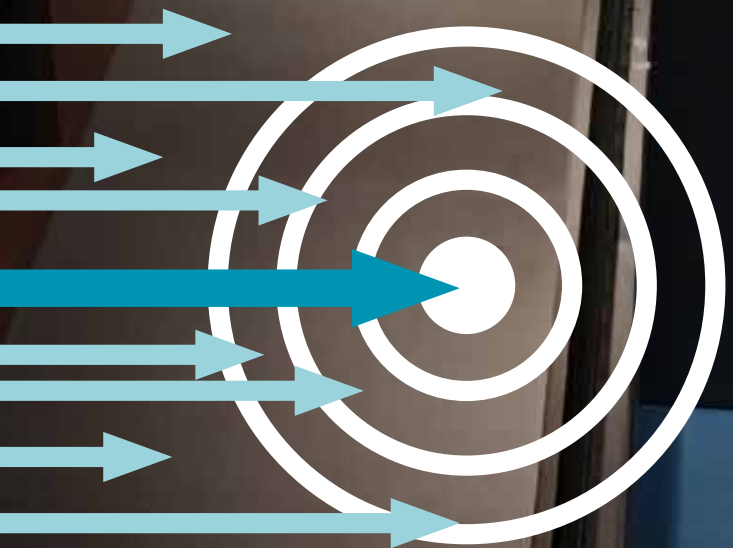
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GREATER CHINA CO-WORKING OFFICE SPACE

HITTING THE BIG TIME



MAY 2018 | GREATER CHINA OCCUPIER RESEARCH



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EXECUTIVE SUMMARY



The co-working office sector is among the fastest growing sectors in terms of space absorption in the Greater China office market, expanding from a few sizeable venues just a few years ago to 546 locations in the key city markets in the region as of end-Q1 2018.



Jonathan Wei

Managing Director, Head of Occupier Services China, Cushman & Wakefield

"The rapid growth of co-working offices has reshaped the office property market landscape in Greater China, and in some cities, has 'hit the big time' in terms of office space take up."

The co-working office sector continues to expand in the region on the back of several solid fundamentals, including:

- **An influx of capital from corporates and VC firms;**
- **The rise of millennials and a new age of entrepreneurialism;**
- **More MNCs seeking flexible lease terms and cost-saving options, and;**
- **Advanced technology spurring the co-working revolution.**

Unsurprisingly given the sector's infancy, the co-working market in Greater China is still rather fragmented in some city markets. For instance, in more mature co-working office markets, like Beijing and Shanghai, the number of operators running one centre in the city is relatively minimal. However, in other markets, like Shenzhen and Guangzhou, the number of operators running one centre in the city is much more sizable.

Among the largest operators, only three to date – UCommune, naked Hub, and WeWork – operate dedicated co-working locations in all the major gateway cities in the Greater China region. Together, they account for one fifth of all locations in these cities of Beijing, Shanghai and Hong Kong.

A number of corporates are increasingly opting for co-working space in Greater China. Moving their staff to co-working spaces allows corporates to lower their real estate operational and maintenance costs as most of the office supplies (including furniture, phones, and high-speed Internet) and services are included in the membership fees. The savings from renting desks in a co-working space is likely to fuel growing demand for co-working spaces from corporates and enterprises in the region.

As the co-working market in Greater China heats up, some property developers are also jumping on the bandwagon, either via partnerships with operators or by operating co-working spaces themselves in their own properties.



Vicky Shen

Senior Director, Head of Office Agency China, Cushman & Wakefield

"Recently, developers in Greater China have become increasingly intrigued by the co-working office concept. Many see partnering and leasing some of their office space to a co-working operator or self-developing a co-working office space in their office projects as a viable business proposition."

Generally over the next couple of years, the co-working sector in Greater China will go through a period of consolidation, causing many small local players to lose out to those with wider regional networks. Moreover, the sector is likely to move in the following directions as it seeks new markets in the region and new business opportunities:

- **Expansion into secondary city markets;**
- **Integration with retail, and;**
- **Mixed use development – Co-working office/Co-living.**

As the co-working sector in Greater China develops over the next few years, it will also increasingly feature as a key element of a corporate's corporate real estate strategy.



Shaun Brodie

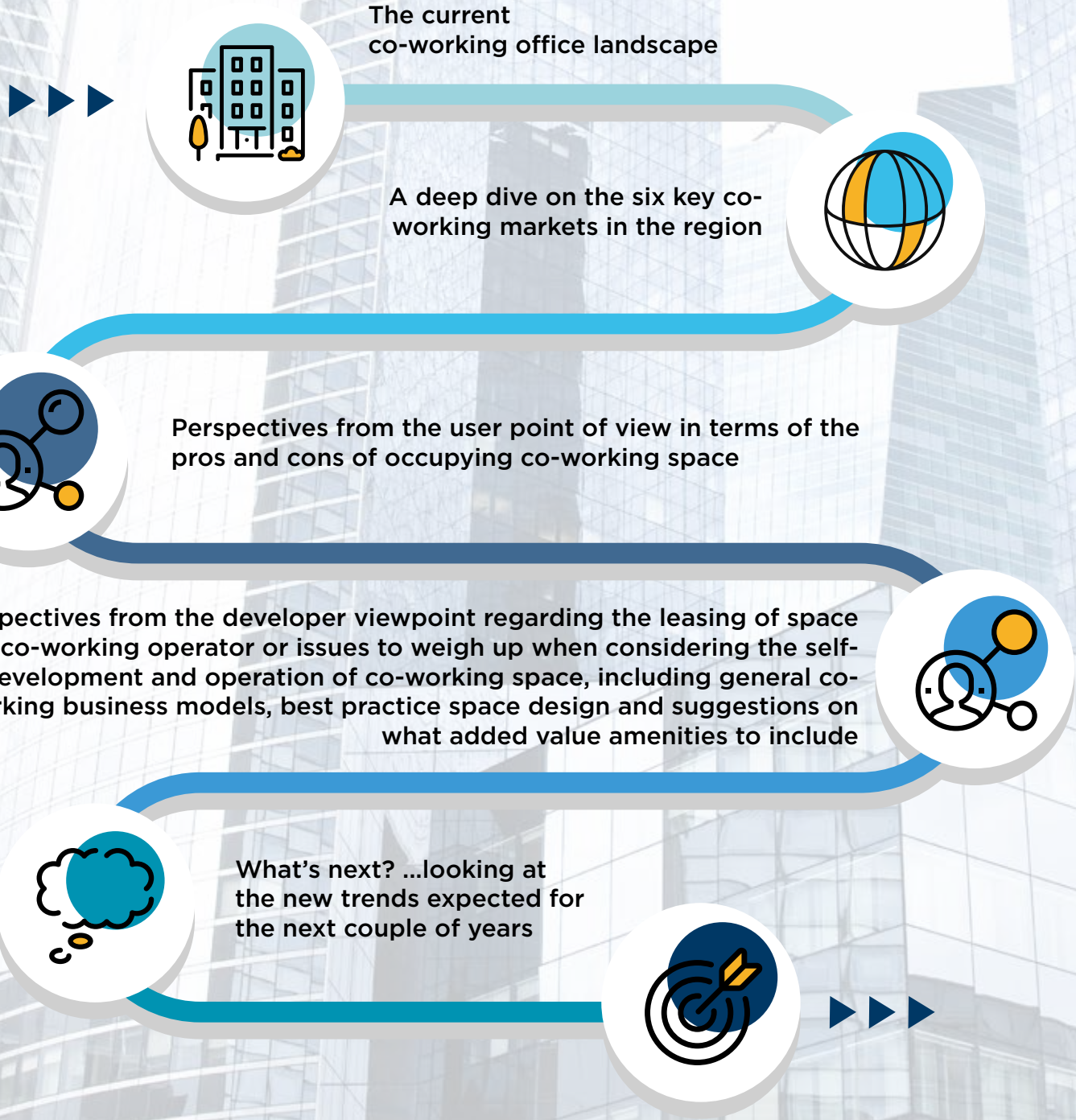
Senior Director, Head of Occupier Research Greater China, Cushman & Wakefield

"In the future in the Greater China region, we expect users to increasingly view co-working not just as a space solution, but also an overall product; which takes into consideration space, design, amenities, technology, the community network and services."



REPORT ROAD MAP

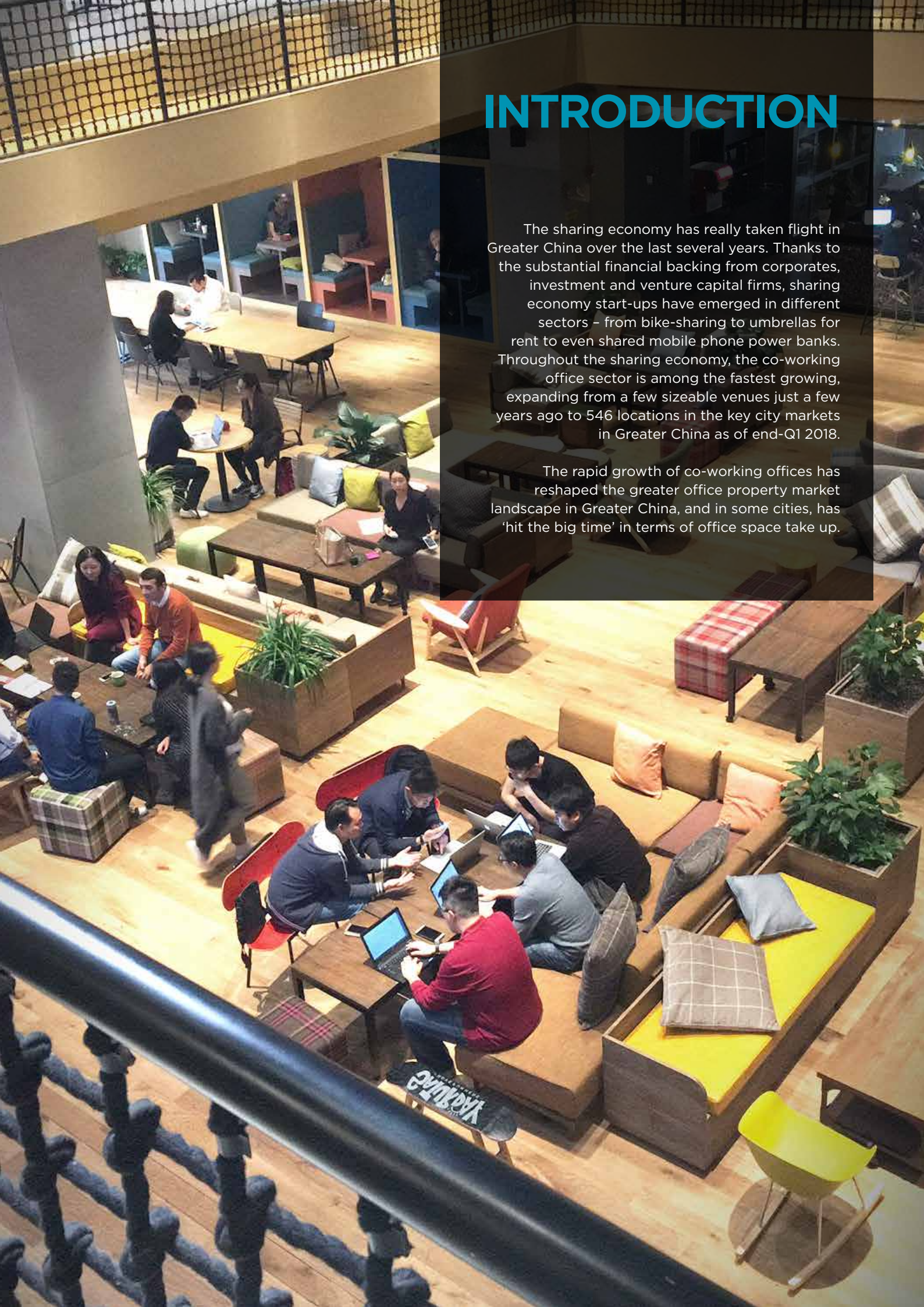
This report highlights and examines several key areas related to the co-working sector in Greater China, including:



INTRODUCTION

The sharing economy has really taken flight in Greater China over the last several years. Thanks to the substantial financial backing from corporates, investment and venture capital firms, sharing economy start-ups have emerged in different sectors – from bike-sharing to umbrellas for rent to even shared mobile phone power banks. Throughout the sharing economy, the co-working office sector is among the fastest growing, expanding from a few sizeable venues just a few years ago to 546 locations in the key city markets in Greater China as of end-Q1 2018.

The rapid growth of co-working offices has reshaped the greater office property market landscape in Greater China, and in some cities, has 'hit the big time' in terms of office space take up.





THE CURRENT GREATER CHINA CO-WORKING OFFICE LANDSCAPE

The rise of co-working space in Greater China

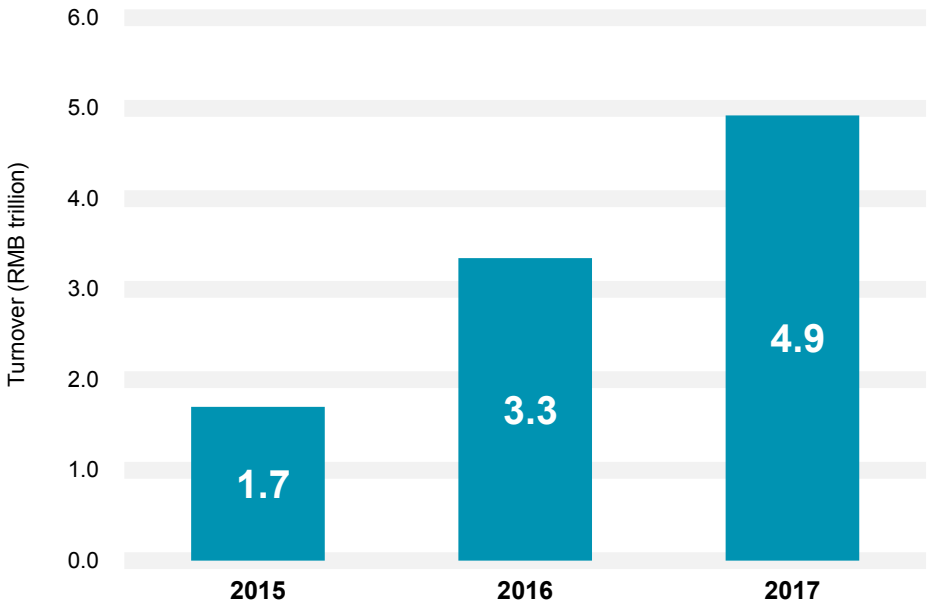
The rise of the co-working space sector is another prime example of the stunning growth of the country's booming sharing economy. According to the Sharing Economy Research Center under the National Development and Reform Commission's State Information Center, the market turnover within the country's sharing economy increased 97% y-o-y to RMB3.34 trillion (US$532 billion) in 2016 and 47% y-o-y to RMB4.92 trillion (US$782 billion) in 2017 (Figure 1).

Unlike some sharing economy segments that are facing substantial growth challenges, the co-working office sector continues to expand on the back of several solid fundamentals, including:

- An influx of capital from corporates and VC firms;
- The rise of millennials and a new age of entrepreneurialism;
- More MNCs seeking flexible lease terms and cost-saving options, and;
- Advanced technology spurring the co-working revolution.

Figure 1
The sharing economy rapidly expands in China (2015–2017)

Source: China National Development and Reform Commission, Cushman & Wakefield Research



An influx of capital

The rapid rise of co-working in recent years has been heavily driven by a flood of venture capital investment into the sector.

Sitting at the top in its ability to attract funding from investors, WeWork has managed to secure over US$6.9 billion in outside funding since its inception in 2010. And there are no signs of a slowdown. Of the total secured so far, approximately 64% came in 2017 after Japan's Softbank Group Corp injected US$4.4 billion in the company to fuel the co-working

giant's aggressive global expansion plan.

With the new war-chest, WeWork, now with a valuation of over US$20 billion, has expanded rapidly in the Asia Pacific region, and especially in Greater China. Since entering the APAC market in Q2 2016, WeWork has already secured 56 office locations in six countries across the region as of Q1 2018. Approximately 29% of its locations are in the three Greater China gateway cities of Beijing, Shanghai and Hong Kong (Figure 2).

Meanwhile, Chinese co-working space operators are catching up on the fund-raising battlefield. UCommune, the largest Chinese co-working start-up, founded by former China Vanke Co. executive Mao Daqing, has raised approximately US$416 million since its founding in 2015. What's more, Kr Space has received funding of US$143 million over the same period. This funding has enabled these newly cash-rich domestic operators to accelerate their expansion plans to capture market share, with the top Chinese operators accounting for over two thirds of all locations in all Tier-1 cities in mainland China (Figure 3).

