

The Workthere Flexmark

Our Annual Global Flexible Office Benchmark

79% of flexible office are profitable
at an operating profit margin level

Average member lifespan is **1.5** year

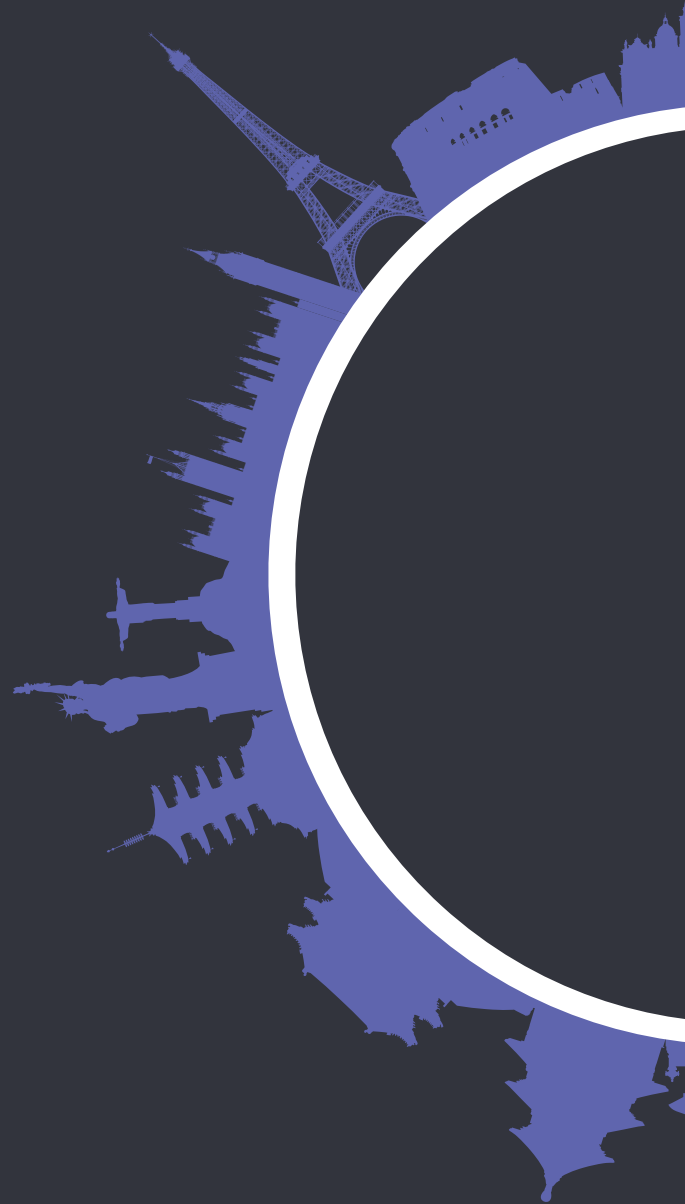
Private office occupancy is **81%**
(increase of 5% year-on-year)

67% offer a free internet line

32% of desks are filled by brokers

Average membership size is **15** people

Average size is **2,070** sq m





Vietnam

The Flexmark Roundup

Despite flexible offices rapidly expanding their presence around the world, there is a distinct lack of transparency when it comes to data, which we aim to help address in this report. We answer questions such as: how profitable are flexible offices? How big is coworking? Who works in flexible offices? What are current occupancy levels?

Increasing transparency within the flexible office market:

