WEWORK | HONG KONG | TOWER 535

Year opened 2016
Size 91,000 sq. ft.
2016 was the year flexible workspace took APAC by storm – from local coworking operators scaling rapidly in Beijing and Shanghai, to global juggernaut WeWork taking up large footprints in Shanghai, Hong Kong, Seoul and Sydney. Traditional operator Regus reacted by rolling out its Spaces brand in Singapore, Tokyo and Sydney while others, such as The Executive Centre and Compass Offices are pressing ahead with plans to launch new concepts. Even Servcorp, the market leader in premium serviced offices, has begun to introduce coworking, with an executive feel, in some key locations.

One of the overlooked trends in the sector is that of local operators starting to export their models overseas. Garage Society, a Hong Kong operator, has opened in Thailand and has sights set on several other Asia markets, while The Working Capitol, a funky Singaporean operator, has entered the competitive Australian market with new digs in Melbourne, and JustCo, another Singaporean concept, is looking for opportunities in Hong Kong and China. Previously inward-looking operators in Shanghai and Beijing – such as naked Hub and URwork – are now expanding their reach, flush with funding, with Hong Kong and Singapore targets.

In terms of size, we are seeing increasing diversity from smaller coworking operators seeking space of under 10,000 sq. ft., particularly in cities with established start-up ecosystems, while venture-backed WeWork, JustCo, The Working Capitol, URwork and naked Hub seek upwards of 40,000 sq. ft. for new centres.

Accelerator and incubator spaces have sprung up across various sectors with banking and insurance leading the way. However, set-ups have, thus far, been small in scale, with the exception of RocketSpace, the San Francisco-based accelerator operator, who launched in Australia recently.

End users are seeking more collaborative environments and looking to align themselves with innovation and talent. Eye-catching end user deals in 2016 included the 100 desks taken by PwC in Singapore’s Collective Works, and HSBC taking over 400 desks in WeWork’s Tower 535 in Hong Kong. This is proof that multinational corporations, based in APAC, are following the widespread adoption of this space previously seen in the UK and US, notably Microsoft moving 70% of their sales staff in New York to flexible workspace, and KPMG and Deloitte using the space in several markets.

Any trend in real estate is always end user led and with end users demanding more flexibility we foresee growth in the sector continuing and landlords being increasingly receptive in order to offer diversity in their portfolio, with some predictions stating that 30% of corporate real estate portfolios will be flexible workspace by 2030.

Appetite from operators for new centres is stronger than ever and we should see 30% growth in take up year on year. With changes in the way people work, there appears to be strong end user demand to underpin this growth.

2017 will see a continued evolution of the sector and we will see more lifestyle concepts integrated into operators’ offerings.

This Outlook Report examines what is happening in the sector: the drivers for growth, the impact on the key APAC markets, and what this means for start-ups, multinational corporations and landlords.

**FOREWORD**

With operators aggressively looking for new centres we should see a **30% year on year increase** in take up

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**JONATHAN WRIGHT**

Asia Pacific Practice Group Leader | Flexible Workspace
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There are some misconceptions around coworking. The image that springs to mind when coworking is mentioned is the Instagram shot of a large, cool, open plan workspace with millennials working away on Macbooks wearing t-shirts and jeans. The reality is different, in fact, over 60% of users are aged 30 to 50.

Coworking, by definition, is a working practice that involves different businesses collaborating for a greater end result – the physical manifestation of this is not necessarily sharing an open plan work environment, it can be achieved through slick technology platforms, as well as physically occupying space in close proximity to other businesses. The most successful coworking operators offer curated environments where a Community Manager knows their members intimately and is able to engineer the environment to ensure the success of individual businesses and facilitate collaboration within their community and beyond.

Initially, coworking was simply an open-plan workspace where small businesses worked in close physical proximity and often collaborated, or chose spaces where they had synergies with other users of the space. This type of space boomed around three years ago, driven in part by the growth in the contingent workforce and funding of start-ups. In the past few years, start-up growth in the region has been enormous, particularly
in Singapore and China. However, multinational corporations have seen the benefit of using this space and are increasingly common users.

The early incarnations of coworking as a physical product have now morphed into what could be considered similar to traditional serviced offices, but with a more contemporary design, often including exposed ceilings, wooden floors and glass partitions, teamed with extensive break-out areas designed to bring end users together physically, while relying on technology to provide a platform for collaboration. These spaces often have larger private offices than traditional serviced offices, enabling them to capture larger teams and, in turn, be attractive to both multinational corporations and start-ups.

The model differs from operator to operator, but loosely speaking we are now seeing a split of 80% private offices to 20% of open plan working and lounge areas where end users can work and interact.

Finally, we are also seeing traditional serviced offices starting to remodel their spaces to accommodate a more modern look, often with similar design and greater lounge areas – with traditional serviced office and coworking space converging, the term ‘flexible workspace’ has arisen to encompass both.

Today’s coworking model typically offers a split of 80% private offices to 20% open plan lounge areas.
WHO IS USING FLEXIBLE WORKSPACE?

In the past two years, we have seen many operators’ target market pivot from start-ups to multinational corporations, as a result, transaction size has increased significantly – transactions involving 15 desks or more now make up 35% of deals, compared to only 12% two years previously. Further, 80% of deals, globally, for 40 desks or more are coming from multinational corporations.

Transaction size of 15+ desks has surged from 12% to 35%, nearly a triple increment in two years

Multinational corporations have predominantly been attracted to flexible workspace by the ability it affords them to align with innovation, attract and retain talent, and to use these spaces to offer something different to staff. The flexibility offered, which in turn leads to cost savings – on average around 25% – is also an attraction.

These changes are nothing new – Servcorp, for example, have always had over 50% of their centres occupied by multinational corporations, outside of their home market, for branch offices and project teams, though the size of these is typically under 10 desks.

In all markets, traditional serviced offices have always been used for branch offices and project teams. However, the new breed of flexible workspace appeals to a wider cross-section of the market and we have seen instances of companies housing their whole operations within flexible workspace – an example of this would be Silicon Valley Bank using WeWork in several of their US markets.

In the short term, we expect more multinational corporations to place specific departments within flexible workspace – digital, innovation and technology teams would be most likely to move into these spaces, case in point being HSBC’s decision to take over 400 desks for their digital team in WeWork’s Tower 535 in Hong Kong, and EY similarly moving a team in Sydney to a coworking space. However, in the medium to long term we expect larger, mid-office teams to start moving to flexible workspace in order to unlock flexibility between core space and flexible space, achieve cost savings, and create more collaborative work environments.

Note: Based on 120 sq. ft. per person, three year traditional office lease, HKD 60.00 per sq. ft. per month (USD 93.00 per sq. ft. per annum)
Core Space vs Flexible Space
Organisations are looking to minimize the work space they rent. They are now looking at “core space” and “flexible space”. Core space is defined as the minimum required for the business to function efficiently with no excess space for expansion or for specific project or seasonal work. This is the space they will rent on a longer term lease. Flexible space is space available for their use but only rented on an as-needed basis. This could be project space, gathering spaces for quarterly or monthly team meetings, meeting space that has specific high tech requirements or collaborative spaces. It could even be space that is shared with start-ups or small tech firms that staff are deliberately rotated through to encourage cross pollination and ideas exchange. The flexible space is located in the same building or precinct and bookable on a daily, hourly or longer term basis. A lot of developers are including this sort of space in their buildings. In fact, a lot of occupiers won’t consider a building unless it has flexible space available.

PETER BLACK
National Director Workplace Strategy and Design
Colliers International Australia
THE EVOLUTION

The office has continually been evolving and this is well documented. Traditional serviced offices still meet some end user’s requirements, particularly at the premium end of the market. However, the sector is now moving towards a holistic offering, catering for the demands of the millennial and today’s dynamic business environment.

WeWork has already launched co-living in the US, a model that will soon be exported to APAC. naked Hub, from Shanghai, are already rolling out their co-life concept across all their markets, bringing together flexible workspace, food & beverage, and wellness.

We believe that co-living will be extremely popular in APAC. However, we also predict challenges to co-living being able to co-exist in the same building as flexible workspace due to buildings in some major APAC cities having user restrictions.

Notwithstanding the above, we expect co-living to be a big trend in Sydney, Melbourne, Shanghai and Singapore first, before spreading to other markets. It will be difficult to achieve in Hong Kong due to the narrow footprints of most residential buildings.

We may see larger occupiers bringing flexible workspace in-house, similar to Verizon who recently partnered with operator Grind to transform 10,000 sq. ft. of underutilised space in its Manhattan headquarters into a flexible workspace for start-ups and entrepreneurs. The technology firm wants to facilitate a new wave of growth in its sector by offering business incubator space and collaboration with its occupiers. The key element preventing this being a widespread trend in APAC is that multinational corporations rarely hold surplus space within their operational portfolios.

We are evolving from the ordinary coworking industry norm. We are introducing a co-life concept, in which food and beverage, mental and physical wellness are incorporated into the coworking community. Work takes up a major part of your time and we want to benefit everyone in the hub.

