

Commercial real estate - Russia

CO-WORKING: THE SECRET OF SUCCESS

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Research Department Cushman & Wakefield



KEY TRENDS ON THE FLEXIBLE WORKSPACE MARKET

JANUARY 2019 – JANUARY 2020

- In 2019, the flexible workspace market increased by almost 50% or 58,000 sq. m. The largest openings of the year: SOK Arena Park (5,800 sq. m), WeWork White Square (5,400 sq. m) and The Key Sirius Park (5,000 sq. m).
- In 2019, one of the largest international flexible workspace operators – WeWork – entered the Russian market. Three locations were opened in Moscow with total area of 12,900 sq. m.
- New local chain operators opened their first locations – CEO Spaces, Space 1, Business Club, and have already occupied a significant market share.
- Chain operators continue to dominate the market. In 2019, their share in flexible workspace stock increase by 5 p.p. and now amounts to 75% of the total supply.
- Flexible workspaces are becoming more and more popular among large companies: Tinkoff leased 1,000 work places in SOK, Yandex – 730 work places in Business Club, X5 Retail Group – 728 work places in WeWork.

182k
SQ. M

MOSCOW FLEXIBLE
WORKSPACE STOCK,
JANUARY 2020

1%

FLEXIBLE
WORKSPACE AS A
PROPORTION OF
MOSCOW OFFICE
STOCK

50%

AVERAGE ANNUAL
GROWTH
2019-2020

75%

SHARE OF CHAIN
OPERATORS IN THE TOTAL
STOCK

MAP OF FLEXIBLE WORKSPACES IN MOSCOW

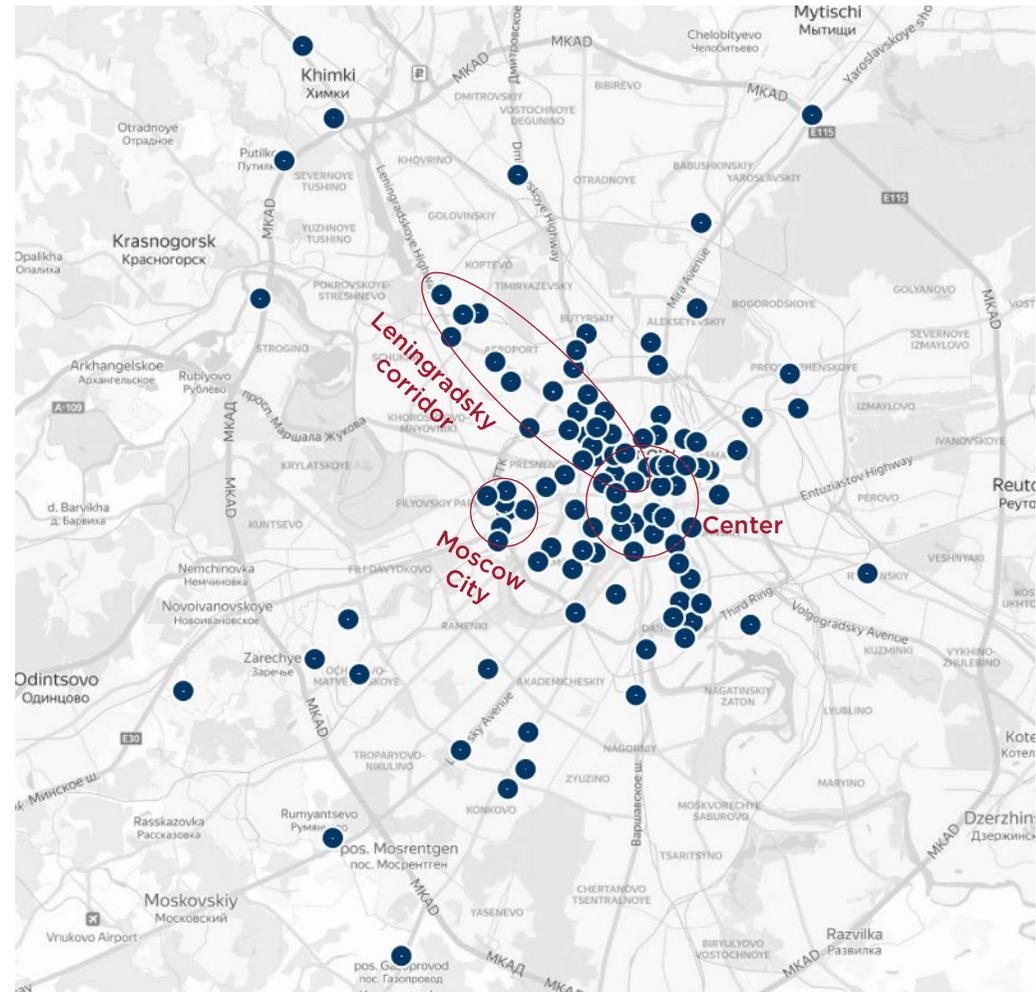
There are **114 dedicated flexible workspaces** in Moscow, 65 of which are chains. In 2019, 22 flexible workspaces were opened with total area of 58,000 sq. m. In 2020, 20 new projects are announced for opening.