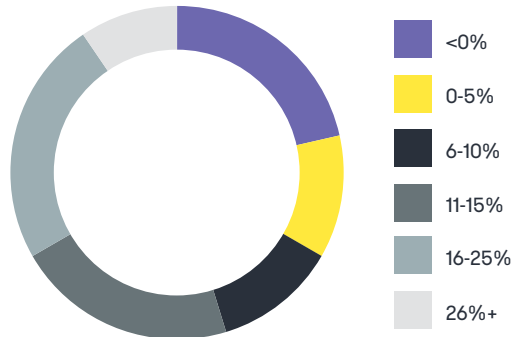
- **Profitability:** 79% of flexible offices are profitable at an operating profit margin level. A higher allocation of space to private offices correlates with higher profitability. Private office occupancy levels increased year-on-year from 76% in 2018 to 81% in 2019 and shared space occupancy increased from 53% to 60%, respectively. However, private office desk prices fell 2% and hot desk prices fell 5%.
- **Use of space:** The average size of a flexible office globally is 2,070 square metres. The average number of desks is 247 desks. The median indoor area per desk is 7 square metres (including communal areas) and nearly half of flexible offices have an indoor area per desk of 5-8 square metres. Private offices account for 68% of sellable desk space and shared coworking space accounts for the remaining 32%.
- **Member profile:** Start-ups of 2-20 people occupy half of all flexible office desks, whilst corporates of over 100 people occupy 13%. The average membership size is 15 people and the average member lifespan is 1.5 years, with a range of 5 months to 5 years. 38% of desks are filled by direct enquiries and 32% by brokers. Larger buildings rely more heavily on brokers to fill their space.
- **Selling a space:** 51% of flexible office providers think that location is most important to potential members when selling a space, followed by cost and then service. 84% of flexible offices include tea and coffee in a membership fee, 67% include a dedicated internet line, 59% include partial use of meeting rooms in the membership fee and 25% include full use. Food and alcohol are usually additional extras, with only 33% including free snacks (like fruit and biscuits) and 8% including free alcohol.

These findings indicate that the global flexible office market is, on the whole, in good health. We expect demand going forwards to remain strong and to be supported by a relatively new but fast-growing source: the use of flexible offices by large corporates. This is a trend we saw emerging in 2019, and we expect it to develop throughout 2020. Larger corporates tend to prefer private offices over coworking space, so we expect demand for private offices to make up a greater portion of the flexible office market in the future.

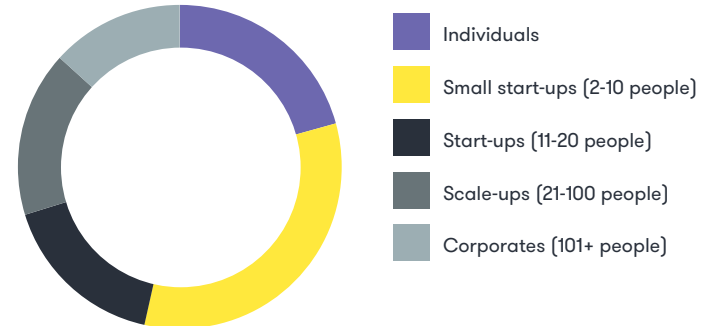
Furthermore, space allocated to private offices tends to be more profitable than that allocated to coworking, with hot desks seeing a year-on-year price decline of 5% globally. We are seeing oversupply of coworking space specifically in some geographical regions and we expect some of this supply to be converted into private offices to better match demand.

The Flexmark Snapshot

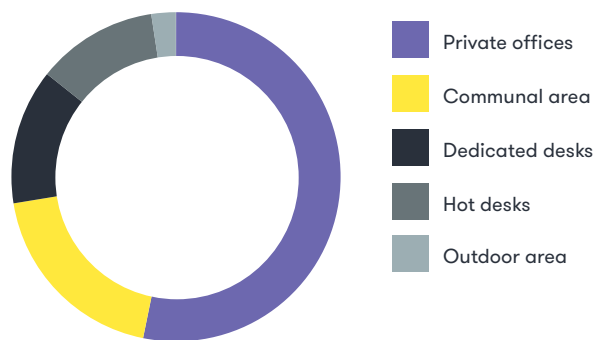
Operating profit margin of flexible offices



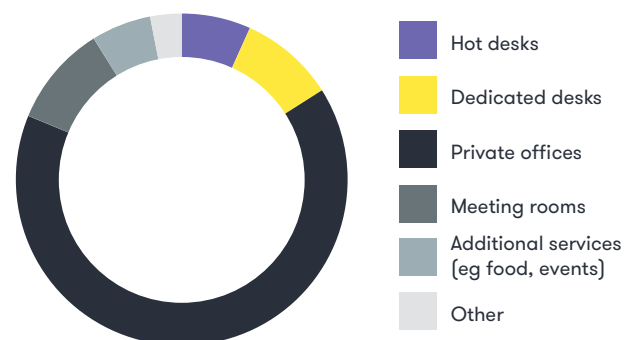
Portion of flexible office desks allocated to certain company sizes



