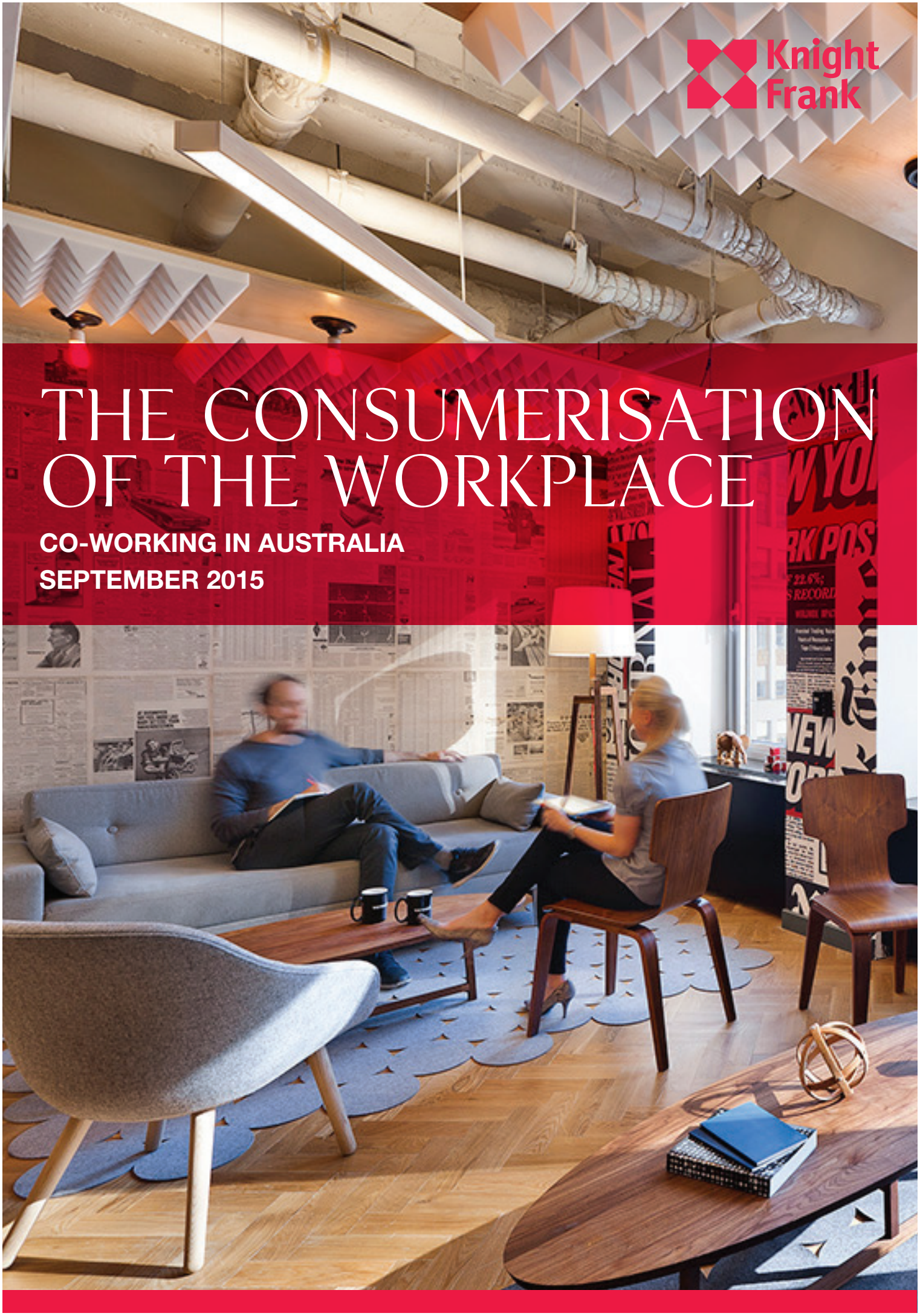
Knight Frank

THE CONSUMERISATION OF THE WORKPLACE

CO-WORKING IN AUSTRALIA

SEPTEMBER 2015



Reports of the US$5billion Co-Working provider WeWork arriving in Sydney, with a requirement of approximately 8,000sqm, has created a real buzz of excitement. But the reality is that the Co-Working concept has been entrenched in Australia for several years – there are more Co-Working spaces in Australia (per capita) than anywhere else in the world – so this is not a new concept.