Chain operators often occupy larger spaces than non-chain, so despite a relatively small advantage in number of locations, their share in the total flexible workspace stock significantly exceeds the share of non-chain and comprises 75%.

The most popular submarkets are:

- Central,
- Leningradsky corridor,
- Moscow City.

One of the major advantages for flexible workspaces is the location in business districts, in walking distance from the metro. The highest demand and occupancy rate are registered in such locations.



MOSCOW IS IN THE TOP10 LARGEST EUROPEAN MARKETS

About 90% of flexible workspace in Russia is located in Moscow.

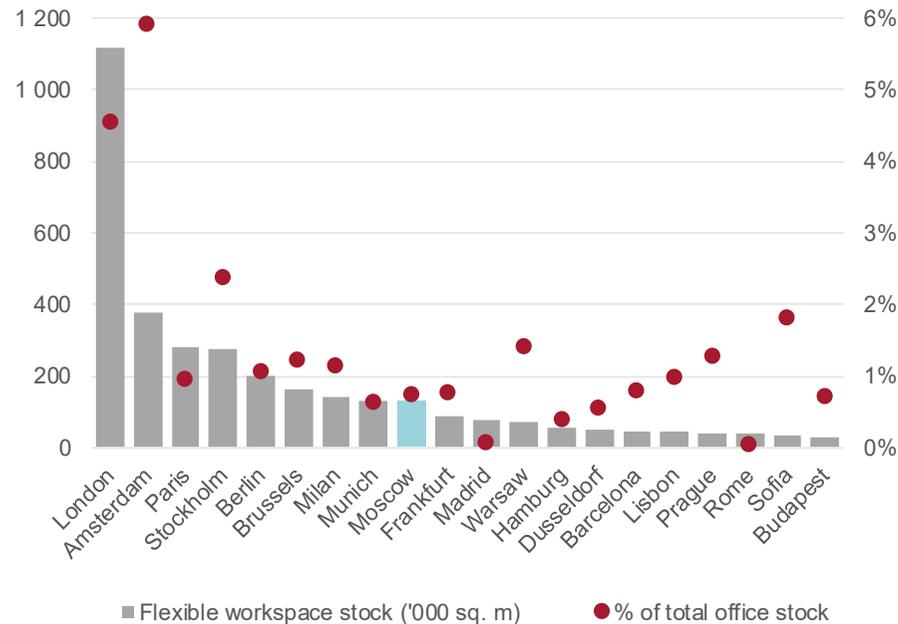
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mn sq. m
Global flexible workspace stock

1%

Flexible workspace as a proportion of
global office stock

Flexible workspace stock in the key European cities



- The share of flexible workspace in the total office stock in Moscow is **1%**, which is close to global and European average.
- Moscow has the leading position by flexible workspace stock among the capitals of Central and Eastern Europe.
- New York City and London have the largest amount of flexible workspace in the world with over 1 million sq. m each. These two cities alone account for 22% of global coworking stock.