Space allocation of flexible offices



Revenue split for flexible offices



Average membership size is **15 people**



Private office occupancy is **81%** (↑ 5% year-on-year)



Average member **lifespan is 1.5 years**



79% of flexible office are profitable at an operating profit margin level



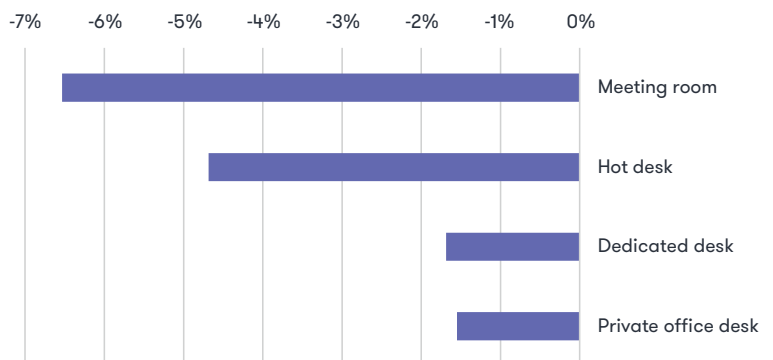
Profitability

Globally, prices fell year-on-year but occupancy increased. Meeting room prices around the world fell 7% on average and hot desk prices fell 5%. Dedicated desk prices and private office desk prices remained more resilient, falling only 2% in local currency terms. Demand for flexible offices globally has been markedly increasing and this fall in price is due to increased competition rather than slowing demand.

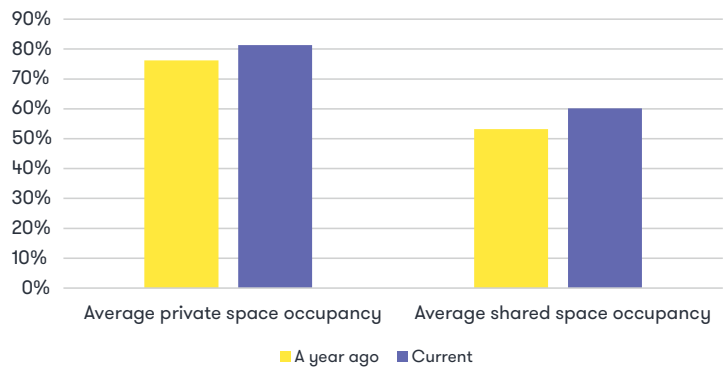
Lower prices have been counteracted by higher occupancy, with average private office occupancy increasing from 76% to 81% year-on-year and average shared space occupancy increasing from 53% to 60%. After opening a flexible office, it appears to take providers around 1.5 years to reach normalised occupancy levels. 38% of flexible offices that have been open for less 1.5 years are unprofitable at an operating profit margin level, compared to only 14% that have been open for more than 1.5 years, albeit survivorship bias likely plays a role in this to some extent.

The majority of flexible offices' revenue comes from private desks. 65% of revenue comes from private office membership fees, compared to 53% of space being allocated to private offices. Conversely, shared space memberships account for only 16% of revenue but 25% of space. This is not an apples-for-apples comparison as such, given that from a revenue-perspective both private office and shared space members will pay for additional services such as meetings rooms and food. Therefore, membership fees are not the only source of revenue from existing members. From a space-allocation perspective, both private

