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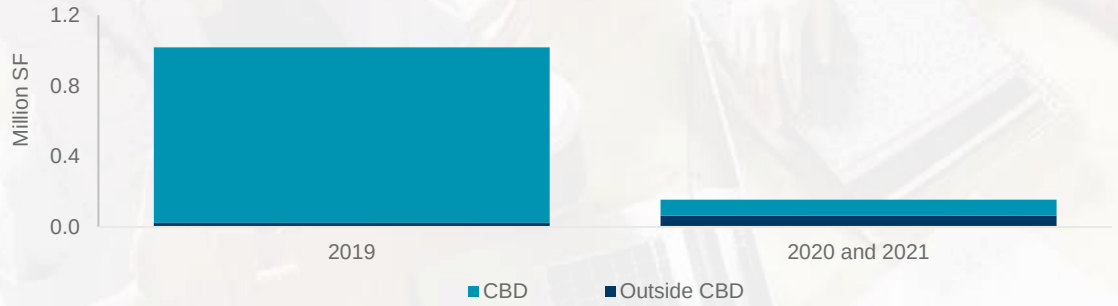
Down but not out

- 2020 and 2021 has been a stress test for the co-working scene as occupiers re-examined the role of the office amidst the rise of remote working and cost containment during the pandemic. Co-working spaces which offered flexibility as a key benefit became a potential vulnerability as some occupiers cut back on office spaces to rationalise costs and lower office utilisation due to safe management measures.
- As demand became uncertain, co-working operators' voracious appetite for office space tapered off. Co-working operators took up only 0.2 million square feet (msf) of office space in 2020 and 2021 combined as compared to 1.0 msf in 2019 alone.

Co-working operators demand 2019 versus 2020 and 2021



Note: As of November 2021
Source: Cushman & Wakefield Research

- While co-working operators have continued to expand, some co-working operators have gravitated towards an asset light strategy and pursuing management agreements with landlords instead of a long-term direct lease, creating a risk-sharing partnership with landlords.



Notable co-working openings in 2021 to 2022

Co-working Operator	Submarket	Development	Type of Space	Est. Size (SF)	Date Opened / Expected Opening
WeWork	Raffles Place	21 Collyer Quay	Office	200,000	2022
JustCo	one-north	The Metropolis Tower One	Office	35,000	2022
The Work Project	Raffles Place	CapitaSpring	Office	69,000	2022
The Great Room	Shenton Way	Afro-Asia	Office	37,000	2021
The Executive Centre	Marina Bay	One Raffles Quay North Tower	Office	39,000 (extension)	2021
JustCo	Tampines	Asia Green	Office	30,000	2021
JustCo	one-north	Razer HQ	Business Park	30,000	2021
WeWork	Raffles Place	30 Raffles Place	Office	82,000	2021
Bridge+	Shenton Way	79 Robinson Road	Office	56,000	2021

A growing operating model

- A management agreement is when the landlord signed a contract with a co-working operator to manage the asset for a fixed or variable fee. The landlord becomes the de facto owner of the co-working space and both parties agree to share revenue generated from the co-working space. Terms and conditions may vary across contracts.

Pros and cons of management agreements

	Pros	Cons
Landlord	• Potentially reduce vacancy risks • Potentially increase revenue or rental yield without increasing operating costs • Expands tenant pool • Potential for knowledge transfer	• Takes on a larger share of risk: operating risk coupled with higher initial capital expenditure to fit out the space • Potential conflict of interest especially in concentrated co-working markets
Co-working Operator	• Lowers market risk due to lower lease cost • Able to scale revenue and portfolio at lower costs	• Lower revenue • Lower flexibility: May need to achieve rental targets set by landlord

- While a direct lease is preferred, some landlords have become more receptive to management agreements amidst higher office vacancy rates. Islandwide, office vacancy rate reached 12.9% in Q3 2021, the highest rate since 13.3% in Q3 2017, according to URA data.
- Although management agreements are gathering pace, it remains nascent. Most co-working operators are still on direct leases. Some building owners, such as fund investors, may not be able to take on such arrangements (management agreements) due to their fund structure and mandate to not take on operating risks.
- Nonetheless, a management agreement between co-working operators and landlords could be a win-win solution amidst the changing nature of work and evolving tenant preferences. This is especially for older office buildings which have higher vacancy rates and non-optimal leasing management or for newer grade A buildings which have not secured an anchor tenant yet.



