, participation and partnerships."

MR. KONG WAN SING

FOUNDER AND CEO
JUSTCO

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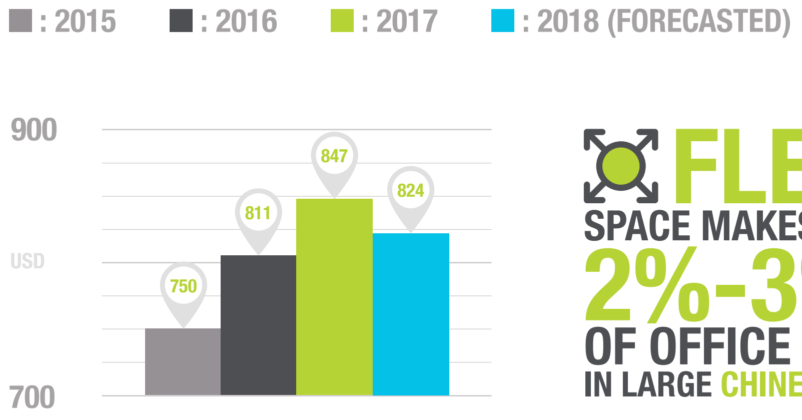


FLEX SPACE MAKES UP 2%-3% OF OFFICE SPACE IN LARGE CHINESE CITIES

Beijing

Despite rumours of increased government regulation around co-working spaces within China and specifically Beijing, the supply of space in the city did not slow in the last year.

The number of centres tracked by Instant increased by 18% during the year with hybrid spaces seeing the largest uplift.

At present 45% of flexible spaces within the city offer a hybrid environment with the figure expected to increase.

Despite the high growth of the number of flexible locations in Beijing, the industry is still small in comparison to the scale of traditional space. Our data indicates that less than 3% of the total office stock within Beijing is flexible despite increasing centre sizes and some aggressive development by local operators.

While Regus previously held the largest number of centres in the Chinese capital, it is the large domestic providers such as URWork, People Squared and SOHO 3Q who are seeing the largest expansion during 2017/18. Alongside WeWork who are expanding quickly within the city to make their presence felt.

Following on from URWork's strong expansion in the city during 2017 it moved into the leading position with over 50 locations spread across its partner network within Beijing.

Due to the strong financial backing of local providers and their expansion within the countries capital, Beijing has seen far more consolidation than other Asia Pacific markets.

Over 60% of locations tracked by Instant are run by the top 5 largest providers at present and this trend is unlikely to change as both WeWork and URWork look set to expand further across Beijing.

Beijing

As occupancy rates across the traditional sector remain high and space for small companies in the many growing businesses districts is limited, the pressure on flexible locations continues to grow.

In response to this, pricing for flex space has gradually increased in Beijing with 2017 seeing average rates increase by 4% to nearly $850.

> **The rates are now some of the highest in Asia Pacific and correspond with both the demand but also the traditional leasing rates found across key city areas.**

Large amounts of new office stock are expected to become available in late 2018 and with slowing international demand there is likely to be a period of adjustment. This is will likely drive rates in the traditional sector down which may well impact the flexible industry.

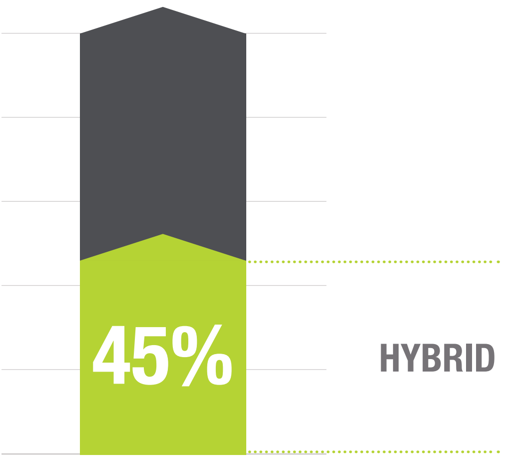
Demand is likely to continue to grow with further small company activity driving growth across the city. The larger providers are expected to continue to obtain bigger spaces with the aim of attracting larger customers on flexible terms and drive further value.

Increasingly Hotels are incorporating flex space with Jen Beijing (the owner of the Shangri-Lar chain) providing a floor for co-working within its most recent Beijing hotel. URWork signed an alliance with HomeInns (the largest hotel chain in China) to form the largest network of bookable spaces within a single market.

> **While not all its 3,400 locations are accessible to members (just 50 at launch) this is surely the goal for both companies.**

Hotels are often in prime locations, have large amounts of often unused space and are keen to get more potential customers into their buildings.

FLEXIBLE SPACE WITHIN BEIJING



AVERAGE DESK RATES IN 2017 INCREASED BY 4% TO NEARLY $850

Hong Kong

Reports on the flexible market within Hong Kong appeared mixed during the past 12 months. With 340 centres tracked across the city and an increase in centre numbers of 19%, supply is certainly strong. Certain analysts are suggesting that there is now an oversupply of space within the city and it will take a few years before demand catches up and large corporates take on more of the flexible space.

Certainly, our own data does not support this theory with an uplift in demand of 20% being seen during the course of the year. While average rates have fallen, this is in part down to the increasing number of centres opening in lower value locations and off Hong Kong Island.

Another driver of falling average rates is the increasing number of high volume activity seen within the city during the last year.

> **Our data indicated that demand for 10 or more workstations doubled during the year as larger teams were able to take on more space as the footprints of new flexible locations increased in size.**

While these locations had been available previously, supply had always been limited with larger businesses finding it challenging to take space in hybrid and co-working environments within Hong Kong.

While Hong Kong has some of the highest traditional real estate costs globally, the flexible industry offers surprisingly good value in comparison, and is one of the reasons why it has seen such strong growth over the last decade.

> **2017 saw average rates for flexible space fall slightly to an average of $626 per workstation, per month.**

These low rates are surprising to those used to the traditional Hong Kong rates where the focus is on buildings within the CBD on Hong Kong Island. While flexible centres exist in these premium buildings we also see a wide spread across the city with locations often found off the island. Recent government activity has supported this with schemes to provide heavily discounted co-working space and studios in industrial and commercial buildings beyond the centre of the city to provide more affordable options for young companies.