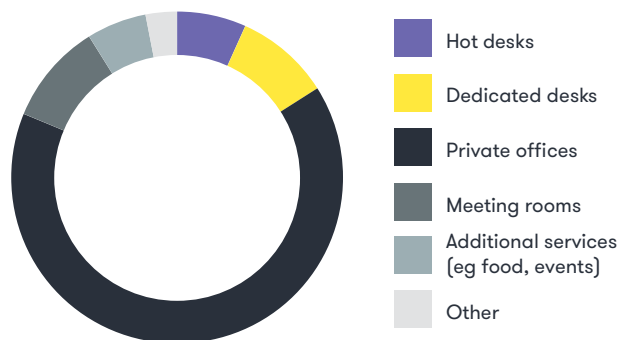
Year-on-year price changes



Occupancy levels



Revenue split for flexible offices

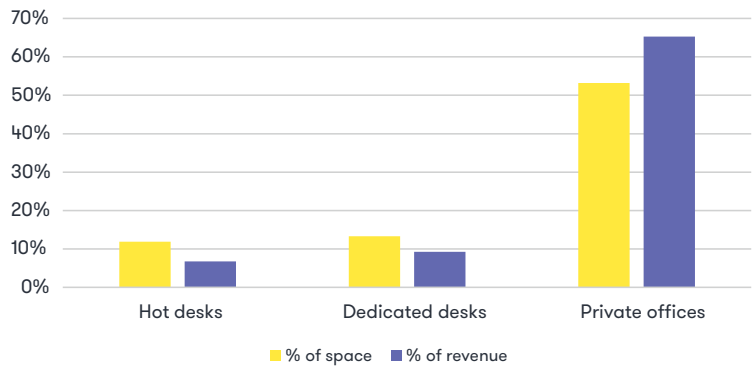


office and shared space members use communal areas and outdoor areas. Nonetheless, this strongly implies that private offices are more profitable than shared spaces.

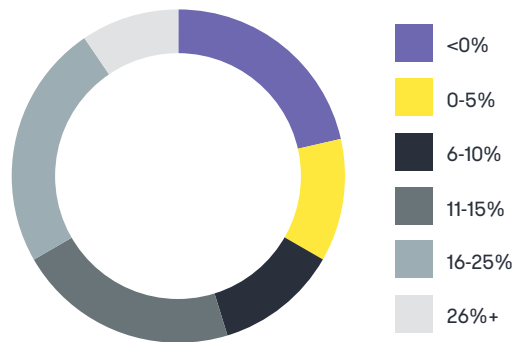
Despite the negativity surrounding the flexible office market post WeWork cancelling its IPO, 79% of flexible offices are profitable at an operating profit margin level (defined as revenue minus operating costs divided by revenue). A higher allocation of space to private offices appears to correlate with higher profitability. Considering only flexible offices that have 80% or more of their space allocated to private offices, only 12% are unprofitable and 18% have a building operating profit margin of 26%+. However, out of the flexible offices that have less than 80% of their space allocated to private offices, 32% are unprofitable and none have a building operating margin of 26%+.

Higher profitability correlates with including phone headsets, a dedicated internet line and alcoholic drinks in a membership fee, and excluding the partial use of meeting rooms. However, of course correlation does not always indicate cause i.e. is a flexible office profitable because it includes phone headsets or are phone headsets included because it is profitable?