More information on European flexible workspace market can be found in C&W Global Report - [European Hotspot Index](#), which is available by the [link](#).

MAIN MARKET PLAYERS IN MOSCOW

Ключ¹¹
30,000 sq. m

wework⁵
26,000 sq. m

CEO³
SPACES
26,000 sq. m

SOK⁵
26,000 sq. m

Regus¹¹
24,000 sq. m

Space⁵
17,000 sq. m

workki⁴
14,000 sq. m

MEETING POINT⁴
13,000 sq. m

DEWORKASY⁶
13,000 sq. m

 **РАБОЧАЯ СТАНЦИЯ**⁴
14,000 sq. m

#businessclub³
6,500 sq. m

CEO ROOMS³
COWORKING
5,000 sq. m

S R E D A¹
5,000 sq. m

- number of locations including future openings

KEY DEALS IN FLEXIBLE WORKSPACES

Flexible workspace operators are active not only as tenants, but also as landlords. A number of major deals in the segment were registered in 2019.

Company Name	Flexible Workspace Name	Number of Work Places
Tinkoff	S.O.K.	1,039
Yandex	Business Club	730
X5 Retail Group	WeWork	728
MTS	Workki	728
Otkrytie	S.O.K.	676
Confidential Client	Coworking 14	651
Huawei Technologies	S.O.K./Business Club/Sreda	618
Sibintek	S.O.K	350
Goods.ru	Praktik	310
Gazprom Media	S.O.K	300

LEASE TERMS

Residents of hybrid workspaces have several options when leasing a workplace:

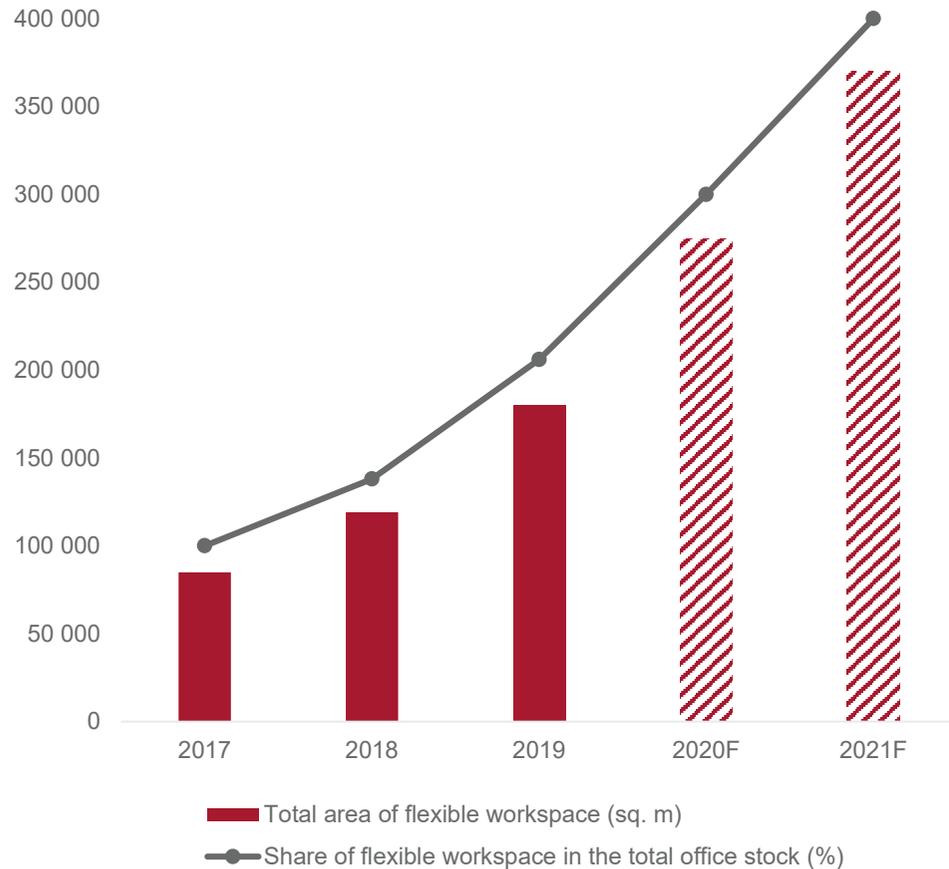
Type of workplace	Average rental rate, a workplace per month	Standard minimum lease period
Unassigned	19,100 RUB (~ 296 USD)	1 hour
Assigned desk	24,700 RUB (~ 382 USD)	1 month
Mini-office	29,600 RUB (~ 458 USD)	11 months