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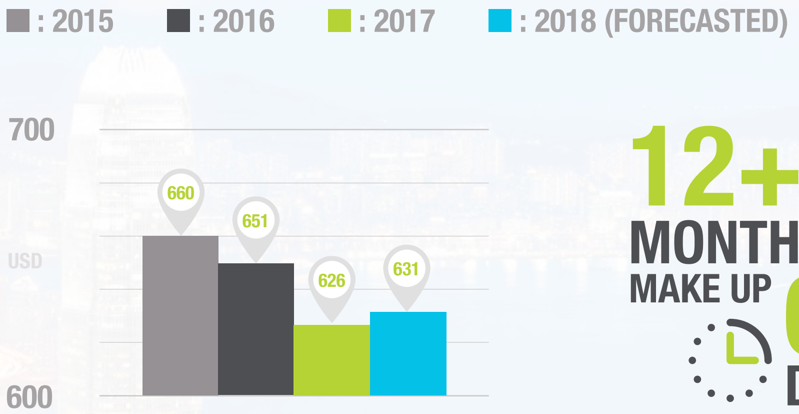
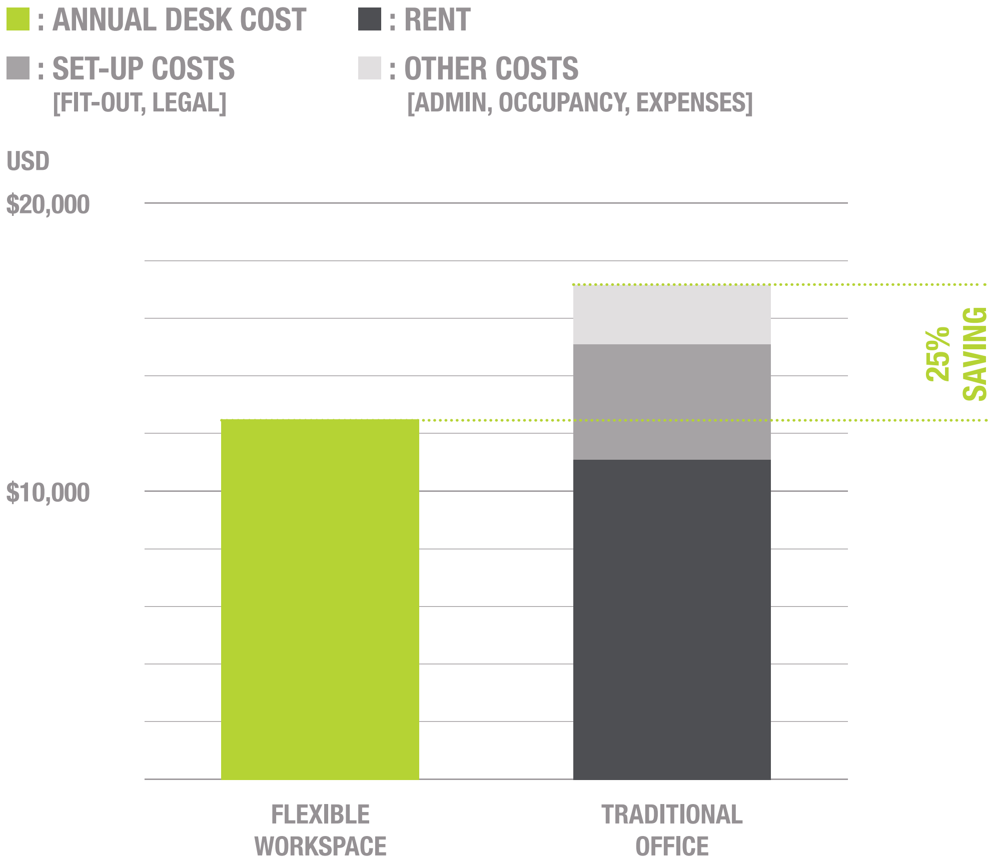


12+ MONTH TERMS MAKE UP 62% DEMAND

CO-WORKING COST SAVINGS BASED ON A HONG KONG EXAMPLE



Source: Colliers

Note: Based on 120 sq ft per person, three year traditional office lease, HK$60 per sq ft per month (US$93 per sq ft per annum).

Hong Kong

Prior to the introduction of flexible space, Hong Kong was home to very few start-ups with large corporations pricing them out of the market. This support from the local government is expected to provide 90,000 sq ft of space at half the standard rate to help encourage further start-up growth.

Somewhat surprisingly the area with the highest flexible rates in Hong Kong is Causeway Bay, an area more commonly associated with retail and leisure activities. While it is not classed as a CBD, due to its heavy foot traffic its retail space commands the 2nd highest rates globally, meaning that the small number of flexible offices opening in the area have huge amounts of competition from occupiers with very different cost structures.

As the profile of companies within Hong Kong slowly changes so do the demands on office space; due to the nature of the flexible office industry we are often the first to see such changes.

Hong Kong was one of the few markets that saw a drop in average lease terms during 2017/18 within flexible space. While 12+ months terms still make up 62% of the demand, we have seen the 1-3 month term make strong gains in the past 12 months. This segment of the industry often made up of small companies or freelance workers covers only 5% of demand in 2016 but increased to 19% during 2017.

While it is too early to say if this trend will continue, it certainly could be a telling indication that the local governments strategy is starting to take effect and we are seeing more of an entrepreneurial presence within the city.

Colliers conducted a recent study in Hong Kong which showed that flexible workspace could save a company 25% over the course of the year compared to a traditional office.

Based on our figures and taking an average of space across all districts (not just the CBD) this saving is much higher with flexible rates coming in at 45% of the traditional rates indicated.

Jakarta

Jakarta continues to be a popular destination for flexible working with both supply and demand expanding in line with global averages. The supply of space tracked by Instant during the past 12 months increased by 16% thanks to several independent operators who have opened in the city.

While we have seen larger traditionally serviced office providers such as Voffice continue to expand their network as demand from larger corporate clients grew strongly. The serviced office sector within Jakarta remains attractive compared to some other Asia Pacific markets with just over 50% of office locations focused around serviced and virtual offices.

> **The 3 largest providers in the city all focus on flexible serviced locations with Virtual Office options available and represent 25% of all inventory across the city.**

The larger providers in the city are still expanding but 2017 saw a continuation of the trend first truly seen in 2016 with far more independent, co-working locations spread across the city. This change is being led by the growing tech and service sectors within the city which are demanding a very different type of space.

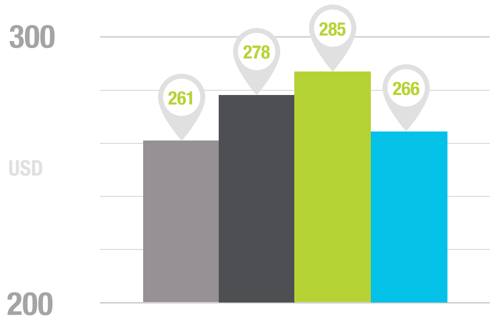
This trend is causing the long tail of operators to grow even longer with a 5% swing in favour of independent locations during the past year.

> **The growth of these co-working spaces has dampened average rate increases across the flexible area of the industry which has seen year on year rate growth of 3%.**

The increases being seen are not evident across the traditional sector with average office rates falling between -5% and -10% across the city during the year.

AVERAGE DESK PRICE

: 2015 : 2016 : 2017 : 2018 (FORECASTED)



INDEPENDENT LOCATIONS SAW AN INCREASE OF 5% DURING THE PAST 12 MONTHS

With a wide range of rates available across the city starting from $100 a month in co-working and ranging to nearly $1,000 a month for a private office within a landmark building, Jakarta's flexible industry is increasingly catering to smaller tech start-ups with limited capital alongside multinational and financial institutions.

At present the average rate for a flexible workstation within the city proves one of the lowest within Asia Pacific at $285 a month. This low cost is encouraging companies to set up their locations within the city to help their expansion into Asia instead of more traditional hubs such as Singapore or Hong Kong.