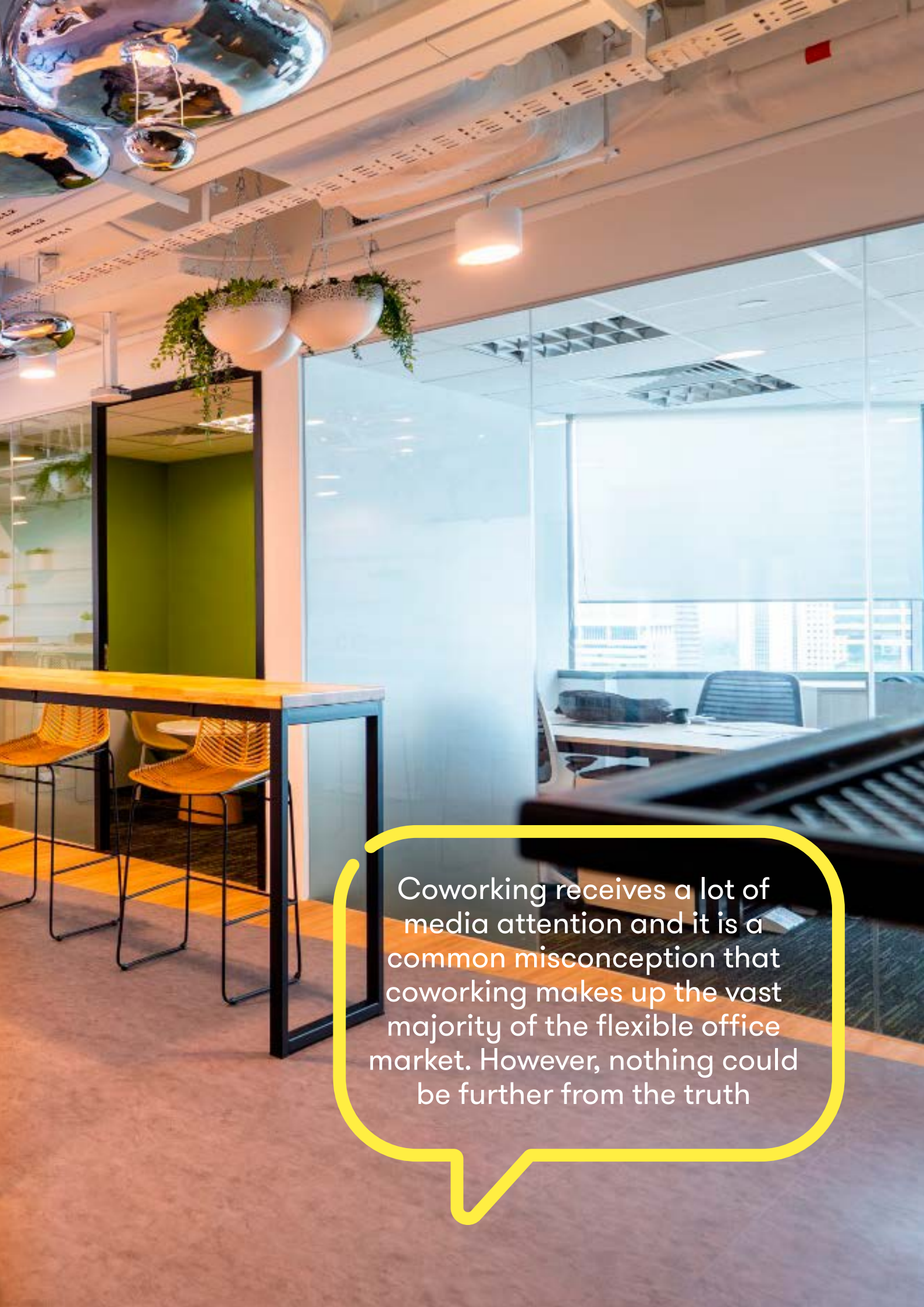
Space vs revenue split for flexible offices



Operating profit margin of flexible offices







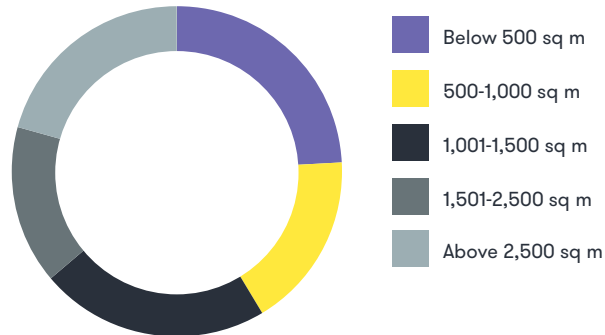
Coworking receives a lot of media attention and it is a common misconception that coworking makes up the vast majority of the flexible office market. However, nothing could be further from the truth

Use of Space

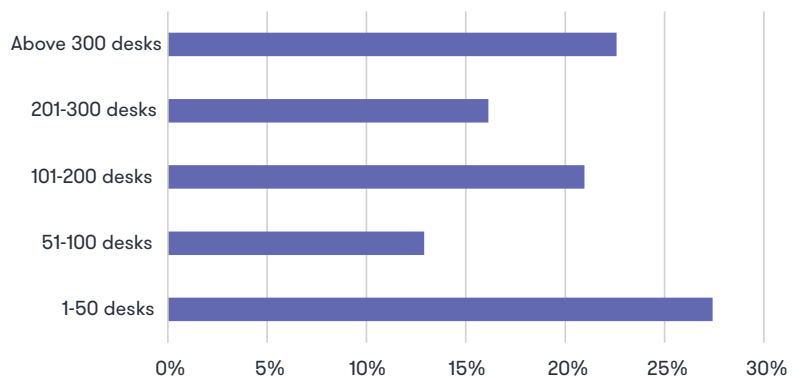
The efficient use of space within flexible offices is crucial. Rent is often a flexible office's largest overhead cost and the extent to which space is used effectively can be the difference between success or failure. The average size of a flexible office is 2,070 square metres (22,280 square feet). However, this average is pulled up by a small handful of flexible offices larger than 5,000 square metres and less than a quarter of flexible offices are bigger than 2,500 square metres.