- All rental rates include **operational expenses and VAT**. Rental rates are calculated for chain hybrid workspaces.
- Often rental rates include several hours in meeting rooms. Discounts are sometimes applied for long-term rentals.
- Some flexible workspaces offer co-working passes for several visits per week / month.
- Chain operators generally provide residents with a flexi-pass to work in all their locations.

In 2019, the rental rate growth for mini-office is more noticeable than for desks in co-working areas – 32%. Rental rate for unassigned desk grew by 18%, for assigned desk – by 13%. This increase is caused by large newly opened flexible workspaces in high-demanded and expensive areas (Central, Moscow City, Leningradsky Corridor) with higher rental rates for work places.

** Rental Rates in US Dollars are calculated according to the average annual exchange rate in 2019
1 USD = 64,62 RUB*

Flexible workspace supply forecast, Moscow, 2020-2021



DEVELOPMENT FORECAST

In 2019, the market showed almost 50% growth. In 2020-2021, we expect the annual growth to be around 40%.

In 2020, the supply will increase mostly due to opening of several large flexible spaces (WeWork, Work Station, Meeting Point, Space 1, CEO Spaces and others).

Taking into account the current growth rate of flexible workspaces and the size of the unsaturated market, this model has potential for further development.

Key market trends:

- A rapid increase in the number of operators and the entry of new players resulting in considerable growth in competition.
- Large corporations to show more interest in flexible workspaces.
- Chain operators to continue to dominate the market.
- Share of flexible workspace in the total office stock to increase to 2% by 2022.

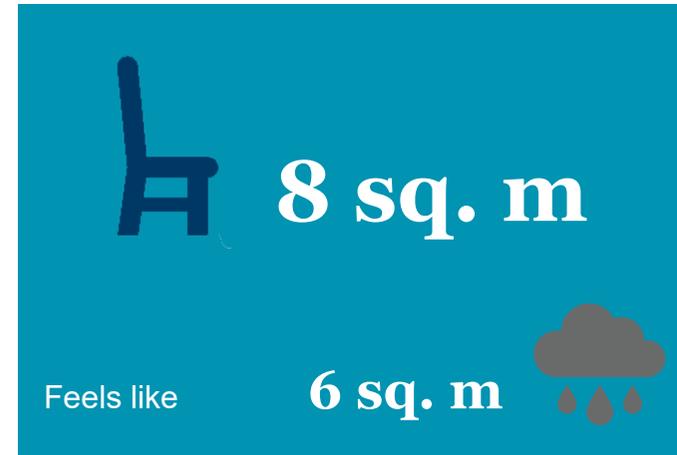
SPACE REQUIREMENT FOR ONE EMPLOYEE

Flexible workspaces advertise comfort at their core and convert real estate into service.

FLEXIBLE WORKSPACE



TRADITIONAL OFFICE



Typically, a single workplace in a flexible workspace make up **6 sq. m**, including common areas. In comparison, the norm in a traditional office is **8-10 sq. m**. Flexible working spaces use space more efficiently – thereby allowing them to charge higher prices per sq. m than traditional offices.

At the same time, despite having in fact less space, users generally feel like they have more space than they would in a standard office. This is thanks to the common areas, the working environment and flexible working hours meaning not all workers are in the office at the same time.

KEY CONCLUSIONS

Transition of real estate into service provision

- At the same time as entering into a long-term lease commitment, the operator provides the end user with a short-term service.