UNIONSPACE PIK AVENUE
JAKARTA, INDONESIA

Manila

Manila has a thriving population of small businesses and the local office market remains one of the strongest in Asia from a growth point of view. At present demand is continuing to rise with vacancy levels reported to be below 5%. A growing business process outsourcing industry alongside a growing tech sector has created high demand for quality office space within the city.

While new supply continues to grow year on year it appears that at least in the short term demand will easily meet the new stock coming to the market. In response we expect to see far more activity from the flexible industry as it fills the short term gap but also fulfils the demands of the changing work force in the city.

Our data shows the growth in demand for flexible space within the city, with far larger requirements seen on average over the past 12 months. This is similar to other cities which have seen an uplift in BPO companies, with 60% of flex demand in Manila at present coming from teams of 10 or more.

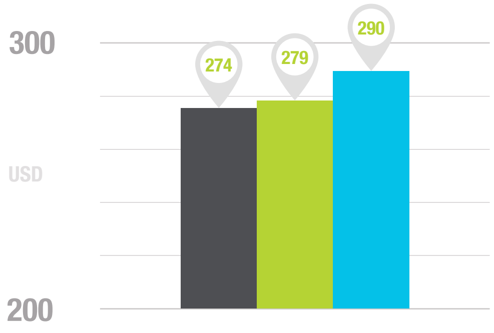
Thanks to the recent high growth of the flexible industry within the city the majority of space (55%) in the city comes in a hybrid format, catering to the overall higher requirement demand while allowing for interactive and social environments.

Due to low vacancy rates, strong demand and growing technology sectors in Manila rates for flexible space have increased substantially over the last 12 months. This has been seen despite a 16% uplift in flexible office supply in the city.

This increase in achieved rate despite growing supply is indicative of a market which is yet to see large movement from international providers but a gradually increasing quality of flexible space across the city, as the market begins to mature.

AVERAGE DESK PRICE

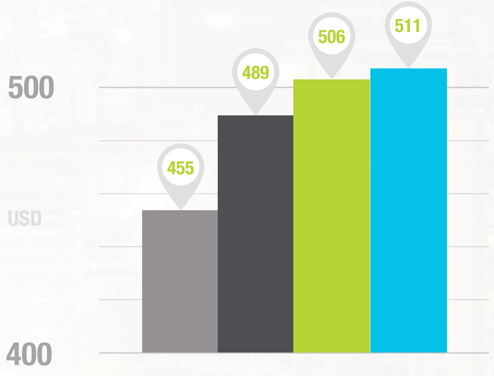
■ : 2016 ■ : 2017 ■ : 2018 (FORECASTED)



55% OF CENTRES ARE HYBRID

AVERAGE DESK PRICE

■ : 2015 ■ : 2016 ■ : 2017 ■ : 2018 (FORECASTED)



77% OF CENTRES ARE INDEPENDENT IN THE CITY CENTRE

MELBOURNE

NO. OF CENTRES	228
WORKSTATION RATES	$506

Melbourne

The flexible workspace industry within Melbourne remains the largest within Australia with 228 flexible locations tracked at the end of 2017. It is also one of the most mature with an increasing number of centres found in traditionally residential neighbourhoods across the city. In part due to the adaptable nature of many Melbourne companies and the importance of work life balance that is found across the city it is unsurprising that alongside Sydney we see the largest number of pure co-working spaces found across APAC.

Overall centre growth reached 19% during the last 12 months with the number of locations increasing by 37 during the year.

> **Taking into account the recent growth in open and shared workspaces, now over 55% of locations within Melbourne offer some form of co-working and is expected to reach over 65% by the end of 2018.**

Looking at the type of operators within the city we see Regus leading in terms of locations with a number of smaller operators offering multiple offices across the city although in far smaller numbers. Unlike Sydney which has started to see companies like WeWork move into the market and set out aggressive growth plans, Melbourne sees mainly local activity. Over 77% of the centres operated within the city are independent or single entities with local providers catering to a certain demographic or industry segment prevalent within a specific area.

From a supply point of view, despite the strong growth of flexible workspaces, traditional office supply is at some of the lowest levels for the last decade.

> **By 2020 there is expected to be a large volume of new space becoming available but for the next two years and at present space is very limited, particularly within the CBD.**

This has meant that we are seeing increased pressure from companies struggling to expand into new Grade A space but also those looking ahead to future developments demanding short-term solutions.

This activity has caused the average prime rents in the traditional sector to grow by 8% during 2017 - a figure that is also reflected in the flexible industry rates. Strong supply growth has increased competition within the city but despite this the strengthening commercial real-estate market as a whole has helped average flexible rates increase by 4% during the year. This uplift comes off the back of an 8% uplift the year before showing that demand continues to outstrip supply within the city while providers continue to up their game and provide higher quality and larger spaces, in both serviced and co-working variants.

Mumbai

As the traditional office industry in Mumbai remains stable with steady leasing rates and similar net absorption to previous years, we continue to see a positive performance from the flexible office market within the city.

Reports indicate that between 20%-30% of new office uptake in the city is from flexible office operators with the number of centres increasing by 8% during 2017/18 to nearly 160 flexible locations.

Dedicated serviced offices remain the largest sector of the flexible industry in Mumbai, but 2017 saw the continued rise of pure co-working environments alongside the much more popular hybrid office which now make up over 30% of the supply.

The growing presence of co-working and hybrid providers across Mumbai has meant we have seen further decentralization of operators with independent providers offering more agile space compared to the larger multi-location operators.

Despite this, Regus remain the single largest operator in Mumbai with more than 24 different locations Local providers such as Awfis, DBS and iKeva who operate multiple locations across Mumbai are also expanding within the city as demand continues to grow.

Occupancy rates within the traditional office sector remained consistent through 2017 which in turn allowed for limited growth in desk rates. The same trend has not been seen within the Mumbai flexible market, despite the steady increase in centre numbers.

2017/18 saw average rates increase by 15% in Mumbai to $375 on the back on growing demand and higher value locations.

With other cities in India providing richer targets during 2017/18 the pricing increase seen within Mumbai, one of the highest increases in Asia Pacific, indicates that demand may well be starting to impact the market and the pressure is on operators to increase supply across the city.

Not only is demand increasing but Instant's proprietary data shows that the type of occupier is also changing. Enquiries for 25 or more desks rose by 20% during 2017/18 as larger companies are considering flexible space as the locations become better suited to corporates with larger footprints and improved private space.