The median indoor area per desk is 7.1 square metres including communal areas and nearly half of flexible offices have an indoor area per desk of 5-8 square metres, which is slightly less than the 8-10 square metres average for conventional offices, which is why flexible offices are often more cost effective on a per person basis. Excluding communal areas, the median indoor area per desk is 5.7 metres. The average number of desks within a flexible workspace is 247, but this number varies hugely. 27% of flexible offices have 1-50 desks, whilst 23% of flexible offices have more than 300 desks.

Size of flexible offices



Number of desks within flexible offices



The average size of a flexible office is 2,070 sq m



27% of flexible offices have 1-50 desks

25%

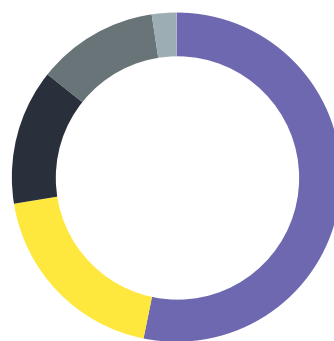
On average, shared space makes up only 25%



Singapore

Coworking (shared flexible office space) receives a lot of media attention and it is a common misconception that coworking makes up the vast majority of the flexible office market. However, nothing could be further from the truth. On average, shared space (hot desks and dedicated desks) makes up only 25% of a flexible office, with the split between hot desks and dedicated desks being broadly equal. Private offices account for 53% of flexible office space, communal areas (including hallways) 19% and outdoor area 2%. This translates into private offices accounting for 68% of sellable desk space and shared space making up the remaining 32%.

Space allocation of flexible offices



- Private offices
- Communal area
- Dedicated desks
- Hot desks
- Outdoor area



79% of flexible office are profitable at an operating profit margin level



Private office occupancy is **81%** (↑ 5% year-on-year)



Private office desk prices down **2%**



Average size is **2,070 square metres**



Singapore



67% offer a free internet line



Average membership size is **15 people**



32% of desks are filled by brokers



Average member **lifespan is 1.5 years**



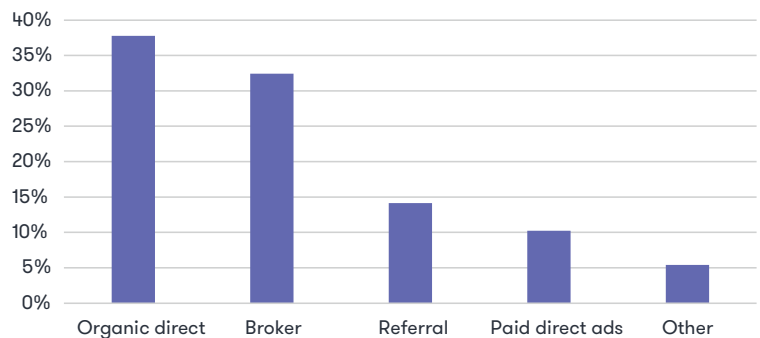
UK

Member profile

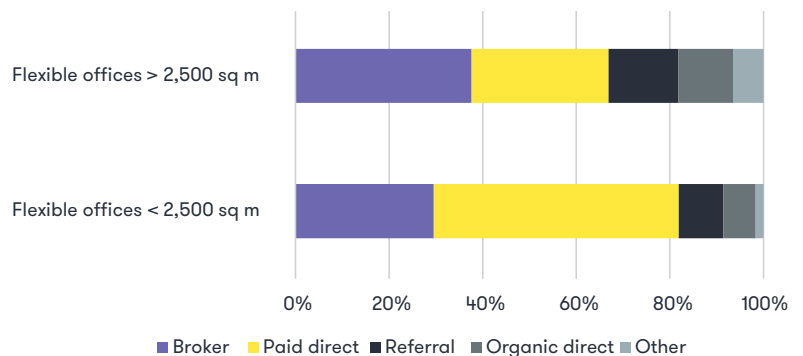
How do flexible offices fill their space? Over two thirds of desks are filled by direct enquiries and brokers, which account for 38% and 32% of desk acquisitions, respectively. Referrals account for 14%, paid direct advertising makes up 10% and other methods constitute 5%. Larger flexible offices rely more heavily on brokers, with 37% of desks being filled by brokers for buildings bigger than 2,500 square metres.