Development of flexible workspaces stimulates further demand

- Given the growing availability of flexible workspaces, start-ups & entrepreneurs have an additional incentive to open and develop their businesses.

The demand for flexible workspaces is high - the market is far from saturated

- There is huge potential for development – the flexible workspace supply will more than double by 2020.

There is no single business model

- Currently the classic long-term lease agreement between operator and landlord is the most popular model. However, flexible workspace operators are constantly experimenting with different models and attempting to work with landlords on a partnership basis.



Appendix

WHAT IS FLEXIBLE WORKSPACE?

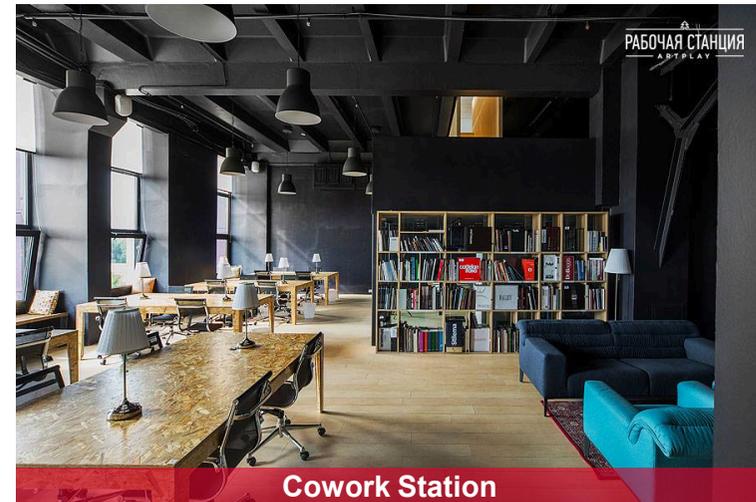
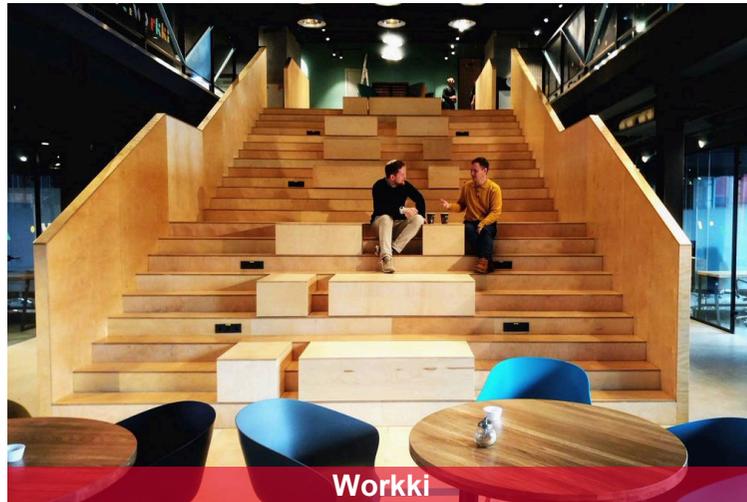
Definition, types of flexible space

WHAT IS A FLEXIBLE WORKSPACE?

Flexible workspace is a broad term that covers all types of **serviced** offices with equipped workstations, that can be leased short-term by one person or a team.