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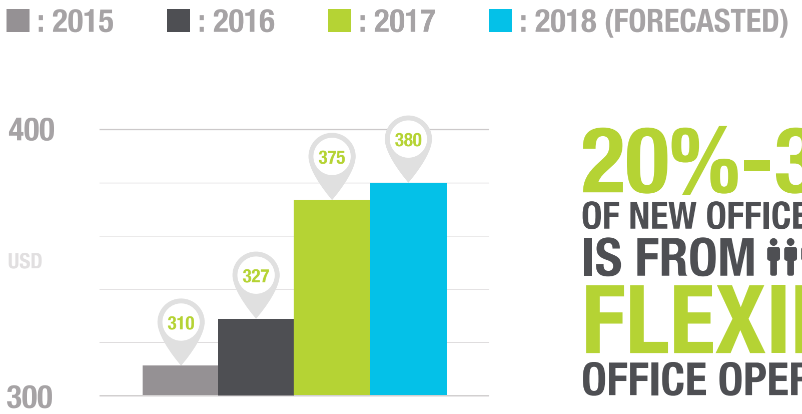
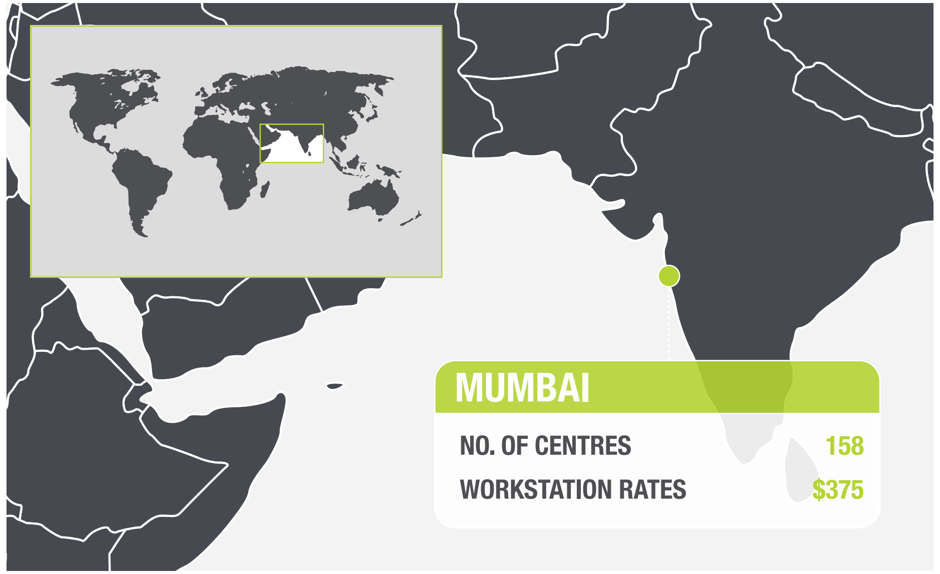


20%-30%
OF NEW OFFICE UPTAKE
IS FROM
FLEXIBLE
OFFICE OPERATORS



2017 SAW AVERAGE
DESK RATES
INCREASE 15%
TO $375

ENQUIRIES FOR
25+ DESKS
ROSE BY 20%
DURING 2017

THE EXECUTIVE CENTRE
MUMBAI, INDIA

Seoul

The traditional supply of new office space in Seoul has been focused in non-core areas of the city with increasing pressure being felt on the limited supply of new and high-end space. Rates increased marginally making it a prime market for flexible operators to expand into the city.

Despite this apparent prime market, the capital of South Korea has one of the smallest flexible office markets of all the major Asia Pacific cities with just 86 centres tracked by Instant at the end of 2017/18.

> **This figure represented a growth of just 9% for the full year, which was well behind many of its neighbouring markets.**

One reason for this somewhat slow uptake compared to other markets is the traditional way many South Korean companies are run. While we are seeing many younger companies embrace more flexible working conditions, the large corporates based out of Seoul and the surrounding areas that drive so much of the economic wealth are still run in very traditional ways with large central offices complexes spread across the city.

Not surprisingly in a market still dominated by traditional office space we see a dominance of serviced offices making up 50% of the supply with companies such as Regus and The Executive Centre highly prevalent across the city. Despite the traditional aspect of many South Korean workplaces we are starting to see slow change within Seoul. The majority of new flexible locations opened in 2017/18 were hybrid spaces.

> **Local companies such as Fast Five are expanding across the city while WeWork already have a number of locations and are expected to double the number of hybrid locations during the course of 2018.**

These types of environment are much closer to the co-working spaces found in the US and Europe and are increasingly putting pressure on the more established market. In the main these spaces are focused on bringing in smaller companies and freelancers with little corporate demand seen within the city other than from foreign based firms. Our demand data shows that nearly 80% of demand is for spaces with less than 10 desks.

Very little demand is currently seen for spaces above 25+ although during 2017 we started to see more activity for 10-25 workstations, with an increase in enquiries of 14% compared to the previous year. This could well be the first signs of change within the city and judging by the operators expansion plans, they feel confident that demand will continue to grow as corporate culture adapts and individuals are more accepting of new ways of working.

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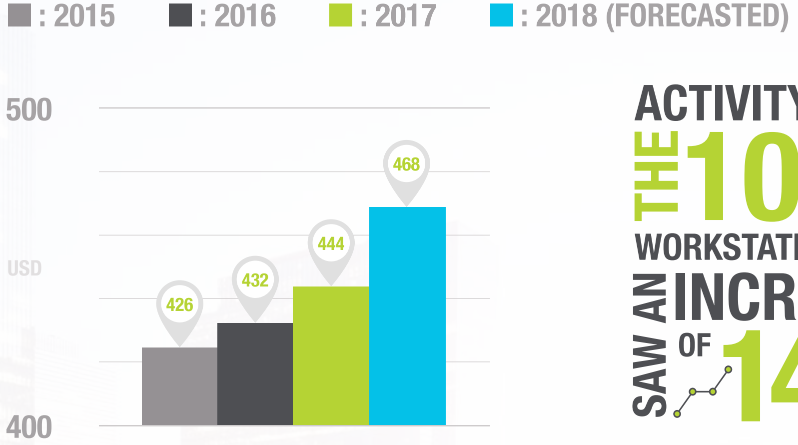
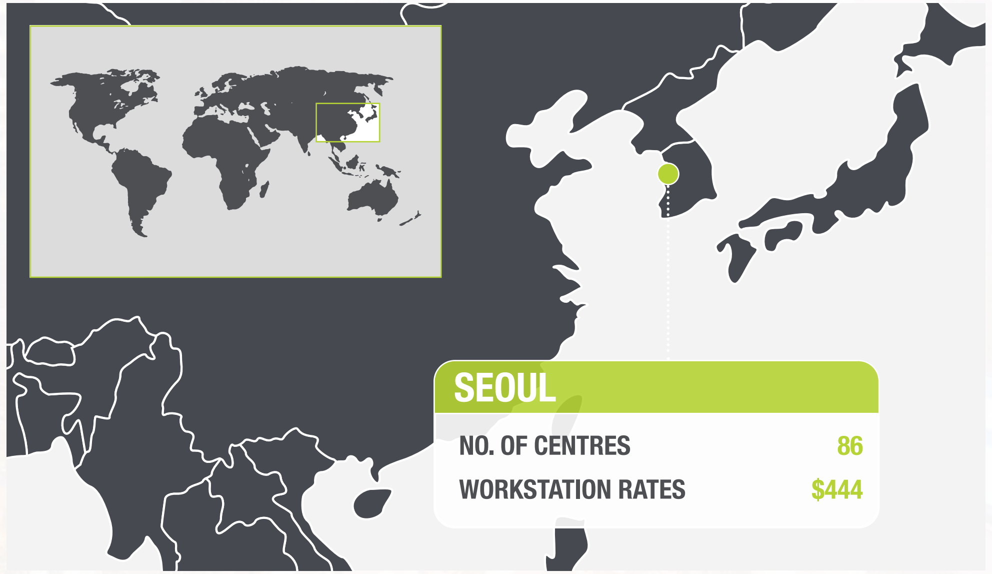


