COWORKING CENTERS
DO WE NEED THEM?

A LOOK AT THE SUSTAINABILITY OF COWORKING CENTERS
A SURVEY OF OCCUPIERS AND PROVIDERS
JUNE 2018
DO WE NEED COWORKING CENTERS?

The German office market has been seeing rapid expansion of coworking centers out from a few initial hotspots in cities like Berlin, Hamburg and Munich since 2017. Interest in coworking space has increased significantly not only among occupiers but also among owners, developers and investors, who consider coworking space a pioneering office environment that attracts innovative, competitive companies. Reason enough for Colliers International Germany to take a closer look at what makes the coworking model so successful under current market conditions and put the sustainability of this office concept to the test.

Colliers International Germany surveyed 20 occupiers and potential occupiers of coworking space together with 20 coworking space providers between April and May 2018. The survey covered a broad range of companies varying in industry, size and location to provide a relevant, multilayered overview that is effective in assessing the current market trend.

For the purposes of the survey, coworking space is defined as commercial rental units that

- are leased for a specified period of time
- are leased per workspace / desk
- are operated by professional providers (not incubators) and
- not only offer office workspace, infrastructure and supporting services (the range of services offered by traditional business centers), but also increasingly provide opportunities for occupiers to implement new work concepts and promote cross-company communication and collaboration.

The Sustainability of Coworking Centers

The Survey

Fusion of coworking space and business center

THE EVOLUTION OF COWORKING

Business centers
(professional providers of office and meeting space)

OCCUPIERS
Corporates, companies from various industries
- private offices
- professional office infrastructure and services
- high-end fitout
- prestigious downtown locations
- confidentiality

Professional coworking providers

OCCUPIERS
Freelancers, start-ups, corporates, companies from various industries

Coworking spaces
(micro providers at less professional level)

OCCUPIERS
Freelancers from the creative industries, start-ups, etc.
- a sense of “community”
- areas for interacting with other coworking members / tenants
- networking and synergy effects
- modern workspace and lounge area design
The significance of coworking centers is growing

The coworking space market

The coworking space tenants by company size

— Large companies / corporations
  Companies with strict regulations and high standards in terms of space, services and infrastructure

— Small and medium-sized companies
  Established companies with relatively low space requirements but high standards

— Start-ups / micro companies
  Sole proprietorships with low space requirements; companies with potential for expansion and a number of which with short planning horizon

The Sustainability of Coworking Centers

Coworking space capacity utilization

How many coworking workspaces do your occupiers lease on average? (up to 2 answers possible)

43% single workspaces
36% less than 10
14% between 10 and 24
29% between 25 and 50
0% more than 50

How many coworking workspaces do you use or how many are you planning to use in the future? (multiple answers possible)

61% for temporary project teams
26% for single branches
26% for single departments
22% for the whole company / all workspaces

What NEXT?

• The coworking boom, which is already well on its way in Europe, America and Asia, is still in its infancy in Germany. The seven main German office hubs, claiming more than 200,000 sqm or a market share of around 5%, posted noticeable take-up in the sector for the first time in 2017. This reflects a fivefold yoy increase in space let by coworking space providers. In our selective survey of coworking space occupiers, potential occupiers and providers, 79% of those surveyed expect demand to continue to rise over the next 2 to 5 years. Although 21% see demand stagnating at the current level, none of them expect demand to decrease.

• Demand for coworking space comes from many sectors. In addition to start-ups and micro companies, which were the initial users of first-generation coworking space (incubators), the centers operated by professional providers are increasingly attracting established corporates of various sizes from a wide range of industries. Average occupancy of coworking space at these centers is spread almost evenly among micro companies with less than 10 employees, small and medium-sized companies with up to 250 employees and large companies.

• According to the providers surveyed, individual workspaces and workspaces for small groups of up to 10 employees continue to be the most popular options. However, around 30% of those surveyed also said that they also often let space to teams of 25 to 50 employees. This corresponds with statements made by occupiers that they primarily lease coworking space for temporary project teams.
WHAT DO COWORKING OCCUPIERS WANT?

- According to current and potential occupiers, the main motivation behind leasing coworking space is to reduce fixed costs when space requirements fluctuate during certain project phases or while they are getting a company established. The most frequently cited “very important” reason was “reducing fixed costs for temporary increases in space requirements” (44% of all answers). If we add the responses “very important” and “important”, we end up with 67%. A key factor for 71% of those surveyed (“very important” and “important”) was “temporary space while establishing and growing a company”.

- Limited available space at a desired location due to the current market situation turns out to be the main reason for renting space at a coworking center for three quarters of all occupiers surveyed (combined responses “very important” and “important”, with as many as 29% rating this factor as “very important” (2nd most common reason). According to the survey, the “desired location” preferred by occupiers typically refers to central locations in Germany’s top 7 office hubs, i.e. places where there is currently a significant shortage of available space. Because at least some of the leases signed for coworking space are a result of this cyclical trend, this factor should only be considered a temporary driving force behind demand.

