Mining Millennials
Finding Gold in Co-working Spaces
The growth of the flexible workspace segment in the Philippines has been undeniable. The estimated total stock of flexible workspaces in Metro Manila has reached 228,000 sq m (2.5 million sq ft). Colliers expects this number to grow by 10% annually in the next three years, as demand for co-working spaces is spurred by a millennial-dominated labor force. In order to remain competitive, Colliers believes that flexible workspace operators can consider buying office spaces and converting them to co-working spaces; or partnering with developers to mitigate the impact of increasing rents. On the other hand, we encourage developers to dedicate co-working spaces in their buildings to take advantage of the segment’s growth.

Today’s dramatically evolving business environment has changed the way people work. As well-established companies continue to expand, new ones are emerging. But as corporations and start-ups look for ways and means to drive business growth, two interrelated considerations remain: (1) provide the ideal work environment for employees to work efficiently and productively while (2) avoiding unnecessary costs.

As such, office leases and workspaces have transformed to meet these standards. Lease terms must not be onerous that companies use more space or pay higher rents than necessary, for a period that is longer than required. Just as importantly, workspaces in the twenty-first century must meet the employee requirements that include spacious work areas which allow increased productivity, an interesting workplace ambiance which promotes creativity, strategically situated office furniture which foster work efficiency and collaboration—all of which in a location that is not only easily accessible, but also reflective of the company’s brand. Ultimately, all these elements should create value, and provide savings to companies and individuals alike. Thus, it is not surprising to see the increasing popularity of flexible workspaces in recent years.
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What are flexible workspaces?

We define flexible workspace as any workplace that allows short-term leases, with a minimum size of one seat, fully-furnished and ready-to-use. These workspaces may be private, shared, or a combination of both, offering scalability. They may also include other services such as telephone lines, meeting rooms, and a receptionist, among others.

In the Philippine market, there are three major classifications of flexible workspaces: serviced offices, hosted services firms, and co-working spaces. It must be noted that all three types provide the basic needs of air conditioning, a workstation, and fast internet. Understandably, there may be some overlapping services across types, but each has unique characteristics that consequently define the profile of their clientele.

Different options for different needs

We have differentiated the three flexible workspace types based on the unique value each provides and the kinds of clients each attracts. Understanding the nuances will allow us to see the potential of each workspace type.

Serviced offices are the pioneers of flexible workspace. Thus, they provide the most fundamental services. However, being the first entrants in the market, serviced offices, particularly major players, have multiple sites across cities, even countries. Additionally, these sites are located in prime locations within central business districts (CBDs). As such, serviced offices have become ideal for business travelers, expatriates and new entrant-multinational companies (MNCs).

Hosted services providers entered the market next. This type of flexible workspace is similar to serviced offices, but differentiates itself by providing back office, non-core services such as information technology services, human resource staffing, accounting, etc. These additional services help tenants focus on their core businesses. Furthermore, these firms are also agnostic about being in prime locations. Thus, their tenants are small business process outsourcers (BPO) and other traditional companies which are not very keen on having a prime address but are more concerned about being in a quality building at a more reasonable price.

Co-working spaces are the newest types of flexible workspaces. Apart from the contemporary design that integrates the comfort of home, the ambiance of your neighborhood café, and the functionality of your office, this flexible workspace type differentiates itself by the community it creates. Co-working operators encourage tenants with similar interests to collaborate in a shared working environment. This flexible workspace group also allows members access to the contact details of other members within a community to foster synergies. Occasionally, learning sessions where seasoned industry experts share their expertise are also held to equip individuals with the tools they need for their businesses. As such, common users of co-working spaces are start-ups and freelancers.