Figure 2
29% of WeWork's APAC centres are located in Greater China (Q1 2018)

Source: WeWork, Cushman & Wakefield Research

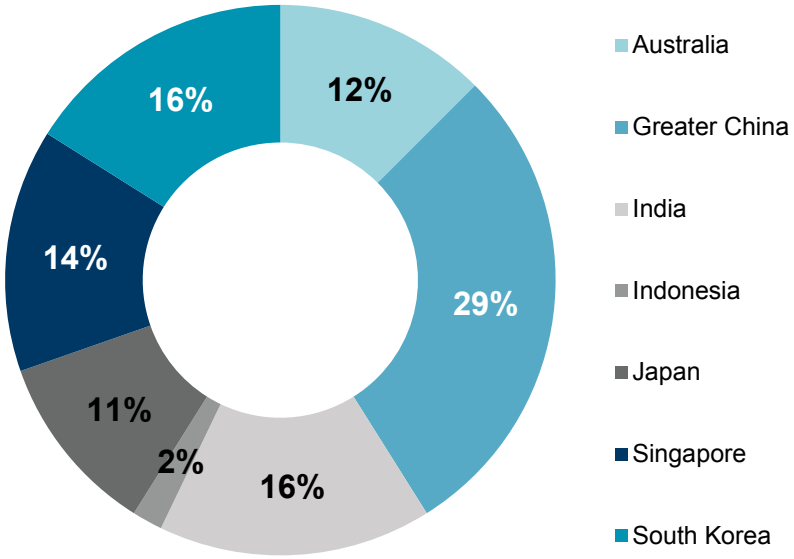
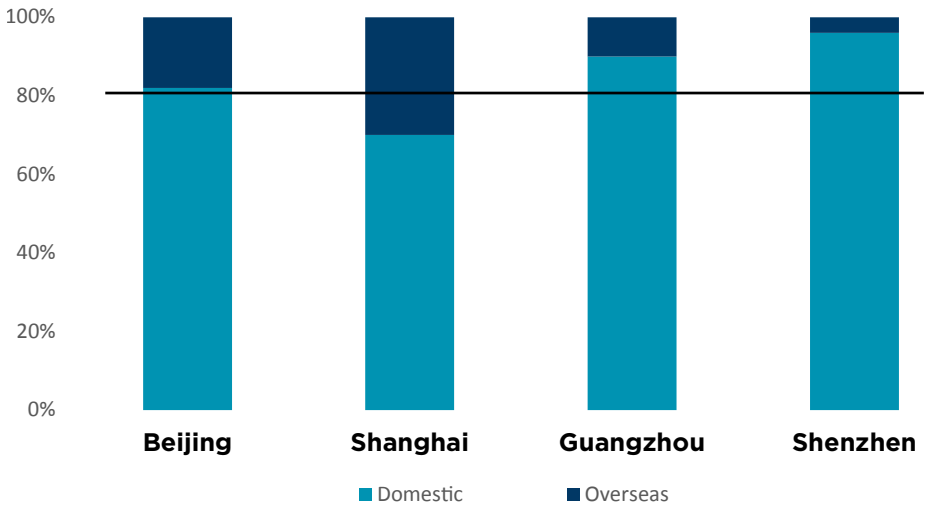


Figure 3
Domestic operators account for 79% of market share in mainland China first-tier cities (Q1 2018)

Source: Media articles, company websites, Cushman & Wakefield Research



The rise of millennials

Key to the rapid growth and adoption of co-working space in Greater China has been the entrance of millennials into the workforce. Chinese millennials, who were born under the one-child policy and grew up in a new era of technological advancement, see the world very differently from their parents' generation. It should, therefore, be no surprise that many find traditional workspaces uninspiring. In contrast, co-working spaces are almost tailor-made to cater to many of the attributes that define the millennial generation: entrepreneurial, tech-savvy, flexible, collaborative and nomadic. Co-working's emphasis on cultivating collaboration, fostering creativity and innovation, sharing of knowledge and resources and creating communities are all highly attractive to millennials.

In particular, demand for co-working space is supported by a new wave of millennial entrepreneurs, who are now in the driving seat of a boom in Chinese start-ups. According to the 2017 Chinese College Graduates' Employment Annual Report released by the Chinese Academy of Social Sciences and MyCOS, a Beijing-based human resources company, approximately 3% of a representative group surveyed from China's 7.6 million college graduates in 2016 chose to start their own business upon graduation, up from 1.6% in 2011. To put that into context,



it would add about 227,000 new start-ups if each college graduate started his or her own business alone.

Unlike other entrepreneurs around the globe, Chinese entrepreneurs enjoy unprecedented government support as the central government views them as a critical element in its plan to become a global leader in strategic industries. According to KPMG, the government has invested US$1 billion in local tech start-ups as part of its "Made in China 2025" plan, while providing policy support in the form of expanding financing channels and reducing market barriers. All of this has given a huge boost to the formation of new start-ups, with a total of 6.1 million new companies registered in the country in 2017, up from 5.5 million in 2016, according to the National Bureau of Statistics of China.

An alternative for corporates

A number of corporates, especially those engaged in IT, banking & finance, and professional services, are increasingly opting for co-working spaces around the globe. Moving their staff to co-working spaces allows corporates to lower their real estate operational and maintenance costs as most of the office supplies (including furniture, phones, and high-speed Internet) and services are included in the membership fees. The savings from renting desks in a co-working space is likely to fuel growing demand for co-working spaces from corporates and enterprises in Greater China.

As the pace of change in the business world continues to accelerate, co-working spaces offer corporates much needed flexibility. Whether looking to enter a new market or facing an uncertain future in a particular market, corporates no longer need to be tied to the term of at least three years in a traditional lease in Greater China. Instead, they can just commit to the needed number of desks in a co-working space for the length of time they deem best for their business.

Another couple of add-on benefits for corporates to take advantage of while working out of co-working offices are:

1. Access to new business ideas:

An entrepreneurial co-working office environment has a good chance of cutting edge business ideas being formed. If further developed and commercialised, these ideas could add value to many corporates. Working in a co-working office environment where these ideas are floating around at the initial stages, a corporate could absorb them, commercialise them and have first-mover advantage.

2. Gaining new business:

Co-working offices are full of entrepreneurs and start-ups. Some have the potential to scale up and become successful. What better environment for a service provider, such as an accountancy firm, to have a 'satellite' office in than a co-working office, where new work can be secured from emerging companies.

Advanced technology

The booming sharing economy around the globe would not be made possible without the innovative and advanced workplace technology developed over the last several years. As laptops and smartphones have become more commonplace, people have the ability to work from anywhere.

Technology also makes connecting with people or businesses within a co-working space easier. Members at co-working spaces can now connect with other members and request for services (including accounting and legal) through the built-in mobile apps offered by different operators. All these technologies that aim to make working easier have helped fuel the growth of the co-working space sector.

Who are the major players?

Co-working is not a new concept in Greater China, with the business platform dating as far back as 2010 when People Squared (P2) launched in Shanghai. However, it is only since 2015 that the sector has truly exploded, from a handful of operators to 546 sizeable centres spread across the region's six major cities of Beijing, Shanghai, Shenzhen, Guangzhou, Hong Kong and Taipei by the end of Q1 2018.

Unsurprisingly given the sector's infancy, the co-working market in Greater China is still rather

fragmented in some city markets. For instance, in more mature co-working office markets, like Beijing and Shanghai, the number of operators running one centre in the city is relatively minimal. However, in other markets, like Shenzhen and Guangzhou, the number of operators running one centre in the city is much more sizable. Going forward, this points to a likely period of consolidation as many of the smaller players lose out to those with larger city-level portfolios and, from a broader perspective, larger regional networks (Figure 4).

Among the largest operators in the three gateway cities in the region, (Beijing, Shanghai and Hong Kong), only three to date – UCommune, naked Hub, and WeWork – operate dedicated co-working locations in all locations. Together, they account for one fifth of all co-working office locations in these cities. Given the rapid expansion of the sector, however, it is expected they will soon be joined by others. Spaces, the co-working brand of Regus, for example, already offers some co-working desks in its serviced office locations and is expanding aggressively in Greater China. In addition, mainland-based Kr Space, recently flush with new financing, has announced plans to enter Hong Kong.

As the largest foreign operator of co-working space in Greater China, WeWork has expanded aggressively in all three gateway markets since establishing its first location in Shanghai in June 2016. Already boasting 16 locations in the three cities, (as of Q1 2018), its rapid expansion follows an approach the company has adopted in other major global cities. In London, for example, WeWork has grown over the span of just seven years to become the largest lessee of office property, occupying around 2.6 million sq ft. No other firm has been able to match the stunning growth of WeWork in London over the same period.

In Greater China, WeWork is opening a new location almost every two months and is in the process of opening five more locations in the gateway cities, including their largest ever centre in the APAC region (a 10-storey, 27,000 sq m space in a Grade A office building in Shanghai). The company plans to expand their presence to eight more cities – including Tier-2 cities Xi'an, Suzhou and Wuhan – in 2018.

Mainland start-up UCommune, formerly known as UrWork, is now considered as WeWork's largest rival in mainland China. With the capital backing of Ant Financial, an affiliate of Alibaba Group, and Sequoia Capital, by Q1 2018 UCommune has opened 71 locations since 2015, making them the largest co-working space operator in mainland China. Among the 71 locations, about 35% are in Beijing. Most of the remainder are in Shanghai, with the company most recently opening its first location in Hong Kong by taking 975 sq m in a Grade A office building in Sheung Wan. UCommune is known to be one of the most aggressive mainland operators, already ramping up to an impressive 120 locations globally, including centres in New York, San Francisco and London.

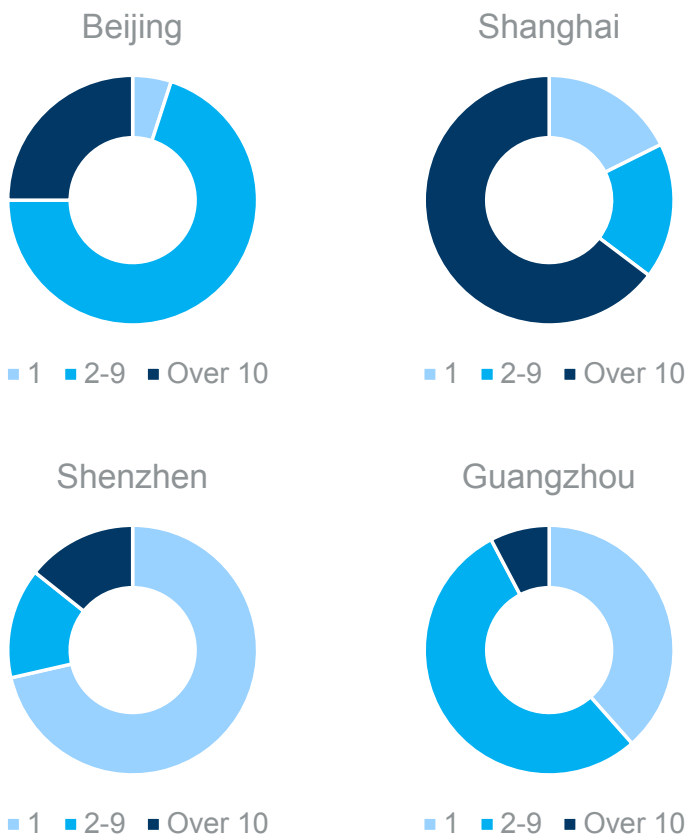
Launched in Shanghai in November 2015, naked Hub, the co-working arm of the lifestyle and luxury resort brand naked, has increased their locations ("hubs" in naked Hub's language) to 26 in the three gateway cities in Greater China by the end of Q1 2018. naked Hub is now the second largest co-working space operator in Shanghai, with 17 hubs. In 2017, naked Hub extended their network to both Beijing and Hong Kong, setting up six hubs in the former and three in the latter.

Outside the largest players, there are a number of mid-sized

Figure 4

Operators and their centre numbers per city: Co-working office market development in four select city markets in Greater China (Q1 2018)

Source: Cushman & Wakefield Research



mainland start-ups, accounting for approximately 40% of co-working locations in the three gateway cities. Most of these started in either Beijing or Shanghai before expanding into the other, with many now operating a handful of locations.

While many players continue to expand, with some setting their sights on the other Tier-1 cities, larger Tier-2 cities, Hong Kong and Taipei, they also have the potential to be attractive acquisition targets. Two recent examples of this are naked Hub, being bought out by WeWork, and Beijing-based Woo Space, which, (as of end of Q1 2018), operates 12 locations in Beijing and Shanghai, being acquired by UCommune. As the co-working sector in Greater China continues to mature, such M&A activity is expected to be a growing trend as larger players look to expand their share of the market.

As the co-working market in Greater China heats up, some property developers are also jumping on the bandwagon, either via partnerships with operators or by operating co-working spaces themselves in their own properties. In the case of the former, an example can be seen in Sino Ocean Group's cooperative agreement with WeWork in late 2016 to open three locations in the country. It is reported that the two companies will split the revenue evenly with the developer funding the renovation and remodelling of the buildings based on WeWork's specific design requests, while the co-working space operator manages the buildings and members. Similarly, Guangdong-based developer Country Garden has entered into an agreement with the local co-working start-up, Fountown, to establish a fund for the development of co-working spaces.

Other developers have opted to enter the market themselves. SOHO China, a commercial property giant in China, successfully ventured into the market in 2015, opening two locations under the SOHO 3Q brand in Shanghai and Beijing, which were both met with a strong market response. By the end of 2017, it had expanded to 18 locations across the two cities. Operating its EASYWORK subsidiary, Longfor is another big China developer that has stepped into the market on their own. Also by end of Q1 2018, Swire Properties entered the market in Hong Kong, relaunching Blueprint, a technology innovation centre, as a co-working space within its Quarry Bay development.

What are the criteria co-working space operators are looking for when it comes to securing space in Greater China?

Location! Location! Location!

Location is one of the main criteria co-working space operators consider when they are looking for potential locations. Unlike many corporates, however, that just need to identify a single location for their business address in a city, many large-scale operators aim to cover the market, establishing locations in several commercial districts. Most importantly, they need to do so in a manner that keeps costs low enough that membership fees are kept to a reasonable level.

In core areas, where commercial real estate is most expensive, this often requires operators to be creative, by seeking out locations in vibrant areas on the fringes or in lower quality or historic buildings



able to be upgraded. Fortunately, this dovetails with many operators' desire to appear hip and trendy with such locations often appealing to millennials. Examples of this can be seen in WeWork's Jing'an district location in Shanghai in a tree-lined neighbourhood just a few blocks away from the Nanjing Road CBD or the company's choice of location in Central, Hong Kong, in a converted hotel next to the popular bar area of Lan Kwai Fong.

In non-core, secondary business districts or suburban areas, where costs are lower, the task of identifying suitable locations is often easier, with many operators taking space in Grade A office buildings in these localities. Take Hong Kong as an example, by the end of Q1 2018, there are six co-working office centres located in Grade A buildings in the city's core area and 12 centres in Grade A offices in the non-core, secondary or suburban areas of the city.

Regardless of the district, good accessibility is key with operators preferring locations within easy walking distance of metro stations and bus stops. As of Q1 2018, of the 35 locations in Beijing operating or under development by UCommune, naked Hub and WeWork, more than half are within a 10-minute walk from a metro station.

With their target members mostly being the millennials or entrepreneurs, operators also prefer locations with convenient supporting amenities. Roughly a quarter of the 35 locations in Beijing operated by UCommune, naked Hub and WeWork are surrounded by restaurants, bars, convenient shops and a retail mall within a 10-minute walk. A handful of operators have even opted to open their centres next to or within sizable residential complexes with supporting shopping centres. WeWork's location at Guanghua Road in Chaoyang is surrounded by multiple shopping malls, including The Place and SOHO Shangdu, while naked Hub's Pacific Century Place location is within a 10-minute walking distance from Taikoo Li Sanlitun.

Size matters

To accommodate relatively large common areas and meeting rooms that are unique only in the co-working office space sector, operators also favour properties with sizable area.

As of Q1 2018, many of WeWork's locations in the three gateway cities in Greater China are no less than 5,000 sq m (GFA). Of the 16 locations, four are en-bloc commercial portfolio with three in Shanghai – including the recent commitment of newly completed China Overseas International Center (27,000 sq m) – and one in Hong Kong. Another global player and the co-working arm of Regus, Spaces, also adopted a similar approach with the average area at their four locations around 4,000 sq m.

Based on our findings, for other local co-working office giants, their average office area requirement is generally smaller than that of their overseas counterparts, with the total floor area averaging at 2,000 to 4,000 sq m. Take Woo Space as an example, their average requirement is around 2,700 to 3,000 sq m.