- Although having a “sense of community” (interacting and communicating with other companies to promote innovation) is “important” to 44% of all occupiers surveyed, it is “very important” to only 22%. Just as many occupiers consider this factor “unimportant”, a major difference to the traditional business center.

- Having a “modern work environment as a way to retain employees or recruit young skilled workers” appears to be even less essential with only 11% of those surveyed rating it as “very important”. More than half of those surveyed consider “introducing or utilizing modern workspace concepts” to be “less important” or even “unimportant”. Based on these responses, coworking centers as a gateway to the “new work environment” may be a decisive factor for many companies but certainly not for all.
WHERE SHOULD COWORKING CENTERS BE LOCATED?

- Occupiers clearly prefer central city locations in the country’s major office hubs. At least in part, this is closely connected to “current shortage of available space” as a motivation for turning to coworking centers. This occupier location preference tends to dictate provider leasing preferences.
- The less prestigious or central a location is, the less occupiers are interested in leasing coworking space there. However, there is definitely demand, albeit less extensive, for coworking space in secondary cities with multi-regional significance and tertiary cities with regional significance. 13% of those surveyed rated availability of space in these macro locations as “very important”.
- In terms of submarket categories, 60% of occupiers rated peripheral locations as “unimportant” with one quarter of occupiers rating coworking space in city district locations and office and business parks being “very important” or “important”.
- One key to success when establishing coworking centers at these locations in particular could be proximity to potential occupiers’ current corporate headquarters, a factor that almost half of those surveyed said was “very important” while only one third of providers surveyed felt the same.
- Almost exactly the opposite is true when it comes to coworking space in an “urban area/trendy neighborhood”, the significance of which providers tend to overestimate.
- “Proximity to occupiers” is also key to establishing a well-let coworking center, while the majority of those surveyed consider “proximity to competitors” to be unimportant.
WHAT DO COWORKING CENTERS NEED TO OFFER?

- Occupiers have particularly high requirements when it comes to technical infrastructure, particularly in terms of having a high-speed Internet connection and suitable server capacity. Providers are aware of these high expectations.
- However, there are marked discrepancies when it comes to the importance of conference rooms versus common areas. As we saw earlier when discussing the “coworking spirit” where only a minority of occupiers surveyed said this was a decisive factor in their decision to lease coworking space, only a quarter of those surveyed rated common areas as “very important”. This number, however, jumps to 80% when it comes to the availability of conference rooms, the significance of which providers have to date not been aware.
- Providers tend to overestimate occupier desire for events aimed at promoting collaboration, a main factor in the success of first generation coworking centers (incubators), where the main target base was start-ups and freelancers. The same also applies to other service offers including general office services.
- These rather traditional requirement profiles, more reminiscent of conventional business centers, are one reason why occupiers tend to be unwilling to accept higher costs than those they would pay for conventional office space. One third of those surveyed said that they were not willing to pay a premium, and 42% said they would be willing to pay up to 10% more for coworking space.

The Sustainability of Coworking Centers

Occupier willingness to pay

How much more would you be willing to pay for coworking space?

- Coworking centers are just beginning to take off in Germany. 80% of the occupiers and providers surveyed by Colliers expect demand for coworking space to increase over the next 2 to 5 years.
- Demand for professionally operated coworking space comes from many sectors. Roughly two thirds of coworking space at coworking centers is occupied by corporates, i.e. established companies of different sizes and from different industries.
- According to our survey, the main reasons for leasing space at coworking centers are “reducing costs” and “increased flexibility requirements”.
- Current market conditions are very significant as well. Based on survey findings, limited supply at a desired location is a key factor driving demand.
- Aspects such as “coworking spirit”, i.e., interacting and communicating with other companies to promote innovation, and “trying out new work environments” proved less important.
- Space in a central location appears to be a key factor to success. Occupier preference for coworking locations near their current corporate headquarters could prove to be essential to the success of future locally planned development sites. Office and commercial parks located in office hubs where available space is in short supply are an excellent option.
- As business becomes more digitized, the technical fitout available at coworking centers can offer a major competitive advantage compared to traditional office space.

SUMMARY

All things considered, coworking centers will continue to be a popular option on the office market. As our survey of 40 occupiers and providers shows, coworking centers assume an important “buffer function”, particularly in large markets where demand exceeds supply, both in terms of cyclical fluctuations in demand as well as in terms of corporate strategy. One more thing: Most occupiers primarily see the USP of coworking centers in having access to a high-performing technical infrastructure and the availability at space at select locations. On the other hand, there is still room for further marketing efforts in order to convince occupiers of the advantages of modern space concepts and new office environments.
€ 2.4 bn
revenue

15,400
professionals

180
million sqm
under management

69
countries

68,000
transactions

€ 103 bn
transaction
value

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