Work gets stressful sometimes and it’s important to take care of employees and allow them to perform at their highest potential.

JONATHAN SELIGER
CEO
naked Hub
Traditionally, serviced office operators took up space in core CBD locations, and coworking operators tended to locate in older buildings in decentralised districts or fringe CBD. However, over time, the two have come together and both now have good coverage across both building class, and location.

The most prominent change in this is the shift of coworking centres from CBD fringe areas to prime locations within the CBD and this, again, is end user led. You will usually find local operators in fringe districts, accommodating start-ups with international operators seeking CBD sites to accommodate multinational corporations. Regardless of whether the end user is a multinational corporation or start-up, proximity to clients is critical – as such, CBD locations will continue to be sought after due to the critical mass of corporate headquarters in CBD districts.

Larger floor plates with natural light are often sought by operators. Serviced office operators tend to look for buildings with a central core, while coworking operators prefer a side core. It very much depends on the operator in terms of building – Servcorp will usually only take AAA grade buildings in prime CBD locations, while WeWork typically take a large amount of space across all districts but rarely in AAA grade buildings in core CBD, and the Regus portfolio spans all building classes and districts.

In all cases, operators will seek market rent or below, meaning low zones of buildings tend to be targeted. Operators look to secure buildings on a pre-let basis, as this enables them to maximise the incentives offered by the Landlord. There is certainly a first mover advantage in taking buildings under construction on a pre-let basis as it helps maximise the aforementioned model.

When selecting where to base Compass Offices, we have always researched and prioritised what would be the optimal locations for our customers. As a service office provider, having offices in prime urban centres is appealing to clients. We consider the accessibility of the area and whether it is suited to the diverse needs of our clients and businesses.

Recently, we have seen some changes that come with the rise of tech, a shift in the makeup of workforce demographics and recent economic crisis resulting in a departure from traditional office spaces. Although people still covet prime locations, customers now value flexibility in arranging the actual spaces.

Although we live, socialise and work in a world that is now more digitally connected than ever before, individuals still highly value the human elements of relationships. Whether it be delivering a project, or building a new business partnership – office environments that encourage creativity, bring people together and are set up to enable face-to-face client contact are sought after features. To this end office location is very important, location impacts the talent that your business can attract whilst proximity to clients ultimately helps strengthen those partnerships.
Funding for start-ups in Asia has been one of the primary factors fueling the growth of the flexible workspace sector, this funding has had a direct impact on the increase of end users.

Investment into start-ups grew quickly from 2012 to 2015, with investment more than doubling in that time period. Venture Capital firms deployed over USD 22 billion into more than 1,000 start-ups in 2016.

In the first quarter of 2016, funding to companies in Singapore, the region’s start-up hub, rose sharply to USD 199 million from USD 53.1 million a year earlier. In Indonesia, investments more than doubled to USD 18.9 million in the first quarter of 2016 from USD 8 million a year earlier. Funding was also up, over 2016, in Malaysia, Vietnam and Thailand.

We see a continued appetite from VCs investing in start-ups in the region which will correlate with the increased take-up of flexible workspace from these end users.
As explored earlier in the report, “Who is using flexible workspace” on page 8, the increase in multinational corporations using flexible workspace has been a driving factor for many operators achieving scale.

This growth is being driven by multinational corporations beginning to take up large numbers of desks in flexible workspace, with HSBC’s deal at WeWork, Tower 535 of around 400 desks being the standout deal of 2016. We believe this is the tip of the iceberg and many multinational corporations will utilise this space in 2017.

Utilising flexible workspace allows multinational corporations to unlock the flexibility needed to scale up or scale down relatively quickly, particularly for their project teams. In addition, there is an opportunity to align with innovation by locating specific teams in a dynamic environment, improve staff retention, access talent, and to cross-sell opportunities with other end users.

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) announced new lease accounting changes earlier in 2016 which come into effect in 2019. Consequently, listed companies must start analysing the impact their office portfolios will have on their financial statements. Larger occupiers often have various long-term lease obligations which translate as ‘debt’ but under current rules are not reflected on the balance sheet, and consequently the financial impact isn’t visible. The revised standards are intended to improve transparency on true liabilities for stakeholders.

Short-term leases (under 12 months) will be exempt from the new standards, which may explain, in part, the increase in demand from multinational corporations seeking flexible workspace solutions, and why we may see this demand continue to increase.

There remains an appetite for cash-rich companies to purchase office space, but the majority of businesses lack the financial ability to do so, coupled with a shortage in viable opportunities in the market. With the lease accounting changes looming, we expect this to be one of the key factors driving growth in years to come.

As HSBC accelerates the build-up of our digital capabilities, our space in WeWork will allow our employees to collaborate in an open plan and agile working environment. Creating the right environment for our staff, working in the same location as other like-minded teams, including Hong Kong’s Fin Techs and other start-ups, is important to us as we continue to attract, develop and invest in the talent we need to meet our digital ambitions.

ANDREW CONNELL
Regional Head of Digital, Retail Banking and Wealth Management, Asia Pacific
HSBC
Technology is a broad subject and it has transformed real estate in many regards. New ways of working are reshaping the way the office looks and how organisations interact both internally and B2B.

Mobile working is making a fixed office space less necessary, meaning some organisations are simply using office space for touch downs and spaces for collaboration, in the meantime their staff are using the traditional office differently.

Technology has also changed the types of companies occupying space. There are more entrepreneurs than ever, mainly working in the technology sector – meaning lean companies need to be in close proximity to commerce. This has changed the way space is offered, with landlords now needing to accommodate all sizes.

Wireless technology, mobile devices and cloud based services are enabling workers to choose their place of work, be it office, home, coffee shop or within flexible workspace.

Flexible workspace operators leverage technology to manage their spaces, such as app-based booking and membership systems couple with on-line payments and social connectivity tools to enable this new workforce. Their environments by default need to be designed with mobility, flexibility and connectivity in mind. These fundamentals are core to the flexible workspace operator.

LACHLAN SLOAN
COO
BizDojo
The new generation of workers is often called the millennial generation, referring to people born in the run-up to the start of the 21st Century. Especially in more developed markets, “millenials” have a reputation for blending work and personal time. We have calculated the proportion of the Asian working population by age group using United Nations estimates for 2015, 2020, 2025 and 2030 (see table below). On this basis, millennials currently represent 47% of the aggregate Asian workforce. This proportion is boosted by the fact that there are eight large emerging Asian markets (countries such as India, Pakistan and Vietnam) in which at least 49% of the population is aged below 30, which is not truly representative of more advanced markets such as China, Hong Kong and Japan, where the proportion of the population aged below 30 ranges between 40% and 28%. Nevertheless, as a rough indication of the extent to which millennials are already a powerful force in Asian economies, the 47% figure is helpful.

As the table indicates, millennials will dominate the total Asian workforce for the next several years. The post-millennial “Next Gen” should account for 12% of the Asian working population by 2020. Conversely, by 2030, the “Baby Boomer” generation born post World War Two will have entirely exited the Asian working population, with a large portion of the subsequent Gen X workforce also fading from the scene.

We would argue that millennial-friendly workplace design is based on three key amenities: collaborative space, relaxation space, and provision of food and drink. Provision of these amenities in traditional Asian office environments is limited, partly due to general lack of space in crowded city centres, and partly for cultural reasons. Many flexible workspace operators create an environment much more conducive to the desires and aspirations of the younger millennial workforce, and therefore increase demand and take-up of this type of space.

The Millennial is also much more likely to be a contingent worker, therefore requiring the use of flexible workspace on a project to project basis.
NEW MARKETS

The recent growth of flexible workspace in APAC has been focused on Central and North Asia, along with Melbourne and Sydney. However, we expect further growth in APAC over 2017 and 2018 to be partly fueled by an appetite from international operators to step into new markets, particularly South East Asian countries such as Indonesia, Malaysia, Philippines and Thailand, together with India.

We expect the countries listed to see a spike in take-up by flexible workspace operators, some of which may follow WeWork’s lead in this by partnering with a local developer, as they have done with Embassy in India.

Growth in these markets is sustainable due to an increasing number of multinational corporations looking for space in South East Asia, and having a desire to mitigate risk. Flexible workspace will offer a good point of market entry with reduced capex, in comparison to conventional space.

Given the number of multinational corporations entering the market for the first time, either as small/medium set-ups, branch offices or via BPOs, we expect demand for flexible workspace to continue to grow across all districts of Metro Manila.

As a result we foresee both the introduction of new operators and continued expansion from existing players over the course of 2017. We certainly see opportunities in the market for other international operators of a larger scale and those that have a different offering from industry norms.

LIAM MCCARTAN
Executive Director, Office Services
Colliers International Philippines

We will continue to see coworking as the big real estate trend in top tier cities. We’ve seen a lot of coworking spaces in London, New York and now cities like Hong Kong and Singapore. The trend is here and the next wave will be smaller cities with great talent. At Garage Society, we’re looking into the likes of the Philippines, Vietnam, and Korea, and we’ll see more supply in these locations.