Start-ups of 2-20 people account for half of all flexible office space, which ties in with an average membership size of 15 people. Individuals make up 21% of space within flexible offices, scale-ups of 21-100 people constitute 17% and corporates of over 100 people account for 13%. We expect the portion of space taken up by corporates to grow over the coming years, as companies of all sizes increasingly realise the benefits of flexible offices in terms of increased productivity, talent attraction and retention, encouraging collaboration and improving space

Flexible office member acquisition channel split by number of desks



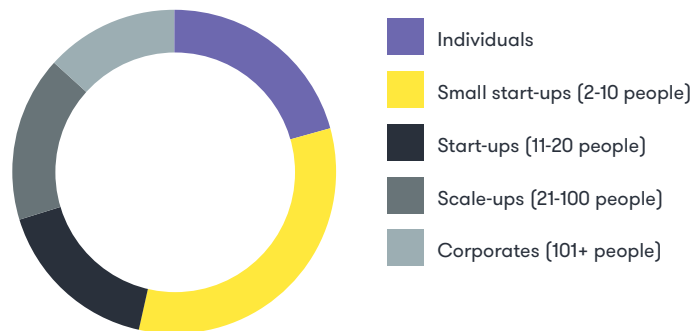
Acquisition channel by flexible office size



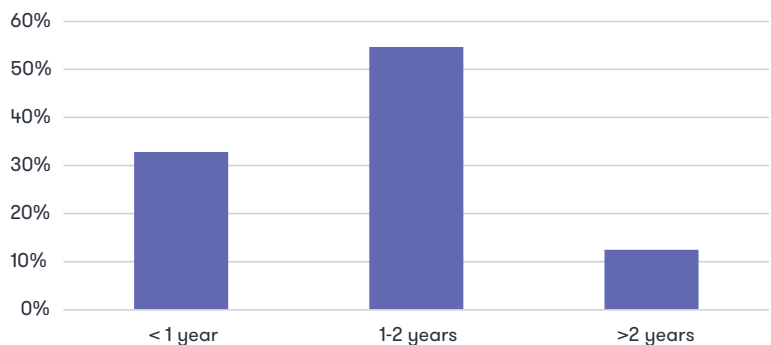
efficiency. For 44% of flexible offices, the largest member takes up 10-20% of the total space and for 8% the largest member takes up more than 50%. The average space the largest member accounts for is 21%.

Member retention is a crucial operating metric for flexible offices. Reducing member turnover helps boost occupancy levels and therefore profitability. The average member lifespan for flexible offices is 1.5 years, with a range of 5 months to 5 years, and over half have an average member lifespan of 1-2 years. Only 13% of flexible offices have an average member lifespan over 2 years. As would be expected, there is a clear relationship between average member lifespan and profitability. 28% of flexible offices with an average member lifespan of 12 months or less are unprofitable at a building operating margin level compared to only 13% of flexible offices with an average member lifespan of over 12 months.

Portion of flexible office desks allocated to certain company sizes



Portion of flexible offices with average member lifespans



We expect the portion of space taken up by corporates to grow, as companies realise the benefits of flexible offices.

Start-ups of 2-20 people account for half of all flexible office space

15

Average membership size is 15

21%

Average portion of space the largest member accounts for is 21%

1.5 years

Average member lifespan is 1.5 years



EXIT



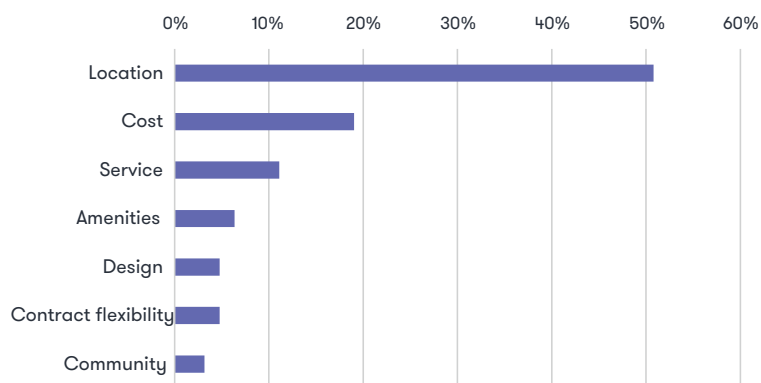
Member retention is a crucial operating metric for flexible offices. Reducing member turnover helps boost occupancy levels and therefore profitability