Some operators in the Greater China region have also looked beyond traditional offices to accomplish their sizable co-working centre requirements. SOHO 3Q, for instance, has leased a 25,000 sq m shopping centre in Beijing and converted it into shared office space with more than 3,600 desks, making it the largest SOHO 3Q co-working office centre in mainland China. Meanwhile, WeWork also leased and transformed two hotels in Shanghai and Hong Kong into a respective office space of 10,000 sq m for each centre.

Rental cost

Another major considering factor is rental, which takes up a significant portion of the operating costs for any co-working space operator. These operators prefer properties with lower rental cost, as evidenced by the total number of locations at non-Grade A office buildings which accounted for 74% of all locations of sizeable centres in the six major city markets in the Greater China region by the end of Q1 2018.

The longer the lease the better

Whereas one of the benefits offered by co-working space is the flexibility of short lease terms, operators of such spaces seek the stability of longer leases. Key to the business model of co-working is keeping costs low and avoiding rental spikes that might exceed many members' budgets.

Many operators also invest heavily in the design and fit-out of relatively large spaces and needs to avoid any risk of potential relocation after, say a three-year lease term, and the costs that would incur. Given these factors, co-working office operators generally seek to commit to spaces with long lease terms.

How do operators differentiate among each other in the Greater China region?

As more operators enter the Greater China market and/or expand their portfolio, a wave of new supply of co-working space in coming years will provide users with countless new options. As the market becomes increasingly competitive, differentiation – in terms of design, service offerings, amenities and even culture – will all be crucial to staying ahead of the game. While membership pricing will be a factor, understanding and responding to user needs in the value and services offered will become key.

Home from home (Design)

As the line separating work and personal time blurs, millennials

and entrepreneurs began to favour workplaces that make them feel comfortable and relaxed while working in an office environment. In response, co-working space operators have placed a heavy emphasis on the design of their locations.

The design varies among different operators but most aim to amplify comfort and relaxation and to promote flexibility and collaboration with most co-working spaces offering a trendy, modern and eclectic feel. WeWork, for instance, converted an old period property in Shanghai into a space that has a modern, but yet vintage feel, thanks to their in-house global design team.

Design considerations also extend to the furniture. Some operators even opt for providing ergonomic smart desks that adjust themselves to the most suitable height as soon as the members arrive in the building.

Several operators also adjust their designs based on unique and specific Chinese requirements. Some, for instance, have incorporated larger conference rooms as meetings are typically larger in China, while others offer more enclosed offices in their locations as some enterprises using co-working spaces desire more privacy.

Building a community (Networks)

Offering an easy channel for members to network is another way co-working space operators use to set themselves apart from others. Global and regional operators allow their members to access their extensive network and platform to connect with other members in different industries or, in some cases, different cities or countries, which, in turn, foster collaboration, creativity, sales and ultimately business growth.

With its global platform, WeWork offers its member an opportunity to reach out to any of its 200,000 members around the world. For enterprise members who want to grow internationally, they are also able to connect with the other 50,000 enterprises within the WeWork network. Over 50% of enterprise members within WeWork have reportedly engaged in collaboration with other corporates under the WeWork network. WeWork also promotes collaboration and fortifies ties among members by offering off-line interest groups.

As the largest co-working space operator in China, UCommune uses its extensive network to assist foreign corporates looking to gain a foothold in local markets and serve as a bridge for local Chinese companies to expand their global presence. UCommune also partners with other corporates to increase its membership pool and enhance user experiences. As an example of this, UCommune in late 2017 entered into an agreement with BTG Homeinns Hotel Group in which the two companies would share their membership systems and UCommune's members would enjoy discounted rates in all 3,400 locations under the hotel brand.

Woo Space (now merged with UCommune), as another example, provides their members with access to hundreds of different service providers including media, company registration, legal and accounting. Woo Space also has an in-house recruiting team providing recruitment services for their members, especially the start-ups.

For local niche players lacking the capacity to offer extensive network opportunities, some have created a community specifically for different industries. Campfire, a Hong Kong-based operator, for example, has set up their locations to target different sector groups. Their two locations in Wong Chuk Hang, an emerging business district on the southern part of Hong Kong Island, cater to two industries. One site, dedicated to the fashion design industry, offers a fashion runway and a fully equipped photo studio, while another centre provides a recording studio, screening space and a room for Key Opinion Leaders for members in the media industry.

Great services and supporting amenities matter (Software and services)

At a bare minimum, most co-working operators in Greater China include within their membership fees basic amenities such as free Wi-Fi, printers and telephone services. To differentiate themselves and better appeal to millennials, though, many go beyond that by offering their members in the region gourmet coffee, yoga classes and even craft beer.

What really separates an operator from others is the supporting technology that they offer with several global and regional operators investing significantly in developing their own in-house mobile apps and online 'community' platform for their members. Using a mobile app, a member can book a conference or meeting room, purchase services or snacks, connect with other members or third-party service providers and seek assistance from the co-working space operational teams – all with a simple click. WeWork, UCommune, naked Hub, and SOHO 3Q have all rolled out their own in-house 'community' service platforms or mobile apps over the last two years to better enhance their members' experiences.

Other technological innovation involves the use of smart and intelligent systems within a centre. Kr Space, a Beijing-based operator, has incorporated several intelligent systems including intelligent access control, smart lighting systems, an environmental monitoring system and intelligent electronic screens in their meeting rooms. At one of their locations in Shanghai, members can scan a QR code through the intelligent electronic screen and download the content of the meeting notes on their mobile phones in each of the meeting rooms.

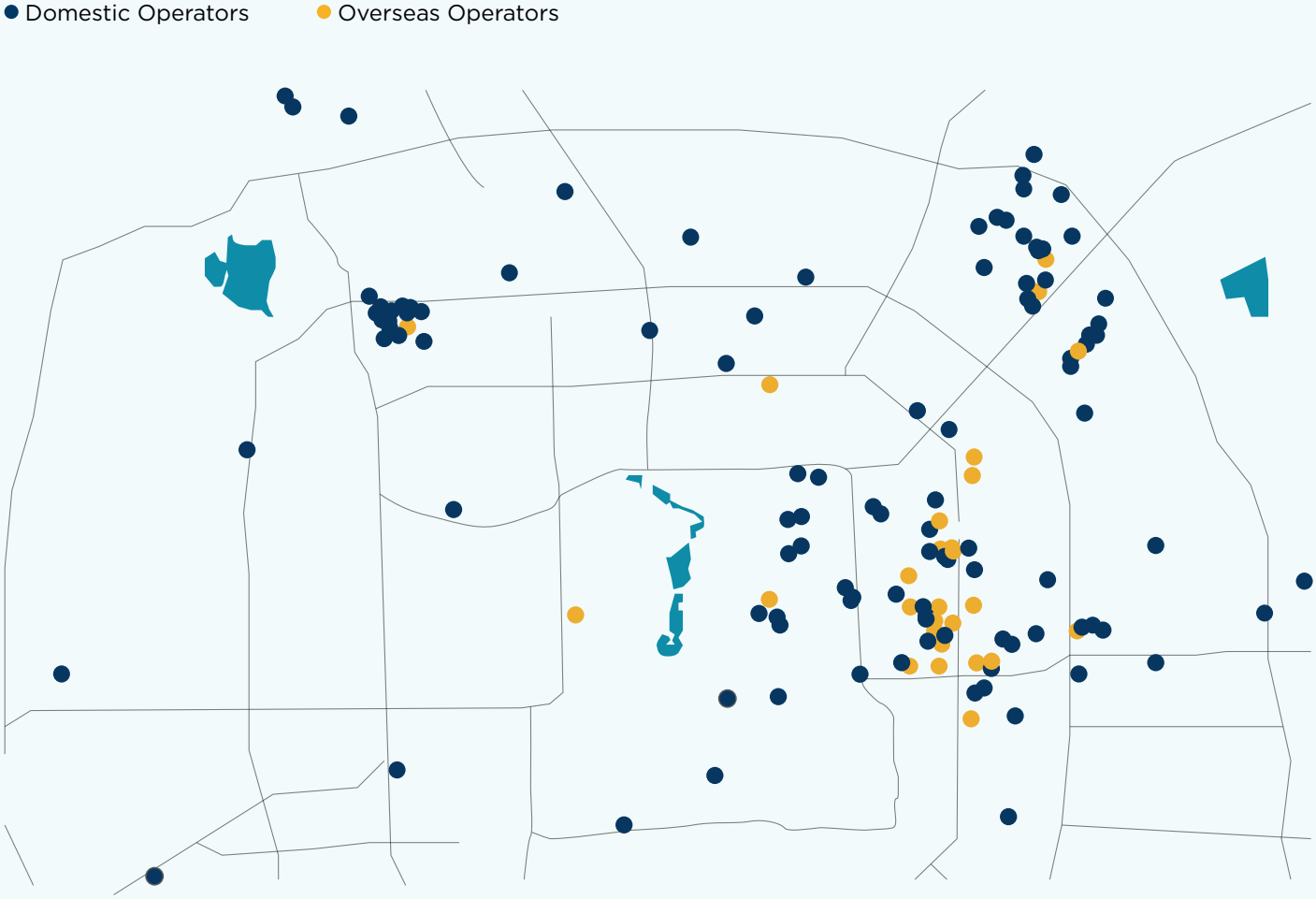
THE SIX KEY MARKETS

On a global scale, co-working offices have always established and grown their businesses in major commercial centres. Over the last couple of years, the Greater China region has been no different. In this section, we take an in-depth look at the six major markets in the region in terms of market activity in the last 12 months and provide an outlook on the market for the next 12 months.



Map 1
Co-working space locations in Beijing

Source: Cushman & Wakefield Research





CITY 01
BEIJING

Technology and innovation industries driving demand

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Market Movement – Last 12 Months

As the nation's scientific and technological innovation centre, Beijing's business status has spawned a large number of tech companies to set up in the city in recent years. At the same time, Beijing's Grade A office rental has continued to increase as availability has remained low. These factors have come together to make the city the perfect place for co-working operator to set up and grow their businesses.

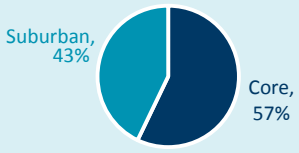
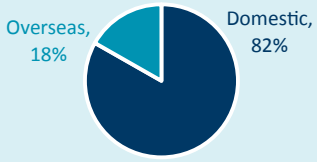
By now, more than 20 co-working office operators have opened over 160 centres in Beijing. Domestic operators, such as SOHO 3Q and Ucommune, who have a sharp eye on the market, have taken the initial initiative and now have 80% market share. Additionally, as co-working office brands attracted venture capital money over the past year, they have expanded rapidly in the city. For example, Kr Space has rented 15,000 sq m in Wangfujing Auspicious Building and 7,000 sq m in Zhaotai International Center. Regional brands from other areas in China and overseas brands have also entered the market. For example, WeWork has signed a strategic partnership with Sino Ocean Group. After opening its first centre in Beijing Office Park in early 2017, the operator has followed this by opening four centres during the rest of the year. In addition, naked Hub now has six centres in Beijing.

The concentration of companies involved in the tech and innovation industry fields is one of the main factors spurring co-working office demand in Beijing. In terms of city geographical distribution, 70% of centres are now located in the traditional office submarkets, such as CBD, Zhongguancun and Wangjing, which also happen to have a high concentration of high-tech and professional service companies.

Market Outlook – Next 12 Months

Ahead, office, retail and renovation properties in Beijing's core submarkets will likely continue to be the first choice for co-working operator expansions. Although major brands are striving to attract stable tenants from large enterprises, start-ups and small businesses will likely still be the main source of membership for co-working office operators in the near future. Finally, in addition to continuous centre expansion, co-working brands in the city are expected to further roll out technology platforms, which will create new opportunities to attract and retain members.

Market Information (Q1 2018)

Grade A Stock	10,436,086 sq m
Grade A Vacancy	8.4%
Grade A Rental	RMB 391.3/sq m/month
Number of Sizeable Co-working Centres	161
Centre Locations – Area	
Centre Location – Projects	
Operators	
Grade A Rental – Next 12 Months	

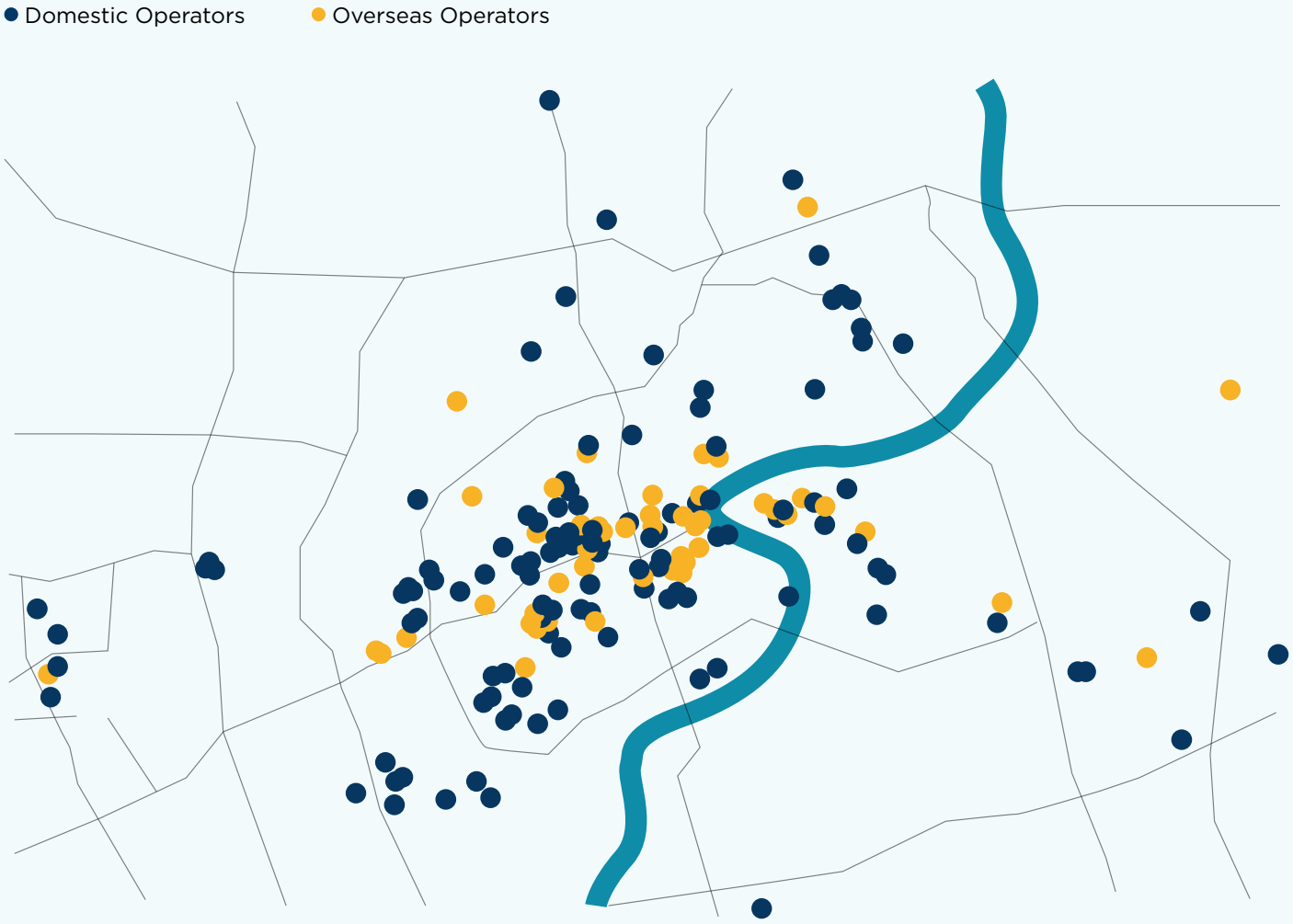
Major Deals

Operator	Submarket	Project	Size (sq m)
WeWork	Wangfujing	Spot on WFJ	13,000
Fountown	Others	Yinyuan Building	11,338
Kr Space	Others	Straits International Plaza	10,300
Kr Space	CBD	China Overseas Plaza	3,500
naked Hub	CBD	Gongxiao International Building	2,850

Source: Cushman & Wakefield Research

Map 2
Co-working space locations in Shanghai

Source: Cushman & Wakefield Research





CITY 02
SHANGHAI

A key battleground for market share

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Market Movement – Last 12 Months

Being a key centre for commerce in China, Shanghai over the last year has become a focal point for co-working office operators to establish themselves and expand their business. It is seen as a key battleground for market share among both domestic and overseas operators, with the city now being home to 168 sizable centres.