ELAINE TSUNG
Founder
Garage Society
ACCELERATORS AND INCUBATORS

Accelerators and incubators prepare start-ups for growth. Both help start-ups to develop by providing guidance, mentorship and access to capital. However, they achieve this in different ways, and more importantly at different stages in the life cycle of the start-up.

Incubator programs last for varying durations and include several forms of mentorship and support, and nurture the business for the time it takes for it to get on its feet, sometimes for many years. On the other hand, accelerations usually last between three to six months.

The emphasis of the accelerator is on rapid growth, and to iron out organisational, operational, and strategic difficulties that the start-up is facing. It can be understood as a holistic business advisory service, often bearing a strong resemblance to traditional management consulting practices, but adjusted to fit small and medium sized businesses.

Multinational corporations are investing in start-ups, usually within their own industry with a view to fostering the innovation of these start-ups to enhance their own business. AIA, PwC, KPMG, Infiniti and DBS are taking a hands-on approach in the form of accelerators. These offer promising start-ups a combination of funding, mentoring and other support targeted to start-ups with synergies with their own business.

PwC’s Venture Hub currently located in Collective Works in the heart of Singapore’s CBD at Capital Tower will co-host a series of events with Collective Works for members, entrepreneurs and investors, looking at disruptive technologies in areas such as Fintech, Biomedicaltech, Regtech, Wealthtech, and Legaltech. Accelerators and Incubators offer the flexibility of lease terms and more importantly a collaborative environment where innovation can take place.

AIA and Nanyang Technological University (NTU Singapore) have launched an innovation centre, focused on finding ways to make insurance more accessible and to better manage issues around rising healthcare costs and improving patient outcomes by leveraging technology, big data and analytics. It brings together start-ups, government agencies, university experts and private sector collaborators to drive innovation in the life insurance sector.

Seasoned entrepreneurs are also helping start-ups by creating Incubators and Accelerators which focus more on start-ups rather than the multinational corporation running the accelerator. Betatron is Hong Kong’s first non-vertical accelerator program for start-ups providing upfront seed funding. It was founded by IC Studio, a start-up incubator studio, along with four of Hong Kong’s top Venture Capital and Investment firms: MindWorks Ventures, Vectr Ventures, CoCoon Ignite Ventures and The Aria Group.

For our start-up accelerator, Betatron, we are delighted to be based at WeWork in Hong Kong. They offer a unique working environment for our first batch of start-ups with their flexible workspace, convenient location, and regular networking events for their community. Also, we can add tremendous value to our programme by accessing WeWork’s diverse global community of entrepreneurs, start-ups, and corporates.

RAFAL CZERNIAWSKI
Co-Founder
Betatron Start-Up Accelerator
CapitaLand aims to provide real estate of the future and working closely with sharing economy players and technology start-ups is an important pillar of this strategic thrust.

**LIM MING YAN**
President & Group CEO
CapitaLand

We really see the value of flexible workspace in the office sector. As an investor, the model works very well when repositioning Grade B buildings and helps to create an identity for an asset. Similarly, the right operator can help attract other tenants to a building, but it is important to get the right strategic fit and approach these things as a partnership.

**ALLAN LEE**
Managing Director
Pamfleet
LANDLORD’S VIEW

We foresee the scale of new openings to continue in an upward trajectory across APAC, particularly in China and mature established markets. Traditional serviced offices have typically occupied 10,000 to 20,000 sq. ft. with coworking spaces, initially, being smaller spaces housing start-ups. Now we are seeing WeWork, JustCo, The Working Capitol, URwork and naked Hub seek upwards of 40,000 sq. ft. for new centres and, as such, many of these now dwarf traditional serviced offices. Key examples have been WeWork taking 93,000 sq. ft. for one Hong Kong centre and over 200,000 sq. ft. in Seoul’s CBD, naked Hub continues to grow, their latest offering is a 130,000 sq. ft centre in Gubei, Shanghai, and finally JustCo has taken up 60,000 sq. ft. in Marina One, Singapore.

The key for operators is to create a community which is attractive to multinational corporations, hence the scale. For example, should an operator only take 10,000 sq. ft. they are unable to appeal to a multinational corporation who may wish to place 100 desks in a flexible environment. Operators will often build a community of freelancers, start-ups, and SMEs before marketing their space to multinational corporations.

Earlier in the report, we explored the appeal to multinational corporations of occupying flexible workspace – the increased take up of flexible workspace by multinational corporations puts large scale operators in direct competition with traditional landlords. However, landlords are ultimately occupier-led and occupiers are demanding this type of space. We may see landlords begin to partner with more established operators via joint ventures and profit share models as a direct way of monetising this trend.

Often when a landlord attempts to run their own operations they fail commercially due to not only lacking the expertise to run the facility and nurture the community but also lacking the network of offices and the benefits which come with economies of scale for all manner of things from IT systems to marketing. Flexible workspace is about people and community, not just real estate, and this can be overlooked by landlords.

Due to the scale of established operators, the trend represents a great opportunity to re-position or add value to an under-performing asset, which should be particularly attractive to the landlords of Grade B buildings and, given the struggling retail sector, existing or former retail developments. CapitaLand’s recent deal with URwork to bring them in to some of their malls is a prime example of this.

In order for Landlords to mitigate their risk we expect them to look at keeping flexible workspace below 100,000 sq. ft., or less than 30% of their buildings, whichever is lower, in order to maintain a balance within the asset and not risk overexposure to an unproven operator. Of course, this depends on the operator, and we would expect there to be a greater willingness from landlords to transact larger portions of their portfolio with established operators who have strong track records and funding.

By 2030 30% of corporate real estate portfolios will be flexible workspace

With the sector growing at a pace and end user demand continuing in the same vein there are some estimates that around 30% of corporate real estate portfolios will be flexible workspace by 2030.

With a range of operators now in the market, it is important that Landlords select a strategic fit for their asset and careful consideration should be given to this with the help of a third party advisor. The selection of the right operator and sound execution of a deal can often add value to the asset.
We are expecting considerably faster growth in the sector in 2017. Compared to the more mature flexible workspace markets in North America and Europe, the Asia Pacific market is relatively underserved so we are expecting to see accelerated growth from both domestic and international operators.

**Why would a corporate occupier choose naked Hub over traditional space?**

To the corporate occupier, naked Hub offers key advantages in terms of flexibility, value for money and increased employee happiness, and therefore boost productivity, attraction and retention.

The flexibility we offer allows for anything from a country or city HQ to a project team to be permanently or temporarily deployed at any of our locations closer to their clients, suppliers or partners immediately without wasting time hunting for appropriate space, locking themselves into an expensive long-term lease and then the financial and timing implications of fitting it out. Furthermore, they are able to adjust their space according to their changing needs at short notice, reducing or expanding teams as necessary, and make mobile teams more productive by giving them access to hot desks at any location daily. And rather than carry the cost of meeting rooms, VC facilities, printers and other under-utilised investments and spaces, these facilities are all available on demand.

We also provide a far more engaging office environment in which employees are able to network personally and professionally both one-on-one and at events, develop themselves through readily-available workshops & seminars, experience the serendipitous collaboration and innovation that springs from mingling with our diverse and energetic Hubbers (naked Hub’s term for their members) and have access to amenities which improve the quality of their day. Examples of this include comfortable lounge and breakaway areas, recreational activities and high-quality coffee and beer. This creates an opportunity to cultivate a more comfortable, collaborative, creative and less hierarchical environment for a company, department or team.

**What do you feel are the key things that are driving this growth in the sector?**

The increasing prominence of Millennials in the workforce combined with the evolving nature of work itself.

The Millennial (post-1980) generation have a vastly different work style and preferences to previous generations, prioritising meaning, value and impact of their work rather than seeing it as a job which produces a salary. The consequences of this are a different expectation from their work environments, seeking better-designed aspirational settings, flatter and more transparent organisational structures, increased social interaction and collaboration and non-traditional relaxation space and amenities.

At the same time, the nature of work is changing, driven primarily by technological advancements like cloud computing which make it increasingly easy to work remotely.
and/or independently. This has given rise to an independent workforce who operate individually or in smaller firms on a contract basis as well as giving larger corporates the ability to distribute their employees individually or in teams closer to their clients, suppliers, partners or even homes rather than group them in massive office blocks.

What is your current member mix in terms of start-ups vs multinational corporations?

Multinational corporation occupiers currently make up 25% of our total member base, however, as a percentage, this is rising as our newer locations are able to accommodate increasingly larger teams.

Will there be a case where a corporate occupier uses 100% flexible workspace and no traditional space?

Absolutely. The concept of what we call the traditional office was conceived during a time where people needed to come together in a single place to work, and technological advancements have rapidly made that way of thinking obsolete. With the ability to instantly communicate with someone on the other side of the world why wouldn’t corporates increasingly look to break their large branches into smaller, flexible functional centres across a city or country, increasing employee productivity through the benefits previously mentioned all while reducing their travel time and saving money.