Selling a space

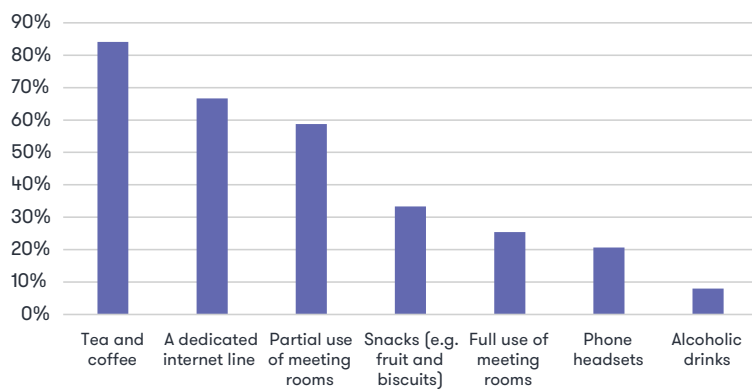
When it comes to selling a space, the feature that flexible office providers think is most significant by far is the location of the building, with 51% of our respondents viewing this as most important to potential members. 19% think that cost is most important, whilst flexible office providers perceive community, contract flexibility and design to be lower down on potential members' wishlists.

So what can you expect to be included in a flexible office membership fee? 84% of flexible offices include tea and coffee in a membership fee, 67% include a dedicated internet line and 21% include phone headsets. When it comes to meeting rooms, 59% include partial use in the membership fee and 25% include full use. Food and alcohol are usually additional extras, with only 33% including free snacks (like fruit and biscuits) and 8% including free alcohol.

Importance for selling a workspace



Included in membership fee





Appendix



Our analysis is based on 64 flexible offices around the world, located across Belgium, France, Germany, Ireland, Singapore, Spain, The Netherlands, The United Kingdom, The United States and Vietnam.



The data was collected via an online survey that we sent by email to flexible office providers.



We collected the data during the period of 12th August 2019 until 25th October 2019.



A 'member' is defined as one membership agreement. This could be for one person or one membership agreement for 150 people.



'Acquiring a desk' is defined as one person signing a membership agreement for one desk in a flexible office.

Glossary

Flexible office: Flexible office is the blanket term used to cover the various different types of office space, from co-working to serviced offices. In general, it offers space that is furnished and ready to use, available on a short-term contract, with all costs rolled into one. It is known as 'flexible' space as the monthly or 12 month contract is more flexible than a traditional five or 10 year lease.

Coworking space: A coworking space is an area within a flexible office that comprises a shared working environment (i.e. no walls/private offices), which is typically open-plan and offers either hot-desks or dedicated desks for members along with shared access to meeting facilities, break out areas, and often some office equipment, such as printers.

Private office: A private office is an area within a flexible office that comprises a private working environment (i.e. the office is enclosed by walls), which typically offers dedicated desks but can also include hot desks. Members usually share access to meeting facilities, break out areas, and often some office equipment, such as printers.

Dedicated desk: A dedicated desk is a desk designated to a specific individual or business.

Hot desk: A hot desk is a single desk that is used by multiple workers during different time periods.

Membership: A licence agreement between a flexible office space provider and a member. Memberships are offered on flexible terms.

Member: A person who pays a membership fee to a flexible office space provider in return for the use of the flexible office space. The fee is paid either by the individual or by their employer on behalf of the individual.

Operating profit margin: We define this as revenue minus operating costs, divided by revenue. Operating costs include costs such as rental, staff and utilities costs. Operating costs do not include depreciation, amortisation, interest paid on debt or tax.





Workthere.com

Workthere is a business by Savills focused solely on helping businesses find flexible office space, whether that's a serviced office, co-working or shared space.

Get in touch for further information

Cal Lee
Head of Workthere
+44 (0) 20 7409 8807
cal.lee@workthere.com

Liz Williams Bew
PR Director
+44 (0) 20 7409 8140
lwbew@savills.com

Jess Alderson
Global Research
+44 (0) 207 409 4561
jessica.alderson@workthere.com