Just over a year ago, the co-working office presence was largely seen in core area Grade B/C office buildings or within core area renovated projects. However, after recent financing rounds, those operators lucky enough to receive a large amount of funding have struck out and expanded their presence into off-core locations and also into Grade A oce space. Certainly, over the last couple of quarters, we have seen co-working offices become a significant contributor to Grade A office absorption throughout the city. Notable deals included WeWork's 27,000 sq m lease in China Overseas International Center, its 6,000 sq m lease in ITC Phase I and Distrii's 6,500 sq m lease in Grand Gateway.

Other operators seeing tremendous presence growth in the city include naked Hub, which has opened a number of new centres. This includes its flagship centre on Loushanguan Road and a 10,000 sq m centre in North Bund's Landmark Center.

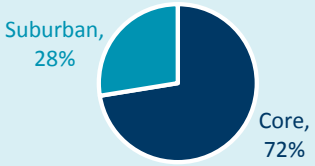
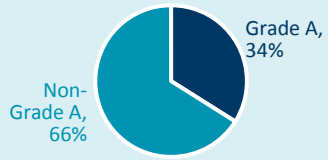
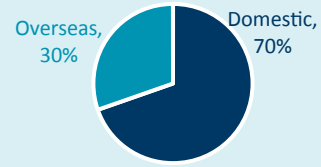
In addition to pure co-working office operators, some developers have also entered into the flexible workspace market recently. SOHO China, for example, uses its office property to operate 'SOHO 3Q' in the city, and Longfor has established its 'EASYWORK' co-working office brand in Hongqiao Paradise Walk.

Market Outlook – Next 12 Months

Ahead, the Shanghai Grade A office market is scheduled to add approximately 1.6 million sq m of new supply in 2018. This will likely provide huge opportunities for co-working operators to continue their aggressive expansion plans in both core and suburban locations into 2018 and 2019.

In order to remain competitive in a very competitive market, we expect operators to offer better equipped space with more amenities over the next 12 months. Ultimately, it is about attracting and retaining members. It will be those operators which are able to build a strong community feeling and branding among their members and the wider general public which will survive and become commercially viable in the Shanghai market.

Market Information (Q1 2018)

Grade A Stock	10,464,294 sq m
Grade A Vacancy	13.2%
Grade A Rental	RMB 283.7/sq m/month
Number of Sizeable Co-working Centres	168
Centre Locations – Area	
Centre Location – Projects	
Operators	
Grade A Rental – Next 12 Months	

Major Deals

Operator	Submarket	Project	Size (sq m)
WeWork	Huangpu	China Overseas International Center	27,000
WeWork	Lujiazui	Fuhui Plaza	14,000
naked Hub	Hongkou	Landmark Center	10,000
Distrii	Core Xuhui	Grand Gateway	6,500
WeWork	Core Xuhui	ITC Phase I	6,000

Source: Cushman & Wakefield Research

Map 3
Co-working space locations in Shenzhen

Source: Cushman & Wakefield Research

● Domestic Operators ● Overseas Operators





CITY 03
SHENZHEN

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Director
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Domestic operators dominating, overseas operators to ramp up

Market Movement – Last 12 Months

Amid Shenzhen's solid technology and innovation industry foundation, co-working office space, featuring flexibility and convenience, has attracted many small-to-mid sized companies, especially start-ups. Influenced by this demand, Shenzhen's local co-working space operators have expanded rapidly. For example, SimplyWork is growing its business by renting floors within a variety of old office buildings in the Hi-tech Park area. In these centres, the spaces have been revamped and remodelled to attract co-working users. What's more, SimplyWork has already secured Series A financing from IDG Capital, Huazhu Hotels Group and Vanke, amounting to a total of RMB30 million.

Domestic brands are currently dominating the market. Atlas has rented floors in Shenzhen Dinghe Tower, Shenzhen Aerospace Science and Technology Square and Shenzhen Gemdale Center, while Nash Work has settled in Excellence Century Center. Additionally, Ucommune acquired WeDo in March, adding more than 10 locations in the city. Meanwhile, overseas operators make up only 4% of market share but are ramping up rapidly as well.

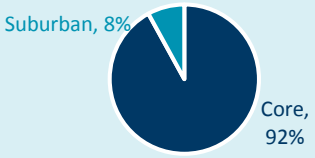
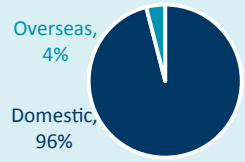
By submarket, most co-working space is located in Hi-tech Park, Nanyou and Sheko. There is more availability of old office buildings and factories with relatively low rentals in these areas. What's more, the business environment in these areas is strong for start-ups as there is a clustering effect of technology and innovation industry companies. Elsewhere, high-end brand operators prefer to settle in the more mature commercial areas.

As co-working offices develop in Shenzhen, the featuring of community, information transfer and resource sharing platforms are increasingly drawing large enterprises' interest to use the space. This interest will likely continue to drive market demand for co-working office space in the city for the year ahead and beyond.

Market Outlook – Next 12 Months

Ahead, WeWork is expected to expand its business presence in Shenzhen. At the same time, we anticipate further operator M&A activity in the city with some operators expected to view this as a viable means to gain market share. We also foresee more high-end co-working centres to open as the co-working office market further matures.

Market Information (Q1 2018)

Grade A Stock	4,402,805 sq m
Grade A Vacancy	12.9%
Grade A Rental	RMB 270.8/sq m/month
Number of Sizeable Co-working Centres	25
Centre Locations – Area* *Core area includes Luohu, Futian & Nanshan; Suburban area includes Bao'an & Longgang.	
Centre Location – Projects	
Operators	
Grade A Rental – Next 12 Months	▼

Major Deals

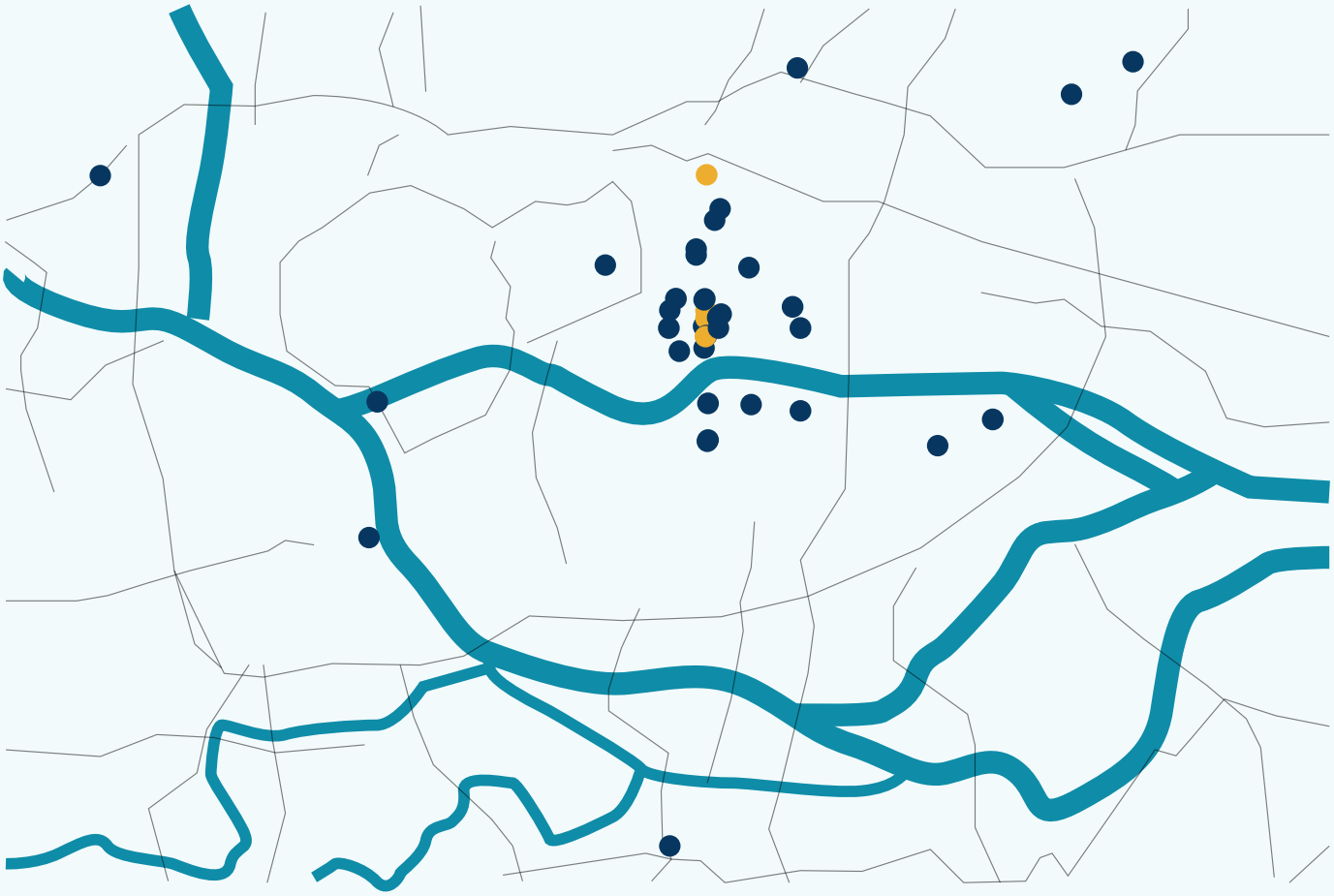
Operator	Submarket	Project	Size (sq m)
Atlas	Futian	Dinghe Tower	10,000
Atlas	Nanshan	Shenzhen Aero-space Science and Technology Square	13,000
Atlas	Futian	Shenzhen Gemdale Center	5,700
WeWork	Nanshan	China Resources Land Tower	9,252
Regus	Futian	Ping'an Financial Center	3,500

Source: Cushman & Wakefield Research

Map 4
Co-working space locations in Guangzhou

Source: Cushman & Wakefield Research

● Domestic Operators ● Overseas Operators





CITY 04
GUANGZHOU

An emerging market that's rapidly expanding

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Market Movement – Last 12 Months

Going with the flow of growth in the sharing economy and the rapid expansion of emerging and innovative industries, Guangzhou has witnessed a number of co-working office setup operations recently. To date, Guangzhou has 40 sizable centres scattered across Grade A and Grade B office buildings, as well as in business parks.

Today, Guangzhou's co-working market is experiencing rapid development. For example, over the last 12 months, Worldunion Space has opened 10 new centres, amounting to more than 25,000 sq m of office take-up. Moreover, along with market development, more and more co-working offices are establishing a presence in core business hubs and in Grade A offices in the city. For instance, Atlas took up approximately 11,000 sq m in Agile Center in Zhujiang New Town and Bee+ leased 2,991 sq m in Guangzhou International Financial Center, also in Zhujiang New Town.

To date, domestic co-working operators are the dominant force in terms of office market take-up. As to centre numbers, domestic co-working operators, such as We+ and Depeili, make up approximately 90% of the total 40 sizable centres established in Guangzhou. Meanwhile, overseas operators, such as Regus and Servcorp account for just over 10%. In spite of this, however, as the market continues to mature and develop, more international and experienced co-working brands are expected to show a greater business interest in the Guangzhou market.

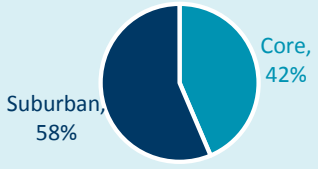
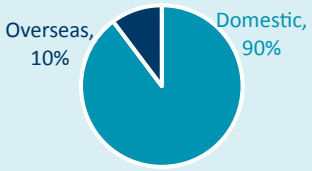
Aside from pure co-working office operators, real estate developers and agencies have also launched co-working businesses in the city. CANVAS, for example, the co-working brand of Mayland Group, set up in Mayland Building. Additionally, co-working brand Worldunion Space, a subsidiary of property agent World Union, as noted, has expanded rapidly.

Market Outlook – Next 12 Months

Guangzhou is scheduled to add 447,401 sq m of new Grade A office supply in 2018 and more than 3.5 million sq m over the next five years. This flood of premium office space should provide huge opportunities for co-working operators to continue their rapid expansion.

The Guangzhou co-working office market is on course to enlarge and mature further over the course of the next couple of years. Overseas brands, like WeWork, and experienced domestic operators, like SOHO 3Q, are expected ramp up operations in the city over this time period. As more players and centres establish themselves in the city, we foresee greater operator competition. We also expect this to feed into better value-added co-working office service offerings to be made available to co-working office users in the city as operators chase membership attraction and retention targets.

Market Information (Q1 2018)

Grade A Stock	4,569,750 sq m
Grade A Vacancy	5.1%
Grade A Rental	RMB 188.6/sq m/month
Number of Sizeable Co-working Centres	40
Centre Locations – Area	
Centre Location – Projects	
Operators	
Grade A Rental – Next 12 Months	

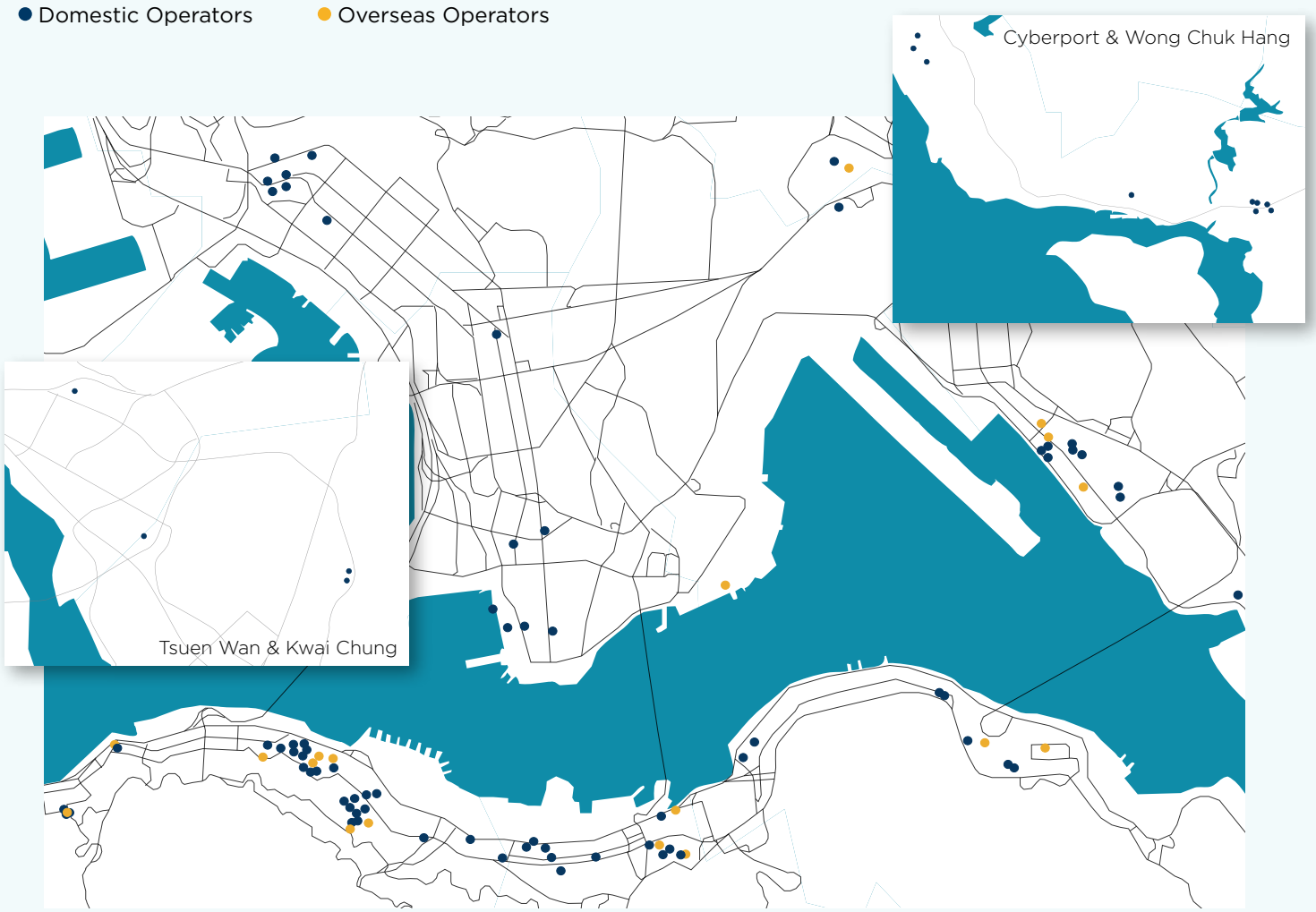
Major Deals

Operator	Submarket	Project	Size (sq m)
Atlas	Zhujiang New Town	Agile Center	11,000
Chirk-up	Tianhe Sports Center	Citic Plaza	10,000
Worldunion Space	Tianhe Sports Center	Hongfa Building	4,115
Bee+	Zhujiang New Town	Guangzhou IFC	2,991
Kr Space	Haizhu	T.I.T Business Park	2,662

Source: Cushman & Wakefield Research

Map 5
Co-working space locations in Hong Kong

Source: Cushman & Wakefield Research





CITY 05
HONG KONG

Operators' competition intensifying

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Market Movement – Last 12 Months

Until two years ago, Hong Kong's co-working sector was characterised by the gradual growth of a handful of local players. That changed in May 2016 with the arrival of WeWork. Since then, the sector has exploded with new entrants and multiplying locations across the city's major submarkets. Apart from global operators, such as WeWork and Spaces, mainland Chinese operators, such as Ucommune, have also jumped into the market, intensifying competition within the sector.