ACTIVITY WITHIN THE 10-25 WORKSTATION AREA SAW AN INCREASE OF 14% IN ENQUIRIES



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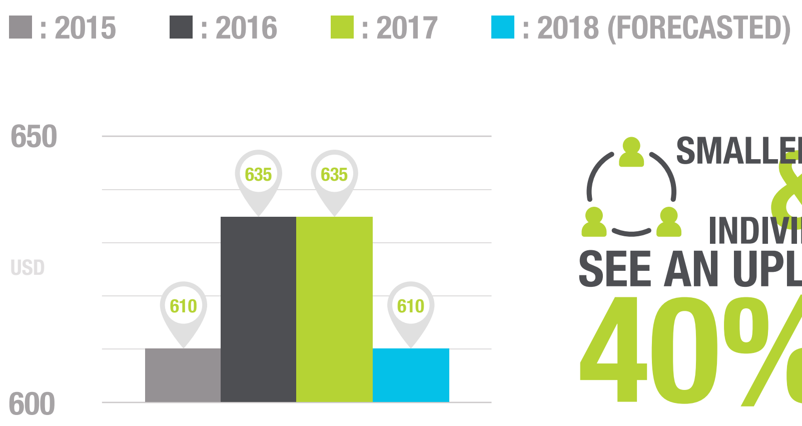
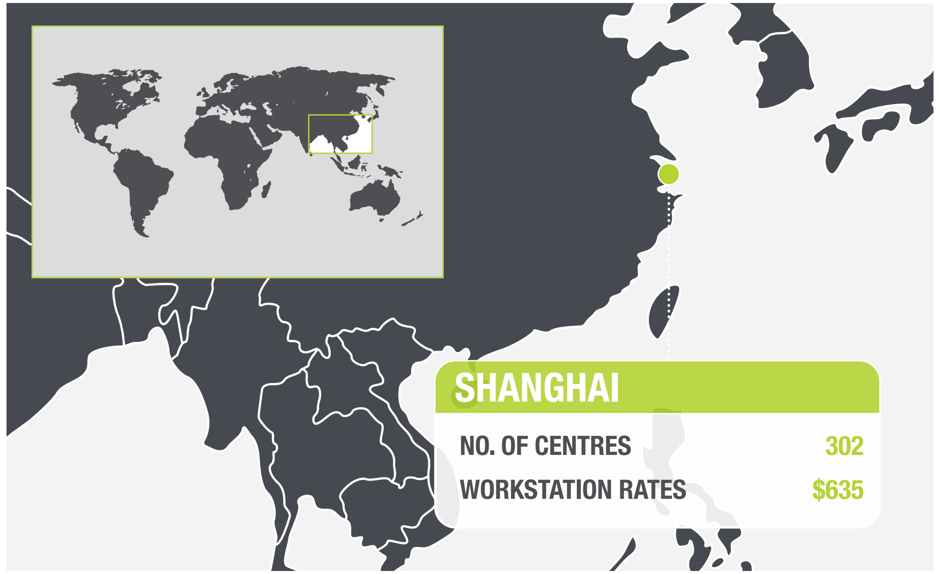


SMALLER TEAMS & INDIVIDUALS SEE AN UPLIFT OF 40% YEAR ON YEAR



Shanghai

After a number of years of high growth within Shanghai, 2017 saw a slowdown in new centre openings. Instant data tracked an additional 32 new centres opening during the year bringing the total to 302 flexible locations across the city. This represents just 12% growth, slower than the regional average but still making the city the 2nd largest provider of flexible space within the region.

One reason for this slowing growth is the increasing competition for occupiers within the city. As available space continues to rise, and occupancy rates remain some of the lowest across major Asia Pacific cities, landlords are offering increasingly better terms to entice both new occupiers and to keep those that currently occupy their buildings. This activity is represented within the rates seen across 2017.

> **Despite gradually rising rates in nearly all locations including Beijing, Shanghai saw no rate increases during the year with the average rate for a flexible workstation within the city remaining at $635 per month.**

While this figure presents some of the highest desk rates within the region, it is telling that despite the vast workforce and steadily growing demand rates have remained stable.

While pressure from the traditional sector is growing in Shanghai, Instant saw a 6% uplift in demand during the year with by far the biggest driver proving to be from smaller companies. This segment of the industry produced an uplift of 40% year on year as we saw greater activity from start-ups both home grown and overseas.

> **According to the vice-mayor Zhou Bo during the first 5 months of 2017 - 70,000 new businesses where set up in the city, a 20% uplift on the same period last year.**

Government support of such entrepreneurial spirit means that forecasts predict that this activity is only likely to increase and with the rise of mobile technologies the requirement for large fixed teams is considerably less than 5 years ago within both China but especially Shanghai. Hundreds of programmes support start-ups within the city providing both subsidies and extremely attractive venture capital investments.

Shanghai

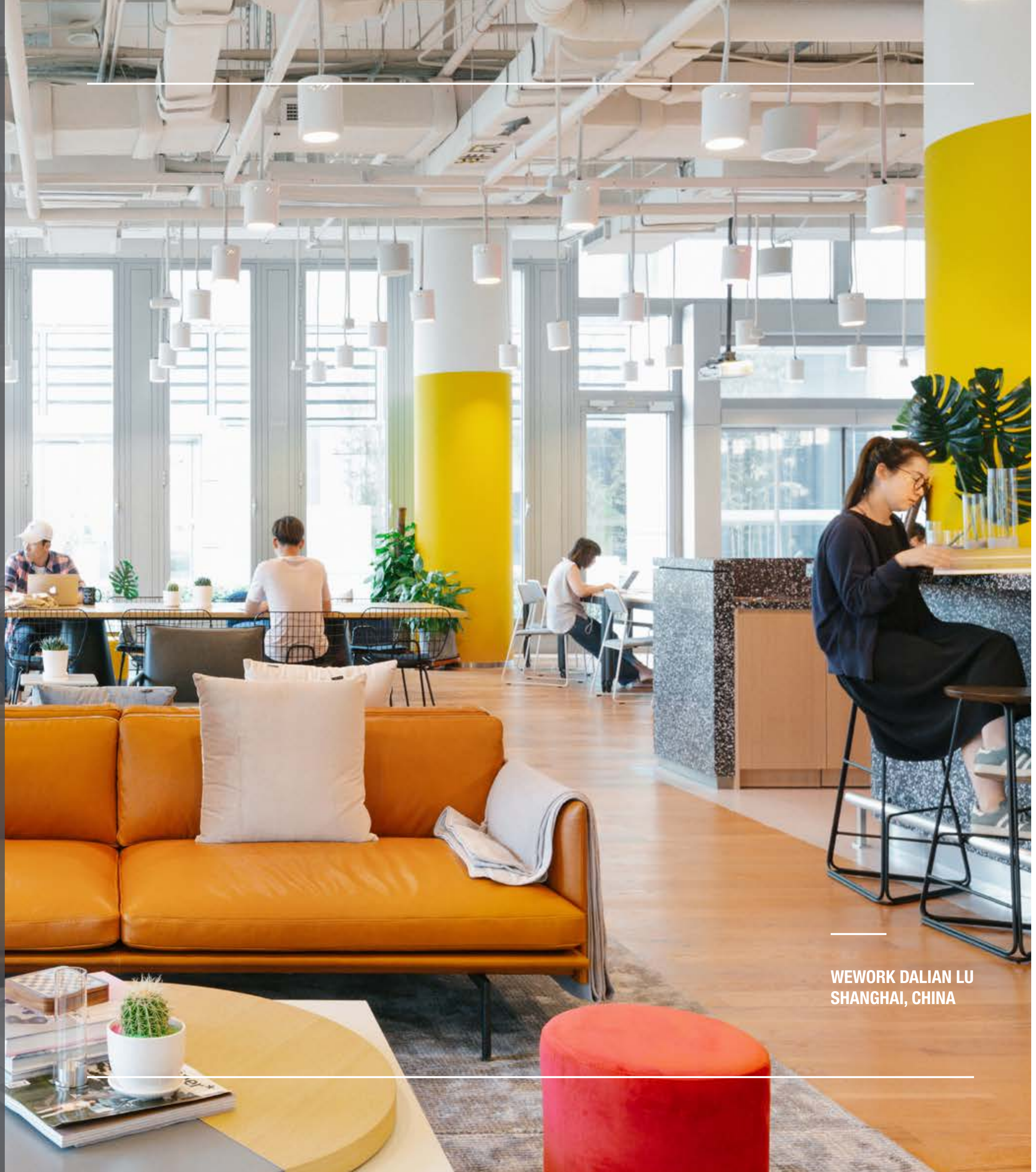
From an operator's perspective, Shanghai is a very attractive city with relatively low desk rates, and more landlords keen to lease space to flexible workspace providers than ever before. There is also a thriving and growing customer base.