Co-Working spaces offer short term, flexible, and creative office premises for people to work independently, collaboratively, or in small teams – the perfect spaces in which start-up companies and other small businesses can operate alongside like-minded individuals within a community environment.

So what are the key drivers fuelling the Co-Working sector, what are our predictions for the future, and what are the potential impacts for commercial property?

Image courtesy of Hub Australia

DEMOGRAPHIC, TECHNOLOGICAL, AND ECONOMIC SHIFTS

It is widely understood that exponential demographic, technological and economic changes are behind the growth of the Co-Working sector, but what does this actually mean?

A few observations to help bring this to life include:

Demographic

It is estimated that by 2025, 75% of the global workforce will be from the Millennial generation (Gen Y).

Gen Z, those born from the mid 1990's, will also be entering the workforce within the next 10 years.

Technological

Technological advancements are occurring at an exponential rate. For example, the processing power (calculations per second) of a US$1,000 laptop is estimated as follows:

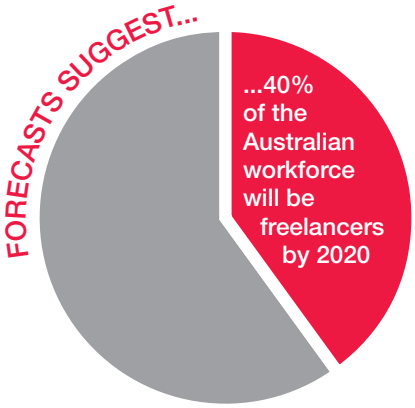
Year	*Calculations Per Second*
2000	108
2010	1,011
2023	Equivalent to a human brain
2050	Equivalent to the power of all human brains in the world

And the technologies are cheaper today than ever before:

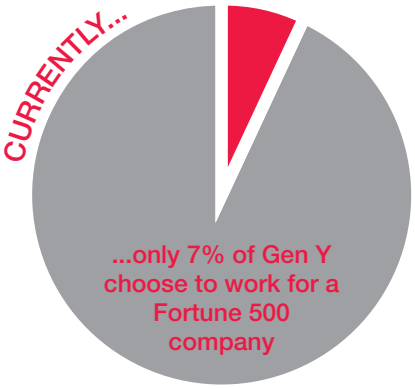
Year	*Size*	*Cost*
1956	5MB chip	US$120,000
2005	128MB chip	US$99
2014	128GB chip*	US$99

* This is a 30million times capacity increase on 1956, and a 1,000 times capacity increase on 2005

Economic



Disruptive innovation facilitated by advancements in technology are changing the face of the economy



FORTUNE500

According to the Olin School of Business, 40% of today's Fortune 500 companies will disappear within the next 10 years.

...IT IS CLEAR THAT COLLABORATION LEADS TO **QUICKER, SMARTER IDEAS.**

HUMAN NATURE

"Man is a gregarious animal and much more so in his mind than in his body" - Georg Christoph Lichtenberg

In the 1970's there was a view that cities were in decline in favour of suburbs – the decentralisation trend. Yet Knight Frank research estimates that there will be 1.1 billion additional city dwellers within the next 15 years.

In the 1990's the advent of the internet prompted forecasts that working from home would lead to a rapid fall in the demand for office space. Yet in 2013, Yahoo CEO Marissa Meyer banned working from home, saying "people are more productive when they're alone, but they're more collaborative and innovative when they're together. Some of the best ideas come from pulling two different ideas together".

The predicted death of the office has not eventuated because humans are gregarious and crave interaction with others. Further, from a business perspective, it is clear that collaboration leads to quicker, smarter ideas. And, in general, this is how the modern workforce works best – in a collaborative and collegiate manner.

Image courtesy of Hub Australia

WE HAVE DEMAND

So, we have a workforce increasingly made up of freelancers, who have the technologies available in their pockets to disrupt traditional industries, and who understand that collaboration is critical to their success.