Most operators have entered the Hong Kong market by initially establishing a presence in one of the city's two core office areas on Hong Kong Island – namely Greater Central and Wanchai/Causeway Bay – and up until a year ago, that was where most co-working space was concentrated. However, a desire by major players to capture market share has led many to quickly extend their presence into non-core areas. Spaces, for example, has now secured four locations across Hong Kong, including ones in Kowloon East and Hong Kong South.

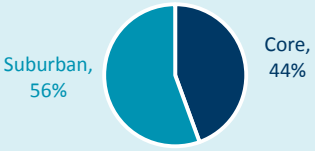
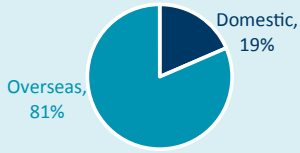
Backed by growing war chests, several sizable out-of-town operators (apart from WeWork and Spaces) have begun to enter the city's co-working sector. naked Hub led the way, first leasing approximately 4,000 sq m in Bonham Circus, a non-Grade A office building in Greater Central in early 2017. While it has continued to expand, it has since been followed by Ucommune and Guangdong-based Atlas, which have each established their first locations in Hong Kong in recent months, in Sheung Wan and Tsimshatsui, respectively.

Market Outlook – Next 12 Months

We remain optimistic that demand for commercial space from co-working space operators will continue to be strong as more mainland Chinese operators enter the market. Their demand will be largely met by newly completed or upcoming Grade A office developments in non-core areas that offer attractive rentals and high-spec office areas.

With at least 33,400 sq m of co-working space set to open over the remainder of the year, competition in the sector is set to intensify. For larger operators especially, a key challenge will be to secure corporate tenants. Depending on levels of adoption, this may lead to some slowdown in new absorption compared to levels witnessed in recent months. Meanwhile, we are also likely to see some consolidation as the sector matures.

Market Information (Q1 2018)

Grade A Stock	5,608,475 sq m
Grade A Availability	7.9%
Grade A Rental*	HKD 74.2/sq ft/month
Number of Co-working Centres	108
Centre Locations – Area	
Centre Location – Projects	
Operators**	
Grade A Rental – Next 12 Months	

* Exchange rate: 1 RMB = 1.25 HKD
** Domestic operators include both Hong Kong and Mainland China

Major Deals

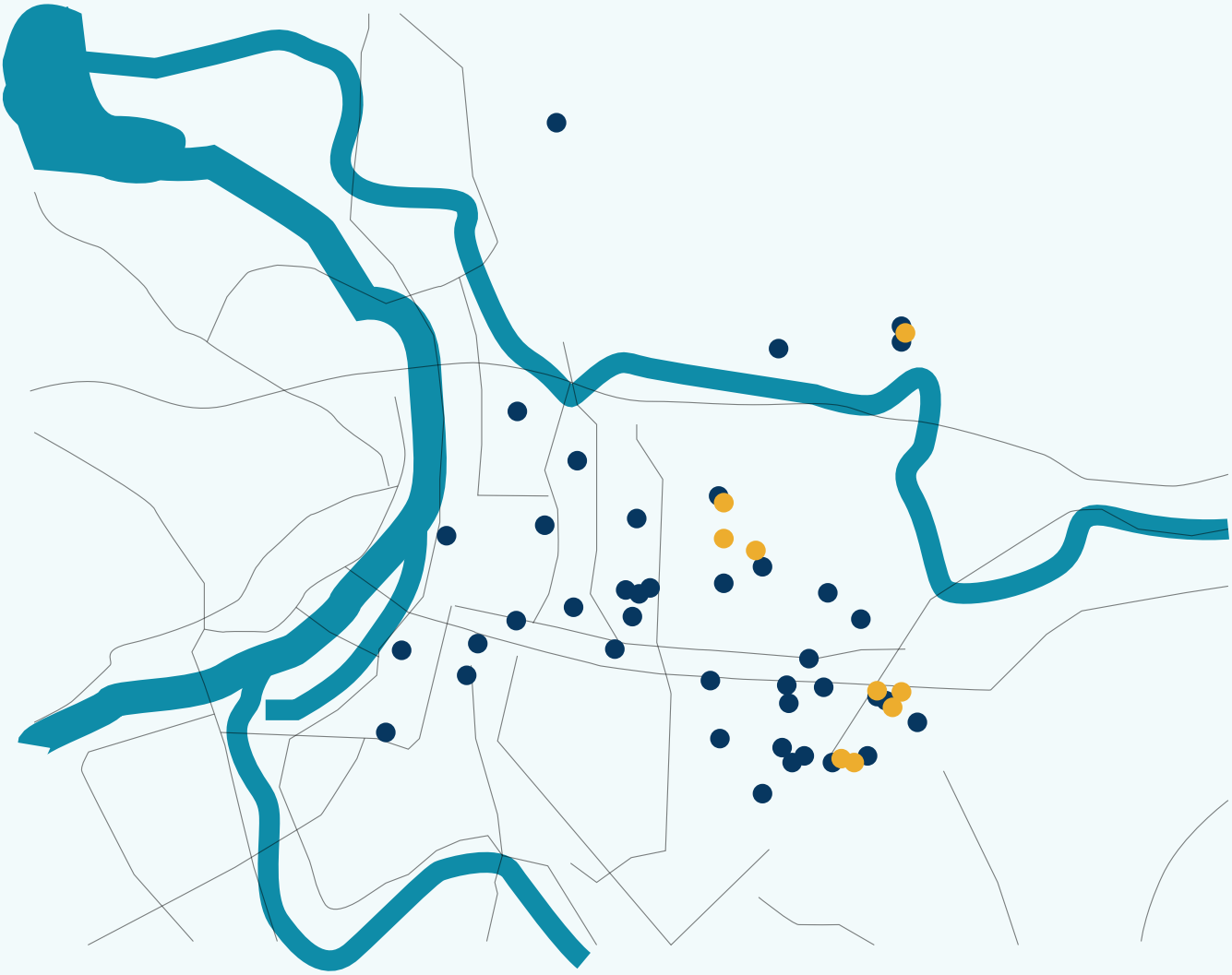
Operator	Submarket	Project	Size (sq m)***
Kr Space	Wanchai	One Hennessy	6,870
WeWork	Greater Central	Lan Kwai Fong Tower	6,500
naked Hub	Kowloon East	Two Harbour Square	3,500
Atlas	Greater Tsimshatsui	The Gateway Tower 3 & 5	2,700
Spaces	Hong Kong South	AXA Southside	2,400

*** Area is on a NFA basis and rounded to the nearest hundreds
Source: Cushman & Wakefield Research

Map 6
Co-working space locations in Taipei

Source: Cushman & Wakefield Research

● Domestic Operators ● Overseas Operators





CITY 06
TAIPEI

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Co-working is thriving in both core and suburban areas

Market Movement – Last 12 Months

As the sharing economy has grown, being the financial centre of Taiwan, Taipei has caught the attention of overseas co-working spaces operators as they look to expand their business. There are now 44 sizable co-working centres established in Taipei. Most are situated in the city's core area and in non-Grade A office buildings. Our data shows, however, that most overseas operators have set up their centres in Grade A office buildings and in the CBD as they have great locations and offer superb city views.

Domestic operators, like Global Town and Hanse, and overseas co-working space providers are now becoming more sophisticated and are offering new and innovative services to their members in Taipei . At the end of 2017, for example, Regus formed an alliance with Zipcar, the world's largest car sharing and car club service, to manifest a cross-industry sharing services business platform.

Additionally, Next Story Group from Singapore, launched Kafnu, (a live, work, play ecosystem for entrepreneurs and creative minds), in January 2018. Kafnu's launch absorbed a 12-floor en-bloc building (4,628 sq m in total) in Dunbei Minsheng district.

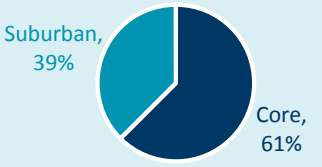
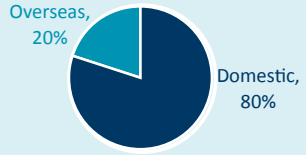
Another notable recent co-working office take up was Regus' co-working brand, Spaces, which leased approximately 4,397 sq m in total on the 1/F, 2/F and 15/F of Hung-Sheng International Finance Center, an MRT joint-development building near Nanjing Fuxing Station. The new space is expected to open in May 2018.

Market Outlook – Next 12 Months

In the next 12 months, we expect there to be at least one opening of a sizeable co-working centre. Global Town is anticipated to settle into TransGlobe Life Insurance Minquan Building. This centre is expected to occupy 992 sq m of space.

As the co-working office sector continues to grow, operators in Taipei are increasingly looking to expand their business into other main industry cluster areas in Taiwan, including Neihu Technology Park, Hsinchu Science Park, and Central Taiwan Science Park. Spaces, for instances, already has intentions to open a new branch in the centre of Hsinchu THSR district.

Market Information (Q1 2018)

Grade A Stock	2,237,000 sq m (677,000 ping)
Grade A Vacancy	7.6%
Grade A Rental*	NTD 2,470/ping/month
Number of Sizeable Co-working Centres	44
Centre Locations – Area	
Centre Location – Projects	
Operators	
Grade A Rental – Next 12 Months	

* Exchange rate: 1 RMB = 4.68 NTD

Major Deals

Operator	Submarket	Project	Size (sq m)
Spaces	Dunbei Minsheng	Hung-Sheng International Finance Center	4,397
Kafnu	Dunbei Minsheng	N/A	4,628
Regus	Xinyi	Cathay Landmark	2,645
Hanse	Xinyi	Uni-President International Building	1,091
Global Town	Dunbei Minsheng	TransGlobe Life Insurance Min-quan Building	992

Source: Cushman & Wakefield Research

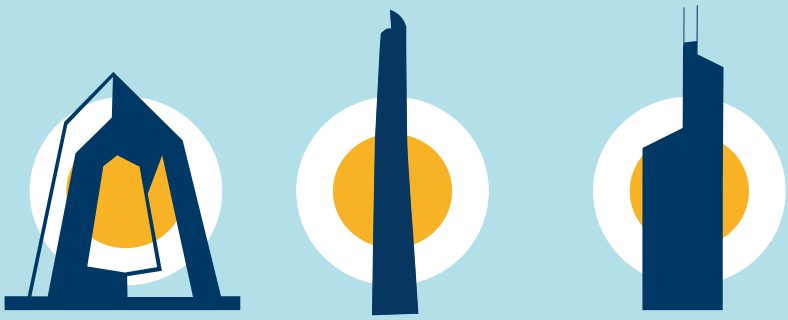
THE CENTRE SPREAD

GREATER CHINA CO-WORKING SECTOR INFOGRAPHICS

Over the course of the last few months, we interviewed a number of co-working office operators in Greater China. Below are nine key points we raised in the interviews and the top answers/average figures we received from those interviews:

THE NINE POINTS
GREATER CHINA OPERATOR VIEWS

TOP LOCATIONS



Beijing | Shanghai | Hong Kong

TOP BUSINESS PRIORITIES



Organic growth



Enhancing the brand



Expanding in markets where we can win

TOP LOCATION PRIORITIES



Rental Cost

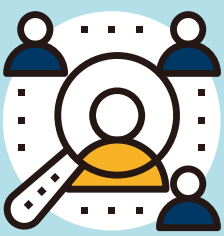


Prime Commercial Areas



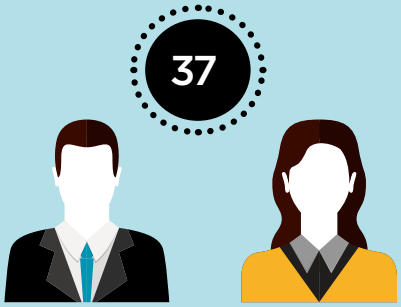
Good Transportation Links

BUSINESS APPROACH IN DIFFERENT CITY MARKETS



Tailored

AVERAGE MEMBER AGE



AVERAGE MEMBERSHIP RATIO

DOMESTIC COMPANIES / OVERSEAS COMPANIES



7.6 : 2.4

MOST POPULAR SPACE



The Lounge Bar



AVERAGE MEMBERSHIP RATIO

START-UPS / ESTABLISHED COMPANIES



7.4 : 2.6

SUSTAINABILITY/WELLNESS – ARE THEY IMPORTANT?

YES !



THE USER PERSPECTIVE



The pros and cons of co-working in Greater China

Over the past couple of years, co-working office space in Greater China has increasingly become popular with a plethora of users, and some reasons behind this popularity include:

The pros:

- **Cost:**

  Purchasing co-working membership is an effective solution to cost savings for many businesses and individual users in Greater China. It avoids the expenses incurred by renting, such as fit-out costs, furnishing costs, rental, management fees, utility charges, cleaning, etc. (Figure 5). At the same time, users can occupy quality workplaces and enjoy a number of services, which can help further reduce their overall business operation costs.

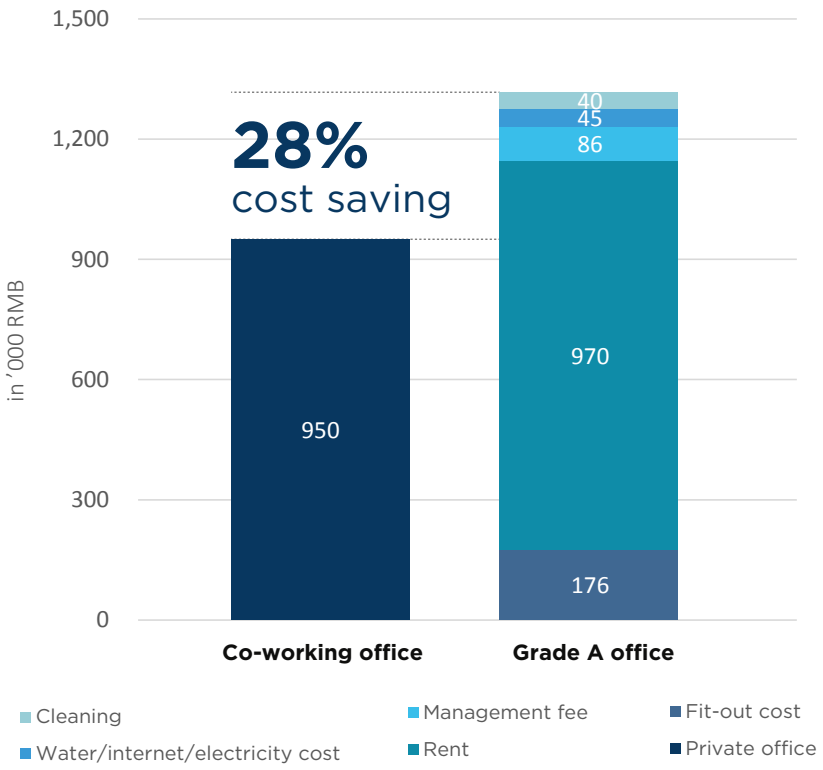
  One point to note, however, is membership cost often is tiered. Moving up a level will mean you will have access to a greater amount of space, amenities and

Figure 5

Shanghai Core Area: Office leasing cost: Co-working office – Grade A office (Q1 2018)

Source: Cushman & Wakefield Research

Note: Two year lease for 10 employees



services, but it will cost more.

- **Lease and space flexibility:**
  Co-working offices generally allow for greater lease terms and space flexibility compared to traditional offices. Often it is hard for established users to forecast future business growth, especially in Greater China where growth for many businesses has been phenomenal over the last few years. With shorter term membership contracts and workspaces which can be quickly adjusted in size, co-working offices can rapidly adapt to changes in space demand from users as their business headcounts suddenly grow...or contract.

- **Workplace variety:**
  Within many co-working offices in Greater China, there is on offer a variety of different spaces, where users can work in, relax in or interact in. What's more, within the major cities, co-working operators have a variety of locations for users to choose from. They can use different offices and different spaces within those offices on a daily basis. This mix-and-match variety can stimulate both productivity and creative thinking, which are two key components for any successful business.