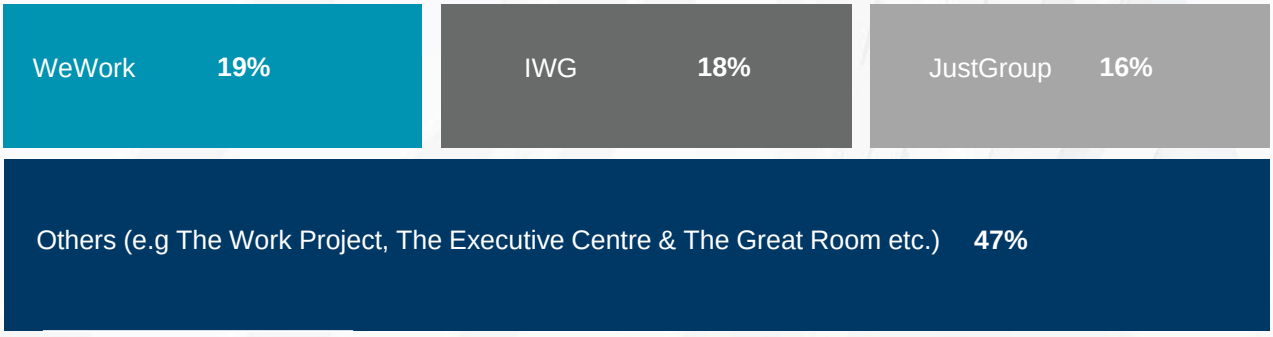


Key market players

- Major co-working operators, WeWork, JustCo and IWG, maintain their dominance in the Singapore co-working market, taking up more than half of the market share. Despite the pandemic, top operators have continued to expand within the Central Business District (CBD) and at decentralised markets.

- As a vote of confidence for the future of co-working spaces in Singapore, WeWork re-affirmed their plans to launch at 21 Collyer Quay, their largest location yet in Singapore. The new WeWork centre, with a net lettable area of about 200,000 sf is expected to launch in 2022. This will be the largest flex supply to come into the market and will increase current islandwide flex space stock by about 6% in 2022.

Estimated market share of co-working operators island-wide*



* By estimated area (NLA) based on C&W's basket of properties
Note: Opened centres as of 2021

CBD remains as a preferred location, but co-working is decentralising

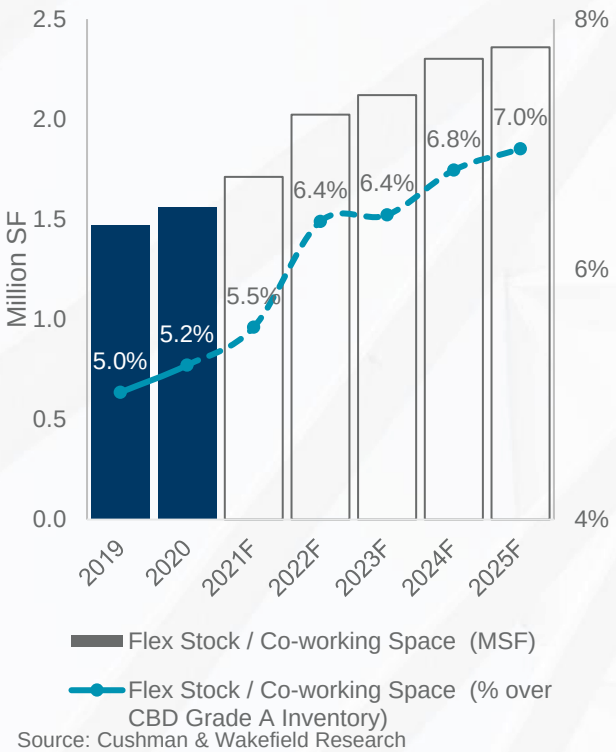
- Co-working stock remains largely concentrated within the CBD, with currently about 82% of islandwide co-working space located in CBD. Most co-working stock (about 49% of total islandwide co-working stock) are found within the Grade A offices in the CBD. This caters to an increasing adoption of core-and-flex strategies and the rapid expansion of tech companies within the CBD.

- Co-working operators are making inroads in decentralised office markets and have opened centres in both office and business park spaces. This is in line with the decentralisation of commercial activities away from the CBD and the development of regional hubs in Singapore, to bring jobs closer to homes. For example, JustCo has opened two centres at one-north to cater to the knowledge industries concentrated at one-north.

What's NEXT

- Co-working spaces in the CBD will continue to expand. The total stock of co-working space within the in the CBD Grade A office market has reached about 1.7 msf or 5.5% of total CBD Grade A office stock. We expect this to grow substantially in 2022 with the completion of Asset Enhancement Initiative (AEI) works at 21 Collyer Quay.

Co-working space to grow within Grade A CBD office space



Source: Cushman & Wakefield Research

- Co-working will continue to expand in decentralised markets with the completion of new Grade A offices and business parks to cater for flexible demand. Decentralised markets expected to see higher co-working presence include Jurong Lake District, Punggol Digital District and one-north.

- There are several factors driving the expansion of co-working spaces.

Recovering occupier demand in the CBD

  - Amidst occupier growth, CBD Grade A office demand has increased in 2021 and vacancy rates are expected to fall in Q4 2021. This bodes well for demand for co-working spaces.