We believe that there is a misconception in the market that ‘flexible’ means temporary and/or cheap and only for start-ups, that a business “grows out” of a flexible space once it reaches a certain size or maturity. But the product that naked Hub is bringing to the market is the high quality solution for companies of any size, and corporate Hubbers are increasingly seeing the benefits of tapping into the energy & innovation that the entrepreneurs and smaller companies provide with all of the stability of a traditional space at a significantly lower cost.

The sector has an array of operators now, what makes naked Hub different?

The quality of our product and the strength of our community.

It is a large sector, with operators targeting a wide variety of price points and even specific industries, however, the naked hospitality DNA – we know how to deliver great experiences – has enabled us to deliver beautiful, functional, comfortable and aspirational spaces that are high quality and premium but still deliver exceptional value for money to our Hubbers. Our highly advanced and constantly evolving technology platform not only strengthens the bonds in a given location but also gives everyone access to a rapidly-expanding group of people to whom they can easily and instantly turn to solve their business problems.

This organic interaction is not only the reason why our community is balanced, authentic & engaged but also why we are so eager to incorporate new locations, cities & markets into our family because each new addition exponentially increases the benefits for all.

You offer wellness and F&B in your centres, as well as serviced offices/coworking – how do you work out the mix of uses in your centres?

The mix of uses per location is highly dependent on a variety of project-specific factors, including total GFA, floor plate and location. Our primary motivation for offering these additional services and facilities is to enhance our Hubbers’ lifestyle, so first and foremost we focus on understanding their needs and use these insights to guide us. We also conduct a thorough market analysis of the F&B and wellness resources currently available in the immediate and greater vicinity to help us determine potential demand, which is also a factor in our final decision.
2016 globally, and in particular in Asia, seems to be the year when flexible workspace is really taking the office market by storm. How do you see that and where are Servcorp positioning themselves?

There has been a lot of growth in flexible workspace sector for a number of reasons. Generally, people are working differently and multinational corporations are looking at how they utilise their workforce, how they want them to work and how they wanted to be distributed. In addition to that, I think that the breaking up of the financial industry, to some extent, has created a lot of people who want to go out and start their own businesses. Finally, the emergence of start-ups and small businesses is the option for Millennials who don’t want to have a boss and so go out and start their own thing – I think that is fantastic and flexible workspace plays a huge part in facilitating all of this.

Historically, flexible workspace only took up 2% of the total market but we believe that there has been immense growth particularly if you have a look at a market like London, which is probably the most mature market in terms of flexible workspace. It could be up 10% to 30% of the office market that is going to be flexible workspace operators and we think that’s a fantastic thing that presents a great opportunity for Servcorp so we’re very excited about this change in the market.

What we’ve seen is a huge growth in the last five years in London and New York, do you feel that will translate necessarily into APAC overall?

There are a couple of different market tiers as to where this is going to have the most impact. Certainly in the in B-Grade space, I think there’s a really large impact in the re-utilisation of space. However, both portfolio landlords and multinational corporations are really cottoning on to the benefits of the sharing economy and so I think that’s really where there is going to be a serious impact. It will be a little bit slower in Asia because of the small
number of landlords that hold the premium space and because of the tightness of the markets in some cities, but there is going to be continuing impact and I certainly think that as landlords educate themselves more and more on utilising the sharing economy to lease their space it’s going to become more prevalent.

Coworking seems to be the one grabbing the headlines and ones taking up the most space. How is Servcorp different and why?

Servcorp have a proven business model, we’ve been operating for 40 years – in comparison to some newer operators who have been going for just a couple of years. We have been disruptors of traditional space because it’s been very difficult to take an address or a space in a building like Two IFC, that we’re sitting in today, and we’ve enabled small businesses and small branch offices of businesses to do that and have been for a really long period of time. There is value in our longevity.

Coworking is a slightly different spin on our business model, but it is our view that it’s all about growing the flexible workspace market. If people are more educated on flexible workspace then the entire market is going to grow. Our view on coworking is that it has a place in the market and also has a place in Servcorp. There really is going to be demand for a 5-star coworking option and we’re trialing coworking in five of our locations around the world in key, landmark buildings in Sydney, New York, London, and Singapore. We think that coworking offers a really good fit that sits between our virtual office product, which is obviously a really low entry point for small businesses, and our office product. However, we’re not going to change our brand to go after the start-ups we want to stay in the 5-star space.

What is your outlook for 2017 and beyond in terms of the number of space and the amount of space taken up by flexible workspace operators? And whether there will be an increase in the number of desk space taken up by end users?

2017 is going to be one of the most exciting years for Servcorp. We are really seeing a growth in demand for flexible workspace and I think that there is going to be an increase in space utilised by flexible workspace. Servcorp really want to be part of that. We’ve got the best product in the industry, we’ve got the best management platform and we’ve got the best technology. We’ve also got the best systems in terms of how we train our teams, which translates to excellent service.

We are really poised to take advantage of the growth in this marketplace. There will be wholesale growth by volumes of percentages around the world and 2017 will be a big year. We’re going to continue to be the only premium serviced office operator, executive suites, virtual office and coworking space operator in the world and we’re going to continue to choose the best addresses and choose really good deals which means that our portfolio is really valuable to multinational corporations and people who understand great value.
Interview with Wan Sing Kong
Founder and CEO | JustCo

What is JustCo’s take on the current and future models of work in APAC?

Coworking is one of the most exciting, flexible and suitable work solutions for many individuals and companies.

Many macroeconomic indicators support this trend of increasing demand in coworking – the lifestyle of millennials, the softening market and companies’ need to expand and contract quickly and easily, and critically the pressure on rent, etc.

We believe the way people work is changing and JustCo are at the forefront of the solution in Singapore.

Do your members come from specific sectors, or from a particular mind-set of what they want to achieve with their teams?

We have a wide variety of industry types including financial & investment, marketing, and software & app development. We have a lot of start-ups and SMEs but also a significant number of multinational corporations branching out regionally. It is a real mix, which creates a creative environment.

Why would a large corporate, such as a bank or insurance firm, choose you over conventional office space?

It gives them a work environment very different to what is normally expected, which will be advantageous in attracting top talent. Flexible rental agreements mean large companies can introduce teams into a coworking environment easily and expand or contract the operation as needed. They will also have access to a community of potential clients or partners that can help them expand.

Are there cost saving benefits some members are after, rather than other particular workplace and member synergies?

Many members see the JustCo offering as valuable cost saving. They can choose the space they need and have the flexibility to upgrade at any time so the use of space is efficient. All services are included such as internet, phone, office furniture, and standard office supplies. This also saves valuable time for business owners to source and maintain so they can concentrate on growing their business.

What sets the new breed of operator apart from the established/traditional serviced office providers? What drives the model and confidence to take such large spaces?

We’ve seen the coworking scene in Singapore really open up in the last 12 months. There are many different spaces now, each with their own focus whether it be on location, industry, price, design, or business type.

For us, scale is crucial. It benefits our members so they can gain even broader networking and partnership opportunities, plus get access to more spaces to work and play. Hence our deliberate choice is to build scale swiftly and exponentially, so we will continue to be the coworking leader in Singapore while expanding our footprint overseas.

We want to give the most value possible to our members through our ever-expanding spaces and service offering.

Do you see 2017 sustaining the growth of 2016?

Operators need to think carefully about their offering and provide people with something sustainable and conducive to their work, helping people increase their productivity and expand their network.

We see this trend of demand sustaining with possible mergers to increase scale and reach begin to happen.
Interview with Elaine Tsung
Founder | Garage Society

You founded Garage Society three years ago, how have you seen your average deal size increase over that time?

When we first started the demand was similar to that of serviced offices – people wanted space for three to four people and preferred core CBD, hence we built the first Garage Society in Central, in a Grade A building.

Not long after this, we had a lot of tech start-ups that were setting up in Asia, as well as a lot of freelancers and this led to the embracing of coworking. I would say the ratio was 70/30 in favour of private offices.

When we opened our second centre, two years ago, in Sheung Wan tech companies had grown bigger and we started getting greater demand, including a full floor, build to suit, for Uber. The demand led us to form larger private offices and it is now common for teams of five to ten to take up space and the use of our common space has increased to now a 60/40 split.

What do you feel is really driving that demand from multinational corporations, and what are the benefits that they get from using this type of space?

The demand is very people-centric – multinational corporations who have plugged their team into our kind of operation usually have a very young team. They might be project teams or tech teams and I think these young people might not want to join the company if they were to work in a traditional office, they would prefer to work in a more creative space, alongside people who are in tech start-ups.

The energy is different, the offering is different, and of course as coworking space operators we offer more than just space. We do offer funky space – I think that’s a must now, you can’t do boring space and call yourself coworking – but more importantly, we do a lot more what we call ‘programming’, including knowledge exchange, social gatherings, junk trips, we are actually doing a trip to visit the Shenzhen start-up community early next year. So really there’s a lot more that we do to enrich the experience for people working in our spaces.

Aside from some of the softer elements you’ve touched upon, how important are the elements of flexibility and general cost-saving for using a space like this, as opposed to a conventional space for a corporate occupier?

