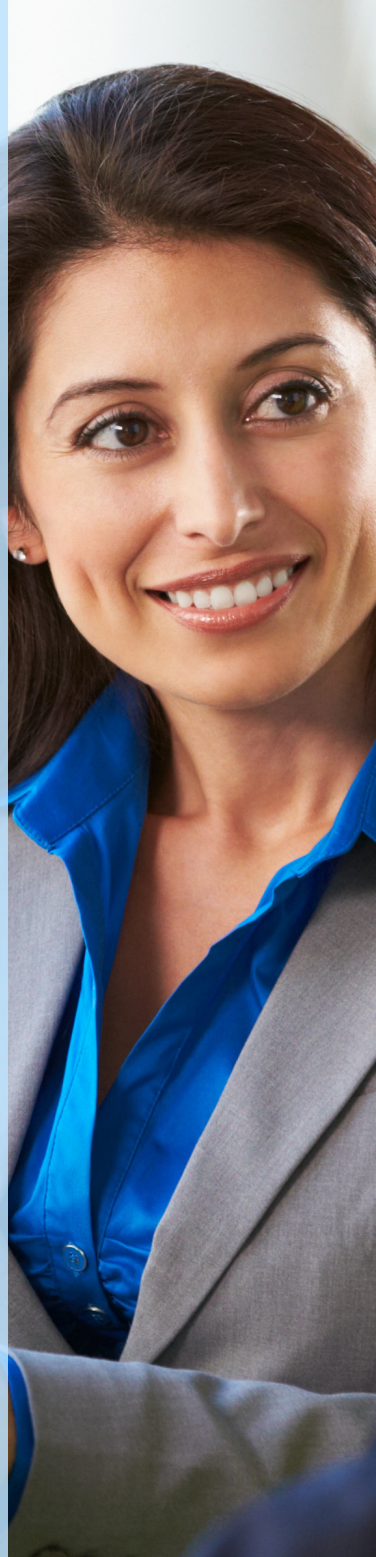


IS YOUR
ORGANIZATION
CO-WORKSPACE
READY?





With a cost saving of 10-30% over conventional lease rates, procurement teams are exploring this interesting new model.

Category teams in the procurement organization are increasingly seeking to serve an agile, flexible workforce that functions in technology-enabled work environments with improved services and amenities. Operating models are now dynamic, geographic footprint is dispersed and the ante on employee experience is always getting upped. Corporate real-estate strategy is now trying to sync with this constant shift in tenant dynamics and customer demography.

Its not just the huge cost savings – in the range of 10-30% against conventional corporate lease rates. Co-working spaces are now emerging as a popular choice for procurement managers as they generally present a lower total cost of ownership.

Flexible or co-working space is not a new concept in the office-space market. And while this segment has been in existence for years, its penetration had been very limited - under 5%, in the office space

sector so far. This trend is seeing a massive upswing in recent times and it is predicted that this segment has the potential to seize 30% of the office space segment by 2030.

What has changed?

There are a number of factors attributed to the shifting preference to flexible work spaces.

1. Changing workforce dynamic – Adaptive organizations have a mix of resources employed : freelancers, consultants and a growing number of contract-workers, making co-working spaces a much more viable option
2. Uncertain market conditions – With uncertainty looming over markets, co-working spaces offer the much required flexibility to corporates both in terms of periods for contracting and size of real estate being used. More and more corporates and start-ups are looking to shift from longer-term leases to monthly fees

3. Growth of 'as-a-service' economy – With the emerging concept of 'as a service' economy permeating all aspects of corporate functioning, co-working spaces offer much required flexibility and hassle free operations

Other Factors Driving Market Growth

The increasing pressure on employers to retain and engage skilled employees, expand markets and leverage latest technologies at the lowest costs are also driving the growth of the flexible workspace market and there is a growing number of companies, including large corporates jumping onto the bandwagon.



Savings is a key driver:

Without doubt, one of the most important drivers of flexible spaces is the cost savings of around 10-30% that this model offers, against conventional lease rates, and savings rates vary depending on the real estate cost prevailing in the regions. Other prominent market drivers include:



Technological Innovation

- Technology advancements have played a pivotal role in enhancing coworking spaces. Advancements including mobility, seamless networking, data management and analysis, cloud storage, data encryption and security tools have enhanced agile working environment.