We also have private equity investors and crowd funding, creating available funds for new business ventures which would historically have been viewed as risky by banking institutions and, as such, supressed.

THIS CULMINATION OF FACTORS CREATES THE PERFECT DEMAND BASE FOR CO-WORKING SPACES.

Finally, there is evidence that Co-Working spaces are attractive to big business. Large consultancy firms requiring project space, and seeking to attract the best and brightest talent, can use Co-Working hubs in lieu of leasing their own short term project space. And with some of the country's smartest talent working as freelancers within these spaces, what better place for a business to send it's recruitment executives to work...

WE HAVE SUPPLY

In Australia, we already have more Co-Working spaces per capita than any other country.

Until recently, the sector has been largely comprised of a plethora of small local operators acting largely independently of one another. However, in June 2015 Australia's first ever GCUC Co-Working conference in Sydney, arranged by Third Spaces, attracted in excess of 200 people and galvanised this exciting new business sector.

It is estimated that there are close to 6,000 Co-Working spaces accommodating 260,000 people around the world today, compared to around 300 only 5 years ago.

The sector is also growing. Serviced Office operators such as Regus are expanding rapidly into the Co-Working sector, along with certain institutional property owners such as Lend Lease, GPT, DEXUS and Investa. This is broadening the secotr alongside established local operators such as Hub Australia. Now, of course, we have the mooted arrival of the world's largest Co-Working operator, WeWork, which should add a further level of sophistication to the sector if the US model is a good indication.

THE ATTRACTION

WeWork is considered to be the world leader in the rapidly expanding Co-Working sector, with over 200,000sqm of space and a market capitalisation of over US$5billion – that's a lot of money for an office leasing company. When WeWork opened its building in South London, it was 80% full at launch. Partly that is because of the pricing model which charges per workstation or per office, and which includes services such as security, reception, broadband, printing and other office admin functions, all of which can be both a distraction and a frustration for freelancers and business start-ups.

But the real attraction is the fact that there are other people working within the spaces offering differing and complimentary skill sets, and the Co-Working operators go out of their way to create a genuine community, promoting interaction, along with educational sessions from market leaders in specific sectors, whether that be accounting, legal advice or the creation of an App for your start-up.

BUT THE REAL ATTRACTION IS THE FACT THAT THERE ARE OTHER PEOPLE WORKING WITHIN THE SPACES OFFERING DIFFERING AND COMPLIMENTARY SKILL SETS...

Image courtesy of Hub Australia

POTENTIAL COMMERCIAL PROPERTY IMPACTS

Currently, Co-Working operators are largely viewed by property owners as no different to any other occupier. They execute a lease, and they operate their business - it just so happens that their business is the on-selling of office space, combined with a range of business services, to smaller occupiers.

However, in effect, we are seeing the beginning of the consumerisation of the workplace.

The fact that this sector is growing should prove positive for owners with vacancy if traditional logic is followed. A growing sector needs more space to lease, which can only be a positive for landlords, right?

Furthermore, with many operators establishing in lower cost fringe locations, there is evidence in other markets that clustering can occur, creating 'nano-cores' - new fashionable zones created in often run down areas, driving up property prices. This is the so-called "Shoreditch effect", following what happened to the east London suburb.

But what if the trend continues and big business decides to house the majority of its workforce in Co-Working spaces? As one senior executive at a global business consultancy put it "I can see a time when [our business] only leases a small office for those functions which are truly anchored – HR, legal, senior management – and the balance will operate from Co-Working or shared spaces".

This could see individual employees provided with a financial allowance to select the location and style of the accommodation that they work at, in the same way that they have latitude to choose the mobile phone and tablet they use. In the battle for the best and brightest talent, this could prove extremely attractive for tomorrow's workforce, and a useful recruitment tool for business.

The next step could see corporate occupiers demanding buildings where they can take up a small corporate office on a traditional lease, but only where there are large Co-Working spaces provided within the same building for the majority of employees. This would provide the dual benefit of a corporate 'home' in the city, coupled with the ultimate flexibility of footprint area depending on headcount and workload at a given time, scalable up and down at very short notice. In such a model, the cost of accommodation would follow the headcount within a matter of days, and not years as dictated by the current lease cycle. This would be tremendously attractive from a cost perspective.