I think we offer good flexibility, and that flexibility translates to savings. Of course for operations like ours we do need to make a margin, but at the same time we have a very strong flow of demand, be it shorter-term or longer-term, so we can still manage to run a business. But from a client perspective, we started seeing a lot of people, even bigger companies, bringing in a project team, but these guys need to fly around the world so they might be in Hong Kong this month and Singapore the next, so that flexibility will translate into savings for them. If they’re going to rent their own office, the chances are they will get themselves tied into a lease of three years and more, and of course, the capex involved in setting the space up is another issue. All this means that we offer a generally better solution.
End User Insight

GoPro
Interview with Tor Petersen
Managing Director of Sales
Greater China | GoPro

Tor Petersen is currently working from naked Hub in Nanjing Lu, Shanghai.

What made you choose flexible workspace over traditional space?

We chose naked Hub over a traditional office solution because it was a better fit for our corporate culture. naked Hub offered more flexible solutions for expansion, and the ability to use the Hub network across China. As a company expanding operations in China, it was also critical to be able to flexibly expand our space as we grew.

How attractive was the ability to scale quickly and to match headcount directly to real estate costs?

For our business, this was a key driver – we added about 10 people in our first year with naked Hub and are looking to add another 10 people in year two. The naked Hub team was extremely helpful in crafting an expansion solution that worked for us.

Has being in this environment helped with productivity and staff retention?

Absolutely. Our team also loves the ability to work in our secure space or work in the lounge or hot-desk area. It’s the ability to change environments that gives you energy in your day.

Will you continue to use this type of space?

Yes, our team travels frequently to other cities in China and naked Hub’s future expansion will give us options to have a better base of operations when working in different cities around APAC.
AIA have a number of initiatives which drive innovation and collaboration with start-ups. Can you tell us more about the Edge Lab and the AIA accelerator program?

We started the accelerator program about two and a half years ago and that was designed to educate our business around which technologies are emerging with the potential to disrupt our business. In our programs we’ve taken on very early stage companies, some with just a really great idea on paper without any physical product and work with them to a point where they could understand what it takes to deal with a large multinational like AIA and what we need from them in terms of education, product, ideas, technologies and their applications.

We designed accelerator programs to bring together mentors, start-up ecosystems, governments, and other multinational corporations so that we could accelerate these businesses and make them viable over the course of the program.

How have you used space to facilitate these initiatives?

We have used a range of solutions, our first accelerator was housed in flexible workspace and for our second accelerator we brought them in-house in order to put them closer to the people they would ultimately work with. We view space as a concept rather than a physical structure – our programs are about putting people together where we can learn from each other.

Whichever solution you choose it is important to bring people together – flexible workspace offers a great solution in that respect, but sometimes the start-ups need to be in house. We judge things on a case by case basis, depending on what we want to achieve.

We’ve also seen other multinational companies host accelerators in flexible workspace and the favoured location seems to be Singapore, what’s your view?

For us innovation is not about the space, we have space here where we have tried to foster an innovative culture.

When bringing accelerators in-house to a traditional insurance firm you can’t really have slides and beanbags. It’s about what gets executed within that space that’s important, space is just the facilitator for innovation to happen, to develop and grow – but we recognise you need a certain type of space that encourages collaboration and brings people together.

There are a lot of reasons why people have set up in Singapore and some of that has to do with the government ecosystem: the funding landscape and the tools that are available for the people in Singapore. Hong Kong is a bit more messy, a bit more gritty and a bit more real – the entrepreneurs are here, the ecosystem is developing, but I would say a little less fast than it is in Singapore, but then Singapore has to bring the entrepreneurs in.

It’s about your output and if you’re setting up a big lab in the middle of Singapore then you know you’re putting a lot of eggs in one basket including a lot of pressure on whoever runs that lab to deliver which is a good thing. Sometimes you fail and sometimes you succeed so it’s not always a straight line from bottom to top. There are a few chasms and gullies, and cliffs along the way to get you to the top so for me, flexibility is the key.
MARKET SNAPSHOT
(BASED ON CBD’S)

**DELHI**
- 132,000 sq. ft.
- 6
- Average desk cost (USD/month): $250
- Number of Flexible Workspace centres: 6

**NOIDA**
- 132,000 sq. ft.
- 4
- Average desk cost (USD/month): $350
- Number of Flexible Workspace centres: 4

**GURGAON**
- 132,000 sq. ft.
- 11
- Average desk cost (USD/month): $200
- Number of Flexible Workspace centres: 11

**BENGALURU**
- 1,000,000 sq. ft.
- 60
- Average desk cost (USD/month): $400
- Number of Flexible Workspace centres: 60

**LEGEND**
- Average desk cost (USD/month)
- Space leased by operators 2016 (sq. ft.)
- Number of Flexible Workspace centres
2016 OVERVIEW

The Hong Kong market has moved quickly in 2016, the already record low vacancy in office space on Hong Kong Island at the turn of the year tightened further with unprecedented take-up from flexible workspace operators. WeWork successfully entered the market with a 93,000 sq. ft. transaction at Tower 535, swiftly followed by 59,000 sq. ft. in MassMutual Tower – both centres are now up and running and creating a buzz in the market. With an appetite for further sites, we believe WeWork will continue to be the dominant player in the market.

On the back of funding from GAW Capital, naked Hub entered the Hong Kong market in 2016, securing two sites – 60,000 sq. ft. in Sheung Wan and 12,000 sq. ft. in Soho. The mainland-based provider is aggressively seeking further sites with a view to going toe to toe with WeWork in the competitive Hong Kong market. Regus has not yet brought their Spaces concept to Hong Kong but has developed their offering in the new Windsor House centre. However, they have exited their premium One IFC location, and this, coupled with The Executive Centre’s imminent exit from Hongkong Land’s Exchange Square, has reduced the footprint of flexible workspace in premium office accommodation. However, the global leader in premium serviced offices, Servcorp, has extended their leases in Two IFC and Hong Kong Club.

Smaller local operators, including theDesk, Campfire, Metta and Garage Society have taken up space in Grade B Buildings, though these are all sub 8,000 sq. ft.

The growth in this sector has been fueled by a diversification of end users. Typically, traditional serviced office end users were international firms taking branch offices in Hong Kong or using this space as swing space. However, growth in the start-up community, partly fueled by government investment, coupled with occupiers looking for creative real estate solutions, has led to rapid take-up of desk space in flexible workspace centres across Hong Kong.

2017 OUTLOOK

We believe that HSBC’s take-up of almost 400 desks in WeWork’s Tower 535 will set a precedent going into 2017 for many more corporate occupiers to take up space within flexible workspace, not just for technology or innovation teams, but for generic mid-office functions.

We expect multinational corporations to look at ways of utilising flexible workspace in order to manage escalating real estate costs through splitting core and flexible space.

In terms of take-up by operators, we expect this to match the record high of 2016 through a combination of existing operators increasing their footprint and new entrants taking a grip on the market.
2016 OVERVIEW

With a total of 47 coworking spaces and over 80 serviced offices currently operating in Singapore, flexible workspace operators occupy up about 2.44% of the total available office stock in the CBD. We expect the number to grow up to 4% by the end of 2018. The conservative growth projection is attributed to a number of non-compete clauses where new flexible workspace operators are denied the opportunity to operate in certain buildings.

Nonetheless, we expect the supply of flexible workspace in the CBD to continue to grow moderately with an annual growth rate of 0.5–0.8% amidst continued demand from end users.

In terms of operator take-up, we have seen local operator JustCo introduce “super-sized” coworking in Singapore with two headline grabbing deals – 60,000 sq. ft. and 40,000 sq. ft. in Marina One and UIC Building respectively. Further, Regus has brought their Spaces concept to Singapore with 20,000 sq. ft. in Bugis, and Working Capitol has opened their second location in the city.

Traditionally in Singapore, flexible workspace has served as swing space for firms requiring a temporary premise to operate their business while waiting to take possession of their traditional office space. However, as a hub for innovation, many multinational corporations have used flexible workspace to house growth or pilot departments and initiative-driven business enterprises.

In recent years, Singapore has adopted a number of pro-tech start-up initiatives in a bid to promote entrepreneurship in the city state. For example, the Monetary Authority of Singapore (MAS) hosted a five day Singapore Fintech Festival in November 2016 where tech enthusiasts across the globe gathered to present their solutions and aim to resolve some of the key issues in the banking and finance sector using financial technology. The city state is also working proactively towards transforming the country into a ‘smart nation’. These initiatives appeal to tech start-ups to set up business in Singapore which in turn create a new demand for flexible workspace. Colliers observed that up to 81.6% of the spaces taken by flexible workspace operators in 2016 were reserved for coworking, the ideal type of space for start-ups to congregate and collaborate whilst driving growth.

2017 OUTLOOK

We are optimistic that end user demand for flexible workspace will hold steady over 2017. The continued activity will give confidence to new flexible workspace operators entering the Singapore market and existing operators expanding their footprint.