- **Support systems (Business financing and a digital 'community' platform):**
  Starting out in business is not a ride in the park. Any help is golden and many co-working operators in Greater China recognize this. Some operators will actually assist an enterprise using their space with some 'angel' financing, if they deem there is potential for viable business growth. Others provide direct business advice and/or a digital 'community' platform where members can access business advice, or bounce ideas around, or simply book a meeting room (Figure 6).

- **Collisions and connections:**
  Co-working offices are simply designed and built to produce a collision of people. Networking, connections and interaction are the lifeblood of co-working offices, and this is a key attraction for users throughout the Greater China region.

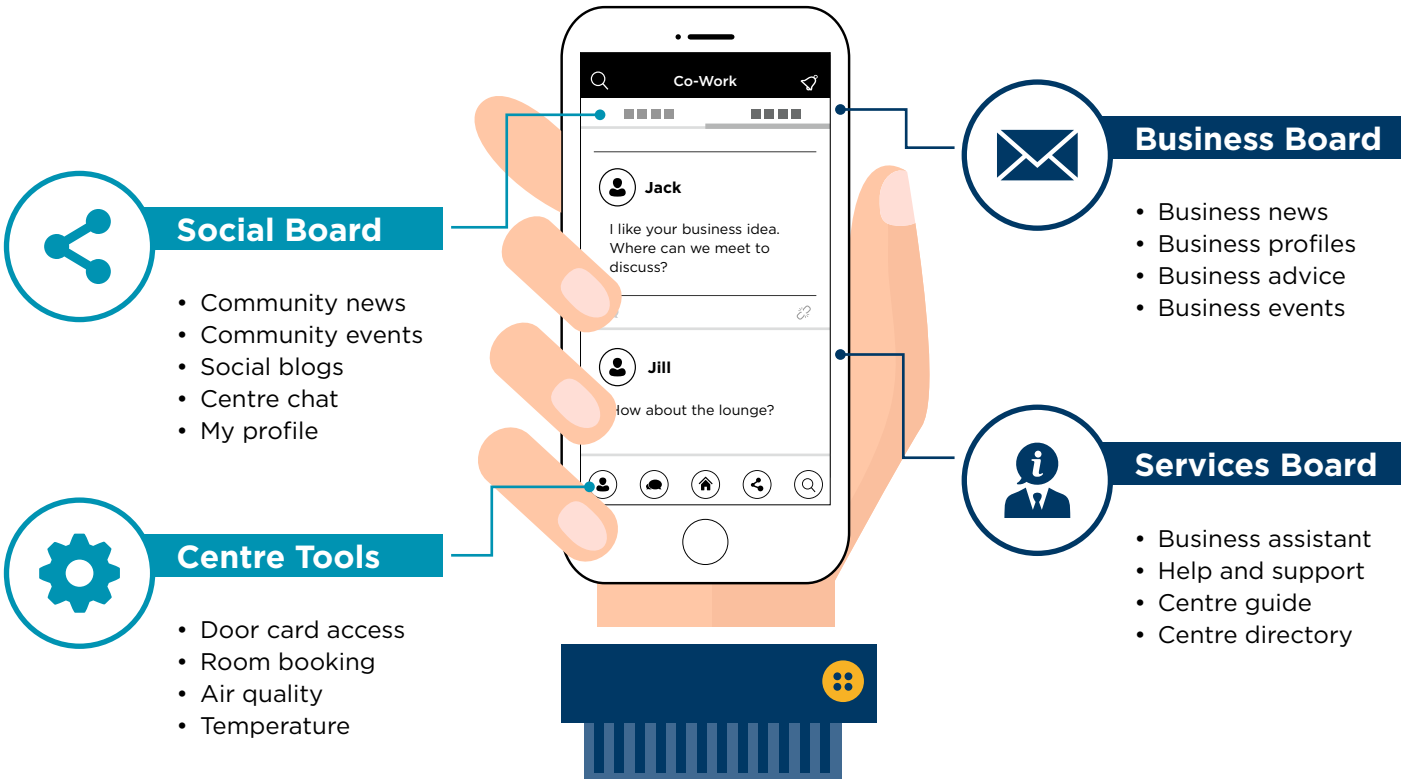
- **Learning opportunities:**
  Whether it is a member learning from another member to improve his or her skill set or an enterprise learning from another enterprise to improve a product, the shared learning experience on offer is a key consideration for users to join and remain at co-working centres in Greater China. Learning can be shared on a one-to-one basis, during a business lecture or even via the centre online 'community' platform.

- **Millennials and their lifestyle:**
  Finally, for the millennial generation, who are fast becoming a major employee component in the overall workforce in Greater China, they are much more accepting of a flexible working style offered



Figure 6
A typical co-working online 'community' platform

Source: Cushman & Wakefield Research



by co-working operators rather than one evident in more traditional enterprises occupying conventional offices. The way a co-working office is designed and operated is much more in tune with what this generation is expecting out of their working lives and they see working within this environment and space as an extension of their lifestyle.

Two areas some co-working offices could improve on

- **Distractions and a lack of privacy:**
  While several co-working operators in Greater China offer space kitted out with private work-rooms, typically users in the region will be working in a shared open space work environment. In these work environments, it is often hard to focus on the task at hand when there are so many people interacting with each other all around you. These distractions and lack of privacy can impact user productivity.

- **Security:**
  Open space work areas in co-working offices in Greater China often lack privacy, and this can sometimes be detrimental for information security. In such a surrounding, it is easier for sensitive business information, such as business contracts, to be unwittingly shared with a competitor or gained through working cheek-by-jowl with other members. Additionally, if external security is lacking, outsiders might be able to gain access to a centre, which will lead to a concern in terms of the security of not only sensitive business information but also the security of members' equipment and personal belongings.

Ultimately, when weighing up the pros and cons of buying into a membership in a co-working office operation, users will need to assess the overall picture to then be able to understand if this working arrangement will be the right one for him/her or the company employees and the business overall.

THE DEVELOPER PERSPECTIVE



Recently, developers in Greater China have become increasingly intrigued by the co-working office concept. Many see partnering and leasing some of their office space to a co-working operator or self-developing a co-working office space in their office projects as a viable business proposition as it has the potential to:

- **Absorb unused space (if a large vacant area is present);**
- **Be of benefit to their existing/ future tenants, and/or;**
- **Generate revenue, profit and increased value.**

As noted earlier in this report, on the leasing side, two first-mover developers in the Greater China region include Sino Ocean teaming up with WeWork and Country Garden partnering with Fountown. On the self-development and operation side, three Greater China-based developers which have made first moves include SOHO China with their SOHO 3Q co-working space offering, Longfor and its EASYWORK co-working subsidiary and Swire Properties and their Blueprint co-working office brand.

In this section, we take a deep dive into the pluses and minus of both leasing to a co-working operator and going down the self-development route. If deciding on self-development, in this section we also outline two general co-working business models. We then explain the facets that make for good co-working office space design and offer suggestions on several types of amenities, which when adopted and incorporated have the potential to add value to a self-developed co-working centre in Greater China.

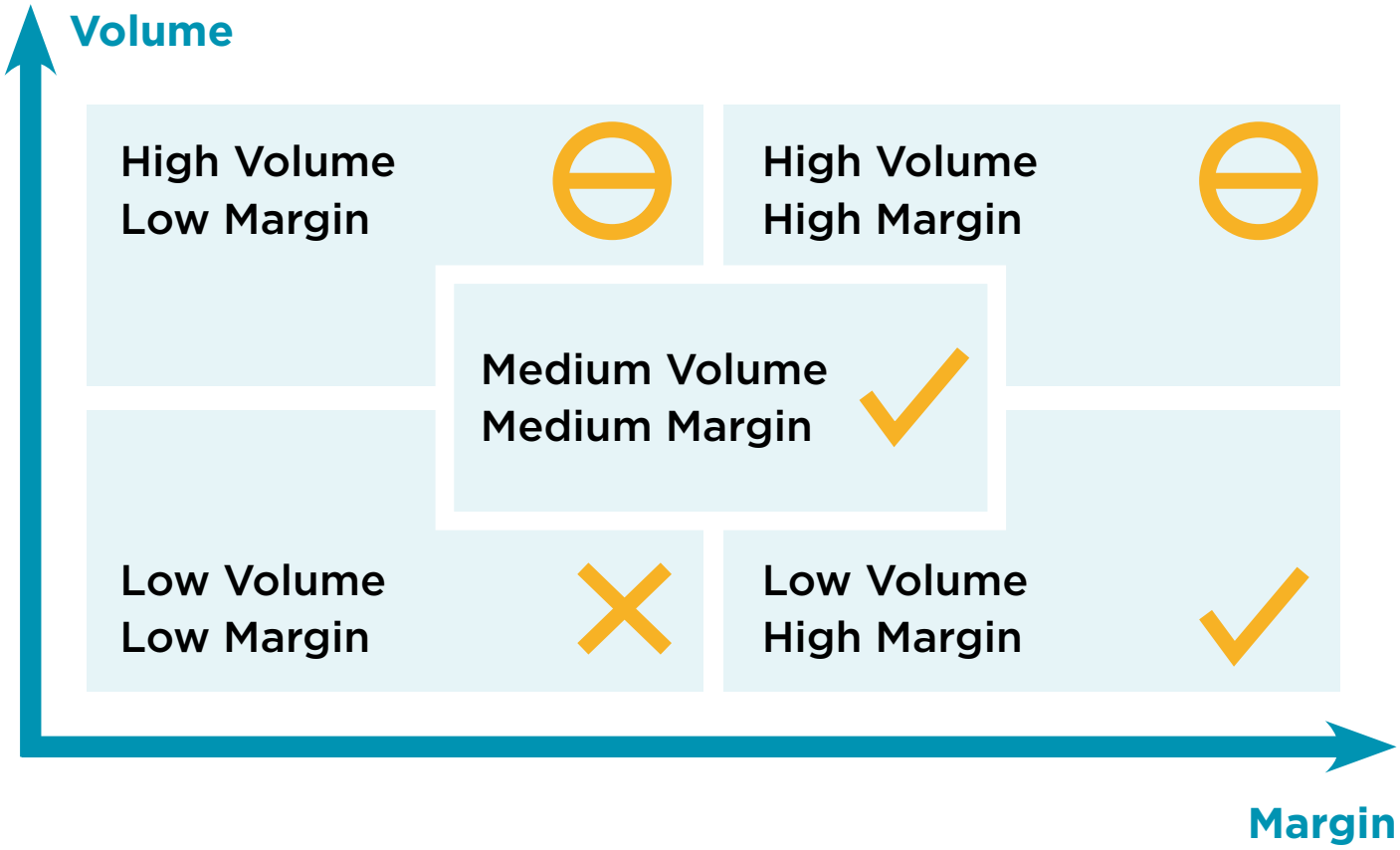
Leasing to a co-working operator

There are a number of plus points for landlords wishing to partner up and lease out a floor or a few floors of their office building to an established co-working office operator. These include the following:

1. **It is a means of filling up any large-size existing vacant space, thus reducing risk;**
2. **It strengthens the tenant profile of the overall office project;**
3. **Rental income is gained from the operator, which adds to the commercial viability of the overall office project and therefore helps drive its capital value;**
4. **Tenants wishing to take up various smaller-sized space could be accommodated in the co-working area rather than in the existing overall office area of the building, meaning less issues for the landlord in terms of subdividing the existing office area;**

Figure 7
Co-working office membership volumes and margins

Source: Cushman & Wakefield Research



5. With the co-working space bestowing a sense of 'community' within the overall project, many current tenants leasing within the existing office area in the same project may well be more willing to renew prior to when a lease term is up. Additionally, potential tenants wishing to lease space within the existing office will be drawn to the project by this sense of 'community', and;

6. With the greater footfall traffic generated by members using the leased co-working space, so any retail outlets located on the ground floor of the overall office project will benefit from an increase in business, which will also positively affect the overall project's rental income, profit and value as a whole.

However, in part due to diminished control, there are some potential risks to partnering and leasing to a co-working provider. Three include:

1. The business viability of the co-working operator;

2. The co-working space undesirably affecting the corporate image of the existing office space within the project, and;

3. Building security being negatively impacted.

All these risks can of course be mitigated by conducting early due diligence on a potential co-working operator partner in order to understand whether its business is properly organised, run and sustainable in the long run. Additionally, the co-working space could be separated from the existing office area via separate lifts and entrances, so that image and security are not negatively impacted...if they are at all.

Self-development of co-working office space

If partnering and leasing are not considered, and self-development and operation of a co-working office space are more desired, then this model can bring further benefits, particularly when it comes to control, including:

1. Control of the overall co-working office business;

2. Control of the co-working office member mix and make-up. This involves control over opening up membership to tenants in the existing office within the overall project (as an added

service). It also pertains to control in terms of nurturing and helping successful co-working office members to grow their businesses into fully fledged companies which can then occupy space in the existing office area;

3. Control over the hiring and training of the co-working office staff, ensuring they provide the best tailored service to the centre members;

4. Control over the co-working office's design and included amenities so that they are localised in terms of both region and member type and they positively complement the overall office project;

5. Control of the overall project image, and;

6. Control of the overall project security.

The general business models

As a starting point to ensure any co-working office self-development and operation success, it is important to understand the basic business model.

Co-working office centres gain most of the income from leasing desks to members. Added to this, a centre can also gain income from renting office equipment, private offices, meeting rooms and event spaces from the sale of food and beverages and from the sale of tickets to workshops and events. Some centres also gain revenue from virtual office services, but this needs business scale. Many centres will have tiered price banded membership packages varying from basic to all-inclusive.

Co-working, like many other businesses, is all about product, volumes and margins. Our advice is that if you are a premium Grade A office developer with a few projects in the region, you might consider developing a bespoke low membership volume/high margin space (Figure 7). A bespoke office will endow the co-working space with an air of exclusivity (but the space should not be too exclusive, otherwise it could end up looking and feeling too high-end and something very different from a typical co-working office space). The space should be unique and appealing. Its uniqueness will help brand it and make it harder for competitors to replicate the space offering. Its appeal should tick all the boxes for not only those regular signed up members but also those corporates occupying the existing office space in the same project, but who wish to use the co-working space from time to time when an out-of-town short-term project team needs to work in region.

On the other hand, if you are a Grade A office developer with a number of projects in the region, you might want to select a medium membership volume/medium margin characterised co-working office business model, which can be bespoke for each city market but designed in a way that it can be easily rolled out across the region.

Space design

Good office space design is critical to any co-working office in its endeavour to attract and maintain members and, generally, to the overall business performance of any self-developed co-working centre. Here, we outline seven simple but key design criteria drivers, which when fully adopted can lead to higher performing spaces:

1. Community

Co-working is really about community and collaboration. Meeting other members, finding a business associate or unearthing an investment opportunity are elements that contribute to a successful co-working space. Therefore, any co-working space design needs to make sure these elements blossom.

One way of building a sense of community and an area which can produce a collision of people and ideas is to include a bar/barista area. Many co-working spaces in Greater China now contain such a space (Figure 8). Here, ensconced in a homely setting, members can work or meet and communicate with each other in a relaxed manner.

Figure 8
Community spaces

Source: archdaily.com, Cushman & Wakefield Research



Figure 9
The flexible office – Embracing change

Source: Acoustics.org, Cushman & Wakefield Research



Another great space that has the same effect is the open area. Long or large tables are not only good to work on but are also relaxed places to chat and exchange ideas.

Finally, having a games area also stimulates people relations and interface. It could incorporate the latest computer games, a pool table or even table football. No matter what games there are, this space will be a fun area to be in and will guarantee encounters with new members.

When designing this area, what should be noted, however, is that there is distance or suitable sound barriers between these 'community' areas and the areas where other members actually need to concentrate and get work done.

2. Space flexibility

Co-working office members come and go. Some use the space for a few days, while others use it for months on end. Some work in the office on an individual basis, while others work as part of a large team. On certain days, the space will be used for events, talks, seminars, etc., while other days the space will simply be used for a normal workday. To accommodate any change, the space needs to be flexible enough to adjust to the differing user demand at any given time (Figure 9).

In Greater China today, most co-working offices have understood the need for space flexibility. Many have incorporated adjustable lighting, strategically located electrical sockets, folding partition walls, chairs and tables, which can be easily stored to a side area when not needed.

3. Workplace variety

The majority of co-working spaces in Greater China will contain open hot-desking areas or discrete cubicles, but only the more progressive embrace out of the ordinary spaces. These spaces can include an open air roof or balcony space, a bean-bagged lounge or areas to concentrate on work in a group setting, such as a library area (Figure 10). By embracing diverse space settings, co-working providers can allow members to have a greater choice of areas to work in during the day or during the working week.