Clearly, each flexible workspace type has its own advantages for specific tenants. A more comprehensive table of differences is shown below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Serviced Offices</th>
<th>Hosted Services</th>
<th>Co-working Spaces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of Entry</td>
<td>1999</td>
<td>2008</td>
<td>2011</td>
</tr>
<tr>
<td>Location</td>
<td>Primarily major CBDs</td>
<td>Some CBDs; Mostly fringes</td>
<td>Some CBDs; Mostly fringes</td>
</tr>
<tr>
<td>Building grade</td>
<td>Mostly A; some B</td>
<td>Some A; mostly B</td>
<td>B only</td>
</tr>
<tr>
<td>Typical size</td>
<td>1,000 to 1,500 sq m</td>
<td>More than 2,000 sq m</td>
<td>Less than 200 sq m</td>
</tr>
<tr>
<td>Primary tenants</td>
<td>MNCs, traditional companies</td>
<td>BPOs, small Traditional companies</td>
<td>Freelancers, start-ups</td>
</tr>
<tr>
<td>Unique characteristics</td>
<td>Prime address, access to multiple sites worldwide</td>
<td>Provision of non-core or back office services</td>
<td>Allows collaboration with others users; regular events and seminars</td>
</tr>
<tr>
<td>Average cost</td>
<td>PHP19,000 per seat per month</td>
<td>PHP14,000 per seat per month</td>
<td>Allows daily use at PHP500 per seat</td>
</tr>
</tbody>
</table>

Source: Colliers International Philippines Research
A closer look at the types of flexible workspaces available in the local market would reveal that each type has a specific size, location, building grade, design, and cost—all of which ultimately reflect the profile of the tenants that each caters to.

**Evolution of flexible workspaces**

The growth in the flexible workspace segment in the local market has been undeniable. The number of flexible workspace sites has reached over 60 as of end 2016. This is a significant jump since the industry’s beginnings when Regus opened its first site in 1999 with almost 1,000 sq m (10,800 sq ft) of space at The Enterprise Center. Today, the estimated total stock of flexible workspaces in Metro Manila has reached 228,000 sq m (2.5 million sq ft).

The total stock of flexible workspace office space in the Metro Manila market is dominated by hosted services firms comprising 76% of total stock. This is reflective of the Philippine market which is a leading global player in the BPO sphere. It is followed by serviced offices representing 19% and co-working spaces, which is the most dynamic today, but represents only 5% of total market size.

**Office stock breakdown of the types of flexible workspaces (2016)**

![Graph showing office stock breakdown of the types of flexible workspaces (2016)](image)

- Co-working: 19%
- Hosted Service: 5%
- Serviced Office: 76%

Source: Colliers International Philippines Research

However, the CAGR of the different flexible workspace types reveals a different trend. While each began at different points in history, over the last four years, co-working spaces have been the fastest growing averaging at 61%, followed by hosted services at 19% and serviced offices at 18%. Interestingly, the growth of flexible workspaces coincided with key developments in the office real estate sector. And thus, each followed a different trajectory as well.

Serviced offices growth as a sector also did not happen until the Philippine economy stabilized in 2012 when annual average GDP consistently breached the 6% level. As businesses flourished and air travel became more accessible, the popularity of serviced offices also grew. This flexible workspace type became the contemporary alternative for traditional office spaces as hosted services were for BPOs. Market leader Regus entered in 1999. At that time, grade A and premium buildings only comprised 23% of 3.8 million sq m (40.9 million sq ft) of office space.

Regus expanded with its second site the year after also in Makati CBD. Since then, the company has launched sites across Metro Manila and even provincial locations. However, the fastest growth for Regus occurred in 2016 when the company added 9,200 sq m (99,000 sq ft) or almost a third of its total workspace stock. Today, other serviced offices exist such Compass, Servcorp, and CEO Suite, among others. Serviced offices are located in multiple grade A and premium buildings in the Metro. Over 3.7 million sq m (39.8 million sq ft) of grade A and premium office space are now in the market.

The surge in the BPO sector did not occur until after the 2008 global financial crisis. As such, while hosted services firms entered the market in 2007, their expansion sites were established in 2010 onwards. For example, four of Sales Rain’s five sites today were acquired between 2012 and 2016. More than half of Anthem Global’s office space stock is in buildings completed post-2012.