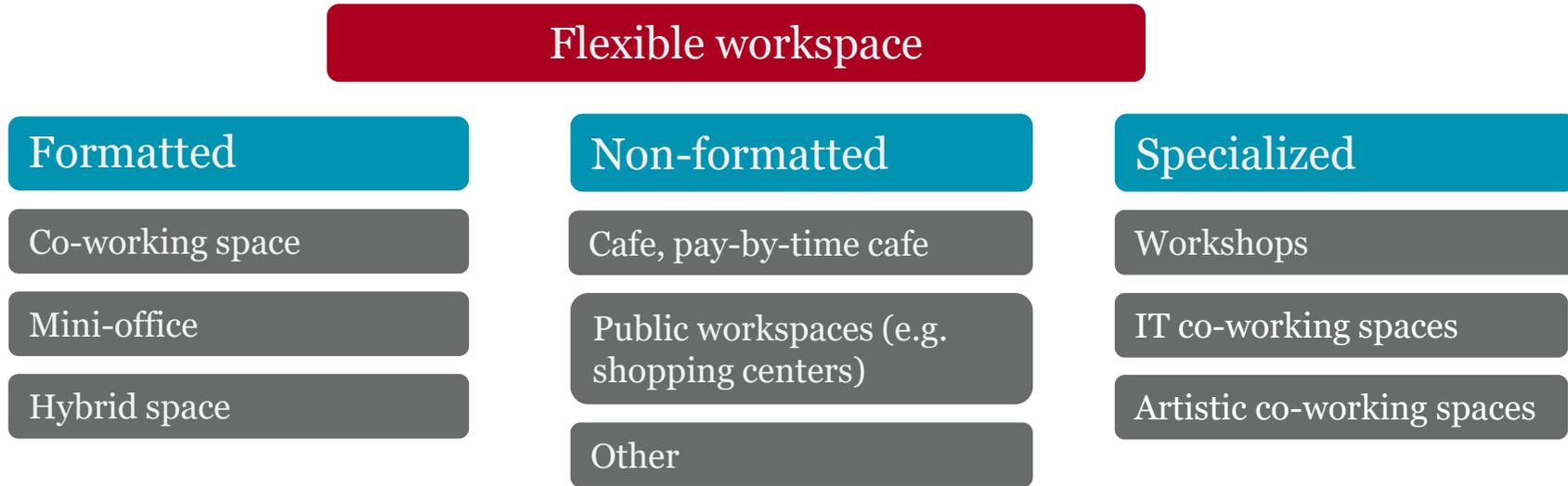
Flexibility means:

- **Possibility of a short-term lease** (from 1 hour to several months);
- **Availability of different formats** (different types of workstations are available – hot desking, assigned desks, mini-offices);
- **Opportunity to choose any number of places** (from a single workstation in a co-working area, to several mini-offices combined with additional co-working desks, with an option of further expansion or reduction down the line).



THE DIFFERENT TYPES OF FLEXIBLE WORKSPACE

There is no common classification for flexible workspaces but it can be broadly divided along the following lines:



The main difference between formatted and non-formatted workspaces is the existence in formatted spaces of dedicated offices with **equipped workplaces**. By comparison, non-formatted workspaces offer this as an additional expense and may have other activities happening at the same time.

Specialized workspaces are focused solely on one specific type of activity. Alternatively, formatted and non-formatted spaces can host people from a range of different industries.

Flexible workspaces can exist either as part of larger chains or as independent entities.

FLEXIBLE WORKSPACE - SERVICES

Formatted flexible workspaces provide the following required services:

- Essential office equipment (desk and storage)
- Common areas & kitchen
- Cleaning
- Wi-fi
- Meeting rooms
- Reception services
- Telephone & printing
- Fully equipped conference halls
- 24/7 access & secure premises



Tablica

Some spaces may offer additional services. For example, Cowork Station Plaza have a capsule hotel attached and Tablica hybrid space boasts a garden rooftop with bar.



Cowork Station

VIRTUAL OFFICE

Flexible workspaces may also provide this key service

Some flexible workspaces provide residents with virtual office services, which allow companies to have all necessary services without the physical presence in the office.

A Virtual office includes:

- Legal address (if necessary);
- Secretarial services (telephone, fax, correspondence distribution, incoming call processing);
- A physical co-working style of office for visitors, clients and meetings;
- A fixed number of hours in meeting rooms.



TENANTS

The target audience depends on the location and pricing policy of flexible workspaces. There are several types of primary users:

1. Young professionals (mostly from IT and consulting), start-ups and small teams of 5-10 people. This is the largest group.
2. International companies, branch offices of foreign and Russian regional companies.
3. Corporate clients who need a temporary office (e.g. during office relocation, staff expansion or for team projects). Currently, the proportion of these clients is still small, but demand is gradually increasing.
4. Freelancers and remote employees make up the smallest percentage of users.