Having this variety of designed space to work in allows the overall



co-working office to cater to a greater spectrum of personality types among members and their varied workspace preferences. Working in their preferred workplace setting at any given time allows for happier members to be more productive.

4. Concentration, privacy and getting things done

Work is not all about collisions, discussions and collaboration. Finding a quiet area in the office to concentrate on work and get it done is essential in a productive space. In many co-working offices in Greater China, there are so many individual members and enterprise groups which work in close proximity and, as such, noise levels can rise to a level where it is difficult to focus on the work at hand.

> **Sometimes people need a sense of complete privacy and anonymity. Even offices that have quiet places often have glass walls and people can see everything that's going on. We shouldn't be transparent all the time.**
>
> — **Susan Cain,** author of Quiet

Figure 10
A variety of spaces for a variety of work

Source: Knoll Research, Cushman & Wakefield Research

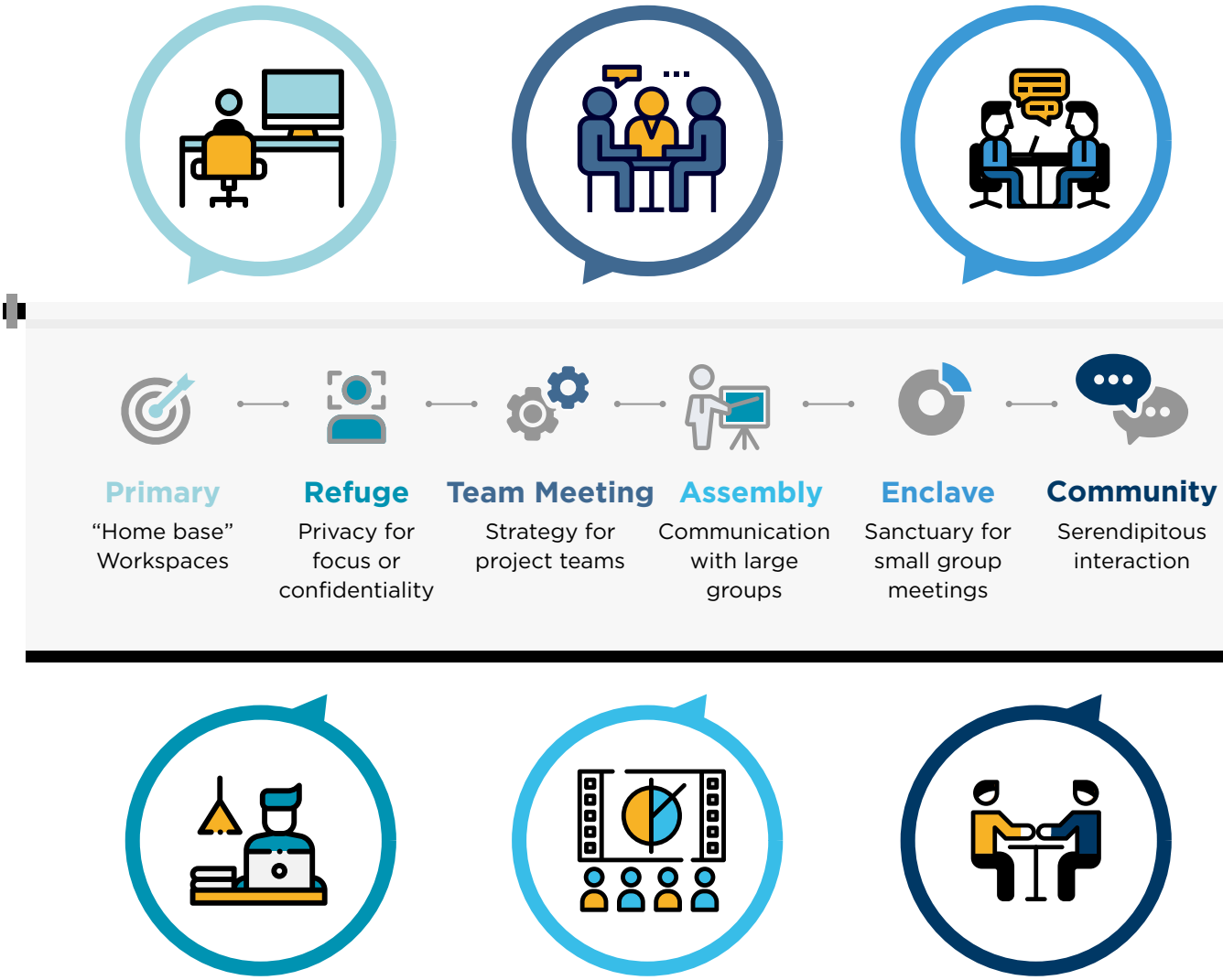


Figure 11
Meeting spaces

Source: archdaily.com, Cushman & Wakefield Research



To mitigate this, it is important that the quiet areas interspersed around the office are sufficiently insulated against sound penetration. For a glass wall, a minimum thickness should be around 10 mm. Additionally, for glass walls, frosting can add to the privacy of the space. Finally, when wishing to field a private phone call, an ideal space to conduct this is an insulated phone booth.

5. Meetings

In traditional offices, meeting rooms are about tables and chairs that often are designed to accommodate on average around 20 people but most of the time used by less than that number or none at all for the majority of the time. This is not efficient. Today, meeting areas in co-working office spaces in Greater China are increasingly moving away from this norm; they take place at the bar, in the lounge or in a booth (Figure 11).

When designing meeting areas in a co-working space, there should be variety, offering differing area size and levels of privacy and formality. When positioning more formal meeting areas within a co-working space, they do not need to always be positioned adjacent to window areas. They should preferably be close to the reception area, thus avoiding walks with clients through more private areas of the co-working office.

6. Home is where the heart is

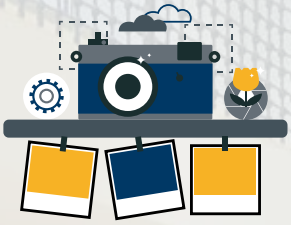
Conventionally, the office was for work and the home was for recreation, but now the lines are increasingly blurred. Today, more and more large corporates in Greater China are redesigning their corporate offices to reflect and



Figure 12
How to make your office feel like home

Source: Hansen Wholesale, Cushman & Wakefield Research

PHOTOGRAPHS



This is the pinnacle tactic for making an office space feel more like home.

Include pictures of your parents, your siblings, your dog, or your kids. Include that funny Christmas card you got from your college roommate. The more accurately it represents you, the better.

LIGHTING



These will help you illuminate a different side of your personal style.

Add a table lamp and an office suddenly feels more like a study than a sanitized meeting room. You can incorporate more artful ceiling lamp designs, too, that steer away from the generic.

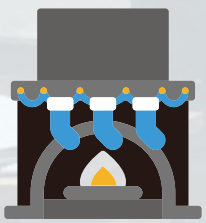
CEILING FANS



It may sound simple, but this small winged instrument can say a lot about a room.

You don't want it to say that the office space hasn't changed in 20 years, and to avoid that stigma as well as to incorporate a more personal touch, you might consider upgrading a new ceiling fan.

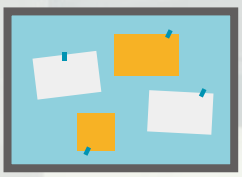
FIREPLACE



It gives off the feeling of down home comfort, even if you don't use it.

For that office space looking for some extra gusto, nothing makes a visitor feel more at home like a fireplace, whether it's real, gas, or electric.

CORK BOARD



It would also be good if you can include a fun border, whether it's glitter or some earthy tone, to give it a livelier, more personal touch.

Although actual cork board may not fit the aesthetic of your office, the idea is that you should include any kind of surface that allows you to post pictures, funny quotes, and the like.

encourage an extension of employee lifestyle. Many include homely features, such as family rooms, relaxation spaces, photo walls, etc. (Figure 12).

Knowing this, and to remain member-attractive and competitive, not just with fellow operators but also increasingly with 'conventional' corporates, it is essential for co-working offices in Greater China to continue to push the design boundaries. Co-working office space design needs to encourage a fun work atmosphere where work is play and play is work. This design could simply be a case of incorporating a floor-to-floor slide or even just a photo/message wall. Sharing not only inspires member-to-member interface/interaction but also spurs a sense of belonging.

7. Comfort and colours

Finally, for all co-working office spaces in Greater China, it is important to provide a comfortable place for members to work in, and many operators in the region are indeed paying close attention to this aspect. Workplace wellness and wellbeing is a topic much discussed of late and office workplace features, such as comfortable and ergonomically sound seating, comfortable indoor temperature, sound, lighting and greenery, are all important issues. When addressed right, these will ensure members are happy, productive and will want to keep coming back to the centre on a regular basis (Figure 13).

Careful consideration also needs to be given to colour schemes within a co-working office space. In Greater China, it is good to see co-working space entertaining a variety of colours. Colours affect mood, and can have an effect on work. Blue, for example, is a natural colour with a calming influence – a good colour to have in a relaxation space (Figure 14). Yellow is full of energy and optimism and can help stimulate the mind – an appropriate colour to have in a room where quick ideas need to be generated.

Figure 13
Workstation ergonomics: The ideal set up

Source: myDr.com, Cushman & Wakefield Research

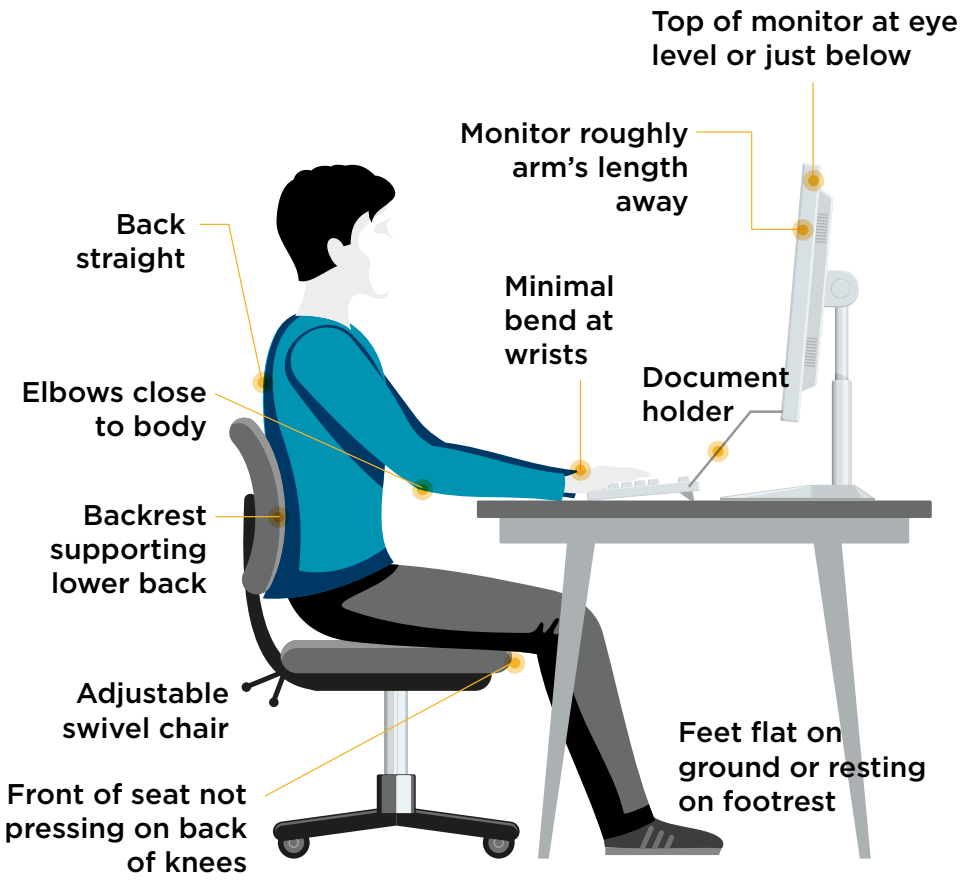


Figure 14
Colours and emotions

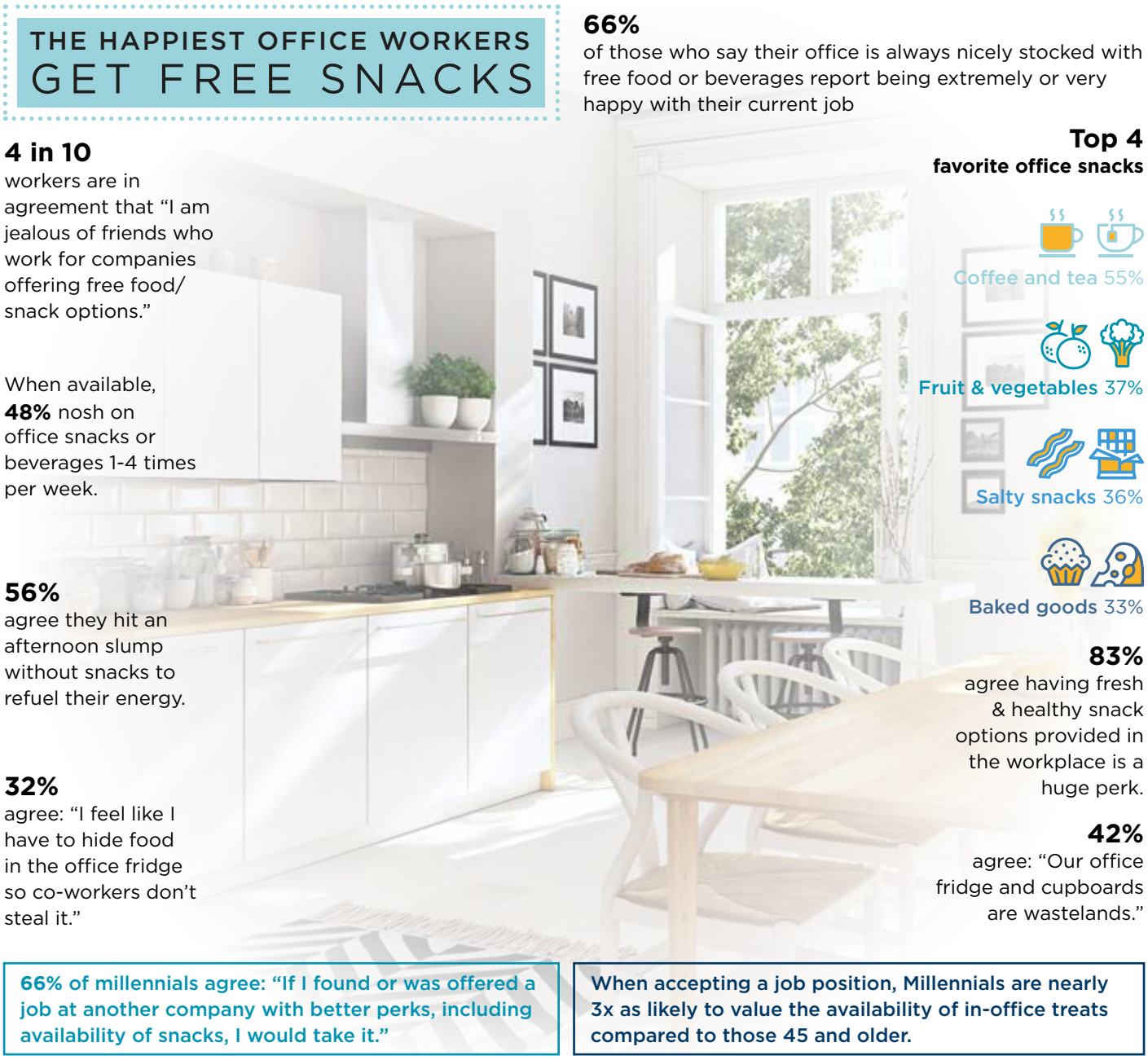
Source: Cushman & Wakefield Research

blue	red	black	green
TRUST SMART CALM FAITH NATURAL STABLE POWER	LOVE IMMEDIACY ENERGY PASSION	BOLD RICH POWER MYSTERY ELEGANCE STRENGTH	SOOTHING ECO-FRIENDLY NATURAL BALANCE RESTFUL

yellow	orange	pink	purple
CHEER ATTENTION CHILDISH FRESH WARMTH ENERGY OPTIMISM	HEALTH ATTRACTION STAND OUT WEALTH YOUTHFUL HAPPINESS	TENDERNESS SENSITIVE CARING EMOTIONAL SYMPATHETIC LOVE	ROYAL MYSTERIOUS LUXURY CHILDISH CREATIVE

Figure 15
Free snacks make for happy workers

Source: Peapod.com, Cushman & Wakefield Research



Amenities

Just as in the case of good design, having in-demand and well used amenities are also important in enticing and retaining members, and, therefore, important for the general performance of a self-developed co-working business. In Greater China, many existing co-working centres have grasped the importance this and have included a variety of amenities. Here, we outline eight suggestions:

1. Snacks on demand

These could be simply the provision of nuts and tasty treats to homemade snacks and cookies, made by the members. Food naturally makes people happy and brings them together. What's more, providing it in set places at set times ensures better organisation with members knowing where and when to congregate (Figure 15).