The anticipated continued demand for flexible workspace mainly stems from the spillover effects of the government’s push for stronger entrepreneurship in Singapore. Consequently, the pro-entrepreneur environment will attract more aspiring entrepreneurs to establish their start-ups in Singapore.

Additionally we will continue to see multinational corporations taking advantage of flexible workspace and the short-term commitment plans to house, grow and develop their innovative business lines.

Taking these factors into consideration, there remains potential for the flexible workspace industry to grow in the form of new entries into the market, and strategic expansion plans coming from the existing operators in response to the projected demand.

MAJOR DEALS

<table>
<thead>
<tr>
<th>Name</th>
<th>District</th>
<th>Buildings</th>
<th>Size (sq. ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JustCo</td>
<td>CBD</td>
<td>Marina One</td>
<td>60,000</td>
</tr>
<tr>
<td>JustCo</td>
<td>CBD</td>
<td>UIC Building</td>
<td>40,000</td>
</tr>
<tr>
<td>Regus</td>
<td>CBD</td>
<td>Guoco Tower</td>
<td>30,000</td>
</tr>
<tr>
<td>Spaces</td>
<td>Bugis</td>
<td>410 North Bridge Road</td>
<td>20,000</td>
</tr>
<tr>
<td>TEC</td>
<td>CBD</td>
<td>Frasers Tower</td>
<td>20,000</td>
</tr>
<tr>
<td>Great Room</td>
<td>CBD</td>
<td>1 George Street</td>
<td>15,000</td>
</tr>
<tr>
<td>Great Room</td>
<td>CBD</td>
<td>1 George Street</td>
<td>15,000</td>
</tr>
</tbody>
</table>

MARKET DATA (CBD ONLY)

- Occupied by flexible workspace: 2.4%
- Vacancy Rate: 7.0%
- Others: 88.6%

<table>
<thead>
<tr>
<th>Number of Flexible Workspace Centres</th>
<th>Average Desk Cost</th>
<th>Average Rent Grade A</th>
</tr>
</thead>
<tbody>
<tr>
<td>127 centres</td>
<td>$450 (per month)</td>
<td>$77 (USD/sq. ft./annum)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total office market take up 2016</th>
<th>2,600 sq. ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Space leased by operators 2016</td>
<td>211.8 sq. ft.</td>
</tr>
<tr>
<td>Operator take up forecast 2017</td>
<td>300 sq. ft.</td>
</tr>
</tbody>
</table>

Note: All value in USD.
2016 OVERVIEW

The Shanghai office market recorded exponential growth in flexible workspace over 2016, supported by government policies which encouraged rapid growth of the technology sector and investment into start-ups. The growth in 2016 was a continuation of the 2015 growth, which flourished due to the uptake by P2P/local financial management companies in traditional office buildings. A clampdown on the P2P industry in early 2016 didn’t dampen the total net absorption for Grade A office space, which totaled 850,000 sq. ft.

The flexible workspace sector recorded approximately 1,500,000 sq ft of net absorption in 2016. This is clear evidence of the strength of the sector in the Shanghai market. We expect the sector to record greater take-up in 2017, with most major players benefitting from strong financial backing.

Local coworking operator naked Hub opened 6 new sites and has aggressive plans for 2017 in Shanghai and other APAC markets.

WeWork’s Shanghai entry led them to open two sites, one of which being their Asia flagship at 696 Weihai Road in an 86,111 sq. ft. renovated warehouse historically occupied by the East India Trading Company. Their expansion in Shanghai will be supported by a USD 960 million funding round closed at the end of 2016, with Chinese companies taking a leading role in the investment.

URwork, raised USD 31 million in September to support their Shanghai expansion which has seen 236,805 sq. ft. of space committed. While We+ and Fountown have made significant moves in the market.

Despite the closure of a local established operator AsianBiz, all other major operators continue to be on an expansion drive. The Executive Centre has secured leasing rights on Nanjing West Roads Taikoo Hui project, while Regus has continued their expansion with a commitment of 45,208 sq. ft. in the iconic Shanghai Tower.

2017 OUTLOOK

Shanghai’s CBD Grade A office market is expected to record a further 11,840,290 sq. ft. of office space supply in 2017. This supply will outpace the market demand, resulting in a spike in the vacancy rate.

In 2017, continued weakened demand from foreign multinational corporations will add further downward pressure on net absorption in traditional office space. Meanwhile, multinational corporations have taken up flexible workplace solutions for some of their business units including; WPP, AB-InBev, GoPro, Elsa Group, and Discovery Channel.

We expect to see some merger and acquisition activity in the sector, particularly smaller independent operators being acquired by growing international operators. We also foresee co-living increasing its presence to compliment the growing coworking market.

MAJOR DEALS

<table>
<thead>
<tr>
<th>Name</th>
<th>District</th>
<th>Buildings</th>
<th>Size (sq. ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WeWork</td>
<td>Jing’An</td>
<td>696 Weihai Rd</td>
<td>86,111</td>
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<tr>
<td>URWork</td>
<td>Lujiazui</td>
<td>Himalayas</td>
<td>66,736</td>
</tr>
<tr>
<td>naked Hub</td>
<td>Huangpu</td>
<td>The House, Xintindi</td>
<td>47,888</td>
</tr>
<tr>
<td>The Executive Centre</td>
<td>Jing’An</td>
<td>HKRI Taikoo Hui Center I</td>
<td>47,361</td>
</tr>
<tr>
<td>Regus</td>
<td>Lujiazui</td>
<td>Shanghai Tower</td>
<td>45,208</td>
</tr>
<tr>
<td>Fountown</td>
<td>Huangpu</td>
<td>Star City</td>
<td>43,055</td>
</tr>
</tbody>
</table>

MARKET DATA (CBD ONLY)

- Occupied by flexible workspace: 5.0%
- Vacancy Rate: 12.0%
- Others: 83.0%

Number of Flexible Workspace Centres: 235 centres

Average Desk Cost: $300 (per month)

Average Rent Grade A: $55 (USD/sq. ft./annum)

Total office market take up 2016: 3,455 sq. ft.
Space leased by operators 2016: 1,500 sq. ft.
Operator take up forecast 2017: 1,300 sq. ft.
**BEIJING**

**2016 OVERVIEW**

Beijing has become a centre for flexible workspace during recent years due to two reasons: as the capital of China, Beijing is the hub for innovation with a large number of universities and start-ups; further, the local government offers tax benefits to operators in several districts including the Haidian District.

At present, Beijing’s flexible workspace market is dominated by local players, while international operators find it harder to penetrate the Beijing market. Major local operators include URwork, Wujie Space and SOHO 3Q, these three operators operate a combined area of over 1,500,000 sq. ft. with 19,000 desks in Beijing. To capture the increased demand from start-ups and to fill the vacant space in their properties, certain large real estate developers have also created their own concepts, including OK Space by Sino-ocean Land, Vantone Commercial Center by Vantone and Office+ by BOE (the owner of Universal Business Park).

Located in the Haidian District with many top universities, Zhongguancun is known as China’s Silicon Valley and is the home to a large number of technology, media and IT companies, which are the major demand generators for the sector. As a result, major operators have clustered in this area to satisfy the demand. Other hot spots include Wangjing and CBD.

**2017 OUTLOOK**

Looking forward, both domestic and international operators should continue to look for space in Beijing to expand their business, generating opportunities for both landlords and tenants in Beijing’s market.

**MAJOR DEALS**

<table>
<thead>
<tr>
<th>Name</th>
<th>District</th>
<th>Buildings</th>
<th>Size (sq. ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fountwork</td>
<td>CBD</td>
<td>Jingliang Building</td>
<td>32,292</td>
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<tr>
<td>Regus</td>
<td>CBD</td>
<td>China Merchants Tower</td>
<td>20,000</td>
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<tr>
<td>TEC</td>
<td>CBD</td>
<td>CWTC III B</td>
<td>18,000</td>
</tr>
<tr>
<td>Easy Start</td>
<td>CBD</td>
<td>Borui Building</td>
<td>12,000</td>
</tr>
<tr>
<td>CoWork</td>
<td>CBD</td>
<td>Guanghua SOHO II</td>
<td>12,000</td>
</tr>
</tbody>
</table>

**MARKET DATA (CBD ONLY)**

- Occupied by flexible workspace: 2.3%
- Vacancy Rate: 4.7%
- Others: 93.0%

<table>
<thead>
<tr>
<th>Number of Flexible Workspace Centres</th>
<th>Average Desk Cost (per month)</th>
<th>Average Rent Grade A (USD/sq. ft./annum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>860 centres</td>
<td>$550</td>
<td>$57</td>
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</tbody>
</table>

| Total office market take up 2016 | 3,300 sq. ft. |
| Space leased by operators 2016  | 500 sq. ft.    |
| Operator take up forecast 2017   | 600 sq. ft.    |

Note: All value in USD.
2016 OVERVIEW

The Sydney office market experienced rapid change in 2016 with CBD vacancy falling to 5.6% and effective rents in the CBD increasing by approximately 30% year on year, mainly caused by an unprecedented number of withdrawals of older office stock for redevelopment and infrastructure projects, along with strong employment growth across NSW.