For those operators already present within the city the natural reaction has been to expand as quickly as possible and try to gain a foothold on what is the largest flexible market within China.

> **Reports from JLL predict that Shanghai will replace Hong Kong as the largest office market in greater China by 2020.**

At present its flexible supply is double that of Beijing and closing quickly on Hong Kong, the largest market in Asia Pacific. If the trend continues it will likely over take Hong Kong by 2020.

INSTANT SAW A 6% UPLIFT IN DEMAND DURING THE YEAR



WEWORK DALIAN LU
SHANGHAI, CHINA

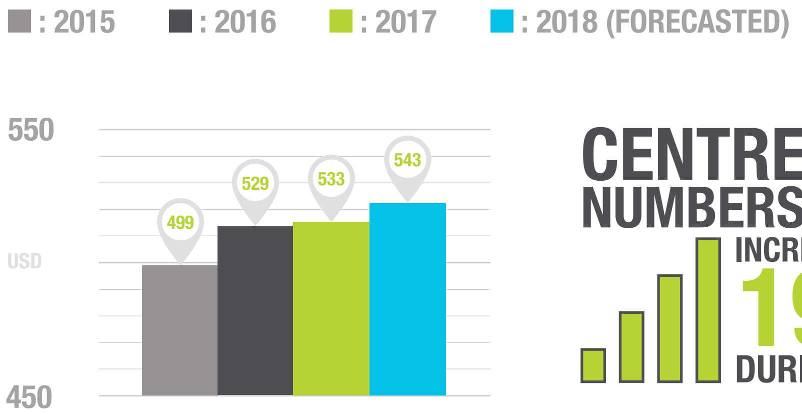
China's Tier 1 cities probably reflect the largest growth in APAC. The coworking boom kicked off in China in Shanghai with new to market providers taking advantage of a surplus new commercial real estate supply – some 1.4million square metres in 2017 alone and a further 6.8million square metres being added to supply from 2018-2022. This means large commitments are being made, often across multiple floors in a building with traditional Landlords also adding coworking solutions of their own.

Beijing would be the second highest growth, with second highest global supply in new real estate last year and a Government focus on innovation, now boasting more than 800 shared workspace providers, offering multiple styles of building, fit-out and industry focus, as well as Government funding to foster the "Made in China" start-up movement and innovation within the fintech market.

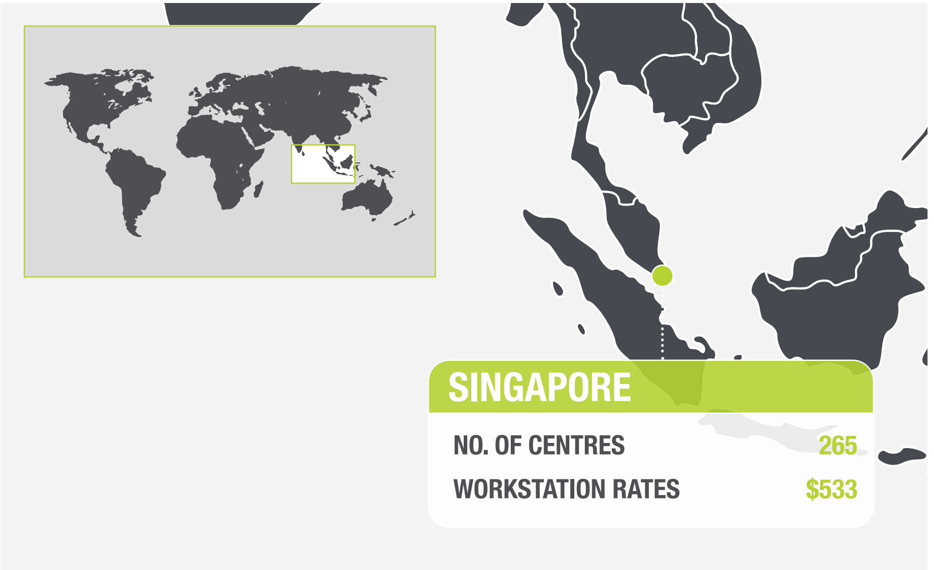
ANNA CHAVEZ

SENIOR MANAGER – CHINA & SINGAPORE
SERVCORP

AVERAGE DESK PRICE



CENTRE NUMBERS INCREASED BY 19% DURING 2017



Singapore

2017 saw a shift within the Singapore market as the once booming co-working sector started to respond to changing demand. Overall the positive growth trends continued through 2017/18 with an uplift in centre numbers of 19% but with an ever-increasing number of hybrid locations opening across the city.

These centres, which offer a mixture of private and open-plan workspace now account for 35% of centres throughout Singapore and indicators point to further growth in this area both from new centres but also a gradual shift from those offering pure serviced or co-working space start to meet in the middle.

> **This change is being led by an increasing number of small and medium companies that are looking to move into flexible space.**

They are attracted by the environment and culture offered in co-working environments but want the option of private space for many of their day to day tasks.

Instant data shows that demand continues to grow steadily with around a 10% increase in enquiries being seen throughout 2017/18.