2. Home brews

Our bodies are 70% H2O and we need liquid refreshments throughout the working day to replenish any water lost. This involves having a range of beverages to choose from, from locally roasted coffee to blended teas, from craft beer to



a selection of fruit flavoured water. Drinks can be provided for members to have on their own or in an interactive setting. Satisfied members will tend to feel rejuvenated for longer periods of time.

3. Soap and suds

Many members may wish to bike into work in the morning or go for a workout during the day. Some put off these pursuits, however, for fear of feeling hot, sweaty and uncomfortable when back at the office. Having showers can change that and help attract and maintain those members wishing to pursue a more active lifestyle.

4. All well and good

Having wellness areas, whether they are rooms for relaxation or open spaces for yoga sessions, are important. Incorporated wellness programmes have been proven to raise member happiness levels and at the same time member work productivity (Figure 16).

5. The great outdoors

Outdoor spaces, whether they are ground floor areas, balconies or rooftops, are popular with members and prized by co-working operators as they add another dimension to the centre. These spaces can be used for meetings, events and gatherings, or simply for work or relaxation, with most offering a view beyond. These locations can also be filled with greenery from moss walls to planters, where members can often undertake the tendering of plants, fruit and vegetables themselves.

6. Hold the baby

We live in a busy world today, where both parents are often holding down jobs while taking care of the family at the same time. Coupled with this, from our interview survey, we determined the average age of co-working office members in Greater China to be 37 – a peak age to be married with young children. In situations like this, childcare can become an issue for both parents with young children. Naturally, co-working office providers, which include a childcare room in their centre, will be a huge draw for co-working members with toddlers in tow.

7. A pod for podcasting

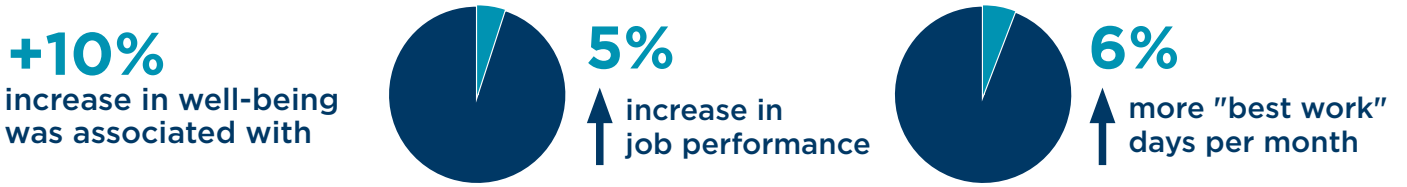
As an operator, your co-working office centre in any given location will have individuals and companies brimming with new business ideas but without the know-how or means to market them. One great way to get around this is to incorporate a podcast studio, with a technician, a control room, a voiceover booth, an editing bay and a green room.

8. OK for karaoke

Finally, lots of people love a good song. What better way to encourage member-to-member interaction than by having an end-of-week karaoke session?

Figure 16
The impact of workplace wellness programmes on workplace productivity

Source: Moderncities.com, Cushman & Wakefield Research



WHAT'S NEXT?



Similar to other elements of the sharing economy, the co-working sector in Greater China is expanding and maturing fast, and this trend is set to continue in the short term. Additionally, for operators, a fragmented market and rising competition will likely lead to further mergers and acquisition (M&A) activity.

We have seen this trend begin over the course of the last 18 months as players seek to increase their market share and better allocate capital and resources. UCommune, for instance, has grown their membership to 200,000 after a series of mergers and acquisitions over the same period. What's more, WeWork recently acquired naked Hub for a reported US$400 million as part of their aggressive expansion plan in China. The combined entity will serve more than 80,000 members across more than 40 locations in Greater China by the end of the year.

As the co-working sector in Greater China develops over the next few years, we expect it will increasingly be featured as a key element of a corporate's corporate real estate strategy. While in other parts of the world corporates are using co-working space to provide much needed flexibility, such adoption is only just beginning in Greater China. However, we do expect a groundswell of demand over the next few years, particularly in high cost cities, such as Hong Kong, Beijing and Shanghai, as corporates in the region begin to get their heads around some of the occupation advantages co-working offices have to offer.

With such rising adoption, we expect users to increasingly view co-working not just as a space solution, but also an overall product. This takes into consideration space, design, amenities, technology, the community network and services. These users are likely to opt for sizable operators over the long term, which will in turn drive more demand for commercial space from these operators.

We also expect more developers to move into the co-working sector, following in the footsteps of SOHO 3Q, Longfor and Swire Properties. Developers will have two main options:

- **Lease their project space to an operator, or;**
- **Self-develop a co-working centre.**

If opting for the self-development model, this will allow flexibility for a developer to have greater control of the co-working space in their building, including control of centre design, centre image and centre membership mix and make-up.

Generally over the next couple of years, the co-working sector in Greater China will likely go through a period of consolidation, causing many small local players to lose out to those with wider regional networks. Moreover, the sector in the region is likely to move in the following directions as it seeks new markets and new business opportunities:

- **Expansion into secondary city markets;**
- **Integration with retail, and;**

- **Mixed-use development – Co-working office/Co-living.**

Moving to secondary markets

The battle for market share among sizable operators seen in Greater China's three gateway cities of Beijing, Shanghai and Hong Kong is already spreading to Tier-2 cities in the mainland, where several of these markets now already have a co-working office market presence (Figure 17).

WeWork, for example, has announced plans to expand into eight Tier-2 cities, including Suzhou, Hangzhou, Xiamen and Chengdu over the remainder of 2018. Meanwhile, to maintain its dominance on its home turf, UCommune is also expected to further expand their secondary city market network, which currently includes Chengdu, Wuhan and Tianjin. What's more, SOHO 3Q is reportedly expanding into other Tier-2 cities, where they do not already have a presence in, with an aim to increase its capacity from 26,000 seats to 500,000 over the next few years. Over the next three years, there will likely be a co-working office presence in each of mainland China's Tier-2 cities and many of its Tier-3 cites.

With the wider networks they will offer, these regional co-working space operators will likely draw stronger user interest. User interest will not only stem from individuals and start-ups in the smaller cities they will have centres in, but it will also stem from local and foreign corporates, which have a regional presence in many of the mainland's Tier-2 and Tier-3 markets.

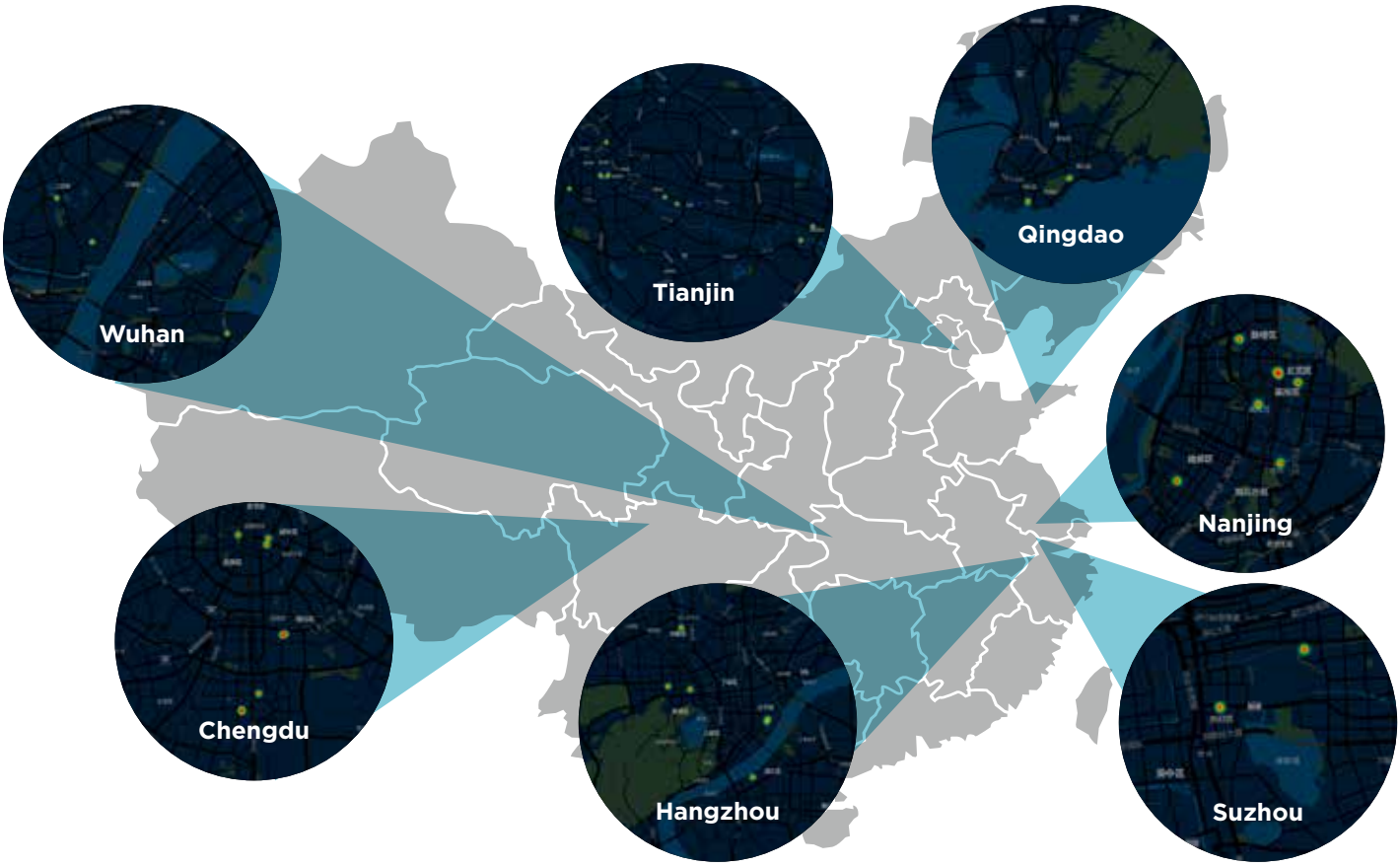
Integration with retail

The booming co-working sector could be a blessing to shopping centre or department store owners looking to fill vacant space as operators look to continued expansion in Greater China. We have already seen the beginnings of this, with SOHO 3Q's conversion of a 25,000-sq m shopping centre into a shared office space in Beijing. There are several natural advantages for operators in the region to enjoy when choosing a shopping centre/ department store location. Three include:

- **The vibrant commercial environment that the centres/ stores are located in;**

Figure 17
Selected Mainland China Tier-2 city markets: Co-working office location heat maps (Q1 2018)

Source: Cushman & Wakefield Research



- **The ease of access to public transportation, and;**
- **The close proximity to amenities, such as restaurants.**

These are all factors that appeal to potential members looking for a co-working office to work in. Over the long-term, this trend could further evolve whereby retailers then partner with co-working space operators in the overall operation of shopping centres/department stores in the region.

An international example of one way this partnership could work is the Lord & Taylor building in New York City. In this particular case, WeWork recently purchased the iconic Lord & Taylor building on Fifth Avenue from Canadian retailer Hudson's Bay Company (HBC) to not only be the operator's New York headquarters but to also transform much of the building into co-working office space. Under the sale agreement, WeWork also agreed to lease some of the building's retail space back to the retailer for its scaled-down department store. What's more, to further solidify the business partnership between the two companies, WeWork has agreed to take up some retail space at the top portion of several HBC department stores, including the flagship store in Toronto, and transform this into co-working office space.

This partnership is likely to be beneficial to both parties with the opportunity for HBC to position and transform their department stores into more exciting, interesting and vibrant retail spaces as they enjoy greater the footfall traffic not only from WeWork members but also from the general public wishing to be a part of the 'scene'. For WeWork, the integration with a retailer allows them to offer their members larger floor plates (compared to a typical Grade A office building) and additional services, such as exclusive online and in-store discounts from HBC.

Co-working office/ Co-living mixed-use development

The growing trend of co-working is likely to blend with co-living in the coming future as operators increasingly look to differentiate themselves from each other by offering additional services. Co-living – a concept where members share a communal kitchen, laundry room and common area while renting a small unit or a bed in a shared room within a complex – has gained traction among millennials in New York City, London, other parts of Asia and even in Greater China.

The concept of co-living is quite new in Greater China, but enquiries for co-living units in Beijing, Shanghai and Hong Kong is relatively strong. Take Beijing as an example, where the occupancy rate of a 90-room co-living development in Jingsong district operated by China Vanke's co-living brand, Port Apartment, is reportedly over 95%. Most of the tenants in the complex are young white-collar staff working in the nearby Guomao business district.

As for Shanghai, another co-living operator, V+ Space, has a number of co-living projects up and running in the city. In fact, being a Yangtze River Delta (YRD) based company, V+ Space has a co-living property portfolio that is spread across the three main YRD cities of, Shanghai itself, as well as Nanjing and Hangzhou.

The co-living sector in Greater China is likely to enter a tremendous period of growth over the next several years on the back of two main factors:

- **Residential pricing: As the region's economy continues to grow, so home prices are expected to grow. Even today, for many young people from other cities who wish to move and work in the region's major cities, the cost of housing can be a huge burden. Co-living offers this group an affordable solution. It is also good for major cities as well since this solution can continue to encourage and draw out-of-town talent to their respective cities, which will help further drive their city-level economies in the future.**

- **Government policy: The residential housing affordability question has not been lost on the authorities. Around the region, they have made a number of moves to further develop residential leasing to cool the red-hot property market. These moves could be further developed to encourage greater development of co-living residential property. The optimism in the sector can certainly be evidenced by Shanghai-based Harbour Apartments' plan to increase units at their co-living complexes under management from 20,000 at end-2017 to about 80,000 in 2019.**

The integration of co-living and co-working is inevitable as the line between work, live and play continues to further blur. Millennials and entrepreneurs are increasingly favouring places where they can connect and work with other businesses and professionals while residing among their peers. Seeing the potential, some operators have already made some headway in offering the two elements in their services with Hong Kong-based co-working operator Campfire Collaborative Spaces, for instance, opening their first co-living location in the city later this year.

As operators continue to seek to bridge the gap between work, live and play, it may not be long before we see a mega mixed-use project that comprises both co-living and co-working elements in one of the three gateway cities in Greater China. From there on, we might then see the creation of a portfolio of these projects across the region, which will allow paid-up members to become, in effect, 'digital nomads' as they move from location to location.



KEY TAKEAWAYS

In terms of office space absorption, the co-working office sector is among the quickest expanding sectors in the Greater China market, growing from a small number of sizeable centres just a few years ago to 546 locations in the major city markets in the region as of end-Q1 2018.

The co-working office sector continues to grow in the region on the back of a number of sound rudiments, including:

- An inflow of capital from corporates and VC firms;
- The emergence of millennials and a new age of entrepreneurialism;
- More MNCs looking for flexible lease terms and cost-saving alternatives, and;
- Progressive technology pressing the co-working revolution forwards.

Given the sector's early period, the co-working market in Greater China is still somewhat fragmented in some city markets. For example, in more developed co-working office markets, like Beijing and Shanghai, the number of operators running one centre in the city is comparatively small. However, in other markets like Shenzhen and Guangzhou, the number of operators running one centre in the city is much more substantial.

Among the largest operators, only three thus far – UCommune, naked Hub and WeWork – run dedicated co-working venues in all the major gateway cities in the Greater China region. Collectively, they comprise one fifth of all locations in Beijing, Shanghai and Hong Kong.

Many corporates are progressively selecting co-working space in Greater China as a space solution. Deploying their staff to co-working spaces allows corporates to lessen their real estate operational and maintenance overheads as most of the office supplies (including furniture, phones and high-speed Internet) and services are packaged together in the membership fees. The savings from renting desks in a co-working space is likely to power increasing demand for co-working spaces from corporates and enterprises in the region.

As the co-working market in Greater China heats up, some property developers are also jumping on the bandwagon, either through partnerships with operators or by operating co-working spaces themselves in their own properties.

Over the next couple of years, the co-working sector in Greater China will likely go through a period of further amalgamation, causing many small local players to lose out to those with wider regional networks. Furthermore, the sector in the region is likely to take the following paths as it looks for new markets and new business opportunities:

- Extension into secondary city markets;
- Assimilation with retail, and;
- Mixed-use development – Co-working office/Co-living.

Finally, as the co-working sector in Greater China advances over the next few years, it will also progressively figure as an important constituent of a corporate's corporate real estate strategy.

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Note: Several photographs in this report are courtesy of naked Hub.

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