Co-working spaces started in 2011 with Co Lab Xchange which started with sites in Ortigas Center and Makati CBD, before consolidating itself in Pasig City with a total of 500 sq m (5,400 sq ft) of space. A-Space followed later in the same year. Since then, other players have emerged such as Acceler8 (Finman Building), The Office Project (Alpha Salcedo Condominium), and Launch Pad (Commercenter), among others. The majority of co-working operators entered the market in 2015 and 2016. Today, co-working spaces spans across Metro Manila submarkets. The biggest contributor to the stock is A Space with over 4,000 sq m (43,100 sq ft) in Makati and Fort Bonifacio. Notably, operators have also started expanding to provincial locations such as Cebu, Iloilo, Bacolod, and Davao.
Overall, flexible workspaces have become a reflection of the health of the office market through the years. The ability of the workspace types to evolve and adapt to the changes in a short span of time has also sustained the growth of this sector. The sector transitioned from more traditional companies in serviced offices in the early 2000’s to BPOs in hosted services sites in the run up to the next decade, and finally freelancers and start-ups in co-working spaces more recently. The adaptability (or flexibility) of workspaces will also be the determinant of the sector’s growth trajectory in the years ahead.

**Sector growth drivers**

We identify five (5) key drivers in the growth of the sector. And once again, we see that while these factors may apply to all types of flexible workspace, they tend to impact particular groups more than others. These drivers include: (1) multinational companies (MNCs) using the space; (2) business process outsourcing’s role in the local market; (3) emergence of start-ups and freelancers; (4) importance of technology; and (5) growing millennial workforce.

Firstly, MNCs have been using flexible workspaces to save cost by placing project teams in flexible workspaces. Doing so would facilitate scaling up or down without the added costs of a fixed office space. The local market in particular, has seen serviced offices cater to MNCs looking to expand into the country. Examples of firms that used serviced offices as incubating sites for project teams include HSBC, JP Morgan, and Citibank in the mid 2000’s. More recently, the likes of Wells Fargo, Uber, Google and Ikea also entered the Philippine market through the use of serviced offices as well.

Secondly, BPOs remain as a major driver of office market growth. While many of the MNCs entering the market take up seats in serviced offices, contact center BPOs, particularly smaller ones, prefer hosted services firms. The convenience these flexible workspaces provide with all the value added services make them ideal options. The Information Technology and Business Process Association of the Philippines (IBPAP) in its 2022 roadmap projected an 8% CAGR of full-time employees covering all BPO types from 2016 to 2022. The BPO sector remains strong with existing players
Getting into the details, about 60% of office space demand in 2016 came from BPOs. Understandably, hosted services firms continue to expand. Some examples of BPO companies that have opted for the seat leasing option in hosted service facilities are Bridgegroup, Readify, Cubisol, and Icon, among others.

Thirdly, start-ups and freelancers have been growing in number. According to the latest data from the Department of Trade and Industry (DTI), the number of micro, small, and medium enterprises (MSMEs) grew from 780,437 in 2009 to 946,988 in 2014 (2.8% CAGR).

Naturally, start-up companies have limited capital. As such, co-working spaces which offer leases as short as hourly or daily are their preferred workspace option. Furthermore, there have been some groups which act as incubators and accelerators for aspiring start-ups. Examples include Sinag of the Ayala Group and Idea Space of the Manuel V. Pangilinan Group of Companies. The collaborative and creative nature of co-working communities makes this flexible workspace type by preferred by these incubator-foundations. Following the recent passage of the Go Negosyo Act of 2014, which aims to empower micro, small and medium enterprises, we expect the growth of MSMEs to be spurred, and consequently, the co-working sector as well. Today, there is an estimated 1.3 million freelancers in the Philippines.