Although demand from individuals or small companies of less than 10 employees is still by far the biggest driver in the market, as previously stated it is the growing number of small and medium enterprises that are currently driving the sustained progress within the market.

> **Enquiries from those looking for between 10 and 25 desks almost doubled during 2017/18 compared to the previous year with this type of customer looking for something different from ultra-short lease lengths in premium locations.**

2017 was the first year that we saw steady demand from occupiers looking to sign terms of more than 24 months as the slightly larger occupier groups look for a mixture of stability and flexibility within their office locations.

We have also seen the spread of locations in Singapore increase outside of the CBD. While numbers are small, centres are now present in both North, East and West Singapore, areas more traditionally associated with manufacturing and heavy industry.

Singapore

Rates across the traditional office market in Singapore took a hit in 2017/18 and despite signs of long term future growth the flexible market saw a similar performance.

Thanks to strong increases in supply over the past 12 months, demand pressure seen in some other Asia Pacific markets where not present in Singapore and correspondingly rates stayed flat during 2017/18 with an average workstation rate of $533.

> **Forecasts within the traditional market point to a strong increase in rates within Singapore in the next two years as demand continues to grow alongside moderating supply.**

If this forecast proves true we can expect to see flexible rates also increase within CBDs although future expansion into less central locations will likely provide more cost-effective solutions for companies willing to put teams or individuals into less prestigious locations.

ENQUIRY DEMAND SHOWED A STEADY 10% GROWTH IN 2017

SINGAPORE SAW AN AVERAGE DESK RATE OF $533 IN 2017

IN 2017 INTEREST IN 10 TO 25 DESKS ALMOST DOUBLED

Sydney

According to a report by the Centre for Work and Life at the University of South Australia, 1 in 5 Australians made a request to work more flexible hours in 2013. This statistic gives us an idea of how seriously the country's work force is about adopting flexible working practices.

Many SMEs across Australia have adopted some form of flexible working and often have staff based across multiple locations or working from home. This acceptance around work / life balance and flexibility has helped the flexible working industry develop across Australia with Sydney still showing signs of strong growth.

> **While companies are open to employees working from home, Australian internet speeds are notoriously slow with pricing plans infamously high.**

A roll out of the National Broadband Network is underway with the aim of lowering costs and increasing speeds, reports indicate that it is behind schedule and many homes are still a long way from connection. This has meant that for many individuals and small companies, using a flexible workspace provider close to home where fast internet is readily available and included in the monthly cost is perhaps more attractive than in other countries.

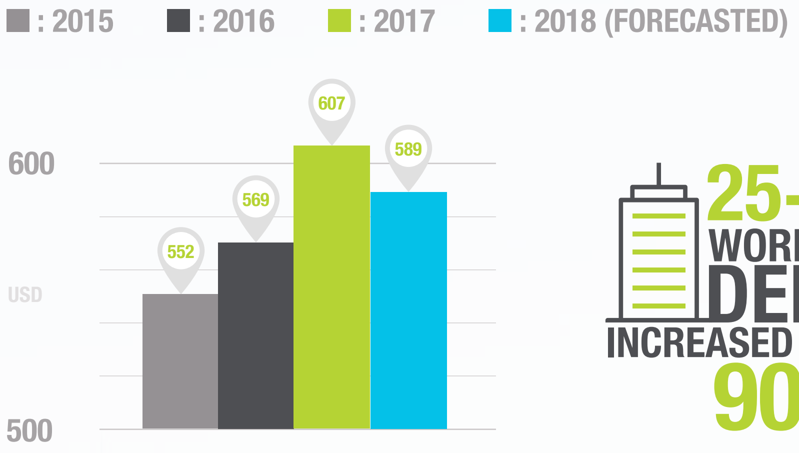
Despite the already mature nature of the industry, with over 220 centres demand continues to rise.

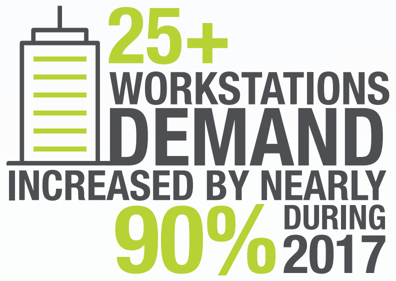
> **2017/18 saw an increase in enquiries of 13% with both large and small companies continuing to show interest in this sector of the industry.**

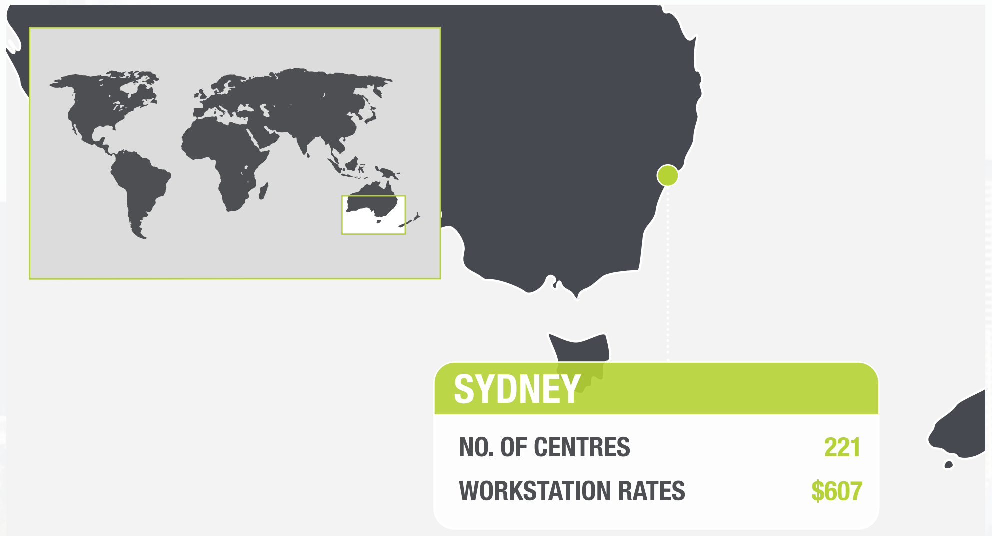
In particular we are seeing larger companies show much higher levels of interest through 2017/18, with demand for 25+ workstations increasing by nearly 90% during the course of the past 12 months.

While this area of the market represents less than 5% of the companies looking for flexible space, they represent over 30% of the number of workstations demanded with an average number of 50 workstations required by this segment of occupiers.

AVERAGE DESK PRICE







Sydney

The operator market within Sydney is diverse with the 3 largest operators, Regus, Servcorp and The Executive Centre operating only 15% of the flexible locations within the city. Competition across the city appears to be increasing, particularly within hybrid and co-working space.

Large operators such as WeWork are expanding quickly with 3 locations available at the end of 2017 while smaller operators with just 1 or 2 centres now manage 75% of locations within the city and in particular outside of the CBD, a district that is becoming increasingly congested and expensive as rates quickly increase and vacancy rates fall.

While reports indicate that rates for traditional office space within Sydney's CBD have increased by up to 20% during 2017/18 and vacancy rates are reported to be some of the lowest in the last 10 years, we have not seen such aggressive pricing increases across the city.