Turning to the arrangements with the Co-Working operators themselves, the complexion of the current head lease situation is also likely to change. Hotel style management agreements have been implemented for some Co-Working spaces in the US, and larger global companies such as WeWork have the financial clout to buy their own sites and develop their own buildings.

Should the demand base continue to grow at the current pace, there could be sectors of the market where traditional leasing principles simply no longer apply. Management agreements would have to be valued on a going concern basis, resulting in a significant shift in some sectors of the commercial property industry.

Finally, looking ahead, it is not beyond the realms of doubt to think that major global operators will seek to implement similar models in other sectors. We know that WeWork are moving into residential in the US, so could we see the development of WeWork, WeLive, WeEat, WeShop complexes? Could we even see the creation of entire WeSuburbs?

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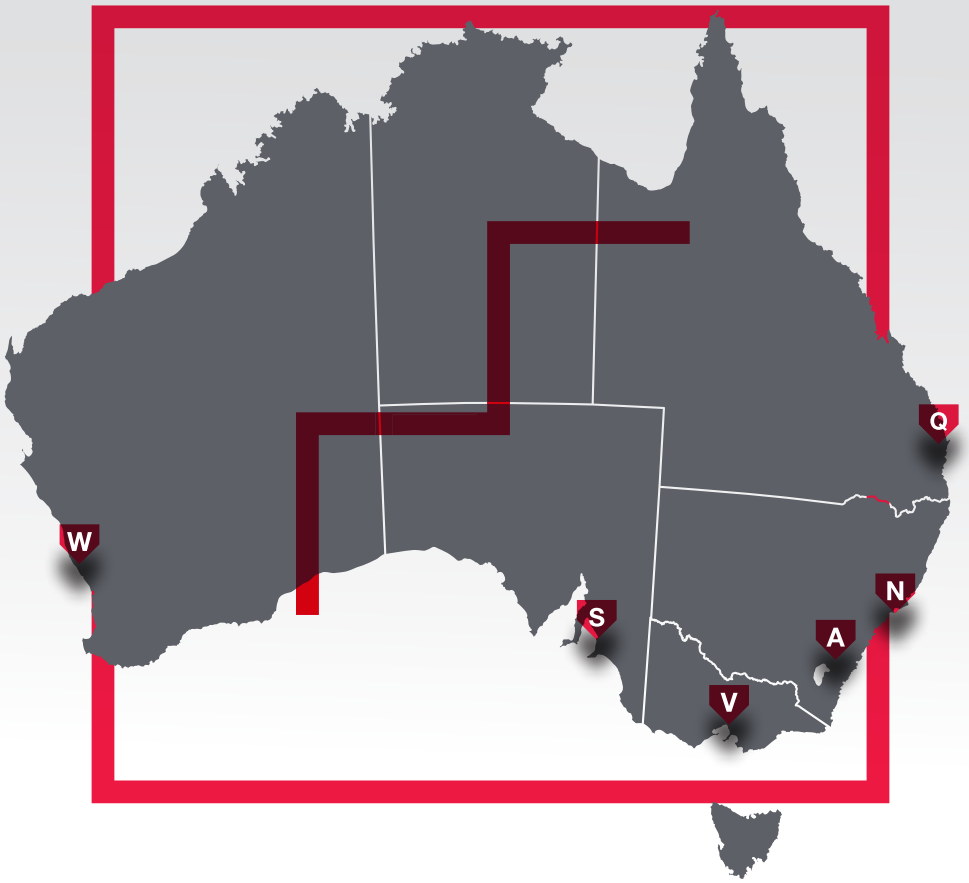

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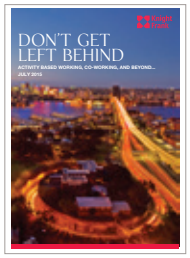

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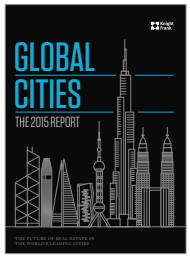

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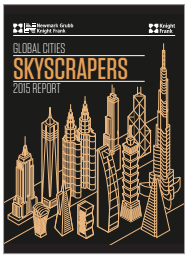

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