Fourthly, technology is redefining not just the way we work, but also the way we live. People have generally become more mobile and technology plays a crucial role in everyday interactions, including business-related ones. Technology has become the platform upon which corporates, entrepreneurs and freelancers have been able to execute their business plans. Notably, some of the biggest office space takers in Metro Manila in the last few years have also been tech companies Google, Uber, and Grab. Google closed the biggest lease transaction in 2016 with over 55,000 sq m (592,000 sq ft) in volume. The impact of tech companies only indicates the increasing importance of technology in our everyday lives. Consequently, the need for serviced offices and co-working spaces will also grow.
Lastly, the millennials are redefining the labor force profile. An estimated 47% of the total Asian workforce belongs to the millennial group aged 15 to 34 years old. The Philippine workforce is closely following the Asian trend, at 44%. With a median age of 25, and about one-third of the total Philippine population comprising millennials today, this group of individuals is set to dominate the workforce population in the next decade. Known for being tech savvy, creative, independent, and driven by instant gratification, millennials prefer to be in contemporary workspaces that promote the aforementioned characteristics and cultures.

Projected Philippine millennial share in the working age population (2020-2045)

<table>
<thead>
<tr>
<th>Year</th>
<th>Next Gen</th>
<th>Millennials</th>
<th>Gen X</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>10%</td>
<td>80%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>2020</td>
<td>15%</td>
<td>80%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>2025</td>
<td>20%</td>
<td>80%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>2030</td>
<td>25%</td>
<td>75%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>2035</td>
<td>30%</td>
<td>70%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>2040</td>
<td>35%</td>
<td>65%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>2045</td>
<td>40%</td>
<td>60%</td>
<td>30%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Colliers International Philippines Research, Philippine Statistics Authority; Note: work population refers to 15-64 years old

Given these drivers, Colliers expects the current flexible workspace stock in Metro Manila to grow by at least 10% annually in the next three years on the back of a faster growth from co-working spaces.

We note that this forecast is slower than the 30% growth expected in the entire Asia Pacific region as reported in Colliers’ recent Asia Pacific Flexible workspace Outlook Report 2017. This is due to the following:

- Growth is constrained by the new supply given that total office supply growth in Metro Manila in the last three years stood at an average of 7% due to construction delays.
- Conventional serviced offices and co-working spaces are constrained with the upcoming supply which are designed for large BPO tenants.
- The potential for co-working spaces in Metro Manila is also limited by the low vacancies across sub-markets where major CBDs are at 1%.

Nonetheless, we view the 10% growth as positive considering that it is faster than current overall Metro Manila market growth and the aforementioned unique characteristics of the local market.

Flexible workspace outlook

We recognize that each workspace type has potential for growth. However, Colliers believes that co-working spaces present a great opportunity for the following reasons:

- Co-working is still in its early stages in the Philippines.
- Serviced offices and hosted services firms find themselves participating in the co-working segment.
- Co-working provides the cost advantage that is important in a market characterized by increasing rents.

Co-working is still in its early stages in the Philippines. While the pioneers established themselves in 2011, no single player dominates the market until today. The uniqueness of each co-working space allows for others to compete and differentiate each site based on location, design, community, and profile of tenants. With the total share in stock of flexible office space only at 5%, there is still room to grow. Average sizes of co-working sites in the Philippines are at 500 sq m (5,400 sq ft) or less. By comparison, co-working sites in Hong Kong reach 3,000 sq m (32,300 sq ft) to 4,000 sq m (43,100 sq ft).

Serviced offices and hosted services firms have plans of participating in co-working. This is not surprising considering that co-working spaces themselves have offered not just shared offices but private ones as well. Clearly, it has also become a competitor for the other types of flexible workspaces with overlapping products and services. We met with a few serviced offices and hosted services providers and all of them expressed plans to launch co-working spaces in the near future.