Appendix

BUSINESS MODELS

DIFFERENT BUSINESS MODELS

Model 1. Leasing premises

- Operator of a flexible workspace leases a big office block, makes the initial capital investment and pays operational expenses, and then leases small blocks or workplaces short-term to the end user.

Model 2. Purchasing premises

- Operator owns the premises, covers capital and operational expenses and leases small blocks or workplaces short-term to the end user.

Model 3. Partnership with a landlord

- Operator leases a space at a discounted rental rate. Landlord/investor covers capital expenses (sometimes split between landlord and operator). Operator is in charge of operational management. Income is shared between landlord and operator.

Model 4. Operator's model

- Landlord provides operator with a fitted-out premises with equipment and furniture. Operator is in charge of operational management and receives a fee from landlord.

THE TRANSFORMATION OF REAL ESTATE INTO A SERVICE PROVIDER

In Russia, the *Leasing* model is the most common: it is the most easily accessible and involves the least risk for landlords. This normally takes the form of long-term lease agreements. Conversely, the risk is significant for operators given the large initial capital investment and long-term commitment to the landlord, at the same time as short term contracts with end-users. The operator must balance the constant risk of having insufficient occupancy rates to cover expenses.

Operator's or partnership models are more preferable for operators as they allow them to split the risks with a landlord. If the flexible workspace is successful, both sides win and the landlord gets higher income from the partnership/operator's model than from simply leasing the space. However, due to recent significant growth in demand in the office market, landlords are unlikely to compromise and accept such risk.

WORKING IN A FLEXIBLE WORKSPACE: A RESIDENT'S PERSPECTIVE

Advantages

- No need for expensive equipment/infrastructure expenditure;
- Opportunity to lease small block/workplace in a class A or B office building with all services included;
- Possibility of a flexible short-term lease and renting additional workplaces if the number of employees increases;
- Networking opportunities;
- Desirable and trendy working environment;
- Opportunity to take part in events and workshops.

Disadvantages

- Noisy and potentially distracting environment;
- Questions over confidentiality and security;
- Less prestigious and presentable than a traditional office – especially when entertaining clients or partners
- Higher rental rate compared to a traditional office.

LEASING SPACE TO A CO-WORKING OPERATOR: A LANDLORD'S PERSPECTIVE

Advantages

- Improvements to the building's infrastructure – the flexible workspace format makes a building more attractive both for new tenants and for existing companies;
- Decrease in building's vacancy rate;
- Quality development of space by the operator;
- Increase in building's popularity due to different events organized in the premises;
- No need for parking spaces for non-corporate residents.

Disadvantages

- Risk that users of the flexible workspace won't be compatible with the main residents of the office building.

THE FLEXIBLE WORKSPACE: THE KEY TO SUCCESS

LOCATION

- A flexible workspace should be located within walking distance of the metro (not more than 10 minutes) or in areas of high footfall of target audience (cultural, art or business clusters).

SPACE DISTRIBUTION

- The most effective area of a flexible workspace is 1000 sq. m or more – with a combination of co-working areas, mini-offices and common areas. Mini-offices are in the highest demand due to the Russian mentality of privacy – people want to work in their ‘own’ separate space. However, co-working zones are also needed in order to stay in-line with the concept and atmosphere of a hybrid space.
- Smaller spaces are only worth developing if they can complement the existing infrastructure – e.g. in a hotel, cafe or restaurant.

OCCUPANCY RATE

- Depending on the model, occupancy rates should be 70% or more to break-even.

CHAIN DEVELOPMENT

- Developing a chain of flexible workspaces optimizes efficiency due to economies of scale.

RESEARCH DEPARTMENT



Denis Sokolov

Partner,
Head of Research & Insight

Denis.Sokolov@cushwake.com



Tatyana Divina

Associate Director,
Deputy Head of Research & Insight

Tatyana.Divina@cushwake.com



Polina Afanasieva

Analyst
Research & Insight

Polina.Afanasieva@cushwake.com



Evgeniya Safonova

Analyst
Research & Insight

Evgenia.Safonova@cushwake.com

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