Despite challenging market conditions, there was a rapid uptake of space by flexible workspace operators. In particular, WeWork’s entry into the Australian market led to the opening of the largest single flexible workspace facility in Sydney (86,112 sq. ft. at 100 Harris Street, Pyrmont) along with two sites in the CBD – 35,900 sq. ft. at 5 Martin Place and 43,056 sq. ft. at 333 George Street.

Established operator Regus opened two new sites in the CBD at 20 Martin Place and 53 Martin Place and renewed several of their leases including Darling Park and 95 Pitt Street bringing their total leased portfolio in the CBD to over 161,460 sq. ft. (total portfolio now exceeding 376,740 sq. ft. across the greater Sydney area). Stone & Chalk and Gravity both doubled their footprints to 26,910 sq. ft. and 19,375 sq. ft. respectively.

Users of flexible workspace have traditionally been freelancers, small business owners and entrepreneurs. However, given a rapid rise in real estate costs, we are now seeing a trend for larger corporates looking for overflow space or using flexible workspace to rationalise their own space requirements. This trend is evidenced by the volume of new facilities being opened in the CBD, in close proximity to major multinational corporations, compared to suburban or fringe markets.

2017 OUTLOOK

As the office leasing market continues to tighten in 2017 a paradox emerges – it will become increasingly harder for flexible workplace operators to open new facilities due high rent costs, meaning profits will get squeezed when the market turns. However, at the same time office occupiers are also facing increasing rent costs for their own leases and may look to flexible workspace as a short-term solution to ride out the challenging market, increasing the demand for such facilities. Notwithstanding this, as rents rise we expect desk costs to rise commensurately and we also expect more large multinational occupiers to increase their use of flexible workspace, as part of their overall real estate strategy to offset their increasing real estate costs, leading to further demand.

Buoyed by the federal government’s USD 16.8 million Incubator Support initiative we expect to see growth in FinTech and Tech incubator and accelerator facilities – for example Stone & Chalk are currently seeking 43,056 sq. ft. (representing an increase of 33% over their current facility). Tank Stream Labs are looking for additional space in the CBD, Education Technology accelerator EduGrowth, are seeking 6,458 sq. ft., and Fishburners are actively looking for 75,348 sq. ft. (expanding from 10,000 sq. ft.).

We understand that WeWork are still actively sourcing new sites with a focus on Sydney CBD and are expected to continue their rapid expansion across Australia. Institutional Landlord DEXUS has recently announced a partnership with US operator RocketSpace, to open a 50,000 sq. ft. facility in Melbourne with additional sites in Brisbane and Sydney mooted for 2017, adding to their existing offering – DEXUS Place. We anticipate further growth from other institutional landlords including GPT’s Space & Co and perhaps a new entrant – AMP Capital.

MARKET DATA (CBD ONLY)

<table>
<thead>
<tr>
<th>Number of Flexible Workspace Centres</th>
<th>Average Desk Cost</th>
<th>Average Rent Grade A</th>
</tr>
</thead>
<tbody>
<tr>
<td>108 centres</td>
<td>$600</td>
<td>$80 (USD/sq. ft./annum)</td>
</tr>
</tbody>
</table>

Total office market take up 2016: 1,500 sq ft.
Space leased by operators 2016: 350 sq ft.
Operator take up forecast 2017: 400 sq ft.

Note: All value in USD.
2016 OVERVIEW

The vacancy rate has increased in the CBD over 2016, with Samsung disposing of its CBD building and moving to GBD in Samsung Seocho Tower and also new office supply increased. However, the overall office vacancy has dropped from 9.5% in 2015 to 8.9% in 2016 due to take up across other districts, mainly GBD.

Despite the weakened Korean economy and political uncertainty, flexible workspace operators expanded their footprints aggressively in the Seoul market, especially in the GBD area.

Local operators like Vantago and Studio Black opened one center each and one of the fastest local movers, FastFive, opened three centers in 2016 and plan to open two to three more in 2017. Global operators, TEC and WeWork will continue to expand their footprints in Korea, whilst naked Hub and Garage Society are analysing the local market for the best time to make a market entry.

2017 OUTLOOK

2017 will bring more global and local operators entering the market, and we expect to see large take-up in the CBD over the year, with Pangyo being a desirable location for those who can get a foothold in the sub-market due to barriers to entry.

The market will watch with interest as WeWork begin operations at their new 215,000 sq. ft. CBD centre in February 2017 and continue to take-up further sites across Seoul GBD. TEC also will start to operate its second CBD center (12,400 sq. ft.) in Jongro Tower and its second YBD center in the first half of 2017.

The sector’s leading local operator Rehoboth provides offices at a wide price range as a business center and also offers its spaces for business incubation programs to diversify their business. It operates as a franchise and therefore we expect further expansion from them.

Recently launched FastFive and Z.A.G. Pot are local coworking brands and we expect these, among others, to drive take-up in Grade B buildings.

MAJOR DEALS

<table>
<thead>
<tr>
<th>Name</th>
<th>District</th>
<th>Buildings</th>
<th>Size (sq. ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WeWork</td>
<td>CBD</td>
<td>Daeshin Myeungdong Building</td>
<td>215,000</td>
</tr>
<tr>
<td>WeWork</td>
<td>Gangnam</td>
<td>Hongwoo Building</td>
<td>70,000</td>
</tr>
<tr>
<td>FastFive</td>
<td>Gangnam</td>
<td>Brand Tower</td>
<td>60,000</td>
</tr>
<tr>
<td>Hyundai Coworking</td>
<td>Gangnam</td>
<td>Two Hongwoo Building</td>
<td>60,000</td>
</tr>
<tr>
<td>CEO Suites</td>
<td>Gangnam</td>
<td>Parnas Tower</td>
<td>40,000</td>
</tr>
</tbody>
</table>

MARKET DATA (CBD ONLY)

- Occupied by flexible workspace: 2.0%
- Vacancy Rate: 10.6%
- Others: 87.4%

Number of Flexible Workspace Centres: 50 centres

Average Desk Cost: $370 (per month)

Average Rent Grade A: $26 (USD/sq. ft./annum)

Total office market take up 2016: 2,150 sq. ft.

Space leased by operators 2016: 550 sq. ft.

Operator take up forecast 2017 ('000s sq. ft.): 400 sq. ft.
2016 OVERVIEW

The surge of flexible office space in the Philippines has been evident in the last three years, characterised by a balanced demand from various business types. Flexible workspace in the local market is generally classified into three groups: serviced offices, hosted services, and coworking. Serviced offices are preferred by multinational corporations looking to incubate temporarily while hosted services firms are preferred by business process outsourcing (BPO) companies where non-core processes such as IT, facilities management, HR staffing and back-office operations are provided. Lastly, coworking spaces are preferred by start-ups and free-lancers.

By the end of 2016, there were over 50 flexible workspace centres in Metro Manila alone. We estimate that the total space occupied by these firms has already reached close to 2 million sq. ft.

In the hosted services space, Anthem Solutions is the major player, comprising half of the total stock. Among serviced offices, Regus remains the market leader with twenty-five sites nationwide, with over 300,000 sq. ft. Twenty-one of these sites are located in Metro Manila, five of which were launched in 2016. Another major player in the local market is KMC Solutions with over 200,000 sq. ft. of office space occupied in Metro Manila. Two of its sites were launched within the year in Fort Bonifacio and Ortigas CBD respectively, totaling 50,000 sq. ft.

Other serviced office operators in Metro Manila include Sales Rain, Compass, Servcorp, E-Office, and Marimo. The sizes of these firms are at 50,000 sq. ft. or less. Interestingly, the coworking segment is also growing in popularity in Metro Manila with smaller firms such as Launchpad, Co-Lab, BitSpace, and VOffice. These coworking firms offer a more private alternative to start-ups and freelancers who would otherwise work in coffee shops. Regus is also looking to launch their Spaces concept, as soon as they find a space in the already tight CBD market.

A closer look at the occupancy levels of flexible workspace in Metro Manila would reveal a strong demand with average occupancy estimated at 80% with major providers having almost 100% occupancy in key sites. Flexible workspace in Metro Manila caters to a wide range of tenants from business process outsourcing (BPO), to law firms, software development, accounting, recruitment, freelancers and even Fortune 500 companies. Many of these firms use flexible workspace as incubators before doing full-blown expansions. Examples of major firms that started with flexible office spaces in Metro Manila include Google, Ikea, Wells Fargo, HSBC, and J.P. Morgan.

2017 OUTLOOK

We believe this sector will continue to expand in 2017 given low vacancies across sites. We expect international operators to expand their footprints and to see new operators take-up space in the market, while smaller operators will also thrive as demand for coworking spaces continue to grow amidst the growth in start-ups and freelancers.

The number of freelancers today is estimated at 1.3 million, and Manila benefits from a young population with a median age of 25.5 years. Apart from the growth in Metro Manila, we expect to see growth from operators in provincial locations.