Serviced office leader Regus has launched Spaces, its co-working brand in other major Asia Pacific cities Singapore, Sydney and Tokyo. It will only be a matter of time before Regus launches this brand in the Philippines. Hosted services provider Sales Rain has also expressed plans of establishing a co-working alternative for individuals and freelancers looking for workplaces.
Among the types of flexible workspaces, co-working provides the most flexibility in terms of lease terms and costs. Co-working spaces even allow daily and hourly usage and thus can be the most ideal for flexible workspace users in an increasingly expensive leasing market. In Metro Manila, rents are growing between 5% to 7% annually. Today, Major CBDs Makati and Fort Bonifacio rents have reached PHP1,000 per sq m (USD1.86 per sq ft). Alternative locations are also catching up in prices. Understandably, the piece-meal characteristic of co-working spaces has been attractive to various tenants.

Operator and developer responses

The potential of flexible workspaces, especially co-working, is undeniable. The challenge for both operators and developers is to adapt to the demands of the market to either remain competitive or participate in this growing segment. We have previously noted the importance of cost in current market dynamics. Colliers believes that the key differentiator for both operator and developers will be their ability to keep cost controlled. When Colliers met operators, they were all unanimous that rental cost is a major concern.

In response, Colliers suggests that operators can consider buying office spaces and converting them to flexible workspaces; or a more feasible strategy would be for operators to partner with developers through a revenue-sharing or fee-based arrangement on co-working spaces. It must be noted that local operators have implemented or are planning to implement these strategies.

The first strategy has been implemented by Sales Rain since 2009. It has been successful in doing so, having expanded to four sites from the first site that it launched in the country. The company’s rates are at least 15% lower than competitors because the company owns the office space. It has kept them free from the pressure brought about by rental escalations.

Sales Rain CEO Rajeev Agarwal noted that the strategy has provided growth and stability for the company, as well as kept its clients happy.

The second strategy is one that Regus intends to implement. Another example is local operator Acceler8 which partnered with Ayala Land to launch Clock-In, Ayala Land’s co-working space at the penthouse of the Makati Stock Exchange Center. We believe that if executed well, it will ensure the continued competitiveness of these firms as they free themselves from the pressure of increasing rents. Furthermore, developers are able to have a flexible workspace component in their tenancy portfolio without the trouble of managing it.

For developers on the other hand, Colliers suggests that they dedicate co-working spaces in their buildings, particularly to target incubators and accelerators in order to take advantage of the opportunity in the sector. A good number of the developers are part of conglomerates. Thus, they may tap into their experts to provide coaching, or even funding grants for deserving start-ups. The potential of start-ups is huge when coupled with the right mentorship.

The success of Swire’s Blueprint and Nan Fung Group’s The Mills in Hong Kong where tech and fashion enthusiasts were trained in developer-owned and operated incubators prove that there is potential for this kind of business model.

Swire’s Blueprint allocated two office floors for technology companies which would apply to qualify for their accelerator program. Implementing such a program may be costly given the investment the company needs. However, having these technology companies also helps Swire’s companies and tenants stay ahead in innovation as they also use the tech companies’ services. Furthermore, the high likelihood that these start-up companies will eventually lease spaces in buildings owned by the same developer when they do grow, is an encouraging incentive for developers.

The Mills in Hong Kong started implementing a similar program by establishing the Fabrica Incubator program. The program serves as a springboard to build on starting techstyle companies by encouraging with strategic partners. When successful, these start-ups also have a potential to occupy a space in The Mills when it becomes available in 2018.

Ultimately, we see potential in the flexible workspace sector. The idea is to find ways to keep rates competitive for flexible workspace operators, as well as flexible workspace users, while ensuring that the key requirements of the ideal office space is provided. In the process, developers get to keep their tenants and ensure stability in their recurring revenue.
554 offices in 66 countries on 6 continents

United States: 153
Canada: 34
Latin America: 24
Asia Pacific: 231
EMEA: 112

$2.5 billion in annual revenue

2 billion square feet under management

16,000 professionals and staff

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