Contingent Workforce

- Use of contingent workforce has been on an upward trajectory. Nearly 80% of the global corporations plan to increase the use of contingent workforce in both low skilled as well as high skilled areas. Growth in the contingent labor, particularly in high skilled areas is expected to increase the adoption of flexible spaces



Growth of start up companies

- The rate of emergence of self-employment, and entrepreneurs has increased in the recent years supported by the government initiatives especially in developed countries i.e. US and UK
- Flexible workplace is the most suitable option for such individual or companies who need access to corporate level facilities but at a lower cost in order to execute their plans and strategies



Sharing Economy

- Driven by increasing awareness of resource scarcity, the rise of aggregators, combined with technological advancements to leverage this awareness has resulted in sharing economy e.g. Uber, Airbnb
- Flexible office space is a similar subset of real estate business, only difference being that flexible space providers may not be asset-light like Uber or Airbnb



Changing Workplace Requirements

- More companies are looking at employee engagement through appealing workplaces with all the required amenities
- Employers have accommodated these requirements in the era of high turnover of skilled employees
- Flexible workplace is a cost effective option for the employer with access to better offerings



Supply Driven Factors

- Effective utilization of space, attracting tenants to the building space, diversifying the portfolio, ability to provide value added services to their tenant etc., have encouraged the landlords and investors to consider flexible space as part of their real estate strategy

A typical example of ROI calculated for the office space - an average of low / mid and upper scale properties in USD

Annual cost Breakup	Owned Space (cost per SQMTR)	Long Lease Space (cost per SQMTR)	Flexible Space (cost per SQMTR)
Rental cost (Yield)	1,408	1,308	1,749
Electricity Cost	70	70	0
Water / Sewerage Cost	56	56	0
Maintenance cost	70	70	0
Air conditioning cost	84	84	0
Furniture cost	141	141	0
Depreciation cost	49	49	0
Personal IT equipment	465	465	0
Shared IT equipment	162	162	0
Infrastructure IT connectivity	32	32	0
Cleaning cost	7	7	0
Municipality fees	13	13	0
Licensing Fees	2	2	0
Fire & Safety cost	0	0	0
Floor ware cost	14	14	0
Security cost	2	2	0
Reception cost	1	1	0
Facility Management cost	14	14	0
Additional rent cost for facilities	14	14	0
Any other cost	21	21	44
Total cost per SQMT	2,627	2,527	1,793
Cost per employee	10,403	10,007	7,099

What more is in it for corporates?

While flexible spaces offer direct cost savings in short-term, they present significant indirect savings in the long term such as improving employee retention rate and releasing capital for investments

in operations. In addition, unlike lease agreements, rental payments can be excluded from the balance sheet and considered under 'OPEX' (Operational Expenditure). These have increased the attractiveness of this segment amongst large corporates. This fast growing

market is dominated by few suppliers including WeWork, IWG Plc, Impact Hub and ServCorp, accounting for nearly half of the global market. The rest of the market is highly fragmented comprising of thousands of operators.

Flexible space is the emerging choice of work-space for short to mid-term panning across all types of establishments is below:

Comparison Parameters		Owned Space per SQMTR (excluding other costs)	Leased Space per SQMTR (based on annual excluding other costs)	Flexible Space per SQMTR (including all other costs)
Benefits		Office Space Shell & Core only	Office Space Shell & Core only	Office Space, including any workstations, furniture, meeting facility, pantry, AC, Water & Electricity bills
Constraints		Capital investment in purchasing space, furniture, long term investment of 10-15 years to be cost effective	Capital investment in purchasing space, furniture, long term investment of 10-15 years to be cost effective	Limited location choice, standardised facilities, usage of meeting rooms & equipment at cost, noise due to open plan
Suitable Scenarios	End Users	SME's / Midsize Corporates	Midsize to Large Corporates	SME's, Midsize and Large corporates
	Countries	Available in all countries	Available in all countries	Available in main cities across all regions
	Industry	Suitable for all industries	Suitable for all industries	Suitable for all industries
	Workspace	Suitable for headquarters and regional operation	Suitable for headquarters, regional and country operation	Suitable for headquarters, regional and country operation
	Planning	Long term permanent planning	Mid to long term permanent planning	Short to mid term temporary planning

The road ahead:

Flexible workspace segment growth is also expected to be fueled by entry of new operators, growing investors and large corporates and realtors with excess space. While the model works best for Small and Medium Enterprises (SMEs), large

corporates continue to consider this only as a short to mid-term strategy. The ability of this segment to proliferate large corporate clients and emerge as a viable long-term real-estate strategy will depend on the evolution of this service segment in terms of variety of offerings, technology

adoption and privacy and safety assurance. Most of the service providers of co-working or flexible space are bullish about penetrating large corporates in addition to their traditional target segments that include startups and SMEs.

Source:

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<https://commercialobserver.com/2018/02/in-the-flexible-space-market-one-size-does-not-fit-all/>

<http://livingstonepartners.com/uk/insights/flexible-office-space-market/>

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