MAJOR DEALS

<table>
<thead>
<tr>
<th>Name</th>
<th>District</th>
<th>Buildings</th>
<th>Size (sq. ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regus</td>
<td>Ortigas</td>
<td>Cyberspace Gamma</td>
<td>22,600</td>
</tr>
<tr>
<td>KMC Solutions</td>
<td>Makati</td>
<td>Ascott</td>
<td>16,146</td>
</tr>
</tbody>
</table>

MARKET DATA (CBD ONLY)

- 2.0% Occupied by flexible workspace
- 3.5% Vacancy Rate
- 94.5% Others

| Number of Flexible Workspace Centres | Average Desk Cost (per month) | Average Rent Grade A (
USD/sq. ft./annum) |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>65 centres</td>
<td>$350</td>
<td>$20</td>
</tr>
</tbody>
</table>

| Total office market take up 2016 | 6,000 sq. ft. |
| Space leased by operators 2016   | 75 sq. ft.     |
| Operator take up forecast 2017   | 120 sq. ft.    |

Note: All value in USD.
2016 OVERVIEW

While the Bangkok office market saw continued growth in the past six years, average vacancy rates have consistently been below 10% over this period. As a result, office rents have grown significantly over the last three to four years. High rents in the core business districts of Bangkok are sometimes prohibitive to start-ups or SME businesses.

The main driver of growth in flexible workspace within Bangkok is start-ups and SME businesses that may not have a large enough head-count, or a sufficiently stable income stream to commit to a lease of traditional office space. In the local market, coworking space has recently been favoured over serviced offices.

The popularity of flexible workspace in Thailand is following the global trend. In the short-term flexible workspace is unlikely to have a major impact on traditional office buildings and landlords in Thailand. However, its growing acceptance and take-up will impact landlords in the medium to long term. Flexible workspace is becoming an attractive alternative for the new generation of workers who value greater flexibility in the workplace, as well as proving particularly suitable for freelancers who do not need to work out of traditional offices.

Over 2016, Regus was the most active operator, adding over 20,000 sq. ft. in AIA Capital and 10,000 sq. ft. in SJ Infinite to their portfolio, while local operator Glowfish took up 10,000 sq. ft. in Siam Square One.

2017 OUTLOOK

Several flexible workspace operators in Thailand are continuing to expand their product into new locations and new formats, often in partnership models, especially in view of the large pipeline scheduled to be completed in the next 1–2 years. We can therefore expect awareness of flexible workspace as an alternative workplace concept to spread more widely in Bangkok.
2016 OVERVIEW

Office leasing activity remained stable in 2016. Delhi NCR recorded an absorption of approx. 7.6 million sq. ft. In Gurgaon, the office leasing volume gained momentum – the total absorption hitting 3.4 million sq. ft. Golf Course Road, emerged as the preferred location for flexible workspace operators. In Noida, major traction with operators has been on the Yamuna Expressway and Noida Expressway – this is due to the critical mass of technology and electronics firms in this micro market.

NCR has emerged as a hotbed for flexible workspace operators as the space is utilised, predominantly, by start-ups, new entrants, and consulting firms who select NCR as a preferred location in India due to low price point, with operators, such as, Regus, Awfis, 91 Springboard, and Instaoffice provide membership options ranging from USD 60 to 180 per seat, per month.

IT giants Oracle, Microsoft, Amazon, Google are also contributing to the flexible workspace sector – recently Oracle launched the company’s first “Oracle Start-up Cloud Accelerator” in Bengaluru and is offering mentoring sessions, free access to Oracle Cloud, 24/7 access to space and access to its wide network of customers and partners. Oracle has plans to expand its start-up cloud accelerator to Gurgaon and Noida as well in addition to other cities like Chennai, Pune, Trivandrum and Vijayawada. Initiatives such as this will lure more investors, entrepreneurs and talent to the ecosystem.

During 2016 Regus opened three new sites in Delhi NCR, bringing their total leased portfolio in Delhi NCR to nearly 70,000 sq. ft. Similarly, Isharespaces, a relatively new Mumbai based business centre, took up 7,000 sq. ft. in Paras Downtown Centre in Golf Course Road, Gurgaon. Smartworks has taken up two facilities, one also in Paras Downtown Centre and the other in Logix Cyber Park in Noida. Bengaluru based CoWrks office space operator plans to expand its operations to Gurgaon.

2017 OUTLOOK

Presently the sector largely encompasses many small players with local presence. Going forward we expect these small players to expand their portfolio across multiple cities thus broadening the sector. With the entry of national level developers and international players like Wework and Regus we expect the sector to become more organised and consolidated, in tune with international best practices.
2016 OVERVIEW

Over 2016, the Bengaluru office sector demand remained healthy, recording 12.8 million sq. ft. of absorption, the highest leasing across the top nine Indian cities. Occupier interest was for completed Grade A projects along Outer Ring Road (ORR), and lack of supply here forced many to pre-commit spaces in upcoming projects.

In 2016, total pre-commitments stood at 1.8 million sq. ft. Compared to 2015, this is a significant rise and a clear indication that occupiers are trying to counterbalance limited availability in operational Grade A projects. The technology sector remained the key demand driver with 70% of overall office leasing with expansion from Tata Consultancy Services and Wipro.

WeWork entered the India market in 2016 committing to two major deals in Bengaluru, following their joint venture with the Embassy group. 2016 also saw a leading developer RMZ launch Cowrks, which has already created around 3,500 desks. We also saw smaller market entry from Social Offline, Construkt, Workbench Projects, The Hive, Ishare space, Golden Square, Numa Bengaluru.

2017 OUTLOOK

In 2017, nearly 11.1 million sq. ft. of office supply will be completed, 50% of which will be concentrated in the ORR belt with the remainder of the supply to be spread across Whitefield, North Bengaluru and Electronic City. Although the future supply pipeline looks substantial in most micro markets, steady occupier demand and absorption of pre-committed space should keep vacancy levels low.

Overall, strong demand fundamentals coupled with evolving transparency in the real estate sector should stimulate investors’ interest and provide further support to the already strong office leasing market in Bengaluru.

Government initiatives to expedite metro construction in ORR and Whitefield should also reinstate occupier confidence in these micro markets.

Flexible workspace currently forms a very small percentage of the overall leasing market – their suitability for freelancers, consultants, and small and medium enterprises cannot be overlooked and we expect strong demand in 2017 from both domestic and international operators.

Most of the operators are concentrated in and around the CBD and this will continue to be the preferred micro market in 2017 owing to the infrastructure and public transportation connectivity.

MAJOR DEALS

<table>
<thead>
<tr>
<th>Name</th>
<th>District</th>
<th>Buildings</th>
<th>Size (sq. ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoWrks (RMZ Group)</td>
<td>SBD</td>
<td>RMZ Ecoworld – 6A</td>
<td>150,000</td>
</tr>
<tr>
<td>WeWorks</td>
<td>CBD</td>
<td>Galaxy</td>
<td>135,000</td>
</tr>
<tr>
<td>WeWorks</td>
<td>SBD</td>
<td>Embassy GolfLink – Cinabar Hills</td>
<td>112,000</td>
</tr>
<tr>
<td>IndiQube – ETA</td>
<td>SBD</td>
<td>Stand Alone</td>
<td>74,000</td>
</tr>
<tr>
<td>IndiQube – Omega</td>
<td>PBD</td>
<td>Maruthi Emerald</td>
<td>65,000</td>
</tr>
<tr>
<td>IndiQube – Sigma</td>
<td>SBD</td>
<td>Concorde Nexus</td>
<td>53,000</td>
</tr>
<tr>
<td>91Springboard</td>
<td>CBD</td>
<td>Gk Complex</td>
<td>52,550</td>
</tr>
<tr>
<td>Bhive</td>
<td>CBD</td>
<td>Prestige Tower</td>
<td>50,000</td>
</tr>
<tr>
<td>IndiQube – Gamma</td>
<td>SBD</td>
<td>Stand Alone</td>
<td>37,000</td>
</tr>
<tr>
<td>Enzyme</td>
<td>PBD</td>
<td>Shanthi shree</td>
<td>35,000</td>
</tr>
<tr>
<td>Regus Business Centre</td>
<td>PBD</td>
<td>Brigade IRV</td>
<td>30,000</td>
</tr>
</tbody>
</table>

MARKET DATA (CBD ONLY)

- Occupied by flexible workspace: 2.0%
- Vacancy Rate: 12.5%
- Others: 85.5%

<table>
<thead>
<tr>
<th>Number of Flexible Workspace Centres</th>
<th>Average Desk Cost (USD per month)</th>
<th>Average Rent Grade A (USD/sq. ft./annum)</th>
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</thead>
<tbody>
<tr>
<td>60 centres</td>
<td>$200</td>
<td>$21</td>
</tr>
</tbody>
</table>

Note: All value in USD.

CHINTAN MITHAIWALA
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COLLIERS FLEXIBLE WORKSPACE PRACTICE GROUP

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We achieve impressive end results – real estate business solutions that help to accelerate our client’s brand profile, performance and profitability in Asia Pacific’s increasingly competitive flexible workspace sector.
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