  - As occupier demand recovers, co-working operators will be more confident to directly lease space. While co-working operators are gravitating towards an asset-light strategy, landlords may be more resistant to management agreements as the market recovers. Office demand is recovering, and CBD Grade A office rents are forecast to rise by 4.6% yoy in 2022.

  - The market could see a hybrid arrangement, where the co-working operator takes a direct lease and a management contract for different floors.



Rise of non-permanent employment

- With digital transformation and new way of work, existing jobs will be redesigned and employers that value operational flexibility may favour contingent workers and reduce their core of permanent staff to optimise labour costs. The number of fixed-term contract employees has increased by about 2.4% annually in the past decade, from 106.7 thousand in 2010 (or 6.6% of total labour force) to 135.8 thousand (or 7.3% of total labour force) in 2020. More flexible space could be preferred by occupiers with the rise of the gig economy where work is becoming more project based.

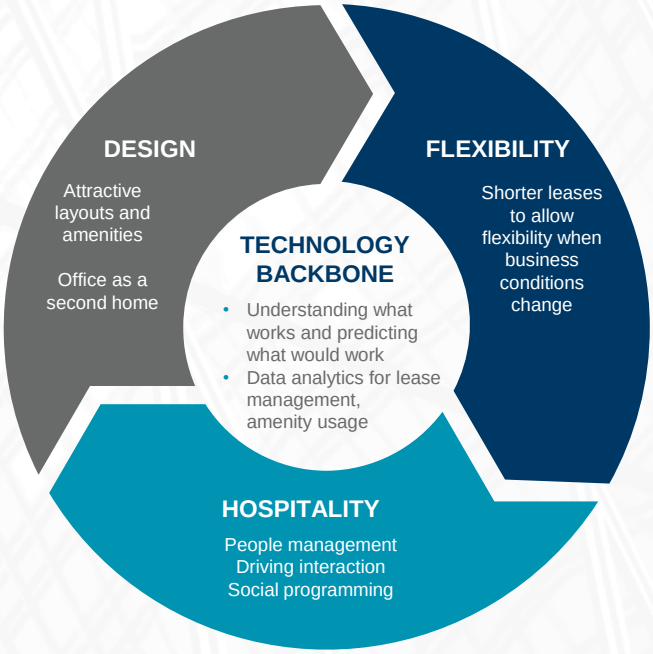
Technology firms, a key driver of occupier demand for co-working spaces, have continued to expand

- The growth of technology firms in Singapore will be a strong driver for co-working demand. Technology firms can utilise co-working space from the start of the company cycle and even as they expand and mature. For example, Tencent have chosen to open their Singapore office in a co-working space. Also, Shopee have utilised co-working space at Ascent as they outgrew their Science Park headquarters.

More occupier demand for flexibility and "Space-as-a-Service" as hybrid work becomes a norm

- The value proposition of co-working spaces remains unchanged and offers increased flexibility and a conversion of capital expenditure into operating expenditure. For larger co-working operators, with multiple locations across the island, they would be able to provide multiple localities for work. This would be attractive to companies looking to implement a hub & spoke strategy and provide on-demand workspaces. For example, Standard Chartered announced an agreement with IWG in Feb 2021 in which the bank's 95,000 employees will have access to 3,500 IWG offices worldwide.





- Offices will need to be more appealing to entice workers back. Offices in the new normal will be infused with hospitality concepts and technology and designed to make coming into the office more appealing than working at home. With technology as a strong backbone, co-working operators have infused design, hospitality and flexibility into workplaces.

- Amidst a fast-changing business environment and evolving way of work, more occupiers are expected to adopt core-flex models. This means that the availability of co-working space within a development could become an increasingly important criteria for occupiers.
- As such, landlords would dedicate space to co-working workspace whether via a lease or management agreement with a co-working operator or opting to start their own service. Amongst recent new office developments, landlords have dedicated about 11% of building NLA on average, to co-working spaces, based on new completions since 2020.

Selected new developments with substantial co-working space

Building	Completion/ Expected Completion	Co-working Operator	Co-working Space (sf)	% over Building NLA (Office)
79 Robinson	2020	Bridge+	56,000	11%
Afro-Asia	2021	The Great Room	37,000	26%
CapitaSpring	2021	The Work Project	68,700	10%
Guoco Midtown	2022	-	Up to 97,500	Up to 15%

- While co-working operators have taken a backseat due to pandemic uncertainties in 2020 and 2021, office demand from co-working operators is expected to recover gradually amidst improving market conditions and occupiers growing demand for flexibility, workplace analytics and hospitality-style services in their workspaces.





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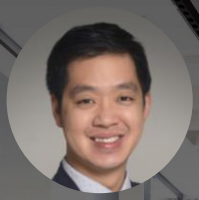

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