In part this is down to the increasing levels of co-working supply which tends to offer a more cost-effective solution, but also the steady increase in average rates of just 7% across the city is down to the expanding geographical footprint of the centres.

> **Over the last 2 years as the market has matured, we have seen centres move into more urban areas helping to lower the average cost of flexible space despite rising rates within the CBD and more established business districts.**

At present the average rate of $607 is the highest within Australia and further increases are expected as the economy continues to grow, space remains tight and further pressure is put on the industry by larger organisations looking for flexible space.

2017 SAW AN INCREASE IN ENQUIRIES OF 13%

> "Sydney has seen a boom that reflects the shortage of A grade and B grade commercial real estate in the CBD and increasing interest from corporates in selecting managed space that is scalable or project based. With new developments in the Sydney CBD such as Barangaroo, many businesses from the APAC region are taking advantage of the local opportunities."

MR. MOUFARRIGE.

CEO
SERVCORP

> "Sydney leads the demand for space, with the highest occupancy we have averaged in the past five years. Close behind is Melbourne, which while a smaller footprint for TEC is proving extremely positive."

TODD LIIPFERT

SENIOR DEVELOPMENT DIRECTOR
THE EXECUTIVE CENTRE

SMALLER OPERATORS WITH 1 OR 2 CENTRES NOW MANAGE 75% OF LOCATIONS

THE 3 LARGEST OPERATORS OCCUPY ONLY 15% FLEXIBLE LOCATIONS

Tokyo

2017 saw the Japanese and Tokyo economy steadily strengthen and this was also the case across the commercial real estate industry. Late 2017 saw vacancy rates for Grade A stock fall to below 2.5% while rents slowly increased in line with demand.

The changes experienced within the traditional office sector have also played out across the flexible market, with supply and demand increasing across Tokyo as the market continues to mature despite the traditional nature of Japan's workforce.

> **While landlords have been less willing to allow flexible operators to gain a foothold in the city, by the end of 2017 there were over 280 centres in operation across Tokyo.**

This represented an uplift in supply of 14% year on year with Hybrid and Co-working locations seeing the biggest uplift compared to pure serviced offices which now hold less than 50% of the market. This increase in supply has been supported by some of the strongest growth recorded by Instant within Asia Pacific with demand (enquiries) increasing by 30% during the year.

With supply tight across the industry and space some of the most expensive in the region and large upfront costs often required to lease new space, new hybrid and co-working spaces are proving an attractive option for small companies that traditionally had to rely on virtual offices.

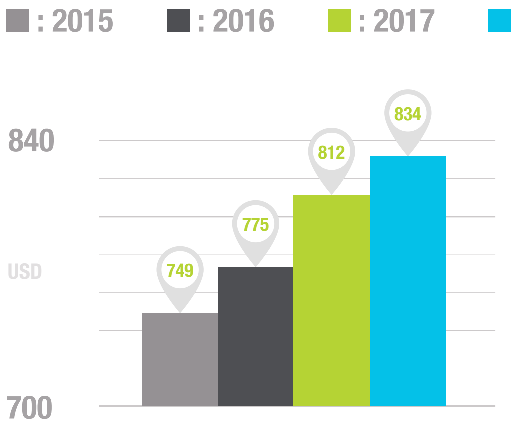
> **Requirements for 0-2 desks remains the largest area of demand at just under 50%. Growth in this segment continues with an uplift of 42% only surpassed by Shanghai.**

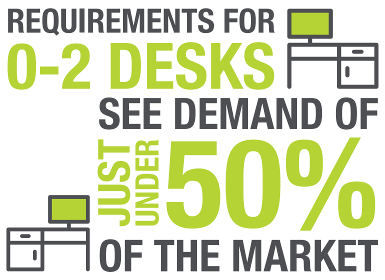
Despite this dominance we are starting to see signs that larger requirements are being sought, with requirements for 10-25 workstations doubling during the course of the year. This area of the market remains small in comparison and still focused towards serviced office providers. We are starting to witness increasing levels of adoption from companies who are still deeply traditional in the way that they operate alongside the new breed of growing start-ups across the city.

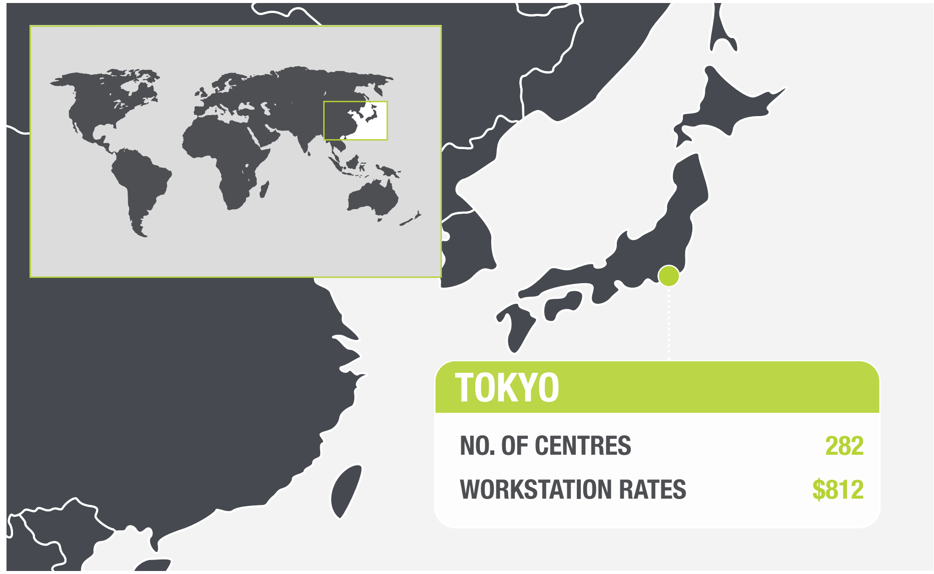
Pricing within Tokyo is some of the highest across Asia-Pacific with rates increasing at a similar level to increases within the traditional sector. During 2017/18 we saw an increase of 5% year on year with the average workstation rising to $812 per month.

Supply has increased both the pressure for premium office space and growing demand is likely to push up average costs, despite increasing levels of co-working and hot desking space which has traditionally been lower value than private serviced offices.

AVERAGE DESK PRICE







Rethinking Workspace.

Founded in 1999, The Instant Group is a workspace innovation company that rethinks workspace on behalf of its clients injecting flexibility, reducing cost and driving enterprise performance. Instant places more than 7,000 companies a year in flexible workspace such as serviced, managed or co-working offices including Amazon, American Express, Sky, Network Rail, Capita, Serco, Teleperformance and Worldpay making it the market leader in flexible workspace.

Its listings' platform "www.instantoffices.com" hosts more than 13,000 flexible workspace centres across the world and is the only site of its kind to represent the global market, providing a service to FTSE 100, Fortune 500, and SME clients. With offices across the world, The Instant Group employs 250 experts and has clients in more than 150 countries.

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Contact:
For enquiries about this report please email **reports@theinstantgroup.com**

Note: All figures in this report were collated using The Instant Group's proprietary transactional data and market research surveys as at April 2018.

Instant
RETHINKING WORKSPACE